



**REANDA**



**TAX  
YEAR  
BOOK  
2024/25**



# PREFACE

The Reanda International Tax Year Book 2024/2025 (Tax Year Book) is a bi-yearly publication that provides an overview of the important taxation and general business information of the countries or regions where Reanda International has established its presence.

In an ever-changing economic landscape, countries and regions have been striving for economic growth while fostering closer regional cooperation to unlock more business opportunities. To create an appealing investment environment, governments continue to refine tax policies to attract foreign investment. For investors and businesses looking to expand globally, having a comprehensive understanding of international tax policies is crucial for making informed decisions and capitalizing on overseas ventures.

The publication of the Tax Year Book is a team work and we appreciate the contribution from all the tax experts within Reanda International. The Tax Year Book contains tax information for 25 countries or regions, chapter by chapter, contributed by Reanda International's experts in the countries or regions concerned.

The tax information outlined includes:

1. Corporate income tax
2. Personal tax
3. Statutory requirement on social security and retirement contribution
4. GST/VAT
5. Double tax relief
6. Other significant taxes

The Tax Year Book is a brief summary of the tax information in each country or region for the broad guidance of readers only. It is NOT intended to offer specific and universal explanation or advice. Should readers require assistance in obtaining information and advice in respect of a specific situation, please contact Reanda International's network firms. You may find the information on the point of contact at the end of each chapter.

The electronic version can be downloaded from Reanda International's website at [www.reanda-international.com](http://www.reanda-international.com).

**L. L. Koong**

Chairman of the International Tax Panel

**REANDA INTERNATIONAL**

Aug 2025

# CONTENTS

Azerbaijan . . . . .	4
Bosnia and Herzegovina . . . . .	8
Brazil . . . . .	11
Bulgaria . . . . .	18
Cambodia . . . . .	22
China . . . . .	28
Cyprus . . . . .	37
Germany . . . . .	43
Greece . . . . .	47
Hong Kong, China . . . . .	52
Indonesia . . . . .	60
Italy . . . . .	69
Macau, China . . . . .	77
Malaysia . . . . .	80
Nepal . . . . .	87
Netherlands . . . . .	92
Nigeria . . . . .	97
Pakistan . . . . .	103
Saudi Arabia . . . . .	110
Singapore . . . . .	117
Tajikistan . . . . .	125
Thailand . . . . .	130
UAE . . . . .	134
United Kingdom . . . . .	138
Zimbabwe . . . . .	146



# AZERBAIJAN

## GENERAL INFORMATION

### 1.1 Country/Region

Azerbaijan

### 1.2 Currency

AZN

### 1.3 Principal business entities

Industry, bank card processing, financial institutions, agriculture, transport, education, trade, construction, investment, information technology, service, public legal entities

### 1.4 Foreign exchange control

by the Central Bank of the Republic of Azerbaijan (CBAR)

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Azerbaijan's economic environment has great potential for industry, agriculture, tourism, service, production and scientific research. The state has organized high opportunities for the promotion of foreign investment. It is favourable for foreign investors due to the stable exchange rate of the Azerbaijani currency.

### 1.6 National tax authority

#### Name

State Tax Service Under the Ministry of Economy of the Republic of Azerbaijan

#### Website

<https://www.taxes.gov.az/en>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

#### Basis of determination and collection of taxes:

1. Tax legislation should be based on general, equal and fair taxation
2. Taxes should be economically justified
3. Taxes that interfere with the exercise of constitutional rights and freedoms of everyone are not allowed
4. Taxes that violate the unified economic space of the Republic of Azerbaijan (in particular, directly or indirectly restrict the free movement of goods (works, services) and funds in the territory of the Republic of Azerbaijan, or otherwise limit or obstruct the legal activities of taxpayers) are not allowed
5. No person can be forced to pay the same type of tax more than once on the profit (income) he has received

6. Taxes cannot be determined on the basis of political, ideological, ethnic, confessional and other characteristics existing among tax payers and cannot be discriminatory
7. Taxes of the Republic of Azerbaijan are determined only by this Code; their change or cancellation is carried out by amending this Code
8. Taxes of the Republic of Azerbaijan are determined only by this Code; their change or cancellation is carried out by amending this Code
9. Legislation on taxes should be formulated in such a way that everyone knows exactly what taxes they have to pay, in what order, when and in what amount
10. The tax system should encourage entrepreneurship and investment
11. All contradictions and unclear aspects of tax legislation should be interpreted in favour of the taxpayer
12. Individuals and legal entities must be provided with the opportunity to freely familiarize themselves with normative legal acts related to taxes.

### 2.2 Rates of tax

20%

### 2.3 Year of assessment

January 1-December 31

### 2.4 Profits deemed to be taxable

20%

### 2.5 Taxation of dividends

Yes, 5%

### 2.6 Taxation of capital gains

Taxation of capital gains is calculated by considering the income of Tier 1 capital and Tier 2 capital in the income statement

### 2.7 Taxation of interest income

considered as income in the income statement

### 2.8 Utilization of tax losses

Compensation of paid VAT is allowed in the Tax Code.

### 2.9 Key tax incentives

On the income tax levied on income obtained in connection with salaried employment, on income tax, on VAT, on property tax

### 2.10 Withholding tax

Income tax for personal and corporate, simplified tax, VAT, excise tax, road tax, mining tax, property tax, land tax, municipal tax



2.11 Transfer pricing

Rules for determining and applying transfer prices is regulated by the decision of the Board of the Ministry of Taxes of the Republic of Azerbaijan No. 171705000006200 dated January 27, 2017

2.12 Filing requirements of tax return

Filing due date	VAT monthly, withholding tax quarterly, income tax yearly, simplified tax quarterly, property tax yearly, mining tax monthly, road tax monthly, land tax yearly, excise tax monthly
Penalties	Financial sanction in the amount of 40 AZN for failure to submit the declaration on time
Payment of profit tax and application of holdover	Payment of profit tax until March 31 of the following year

PERSONAL TAX

3.1 Basis of taxation (Residence, personal assessment)

Personal taxation is primarily determined by residency status, with residents taxed on worldwide income under a progressive system ranging from 14% to 25%, while non-residents are generally taxed only on income earned within Azerbaijan.

3.2 Rates of tax

Azerbaijan employs a progressive income tax system with rates ranging from 14% to 25% based on annual income levels.

3.3 Year of assessment

January 1-December 31

3.4 Allowances and deductions

Individuals may be eligible for various allowances and deductions that can reduce taxable income, including contributions to social insurance, certain medical expenses, and other specified expenditures as per the tax regulations in place.

3.5 Taxation of dividends

The tax rate on dividends is 5%.

3.6 Taxation of capital gain

In Azerbaijan, capital gains are generally considered part of taxable income. As of the latest information available, capital gains are taxed at a rate of 10%. This tax applies to gains from the sale of assets such as real estate, securities, and other investments. It's important for individuals to report capital gains in their annual tax returns and comply with the relevant tax regulations.

3.7 Taxation of interest income

Interest income is subject to taxation as part of an individual's taxable income. Interest income is taxed at a rate of 14%. This tax is applicable to interest earned from bank deposits, bonds, loans, and other financial instruments that generate interest income.

3.8 Personal assessment and utilization of losses

Individuals can offset losses from one income source against another within the same tax year. Losses can be carried

forward for up to five years to offset future profits, but generally cannot be carried back to offset previous years' income.

3.9 Withholding tax

Withholding tax in Azerbaijan applies to various types of income paid to non-residents.

Dividends: 10% withholding tax on dividends paid to non-residents.

Interest: 10% withholding tax on interest paid to non-residents.

Royalties: 10% withholding tax on royalties paid to non-residents.

3.10 Statutory obligation of employers

Employers in Azerbaijan must fulfil key obligations including withholding income taxes from employees' salaries, remitting these taxes to authorities monthly, contributing to the State Social Protection Fund for employees, and ensuring compliance with labour laws and workplace safety standards.

3.11 Filing requirement of tax return

Filing due date	The due date for filing annual tax returns in Azerbaijan is typically March 30th of the year following the tax year.
Penalties	<p><b>Late Filing:</b> Failure to submit tax returns by the due date may result in penalties calculated based on the number of days overdue.</p> <p><b>Underpayment of Tax:</b> Penalties can be imposed for underpayment of taxes, which may occur if taxes withheld or paid do not meet the required amounts.</p> <p><b>Incorrect Reporting:</b> Fines may be imposed for inaccurate reporting of income or expenses in tax returns.</p> <p><b>Non-Compliance:</b> Failure to comply with tax regulations or respond to tax authorities' requests can lead to penalties.</p> <p><b>Interest Charges:</b> Additionally, interest may accrue on unpaid taxes or penalties from the due date until the date of payment.</p>
Application of holdover	For accurate information on how holdover provisions apply in Azerbaijan, including specific criteria, eligibility requirements, and the types of income or gains that may qualify for deferral, individuals should refer to Azerbaijani tax laws and regulations or seek advice from a qualified tax advisor.

STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

4.1 Regulatory organization

Ministry of Labour and Social Protection of the Population  
State Social Protection Fund (SSPF)

4.2 Basis of contribution

In Azerbaijan, social security and retirement contributions are based on individuals' earned income, including salaries, wages, and other compensation. Contributions are calculated as a percentage of this income, with both employers and employees responsible for their respective shares, which are remitted to the State Social Protection Fund (SSPF).

4.3 Contribution rate

1. Employee Contribution Rate: Employees in Azerbaijan typically contribute 3% of 200 AZN and plus 10% of the

part after deducting 200 AZN gross monthly earnings to the State Social Protection Fund (SSPF) for pension and social insurance.

2. **Employer Contribution Rate:** Employers contribute 22% of 200 AZN and plus 15% of the part after deducting 200 AZN an employee's gross monthly earnings to the SSPF. This includes contributions towards pensions, social insurance, and other social benefits.

These contribution rates may vary depending on specific circumstances and updates in Azerbaijani tax and social security regulations. It's advisable for employers and employees to consult official sources or seek guidance from a tax advisor to ensure compliance with current contribution rates and requirements.

#### 4.4 Exemption from tax

Exemptions from taxes on income tax, social insurance and pension payments of employees are not applicable according to the legislation of Azerbaijan. Contributions to social security and retirement funds are mandatory for most individuals and employers, ensuring funding for pensions, disability benefits, and other social security programs. Specific rules may exempt certain categories or types of income from these contributions, guided by Azerbaijani social security laws and regulations overseen by the State Social Protection Fund (SSPF).

### GST/VAT

#### 5.1 Basis of tax

VAT in Azerbaijan is a transaction-based tax levied on the supply of goods, provision of services, and importation of goods.

#### 5.2 Rates of tax

Azerbaijan applies a standard VAT rate of 18% on most goods and services. However, certain categories of goods and services may be subject to a reduced VAT rate of 10% or be exempt from VAT altogether.

#### 5.3 Registration

1. **Mandatory Registration:** Businesses must register for VAT if their annual turnover exceeds 200,000 AZN.
2. **Voluntary Registration:** Businesses with turnover below the mandatory threshold may opt to voluntarily register for VAT to reclaim input VAT on purchases.
3. **Registration Process:** To register for VAT, businesses must submit an application to the State Tax Service under the Ministry of Economy of Azerbaijan.
4. **Registration Number:** Upon successful registration, businesses receive a VAT registration number, which is used for VAT invoicing, reporting, and compliance purposes.
5. **Obligations:** Registered businesses must charge VAT on taxable supplies, issue VAT-compliant invoices, file periodic VAT returns, and remit VAT collected to the tax authorities.
6. **Penalties:** Failure to register for VAT when required or comply with VAT obligations may result in penalties and interest charges.

#### 5.4 Filing requirements

1. **Periodic Returns:** Submit VAT returns monthly or quarterly to the State Tax Service.
2. **Contents:** Include details of output VAT (collected on sales), input VAT (paid on purchases), and the net VAT payable.
3. **Deadlines:** File returns by set deadlines after each reporting period, with VAT payment due concurrently.
4. **Electronic Submission:** File returns electronically via the tax authorities' portal.
5. **Record Keeping:** Maintain transaction records and VAT invoices for at least five years.
6. **Penalties:** Non-compliance, like late filing or errors, may lead to penalties and interest charges.

### DOUBLE TAX RELIEF

#### 6.1 Foreign tax credit

The tax system in Azerbaijan primarily focuses on domestic taxation, and there may not be provisions for directly offsetting foreign taxes paid against Azerbaijani tax liabilities.

#### 6.2 List of double tax treaties signed

Turkey	Pakistan
United Kingdom	Hungary
Germany	Belarus
Russia	Kazakhstan
France	Georgia
Switzerland	Latvia
Italy	Ukraine
UAE (United Arab Emirates)	Luxembourg
China	Malaysia
Iran	Netherlands

### OTHER SIGNIFICANT TAXES

#### 7.1 Stamp duty

In Azerbaijan, there is no specific stamp duty as found in some other jurisdictions. Instead, transactions and legal documents are subject to state duties, notary fees, and other applicable taxes or fees under broader tax and legal frameworks. State duties cover various activities like property registration and company incorporation, while notary fees apply to notarization services.

#### 7.2 Real property tax

In Azerbaijan, real property tax, or land tax, applies to land plots, buildings, and other immovable property owned by individuals or entities. The tax is based on the cadastral value of the property, assessed by the State Committee on Property Issues. Land is generally taxed at rates ranging from 0.5% to 2% of its cadastral value, depending on location and use, while buildings are taxed at 1%. Property owners must declare the cadastral value annually and pay the tax to local authorities. Certain exemptions may apply based on property type or owner circumstances.

### 7.3 Estate duty

In Azerbaijan, there is no specific estate duty or inheritance tax imposed on the transfer of property and assets upon the death of an individual. Azerbaijan does not have laws or regulations that levy taxes on estates or inheritances.

### 7.4 Net wealth/net worth tax

In Azerbaijan's tax system, there are no specific provisions for assessing and taxing individuals based on their total net wealth or net worth. The primary taxes levied in Azerbaijan include income tax, value-added tax (VAT), and specific taxes on property, such as real property tax on land and buildings.

### 7.5 Others

#### **Business tax**

—

#### **Consumption tax, etc.**

—

## POINT OF CONTACT

#### **Name of contact**

Nazli Alizade

#### **Telephone with country code**

+994 51 229 12 80

#### **Email address**

account-1@reanda-azerbaijan.com



# BOSNIA AND HERZEGOVINA

## GENERAL INFORMATION

### 1.1 Country/Region

Bosnia and Herzegovina

### 1.2 Currency

Bosnia-Herzegovina Convertible Mark (BAM)

### 1.3 Principal business entities

Limited Liability Company

### 1.4 Foreign exchange control

In accordance with the BiH Law on the Central Bank, neither the Central Bank nor any other relevant institution may impose payment restrictions on international transactions, except when the Central Bank deems it indispensable to meet BiH's obligations under international treaties or law.

### 1.5 Current economy climate (Industry overview/ encouraged business development)

In Bosnia and Herzegovina, real GDP grow is 4 percent in 2021 after contracting 3.2 percent in 2020. As BiH's economy rebounds in 2021.

The economy is forecast to grow at a slower pace this year due to a tougher base of comparison and the fallout from the conflicts between Russia and Ukraine. The war has spiked energy prices, denting purchasing power. Moreover, pandemic-related uncertainty and heated political tensions in the build-up to and aftermath of October's general election cloud the outlook further. Focus Economics panellists project GDP to expand 2.7% in 2022, which is down 0.3 percentage points from last month's forecast, and 2.7% in 2023.

### 1.6 National tax authority

#### Name

Indirect Taxation Authority  
Tax administration FBIH  
Tax administration RS

#### Website

<https://www.uino.gov.ba/>  
<https://www.pufbih.ba/v1/>  
<https://poreskaupravar.org/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Income is taxable on territorial basis. Generally, any income accruing in or derived from Bosnia and Herzegovina is taxable locally notwithstanding the fact that the income may not have been received in Bosnia and Herzegovina. The law for taxation is as following: Corporate income tax law FBIH, Corporate income tax law RS

### 2.2 Rates of tax

10%

### 2.3 Year of assessment

Each tax year or year of assessment (YA) begins on 1 January and ends on 31 December. However, for companies, the basis period will be the financial year of the company which not necessary be the calendar year.

### 2.4 Profits deemed to be taxable

Based on corporate income tax law

### 2.5 Taxation of dividends

no taxation

### 2.6 Taxation of capital gains

10%

### 2.7 Taxation of interest income

10%

### 2.8 Utilization of tax losses

Tax losses can be carried forward for period of 5 years.

### 2.9 Key Tax incentives

- To a taxpayer who invests from his own resources in production equipment in value of more than 50% of the realized profit of the current tax period, the liability is reduced calculated income tax for 30% of the amount in the year of investment.
- To a taxpayer who in the period of five consecutive years makes an investment from his own funds in the total amount of 20 million KM, with 4 million KM invested in the first year, the liability of accrued income tax is reduced by 50% of the amount in the years of investment.
- The taxpayer is entitled to a tax-deductible expense in the amount of twice the amount of gross salary paid to newly hired employees if he meets the following conditions:
  - the duration of the employment contract must be at least 12 months full-time and
  - the newly hired employee was not employed by a taxpayer or a related party in the previous five years.

### 2.10 Withholding tax

Tax Jurisdiction	FBIH	RS	BD
Withholding Tax on dividends paid abroad	5%	10%	0%
Withholding Tax on interests paid abroad	10%	10%	10%
Withholding Tax on royalties paid abroad	10%	10%	10%



## 2.11 Transfer Pricing

There is a liability to prepare transfer pricing documentation in accordance with OECD instructions, in case of transaction with affiliated parties.

## 2.12 Filing requirements of tax return

<b>Filing due date</b>	31st March for prior year
<b>Penalties</b>	A fine of 3,000.00 KM to 100,000.00 KM will be imposed on taxpayer if: a) fails to file a tax return and tax balance in accordance with Article 49 of the Law;
<b>Payment of profit tax and application of holdover</b>	Federation of Bosnia and Herzegovina: 20 working days upon submission of tax return; Republika Srpska and Brčko District: no later than 90 days following the end of the tax year.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Income tax law FBiH, Income tax law RS

The tax for permanent residents in Bosnia and Herzegovina is paid within municipality of residents.

Resident taxpayers are generally taxed on worldwide income, with a tax offset for foreign tax paid on foreign income, up to the amount of Bosnia and Herzegovina tax payable on that income. Foreign residents are taxable only on Bosnia and Herzegovina source income.

### 3.2 Rates of tax

10% FBiH

### 3.3 Year of assessment

2022

### 3.4 Allowances and Deductions

3,600 KM on annual basis is tax-exempt

### 3.5 Taxation of dividends

N/A

### 3.6 Taxation of capital gain

10%

### 3.7 Taxation of interest income

10%

### 3.8 Personal assessment and utilization of losses

N/A

### 3.9 Withholding tax

10%

### 3.10 Statutory obligation of employers

Obligations in accordance with Labor law

### 3.11 Filing requirement of tax return

<b>Filing due date</b>	31st March for prior year
<b>Penalties</b>	A fine of 300 KM to 3,000 KM will be imposed to taxpayer if: a) fails to file a personal tax return
<b>Application of holdover</b>	N/A

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Tax Administration office FBiH, Tax Administration office RS

### 4.2 Basis of contribution

Law Social Security Contributions

### 4.3 Contribution rate

Type of contribution	Employee's contributions (%)	Employer's contributions (%)
Contribution for pension and invalid insurance	17.0	6.0
Contribution for health insurance	12.5	4.0
Contribution for unemployment	1.5	0.5

### 4.4 Exemption from tax

No exemption

## GST/VAT

### 5.1 Basis of tax

Value added tax law Bosnia and Herzegovina

### 5.2 Rates of tax

17%

### 5.3 Registration

After reaching markup point at 50,000 KM in revenue there is a liability to register as VAT obligor.

### 5.4 Filing requirements

Every 10th in the month for previous month

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

In the Federation of Bosnia and Herzegovina, Republika Srpska, and Brčko District, tax credit is granted for tax paid outside of the territory of the Federation of Bosnia and Herzegovina, Republika Srpska, and Brčko District, respectively. The amount of tax credit cannot exceed the amount of tax that would be calculated in the event when the same income would be earned in the Federation of Bosnia and Herzegovina, Republika Srpska, and Brčko District, respectively.

In the event when Bosnia and Herzegovina have signed a double tax treaty (DTT) with another state, then provisions of the tax treaty apply.

### 6.2 List of double tax treaties signed

Albania	Finland	Italy
Algeria	France	Jordan
Austria	Greece	Qatar
Azerbaijan	The Netherlands	China
Belgium	Croatia	Cyprus
Slovakia	Iran	Kuwait
Czech Republic	Ireland	Hungary

Macedonia	Poland	Sri Lanka
Malaysia	Romania	Sweden
Moldova	Slovenia	Turkey
Norway	Serbia	United Arab Emirates
Germany	Montenegro	UK
Pakistan	Spain	

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

N/A

### 7.2 Real property tax

In the FBiH, the real estate tax (RET) applies to, inter alia, vacation real estate and rented real estate. RET is regulated at the cantonal level in the FBiH (i.e. there are currently 10 different laws applicable in the FBiH) and further regulated by municipal decisions.

In the RS, the RET rate is set at a maximum of 0.20 percent and applies on an annual basis to all real estate situated in the RS, except for real estate that is used for production where the RET rate is set at a maximum of 0.10 percent. The RET base is the market value of real estate, whose market value is determined in accordance with municipal decisions.

### 7.3 Estate duty

Municipal tax

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### Business tax

N/A

#### Consumption tax, etc.

N/A

## POINT OF CONTACT

#### Name of contact:

Elvir Gojak

#### Telephone with country code:

+387 61 106 210

#### Email address:

elvir.gojak@bizplus.ba



# BRAZIL

## GENERAL INFORMATION

### 1.1 Country/Region

Brazil

### 1.2 Currency

Brazilian Real

### 1.3 Principal business entities

- Private companies
- Sole Proprietorships
- Public companies
- Partnerships
- Branches of foreign companies

### 1.4 Foreign exchange control

Brazilian Central Bank

### 1.5 Current economy climate (Industry overview/ encouraged business development)

The economic climate in Brazil has improved since the last Presidential change. The approach of the current government is to stimulate businesses, including from foreign investors. Brazil has lack of capital to supply the needs of the country and its population. Therefore, foreign investment usually is welcomed.

The objectives of the Government include encouraging consumption, aiming to achieve economic growth with the increase of internal market.

From an historic perspective, nationally, in 1994 the Federal Government implemented the "Plano Real", an economic reform plan which reduced inflation rates based on the strength of the Federal Government's foreign currency reserves coupled with credit restrictions which raised interest rates. Initially, a certain redistribution of income to the lower class occurred, generating a consumption boom. In order to control inflation caused by this consumption, in the following year the interest rates were increased and the credit was restricted. These procedures had as consequence the reduction of the levels of the economy, which has been growing slowly since then. Since the new government new measures have started to take place, including the approval of the Social Security Reform.

Advantages for doing businesses in Brazil include:

- Brazil is the fifth largest country in the world in area, has the seventh largest economy – a population of almost 200 million people.
- Many local companies are still demanding restructuring, capital and technology.
- Enormous growth potential and consumer market.
- Broad industrial base and infrastructure, and a diversified economy.

- Creativity and flexibility of labor force, coupled with a competitive cost basis.
- Abundant agricultural, mineral and energy resources and potential.
- Transportation networks in development (railways, highways, ports) and distribution channels in most industrialized areas.
- Inflation relatively under control, despite COVID global effects.
- Foreign investors are eligible for most available fiscal incentives.
- Abundance of semi-skilled and unskilled labor.
- Goodwill generally tax deductible.
- New regulations favoring minority shareholders.

### 1.6 National tax authority

#### Name

Receita Federal do Brasil – RFB

#### Website

<https://www.gov.br/receitafederal/pt-br>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Brazil has two basic corporate income taxes: IRPJ (Corporate Income Tax) and CSLL (Social Tax on Net Profit). Additionally, the IRRF (Immediate Income Tax at Source).

Brazil has different income taxation methods:

**NATIONAL SIMPLE ("SIMPLES NACIONAL"):** This system benefits small and medium-sized entities with annual turnover of up to R\$ 4,800,000.00. This percentage includes taxes: IRPJ, CSLL, PIS, COFINS, INSS, ICMS, IPI, ISSQN.

**PRESUMED PROFIT:** In the method of Presumed Profit, taxation of IRPJ and CSLL is carried out through a presumed calculation basis, calculated on the revenue of the company's activity, without considering the costs and expenses of such activity.

**REAL PROFIT:** In the method of Actual (or Taxable) Profit, the taxation of IRPJ and CSLL levied on the income from the activities of the company (sales) are deducted from the cost of the activity and of those considered as operating expenses by the Brazilian tax authorities.

### 2.2 Rates of tax

**NATIONAL SIMPLE:** Effective tax rate that varies between 4% to 30.50% of the total turnover (revenue) according to the activity developed and the turnover range.

**PRESUMED PROFIT:** The rates are 25% for IRPJ (15% + Additional of 10%) and 9% for CSLL, applied on a calculation basis resulting from an assumed percentage that varies from 8% to 32%, according to the activity developed by company. Thus, taxation varies between 3.08% to 10.88%.

**ACTUAL PROFIT:** Rates of 25% for IRPJ (15% + Additional of 10%) on the adjusted net result, and of 9% for CSLL, applied over the net result before taxes.

## 2.3 Year of assessment

Calendar Year - January 1st to December 31st, mandatorily

## 2.4 Profits deemed to be taxable

**NATIONAL SIMPLE:** Taxation on Turnover

**PRESUMED PROFIT:** Taxation on presumed turnover percentage. In relation to the income that is not characterized as turnover (sales of property, plant and equipment, monetary and exchange variation, financial income, etc.) there is the incidence of full rates taxation.

**ACTUAL PROFIT:** Taxation on the adjusted net accounting result, before taxes. Expenses considered as non-deductible shall be added to the tax result: bonus and gratifications to administrators, expenses with management's alimentary expenses, gifts and donations, passive exchange variations not yet realized (cash basis regimen), adjustments resulting from the application of the Transfer Pricing methods, arising from accounting adjustments from valuation at present (current) and fair value, among others. The income to be excluded from the tax result (non-taxable income) includes: income from investment subventions, active exchange rate variations not yet realized (cash basis regimen), accounting adjustments arising from the evaluation at present (current) value and fair value.

## 2.5 Taxation of dividends

Up to date, there is no taxation on the distribution of dividends to partners / shareholders.

However, if the Brazilian company has investments in companies located abroad, being its controller(parent), there will be taxation of the result obtained, according to universal income taxation, in which the tax paid abroad may be offset in Brazil, according to current rules, if no DTA (Double Taxation Agreement) treaty exists.

## 2.6 Taxation of capital gains

Capital gains are taxed according to the income taxation method, chosen by the company (Actual Profit or Presumed Profit). In the case of National Simple the tax on capital gains applies to the same rules as individuals.

## 2.7 Taxation of interest income

Interests over own capital paid are subject to a 15% rate of IRRF (Immediate Income Tax at Source), regardless of whether it is paid to individuals or legal entities. In the case of legal entities, the retained amount may be offset against the IRPJ (Corporate Income Tax) to be paid by the company. In the case of individuals, retention is considered exclusive at source.

The other interests are taxed according to the method chosen by the company (Real profit, Presumed profit or National Simple).

## 2.8 Utilization of tax losses

Tax losses may be used to offset taxable income for the next years, limited to 30% of taxable income. There is no limitation period for the use of balances.

## 2.9 Key Tax incentives

Regarding the IRPJ (Corporate Income Tax), there are tax incentives with an exemption or reduction of 75% of the tax due, for the North and Northeast regions of Brazil (SUDAM, SUDENE, through the determination of what is called PROFIT OF THE EXPLORATION. Churches and temples of any cult, philanthropic, recreational, cultural and scientific institutions and civil associations that provide the services for which they have been established and make them available to the group of people for whom they are intended, without to profit, are immune-exempt from IRPJ and CSLL.

## 2.10 Withholding tax

The rates of IRRF (Immediate Income Tax at Source) vary from 1% to 25%. IRRF is considered as an anticipation of IRPJ, and applies in the rendering of services, income from salaries and income from financial investments.

## 2.11 Transfer Pricing

The calculation of transfer pricing was established in Brazil by Act n° 9.430/96, and is regulated by the Brazilian IRS ("Receita Federal do Brasil – RFB") - through Normative Instruction n° 1.312/12.

In 04/04/2012, Provisional Act n° 563 was published in Official Press and, subsequently, it was converted into Law n° 12.711/12, which brought significant modifications to Act n° 9.430/96.

Transfer Pricing Rules apply on import and export operations of goods, services and rights, carried out with persons linked to or located in countries considered as tax havens (which tax income at a rate lower than 17%).

For Year 2025 on, a new legislation on Transfer Pricing, more convergent with OECD determinations, will enter into force.

## 2.12 Filing requirements of tax return

<b>Filing due date</b>	There are 2 main tax returns in Brazil: ECD ("Digital Accounting Register") and ECF ("Tax Accounting Register"). The first includes the basic accounting information, and the second includes the references to the links between accounting and tax aspects, and respective tax calculations and impacts. Both shall be presented through detailed electronic files. ECD – The deadline is usually established as the last working day of May of the following year. ECF – The deadline is usually established as the last working day of July of the following year.
<b>Penalties</b>	R\$ 500.00 (Presumed Profit, National Simple, Exempt) or R\$ 1,500.00 (Real Profit) per calendar-month or fraction, due to lack of delivery; and up to 10% of the verified Profit, in the event of inaccuracy or error in filling, not less than R\$ 100.00.
<b>Payment of profit tax and application of holdover</b>	The payment period (maturity) for IRPJ and CSLL may occur monthly (maturity until the last business day of the following month) or quarterly (maturity until the last business day of the month following the reference quarter)

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

According to Law No. 9.718/1998, article 12; Provisional Measure No. 621/2013, converted into Law No. 12.871/2013, and Normative Instructions SRF No. 208/2002, article 2, RFB No. 1.008/2010 and RFB No. 1.383/2013, a resident in Brazil is considered to be an individual:

- I who lives in Brazil permanently;
- II who is absent to provide services as a salaried employee to branches of the Brazilian Government located abroad;
- III entering Brazil:
  - a) with permanent visa on the date of arrival;
  - b) with temporary visa
    1. to work as an employee or to act as a medical doctor under the “Mais Médicos” Program, which is dealt with by Law No. 12.871/2013 on the date of arrival.
    2. on the date that it completes 184 days, consecutive or not, of stay in Brazil, within a period of up to twelve months;
    3. on the date of obtaining a permanent visa or employment relationship, if it occurred before completing 184 days, consecutive or not, of permanence in Brazil, within a period of up to twelve months;
- IV Brazilian who acquired the status of non-resident in Brazil and returns to the country permanently, on the date of arrival;
- V that is absent from Brazil temporarily, or who leaves the national territory permanently without delivering the Definitive Country Exiting Statement during the first twelve consecutive months of absence.

Taxable income means all the proceeds of capital, labor or a combination of both, food and pensions received in cash and income of any kind, as well as equity increases not corresponding to the declared income.

Taxation is independent of the denomination of income, titles or rights, of location, legal condition or nationality of the source, of the origin of the goods that produce income and the form of perception of income or earnings for tax purposes, the taxpayer's benefit in any form whatsoever.

The income received on assets is valued in cash at market value as of the date of receipt.

Without prejudice to the annual adjustment, if any, the income shall be taxed in the month, in which it is received considered as such the delivery of resources by the paying source, even upon depositing with a financial institution in favor of the beneficiary.

Common income produced by property or rights, which the property is in a condominium or arising from the property regime in marriage, are taxed as follows:

- a) in the condominium property, including in the case of a stable union with contractual agreement between the partners, the taxation is proportional to the share of each owner; and

- b) in shared property arising from a marital society, even in the case of a separate taxpayer or a stable union without a contractual agreement between partners, the taxation on behalf of each spouse is levied on fifty percent (50%) of total common income.

### 3.2 Rates of tax

Rates vary from 0% to 27.5%.

The following are income subject to taxation by the Progressive Table of Individual Income Tax - IRPF:

- a) Salaried income and bonuses paid by individuals or legal entities;
- b) vacation and 13th salary;
- c) Pro-labore (managing partner remuneration)
- d) employee participation in the company's profits;
- e) services rendered (self-employed), paid by individuals or companies;
- f) rental income and/or royalties paid by individuals or legal entities;
- g) income paid by private pension entities and social security benefit plans;
- h) income from survivor coverage on life insurance policies;
- i) income of beneficiary parties; and
- j) other income not taxed as exclusively at source.

The above income is subject to the following monthly taxation:

MONTHLY PROGRESSIVE TABLE (Year 2024)		
CALCULATION BASIS (R\$)	RATE (%)	SHARE TO DEDUCT FROM TAX (R\$)
Up to 2,259.20 (exempt)	–	–
From 2,259.20 to 2,826.66	7.5	169.44
Remark: in simplified calculation method, there's an additional discount of 564.80, thus this limit goes to 2,824.00)		
From 2,826.66 to 3,751.05	15	381.44
From 3,751.06 to 4,664.68	22.5	662.77
Over 4,664.68	27.5	896.00

When it comes to income paid by individuals, the taxpayer must offer taxation through advance, known as monthly installments of the income tax. The income received in these cases is gross.

If income is paid by a corporation, the tax is advanced through withholding tax (IRRF). The income received in this situation is net.

The following are income subjects to exclusive/definitive taxation:

- a) capital gains on the disposal of assets and/or rights: the incident rates range from 15% to 22.5% according to the gain obtained;
- b) capital gains on the disposal of assets, rights and investments acquired in foreign currency: rates of 15% to 22.5% according to the gain obtained, translated into Reals (BRL);



- c) capital gains on disposal of foreign currency in kind: same rates as items "a" and "b";
- d) net gains on variable income (exchange stock, commodities exchange, futures and similar exchanges and real estate investment funds): rate of 15%;
- e) Income from financial investments: rates vary from 15% to 22.5% according to the term of the investment;
- f) interest on equity: rate of 15%;
- g) other: variable rate according to income. On prizes received in drawings and lotteries, the rate of 30%, for example.

- i) exempt installment of retirement, wage reserve, declarant's pension of 65 years or older.
- j) pension, retirement income or retirement due to serious illness or due to an accident in service;
- k) income from savings accounts, collateral mortgage notes, agribusiness and real estate notes, (LCA and LCI) and agribusiness and real estate receivables certificates (CRA and CRI);
- l) income from partner or holder of very small or small business opting for Simples Nacional, except for pro labore, rents and services rendered;
- m) property transfers - donations and inheritances;
- n) non-taxable portion corresponding to rural activity;
- o) Individual Income Tax on income from previous calendar years offset in court in the calendar year;
- p) 75% of salaried labor income received in foreign currency by local government agencies employees or branches of the Brazilian Government abroad, converted into reais;
- q) incorporation of capital reserves/share bonuses;
- r) estate transfers - sharing and dissolution of the marital society and the family unit;
- s) net gains on market transactions of shares traded on the Stock Exchange up to R\$ 20,000.00 each month for the set of shares;
- t) net gains on operations with gold, financial assets, on dispositions made up to R\$ 20,000.00 each month;
- u) recovery of losses and variable income (stock exchange, commodities, futures and similar exchanges and real estate investment funds);
- v) gross income, up to a maximum of 90%, of the provision of services arising from the cargo with tractor transport, landscaping machinery, harvester and the like;
- w) gross income up to a maximum of 40% from the provision of services resulting from passenger transport;
- x) Individual Income Tax refund from previous calendar years; and
- y) others, such as unrealized exchange variation, on income held abroad resulting from the balances update of these assets, in the "Assets and Rights" Sheet.

### 3.3 Year of assessment

Calendar year (January 1 to December 31), mandatorily

### 3.4 Allowances and Deductions

In the annual adjustment, for calculation base it is allowed the deduction of amounts spent with dependents (annual limit of R\$ 2,275.08 per dependent), medical expenses, contributions to the Social Security of the Union, the States, the Federal District and Local Governments, the expenses paid for education of the taxpayer and/or their dependents, among others, when the taxpayer chooses to submit the full statement.

In the simplified mode, a discount of 20% is given on the total income earned in the period.

In this declaration, the IR - Income Tax paid in advance either via withholding or separate payments (monthly tax payment on extra personal income ("carnê-leão") or capital gain), is also informed for the purpose of reducing the tax payable, which may result in amounts to be returned by the Brazilian tax authorities to the taxpayer (Individual Income Tax refund).

Exempt and non-taxable income are:

- a) related to scholarships and researches, characterized as donations;
- b) capital of the insurance policies or savings paid out by the insured's death of insurance refunded in any case and the savings received from private pension entities as a result of death or permanent disability;
- c) compensation for termination of employment contract, work accident and FGTS (Unemployment Social Funds);
- d) capital gain on the sale of assets, rights or bundles of assets or rights of the same nature, sold in the same month, of total sale value up to R\$ 20,000.00, for shares sold over-the-counter market, and R\$ 35,000.00, in other cases;
- e) capital gain on the sale of a single property for an amount equal to or less than R\$ 440,000.00 and which, in the last 05 years, has not made any other sale of property;
- f) capital gain on the sale of residential real estate for acquisition of residential real estate located in Brazil, within 180 days, and reduction of the capital gain;
- g) capital gain on the disposition of foreign currency held in cash whose total disposals in the calendar year are equal to or less than the equivalent of US\$ 5,000.00;
- h) profits and dividends received;

### 3.5 Taxation of dividends

Dividends received in Brazil by Brazilian companies and Brazilian domiciled individuals are not taxed. Dividends received for participation in companies located abroad are taxed by the "carnê-Leão" system (described above), if no DTA exists.

### 3.6 Taxation of capital gain

Capital gains are taxed according to the following percentage range:

- a) 15% on the portion of the gains that do not exceed R\$ 5,000,000.00 in the month;
- b) 17.5% on the portion of the gains that exceeds R\$ 5,000,000.00 and does not exceed R\$ 10,000,000.00, in the month;

- c) 20% of the portion of the gains that exceeds R\$ 10,000,000.00 and does not exceed R\$ 30,000,000.00; and
- d) 22.5% on the portion of the gains that exceed R\$ 30,000,000.00.

### 3.7 Taxation of interest income

Interests on own capital are taxed at the rate of 15%, and for individuals it is considered as exclusive income.

Interest income received from Brazilian investments is subject to income tax withholding at source. The tax rate ranges from 15% to 22.5%, depending on the term of the investment. Interest income received from investments made abroad is subject to tax calculations on a monthly basis.

### 3.8 Personal assessment and utilization of losses

There is no "tax loss" situation for Individuals. In the annual adjustment, if it is found that there was an overpayment of tax during the year (via withholding of IRPF, payment of "carnê-Leão", etc.), the positive difference is refunded to the taxpayer.

### 3.9 Withholding tax

The income in general, of all different natures and origins, are usually subject to IRRF. The tax resulting from the capital gain obtained shall be paid to the tax authorities by the taxpayer. The IRRF arising from financial investments, controlled by financial institutions, is responsibility of the financial institution, which makes the net income available to the taxpayer.

### 3.10 Statutory obligation of employers

The obligations of employers refer to deliver an annual statement to the employee with the position of income and deductions.

### 3.11 Filing requirement of tax return

<b>Filing due date</b>	Until the last working day of April of the year following the reference year.
<b>Penalties</b>	1% per calendar month or fraction of delay, with a minimum of R\$ 165.74 and a maximum of 20% of the tax due
<b>Application of holdover</b>	<p>"DIRPF" – Individual Income Tax Declaration</p> <p>Once resident in Brazil, the individual is subject to the filing of the Individual Income Tax Return - DIRPF, in the following situations:</p> <ol style="list-style-type: none"> <li>1 - received taxable income, subject to adjustment in the statement, whose sum was more than R\$ 28,559.70;</li> <li>2 - received exempt income, not taxable or exclusively taxed at source, whose sum was over R\$ 40,000.00;</li> <li>3 - obtained, in any month, a capital gain on the disposal of assets or rights, subject to the levy of the tax, or carried out operations on the stock, commodities, futures and similar exchanges;</li> <li>4 - regarding rural activities: <ol style="list-style-type: none"> <li>a) obtained gross revenue in an amount exceeding R\$ 142,798.50;</li> <li>b) intends to compensate, in the calendar-year 2019 or later, losses from previous calendar-years or the calendar-year 2019 itself;</li> </ol> </li> <li>5 - had, on December 31st, the possession or ownership of assets or rights, including bare land, with a total value of more than R\$ 300,000.00;</li> <li>6 - became resident in Brazil at any month and was in this condition on December 31st; or</li> </ol>

<b>Application of holdover</b>	7 - opted for exemption from income tax on capital gains on the sale of residential properties, whose proceeds of sale are intended for investment in the acquisition of residential properties located in the country, within 180 (one hundred and eighty) days from the execution of the sale agreement, pursuant to article 39 of Law No. 11.196/2005.
--------------------------------	---

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

The regulatory organizations related to the social security and retirement contributions collection are:

Social Security (INSS) – Brazilian Federal Revenue Service (IRS)

Time of Service Guarantee Fund (FGTS) Fund - Caixa Econômica Federal

### 4.2 Basis of contribution

Main social security (INSS) collection aspects:

- For the entities, percentage on the payroll that can vary between 26.8% to 28.80%;
- For the entities, percentage of non-employee compensation (for example Director with pro labore or individual hired without employment relationship) – 20.00% over the remuneration paid.
- In some cases, according to the law and at the company's choice, the form of taxation is replaced, with a percentage variation between 6.8% to 8.80%. In this case, the replacement of the 20% turns to a percentage of the company's monthly revenue, which can vary between 2.00% to 4.00%.

Main FGTS collection aspects (monthly deposit):

Every company is obliged to deposit the equivalent of 8.0% of the employee's remuneration in the "Time of Service Guarantee Fund – FGTS" Fund. Remuneration comprises the sum of salary, overtime, bonuses, vacation and other benefits.

The FGTS balance updated by the Government will serve as a reserve in which the employee, when dismissed by the company, may make the total withdrawal. In the case of "unfair dismissal", the company has an obligation to pay the employee a fine equivalent to 40% of the balance deposited with the FGTS.

### 4.3 Contribution rate

Social security contribution (INSS) for the individual, employed or non-employed.

From January 2024 onwards, a new contribution table became effective:

Contribution Salaries (R\$)	Rates (%)
Up to 1,412.00	7.50%
From 1,412.01 Up to 2,666.68	9.00%
From 2,666.69 Up to 4,000.03	12.00%
From 4,000.04 Up to 7,786.02	14.00%

## 4.4 Exemption from tax

No exemptions apply on Social contributions (INSS or FGTS).

## 4.5. Main ancillary obligations

Main ancillary obligations required to be presented by entities to the Authorities:

Monthly:

- Transmission of monthly information to the “e-Social” platform of the Brazilian IRS and the Secretary of Labor, such as:
  - Registration of hired employees;
  - Contract termination of employees dismissed;
  - Financial data of the payroll, vacations and other movements;
  - Registration changes for employees such as salary, vacation, leave, among others.
- Social Security and Land Information Statement – “GFIP” statement

Yearly:

- Individual Income Tax Return for the Brazilian IRS
- Annual List of Social Information – “e-Social”

## GST/VAT

### 5.1 Basis of tax

In Brazil, there are four main Value Added Tax (VAT) taxes – PIS, COFINS, IPI (federal taxes) and ICMS (state tax).

The PIS is a federal tax, calculated on the income of the corporation, except for some hypotheses, which have a rate between 0.65% and 1.65%, differing due to a cumulative or non-cumulative option for calculation of income by the taxpayer.

This tax, as part of the production chain, is already considered by the supplier of goods and services when presenting the price for its activity, and thus it is a component of the cost.

Just as PIS, COFINS is a federal tax, also calculated on the income of the legal entity, with the exception of some hypotheses, which have a rate of 3% in the Presumed Profit Calculation method with cumulative and lower tax rates, or 7.6% in the Real Profit Calculation method with non-cumulative calculation and higher tax rates, varying according to the form of income calculation.

This tax is also part of the production chain and therefore it is considered by the supplier of goods and services when presenting the price of its activity, and thus it is a component of the cost.

IPI – Brazilian Federal Value-Added Tax on Manufactured Products: federal tax, levied on the manufacturing of products and import of goods and merchandise. It has different rates based on the product's classification (MCN). A company that imports goods from abroad is classified as an industrial company, pursuant to Decree no. 7.212/10. The calculation is performed monthly and in the non-cumulative systematics.

ICMS – State Governmental Value-Added Tax reg. circulation of merchandises and services: state tax, levied on the circulation of merchandises in general, what includes products from diverse segments, and over interstate and intermunicipal transport and communication services.

## 5.2 Rates of tax

PIS and COFINS:

In the cumulative regimen – 0.65% for PIS and 3% for COFINS

In the non-cumulative regimen – 1,65% for PIS and 7.6% for COFINS

IPI - The rates levied on the products that the Company intends to resell are the same as those calculated in the import of the goods. There is a table with the applicable rates for IPI, which vary by products (“TIPI”).

ICMS – the rates are different depending on the state. They vary usually between 17% and 18% (intrastate rate). In case of operations between states, there's an additional interstate rate, calculated based on the differences of rates between the states involved in the operation.

## 5.3 Registration

Calculation and accounting record monthly.

## 5.4 Filing requirements

“EFD-Contribuições” and “EFD-Fiscal” electronic files – delivery until the 10th working day of the 2nd subsequent month after the register.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Taxes paid abroad may be compensated in Brazil in case anti double taxation treaties exist.

### 6.2 List of double tax treaties signed

South Africa, Germany (denounced by Germany, but still accepted in Brazil), Argentina, Austria, Belgium, Canada, Chile, China, South Korea, Denmark, Ecuador, Slovakia, Spain, Philippines, Finland, France, Hungary, India, Israel, Italy, Japan, Luxembourg, Mexico, Norway, Netherlands, Peru, Portugal, Czech Republic, Russia, Sweden, Trinidad and Tobago, Turkey, Ukraine and Venezuela

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Not applicable in Brazil

### 7.2 Real property tax

“IPTU” tax.

The tax, under the jurisdiction of the Municipalities, on urban property and land has as a taxable event the property, the useful domain or the possession of immovable property by nature or by physical accession, as defined in civil law, located in the urban area of the City. The City establishes the venal value of the m2 and applies it to the total area of the built area for the property.

### 7.3 State duty

ICMS – State Government Value-Added Tax: state tax levied on the circulation of goods and some services (transport of interstate freight, electric energy, telephone). The calculation of this tax is performed monthly.

The rates for domestic operations in the States vary between 18% and 30%. In interstate transactions, rates of 4% to 12% are applied.

ICMS is also considered a value added tax (besides PIS, COFINS and IPI), but at state level.

### 7.4 Net wealth/net worth tax

Not applicable in Brazil

### 7.5 Others

#### Taxes on Imports

ISSQN, IPI, II, IE, PIS-Imports and COFINS-Imports

Import Tax - II: The tax on the import of foreign products is levied on the import of foreign goods and on the luggage of travelers from abroad. In the case of foreign goods, the calculation basis is the customs value and the rate is indicated in the Common External Tariff (TEC) - The rates vary from 0% to 60%. In the case of baggage, the calculation basis is the value of the goods that exceed the exemption quota and the rate is 50%.

Export Tax - IE: The tax, under the competence of the Union, on the export, abroad, of national or nationalized products has as a taxable event the departure of these from the national territory. The rate is 30%.

PIS-Import: contribution levied on the import of goods and services. The rate varies between 1.65% to 3.52%.

COFINS-Imports: taxpayer levied on the import of goods and services. The rate ranges from 7.6% to 16.48%.

#### Tax on Services (ISSQN)

The Service Tax (ISS) is a municipal tax on gross sales of services. The Federal Law defines the services subject to ISS, which include services of technical consultancy, technical assistance, processing, etc.

The tax rate is set by Federal Law, ranging from a minimum of 2% to a maximum of 5%. Each municipality in the Brazilian territory is responsible for setting the rate of the tax within the guidelines established by Federal Law.

## POINT OF CONTACT

#### Name of contact:

Gerd Foerster  
Monica Foerster  
Fernanda Souza  
Paulo Flores

#### Telephone with country code:

+55 11 99327 7890  
+55 11 99327 0568

#### Email address:

Gerd Foerster: gfoerster@confidor.net  
Monica Foerster: monica@confidor.net  
Fernanda Souza: fernanda@confidor.net  
Paulo Flores: paulo@confidor.net



# BULGARIA

## GENERAL INFORMATION

### 1.1 Country/Region

Bulgaria

### 1.2 Currency

BGN

### 1.3 Principal business entities

SPLtd, Ltd, Joint – stock company

### 1.4 Foreign exchange control

N/A

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Bulgaria has undergone a significant transformation over the past three decades. It has moved from a highly centralised, planned economy to an open, market-based, upper-middle-income economy securely anchored in the European Union (EU). The gross domestic product (GDP) in current prices in Bulgaria was forecast to continuously increase between 2024 and 2029 by in total 30.8 billion U.S. dollars (+28.54 percent). After the fourteenth consecutive increasing year, the GDP is estimated to reach 138.76 billion U.S. dollars and therefore a new peak in 2029.

The unemployment rate was 5.0% (compared to 4.4% in the first quarter of 2023), and it was the same for men and women. In the first quarter of 2024, compared to the first quarter of 2023 the total hourly labour cost rose by 15.8% (preliminary data). In the first quarter of 2024, compared to the first quarter of 2023, housing prices rose by 16.0%.

Major strengths are the diversified production base (Bulgaria is a major producer and exporter of cereals and is virtually self-sufficient in food), tourism potential, low production costs and good price competitiveness, low public debt and monetary stability, with the Bulgarian lev pegged to the euro.

In 2024 private investment will reach record levels, due in the first place to the financial support provided by the National Recovery and Resilience Plan (NRRP, 2021-2026). This programme aims to remedy the systemic weaknesses of the Bulgarian economy (energy, digital and environmental transition) with the help of subsidies from European funds (RRF, estimated at EUR 6.9 billion euros, or 8% of 2022 GDP over the 2021-26 period) and national funds (EUR 3.5 billion, a third of which from public funds). Investment could also be boosted by lower credit costs in the second half of the year.

Bulgaria continues to aspire to join the eurozone and the Schengen area. In December 2023, after 12 years of negotiation, the EU 27 finally agreed to lift controls at the EU's internal air and sea borders from March 2024.

### 1.6 National tax authority

#### Name

National Revenue Agency

#### Website

<https://old.nra.bg/en/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Bulgarian, local resident companies, pay taxes on income generated in and out of the country. Foreign companies registered in Bulgaria, only pay taxes on profit produced within the country.

### 2.2 Rates of tax

Corporate income tax in Bulgaria is 10% flat rate on the taxable profit.

### 2.3 Year of assessment

1 January to 31 December

### 2.4 Profits deemed to be taxable

Profits of local entities, foreign entities with permanent establishment, gambling, operation of ships, etc.

### 2.5 Taxation of dividends

5 %

### 2.6 Taxation of capital gains

10%

### 2.7 Taxation of interest income

10%

### 2.8 Utilization of tax losses

- \* consecutively during the next 5 years until its exhaustion;
- \* in the amount of the positive tax financial result.

### 2.9 Key tax incentives

- \* For hiring unemployed persons
- \* In granting scholarships
- \* Businesses employing people with disabilities
- \* Social and health insurance funds
- \* State aid for farmers
- \* Activity in municipalities with unemployment higher than the national average



## 2.10 Withholding tax

- \* Dividends and liquidation shares
- \* Income from financial assets and from transactions with financial assets issued by local legal entities, the state and municipalities
- \* Interest, including interest contained in finance lease installments
- \* Income from rent or other provision for the use of movable property
- \* Copyrights and royalties
- \* Fees for technical services
- \* Fees under franchise and factoring contracts
- \* Remuneration for management or control of a Bulgarian legal entity
- \* Income from rent or other provision for the use of immovable property located in the country

### Withholding tax rates

- 5% on the gross number of dividends and liquidation shares (0% for distribution to EU/ EEA countries)
- 0% on interest and royalties distributed to related party legal entities resident in the EU (subject to certain conditions)
- 10% on the gross amount for all other taxable income

The withholding tax rates may be reduced under an applicable double tax treaty.

## 2.11 Transfer pricing

According to Bulgarian legislation, transfer pricing rules apply to all related party transactions, not just cross-border transactions.

## 2.12 Filing requirements of tax return

### Filing due dates

30 June for the previous year

### Penalties

Non-submission or non-submission on time of tax return, annual return under Art. 92 of the Corporate income tax law for the corporate tax due, the sanction (fine) is:

- from BGN 500 to BGN 3,000;
- from BGN 1,000 to BGN 6,000 in case of repeated violation.

### Payment of profit tax and application of holdover

30 June for the previous year

There are specific requirements for advance installments depending on the turnover of the companies

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, personal assessment)

Permanent residence or stay in the country more than 183 days or centre of living interests

## 3.2 Rates of tax

10 % for individuals

15% for sole traders

## 3.3 Year of assessment

30 April

## 3.4 Allowances and deductions

Tax relief for persons with reduced working capacity

Tax relief for personal contributions for voluntary insurance and insurance

Tax relief for personal contributions for retirement benefits

Tax relief for donations

Tax relief for young families

Tax relief for children

Tax relief for disabled children

Tax relief for improvements and/or repairs to immovable residential property

Tax reliefs for natural persons registered as farmers

## 3.5 Taxation of dividends

5%

## 3.6 Taxation of capital gain

10%

## 3.7 Taxation of interest income

N/A

## 3.8 Personal assessment and utilization of losses

Applicable only for sole traders. Same as according to the Corporate Income Tax Act.

## 3.9 Withholding tax

10 %

## 3.10 Statutory obligation of employers

10 % flat salary tax

## 3.11 Filing requirement of tax return

### Filing due dates

30 April for the previous year

With the declaration under Art. 50 of the Law on Personal Income Taxes, income from employment and civil contracts (fees), from activity as a sole trader, farmer, from authorship, licenses, crafts, free professions, rents, interest, sale of property, taxable benefits, dividends and shares from abroad, etc.

### Penalties

Failure to submit or failure to submit a tax return on time under Art. 50, the fine or pecuniary sanction is:

- up to BGN 500
- up to BGN 1,000 in case of repeated violation.

### Application of holdover

N/A

STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

4.1 Regulatory organization

National Insurance Institute

4.2 Basis of contribution

Social security income. For 2024 is between BGN 933 and BGN 3,750

4.3 Contribution rate

Insurance income is the basis on which the amount of insurance contributions is calculated. For 2024, the monthly insurance income is:

\* at least:

Depending on your activity;

- BGN 933 for self-insured persons;
- BGN 933 for farmers and tobacco producers
- if you are not otherwise insured and pay health insurance contributions at your own expense, you owe advance health contributions on no less than half of the minimum amount of the insurance income for self-insured persons. If you receive taxable income during the year (for example from rent or royalties), you must make an annual equalization of your insurance income

\* a maximum of BGN 3,750 per month.

4.4 Exemption from tax

Civil contracts, if the remuneration of the individual in whole is less than the minimal salary of the country for that month.

GST/VAT

5.1 Basis of tax

Taxable basis

5.2 Rates of tax

20 % - applies to taxable supplies within the country, imports of goods and intra-Community acquisitions (except those expressly designated as zero or reduced rate

9 % - accommodation service, delivery of books on physical media or done electronically, supplies of food suitable for babies or small children, baby diapers, restaurant and catering services, general tourist service delivery, supply of service for use of sports facilities

0% - making deliveries with a place of performance on the territory of the country, specified in chapter three, art. 53, 64a, 140, 146 and 173 of the VAT.

5.3 Registration

The taxable turnover for mandatory VAT registration is BGN 100,000.

There is a voluntary registration without any requirements for turnover.

There is a specific VAT registration only for deals with EU member states.

5.4 Filing requirements

14th of the month following the reporting month.

DOUBLE TAX RELIEF

6.1 Foreign tax credit

For the countries with signed Double Tax Treaties (DTT)

6.2 List of double tax treaties signed

Austria	Jordan	Romania
Azerbaijan	Kazakhstan	Russia
Albania	Canada	Saudi Arabia
Algeria	Catarrh	USA
Armenia	Cyprus	North Macedonia
Bahrain	China	Singapore
Belarusian	KNDR	Syria
Belgium	Kuwait	Slovakia
Britain	Latvia	Slovenia
Vietnam	Livan	Serbia
Germany	Litva	Turkey
Georgia	Luxembourg	Uzbekistan
Greece	Morocco	Ukraine
Denmark	Moldova	Hungary
Egypt	Mongolia	Finland
Estonia	Netherlands	France
Zimbabwe	Norway	Croatian
Israel	UAE	Sweden
India	Pakistan	South Africa
Ireland	Poland	Japan
Spain	Portugal	
Italy	Republic of Korea	

OTHER SIGNIFICANT TAXES

7.1 Stamp duty

N/A

7.2 Real property tax

The rate of real estate tax is determined by municipal council regulation within the limits of 0.1 and 4.5 per thousand on the tax assessment of the real estate.

7.3 Estate duty

N/A

7.4 Net wealth/net worth tax

N/A

7.5 Others

Business tax

N/A

Consumption tax, etc.

N/A

## POINT OF CONTACT

**Name of contact**

Boryana Ganovska

**Telephone with country code**

+359 888450400

**Email address**

b\_ganovska@universconsult.com



# CAMBODIA

## GENERAL INFORMATION

### 1.1 Country/Region

Cambodia

### 1.2 Currency

Riel (KHR) (Appr. USD1: KHR4,000)

### 1.3 Principal business entities

In accordance with the Law on Commercial Enterprise (LCE), the following types of business entities are available in Cambodia.

- Sole Proprietorship
- Partnership
- Limited Company and Public Limited Company
- Subsidiary
- Branch
- Commercial Representative Office or Commercial Relations Office

All business entities operating in Cambodia are required to register at Ministry of Commerce (MOC), General Department of Taxation (GDT) and Ministry of Labour and Vocational Training where the Certificate of Incorporation and Certificate of Tax Registration and other registration documents are granted respectively.

From June 15 2020, a new online registration platform known as the “Single Portal” is launched. Registration with multiple ministries online is available for all business entities. The official time required to register with a company is reduced to eight working days.

### 1.4 Foreign exchange control

There is currently no restriction on the repatriation of profits or capital derived from investments made in Cambodia. The New Investment Law guarantees the rights of foreign investors to remit foreign currencies abroad for:

1. the payment of imports and repayment of principal and interest on foreign loans
2. the payment of royalties and management fees
3. the remittance of profits and
4. the repatriation of invested capital on dissolution of an investment project.

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Cambodia shifted to a free markets economy and welcomed FDI in 1989. While Cambodia has adopted a competitive investment strategy, it still lags behind Asia-Pacific countries in terms of investment facilities and other factors such as

roads, ports and other infrastructure developments.

Cambodia joined ASEAN in 1999 and WTO in 2004 and has experienced an economic boom over the last decade with an average annual growth of 8%.

According to Cambodian Economy and Finance Minister Aun Pornmonirath, the economy was projected to grow by around 6% in 2024, up from 5% in 2023, boosted by a recovery in the garment sector, a rise in non-garment manufacturing, and a gradual recovery in the tourism industry.

For 2025, Cambodia's economy is forecast to achieve a growth rate of around 6.3% which will push up the Kingdom's gross domestic product (GDP) to US \$51.39 billion.

### 1.6 National tax authority

#### Name

General Department of Taxation Cambodia (GDT)

#### Website

<http://www.tax.gov.kh/en>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

For business entity registered in Cambodia, corporate incomes are taxed on worldwide basis. For company registered outside Cambodia, the corporate incomes are taxed on source basis, which means only the income derived from Cambodia will be taxed.

### 2.2 Rates of tax

The following table shows the applicable corporation income tax rate:

Standard rate	20%
Oil or natural gas production sharing contract and the exploitation of natural resources including timber, ore, gold and precious stones.	30%
Profit of Qualified Investment Project (QIP) during the tax exemption period as determined by Council for the Development of Cambodia (CDC).	0%
Insurance companies insuring Cambodian risk (non-life insurance).	5% (on gross premium)

### 2.3 Fiscal Year

The default year of assessment is the fiscal year (i.e. year ended 31st Dec). However, company can apply for change of year of assessment and subject to approval from the GDT and Accounting and Auditing Regulator “ACAR”

### 2.4 Profits deemed to be taxable

All companies, except those enjoying exemption from tax on income, have the obligation to pay 1% of self-assessed

monthly turnover as a monthly prepayment of tax on profit (PPT). The deadlines of PPT payments are on or before the 20th day of the following month by paper based (25th day of the following month if using E-Filing Application) and the prepayments are offset against the annual tax on income.

Taxable income is the income earned by the taxable person during the year according to the general rule of accounting. The income includes the profit earned from the main business activities and the subsidiary income which includes but not limited to income from immovable property, donation, grants, dividend from the investment on subsidiary, insurance compensation, sales and disposal of company asset, and other income stated in the Cambodia Law on Taxation.

## 2.5 Taxation of dividends

Dividends received from resident companies are exempt from income tax. However, dividends received from non-resident companies are subject to income tax in Cambodia. Credit is allowed for tax paid overseas on foreign source income, subject to certain conditions.

Dividends paid to non-resident companies will be subject to a withholding tax of 14%.

## 2.6 Taxation of capital gains

Cambodia commences to implement the capital gain tax ("CGT") from 01 January 2022. The CGT is imposed on the gain realized from the sales or transfer of the transactions in relation to immovable property, lease, investment asset, goodwill, intellectual properties, and foreign currency.

CGT is computed at rate of 20% of the gain from the TRANSACTIONS which is the difference between the sales and the expense associated with the TRANSACTIONS. For sales and transfer of immovable property, other than adopting the actual base method, taxpayer can also opt to adopt the determined base method. The CGT under determined based method will be equalled to 4% of the sales or transferred value.

The effective date of CGT will be postponed until 31st December 2024.

## 2.7 Taxation of interest income

The interest income below is subjected to withholding tax ("WHT"):

- I. Interest income receiving from a domestic bank or savings institution to a resident taxpayer:
  1. WHT at 6% for interest income earned from a fixed deposit account.
  2. WHT at 4% for interest earn from a saving account.
- II. Interest income earned from other beside domestic bank or saving institutions is subject to Income tax as other income.

## 2.8 Utilization of tax losses

Losses can be carried forward for a maximum of 5 years. Losses cannot be carried back.

However, based on Prakas 098 on Annual Income Tax, unutilized losses carried forward will be forfeited if there is

1. a change in business activity occurs, or
2. having unilateral tax reassessment imposed by the tax auditor.

## 2.9 Key Tax incentives

Investors can apply for Qualified Investment Project (QIP) status from Council for the Development of Cambodia (CDC) or the Provincial- Municipalities Investment Sub-committees to enjoy tax incentives.

The tax incentives (generally) applicable for QIPs are:

- I, Profit tax exemption: QIP are entitled to the profit tax exemption which two options of the exemption are available:
  1. Exemption on tax on profit and prepayment for profit tax with minimum of three years and maximum of nine years. Under the new investment law adopted in 2021, after the expiration of the tax on profit exemption, the QIP can further enjoy another reduction of the profit tax at a rate proportional to the total tax due for 75%, 50% and 25% for the first and second year, third to fourth year, and fifth to sixth year.
  2. Accelerated Special depreciation on manufacturing assets.
- II, Exemption from import VAT and import custom duty on production equipment, construction materials and manufacturing inputs.

Tax incentives would be available to all sectors that are not under the negative list. All QIPs are required to apply for a Certificate of Compliance (CoC) annually to continue to enjoy the investment incentives granted under the investment license.

## 2.10 Withholding tax ("WHT")

### A. Resident Taxpayer

1	- Payment for the performance of services including management, consulting, and similar services without a valid VAT invoice with an amount more than USD 12.50. - Royalties for intangibles and interests in minerals, oil or natural gas. - Interest payments to a physical person or enterprise other than interest paid to a domestic bank or saving institution.	15%
2	Payment for rental of movable and immovable property to the non-registered compan	10%

### B. Non-Resident Taxpayer

Any resident taxpayer carrying on business and who makes any of the following payments to a non-resident taxpayer shall withhold, and pay as tax, an amount equal to 14% of the amount paid.

1. Interest
2. Royalties, rent, and other income connected with the use of property
3. Management or technical services
4. Dividends

## 2.11 Transfer Pricing

Transaction with related party should be made in arm's length principle. Related party is defined as member of the immediate family, direct or indirectly hold 20% control. Methodology



applied for the determination of whether the transaction is made in arm's length or not include:

Comparable Uncontrolled Price, Resales Price, Cost Plus method, Transaction Net Margin Method and Profit Splitting Method.

Businesses that having related party transactions is required to maintain the Transfer Pricing Documentation ("TPD") to justify for the reasonableness of their transactions.

## 2.12 Filing requirements of tax return

<b>Filing due dates</b>	The annual tax return must be filed within 3 months after the closing of the fiscal year. The monthly tax return must be filed on the 20th for paper filing or the 25th of the following month for the E-filing.	
<b>Interest &amp; Penalties</b>	<b>Type</b>	<b>Additional Tax rate</b>
	1. Taxpayer is considered negligent if the underpayment is less than 10% of the total tax due, or if the taxpayer fails to submit tax return or to pay tax by the due date	10% of the underpaid tax
	2. Taxpayer is considered seriously negligent if the underpayment is more than 10% of total tax due or taxpayer has failed to settle the tax liabilities by the due date	25% of the underpaid tax
	3. Where the taxpayer receives a unilateral tax assessment from GDT.	40% of the underpaid tax
	4. Late payment of taxes and late submission of returns	1.5% of underpaid tax per month
<b>Payment of income tax, minimum tax, and application of withholding</b>	5. Additional tax for the obstruction of the implementation of law on taxation.	USD 1,250.00 per case
	Real regime taxpayers are subject to a separate Minimum Tax of 1% of the annual turnover. Minimum Tax is due if it is greater than the Tax on income payable or taxpayers report a taxable loss where there is no income tax to be paid for the year. The Minimum Tax can be reduced by PPT and other withholding tax credits. Minimum Tax is exempt for taxpayers who maintain proper accounting records which fall under certain conditions upon the approval from GDT. For old QIP companies, the minimum tax can be exempted only if there is an external audit report and maintain proper accounting record. For new QIP companies, the minimum tax can be exempted for the 1st year of approval of QIP without External Audit report. From the 2nd year onward, the new QIP companies is obligated to submit external audit report to tax department by June of the following year.	

## PERSONAL INCOME TAX (TAX on Salary)

### 3.1 Basis of taxation (Residence, Personal assessment)

According to Law on Taxation, Article 42, The term "salary" means salaries, remunerations, severance pay, bonuses, and overtime, compensations and fringe benefits which are paid to an employee, or which are paid for direct or indirect advantage of the employee for the fulfillment of employment activities.

The salary of a physical person resident is subject to Cambodia income tax (i.e. tax on salary) on worldwide basis. For non-resident, only the salary received in Cambodia is subject to the tax on salary in Cambodia.

### 3.2 Rates of tax

- From January 2023 onward, any physical person who has a residence in the Kingdom of Cambodia or a principal place of abode in Cambodia or present in Cambodia for more than 182 days in a calendar year will be classified as residents, tax on salary rates are as follows:

Taxable Income for the Month (KHR)	Progressive Tax (%)
UP TO 1,500,000 (~USD375)	0
FROM 1,500,001 – 2,000,000 (~USD375-500)	5
FROM 2,000,001 – 8,500,000 (~USD501-2,125)	10
FROM 8,500,001 – 12,500,000 (~USD2,126-3,125)	15
OVER 12,500,000 (~USD3,126)	20

- Non-residents: Flat rate of 20% on salaries received from Cambodia.

### 3.3 Year of assessment

There is no annual tax on salary declaration nor annual personal income tax declaration. Tax on salary is taxes monthly.

### 3.4 Allowances and Deductions

An individual resident can entitle for the following deduction every month during tax on salary calculation:

- KHR 150,000 or USD 37.50 for each minor
- KHR 150,000 or USD 37.50 for dependent spouse (who is not being employed)

### 3.5 Taxation of dividends

14% withholding tax on dividend paid to non-residents from Cambodia entities. Further reduced to 10% if the payment is made to the resident of the countries that have signed Double Taxation Agreement (DTA) with Cambodia. Dividends paid to residents from Cambodia entities are tax free. Currently, there are 10 active countries and region under DTA with Cambodia, they are Thailand, China, Vietnam, Brunei, Malaysia, Singapore, Indonesia, Hong Kong, South Korea and Macau.

### 3.6 Taxation of capital gain

Please refer to the Taxation of capital gain mentioned under item 2.6.

### 3.7 Taxation of interest income

Please refer to the Taxation of interest income mentioned under item 2.7.

### 3.8 Personal assessment and utilization of losses

N/A

### 3.9 Withholding tax

Please refer to the withholding tax rate mentioned under item 2.10.

### 3.10 Statutory obligation of employers

Employers have the obligation to file monthly tax on salary declarations and payments for the employees on or before the 25th day of the following month.

3.11 Filing requirement of tax return

Filing due dates	Employers have to file the salary and fringe tax returns together with the payments of tax on salaries to GDT before 25th of the following month
Penalties	10% plus monthly interest of 1.5% on the unpaid tax
Application of withholding	Employer has the obligation to withhold from the employee and pay the tax to the tax administration.

STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

4.1 Regulatory organization

National Social Securities Fund (NSSF) is a fund established for the well-being and protection of employees and workers. The NSSF covers employment injury scheme, health Insurance scheme and the pension scheme.

4.2 Basis of contribution

All business entities are obliged to register with NSSF.

4.3 Contribution rate

The contribution is a uniform rate applied to all risk classes or industry. All employers pay 0.8% of the assumed wage based on the employee's monthly wage before taxation for the employment injury scheme, 2.6% for the health care scheme and 4% for the pension scheme.

Effective from October 2022 onward, the government will enforce the Retirement Pension Fund payment, which will be paid every month, but it will be shared half-half between the entity and the employee.

4.4 Exemption from tax

NSSF is borne by employer, and it is not subject to fringe benefit tax plus it is a deductible expense during annual profit tax calculation.

4.5 Accounting and Auditing Regulator

Accounting and Auditing Regulator (ACAR) formerly known as National Accounting Council (NAC) requires the company doing business in Cambodia to submit Independent Audit Report (Audited Financial Statements) and Non-Audited Financial Statements on a yearly basis. The following type of entity is obligated to submit the audit report:

- 1. Public enterprises
- 2. Public accountable entities
- 3. Qualified Investment Projects ("QIP")

Other than above, enterprises who meet 2 criteria among the 3 criteria below are obligated to have their annual financial statements audited by registered independent auditors recognized by KICPAA and ACAR:

- Annual turnover of 4 billion Khmer Riels or USD 1M or more
- Total assets of 3 billion Khmer Riels or USD 750K or more
- Having total employee of 100 or more

Beside the entities mentioned above, the other enterprises that do not meet requirement to submit the independent audit report are required to submit their non-audited financial report following ACAR template.

4.6 Penalties for fail to comply ACAR requirement

Failure to comply with the requirement of ACAR would result in penalties as follows:

- 1. Not having the financial statements to be audited (5,000 USD)
- 2. Not maintaining accounting record (2,500 USD)
- 3. Not preparing the financial statement in accordance with accounting standard (2,500 USD)
- 4. No submission or late submission of the financial statement by the stated deadline (500 USD)

GST/VAT

5.1 Basis of VAT

VAT is levied on a wide range of importation of goods and almost all supply of goods and services in Cambodia and on each stage of production. VAT input allows each supplier claim credit for the tax paid, hence VAT eventually impacts on the end consumer only.

5.2 Rates of VAT

The following specific supplies are subject to VAT at zero rate

- i. Exported goods and services, and certain charges in relation to international transportation
- ii. Supply of unprocessed agricultural products and basic food products
- iii. Solid and liquid waste collection service
- iv. Hospital, clinic, dental services, medical products incidental for performance of service
- v. Supply of education services and goods or other services related to student education
- vi. Public postal services
- vii. A wholly state-owned public passenger transportation
- viii. Import goods for personal use
- ix. Electricity and clean water
- x. Insurance and primary financial services
- xi. Supply of qualifying goods & services by qualifying persons to qualifying industries shall be eligible to charge VAT at the preferential 0% rate

Except the above specific supplies, all other supplies of goods and services are subject to standard VAT rate of 10%.

5.3 Registration

Any business entities having businesses in Cambodia supplies goods and services are required to be registered for VAT if they meet the criteria below:

a.	Corporations, importers, exporters, and investment companies
b.	Taxpayers with taxable turnover in any period of 3 consecutive months that exceeds or expect to exceed in the coming period of 3 consecutive months of: <ul style="list-style-type: none"><li>i. goods sold exceeding KHR125 million; or</li><li>ii. services provided exceeding KHR60 million</li><li>iii. Agriculture sectors may be classified specifically by the new law on taxation.</li></ul>
c.	Taxpayers undertaking government contracts with a total taxable turnover exceeding KHR30 million.

Entities are required to register for VAT within 15 days upon commencement of business operations or receiving the business registration from the relevant authorities.

Under the new enacted regulations for VAT on E-commerce, any non-resident e-commerce provider supplying digital product or service or any e-commerce activities in Cambodia whose annual turnover exceed US\$ 62,500 shall be registered under Simplified VAT Registration mechanism.

## 5.4 VAT Mechanism

VAT that occurs during the purchase is called "VAT-Input"

VAT that the entity charge to customer is called "VAT-Output"

At the end of the month, VAT-Input will be offset with VAT-Output, and if

- VAT Input > VAT Output, the variance amount will be carried forward to next month
- VAT Carried forward will add up with the VAT-Input in the next month BEFORE offsetting with VAT-Output in the next month.
- VAT Input < VAT Output, the variance amount will be VAT Payable and will have to be paid to GDT within the filing deadline.

## 5.5 VAT on E-commerce

B2B transaction: Under the E-commerce VAT reverse charge regulations, registered enterprise that make payment to non-resident e-commerce provider need to declare and pay the VAT on behalf of that non-resident e-commerce provider to the GDT.

B2C transaction: Non-resident e-commerce provider shall charge VAT from its customer and declare and pay tax to GDT via its partner bank.

## 5.6 VAT Refund

Where the enterprise is an exporter or is registered as an investment enterprise, that enterprise can claim for a refund of excess input every month. Other the other hand, any other registered enterprise who has excess input tax credit for three consecutive months or more, that enterprise may apply to the tax department for a refund of such excess input tax credit at the end of third month or in any other month thereafter.

The VAT Refund should not be submitted for more than 3 years backward.

Be caution that of the refundable VAT will not be refunded 100% due to the following reasons:

- The vendor has ceased its business activity
- The vendor has not fulfilled their tax obligation & under tax investigation audit
- The tax invoice is improper
- The date of the invoice is not within the month of declaration

## 5.7 Filing requirements

Please refer to 3.11

# DOUBLE TAX RELIEF

## 6.1 Foreign tax credit

Tax paid overseas on foreign source income can be classified as a tax credit with proper and sufficient evidence to substantiate the foreign tax paid. The tax credit is calculated separately for each foreign country and only the lower of the foreign tax paid or Cambodian tax payable on foreign source income will be recognized.

## 6.2 List of double tax treaties signed

Currently, Cambodian government have signed a total of 10 tax treaties, namely with Singapore, China, Brunei, Thailand, Hong Kong, Vietnam, Indonesia, Malaysia, South Korea, and Macau. Meanwhile, the tax treaties with Turkey will be effective after obtaining approval from both countries legislative institution.

# OTHER SIGNIFICANT TAXES

## 7.1 Stamp Tax

Stamp Tax is levied on administration documents, court documents, non-court document. Ministry of Economy and Finance shall determine the scope of implementation and stamp tax table in the sub-decree. All unpaid documents which are subject to stamp tax will not be received or issued by the competent authority. Each stamp has a value of KHR100, KHR200, KHR500, KHR1,000, KHR2,000. The Ministry of Economy and Finance is the only competent authority to print the stamp.

## 7.2 Immovable property tax

Property tax shall be imposed on the properties located in the municipality and provinces of Cambodia. This tax shall be collected annually at a rate of 0.1% of 80% on the value of the property. It is applied to immovable properties valued in excess of KHR100 million (approximately USD25,000). The term "Property" is referred to lands, houses, buildings and other constructions that are built on the land, and the value of property shall be determined based on the market price by the property evaluation committee which is established by the Prakas of the Minister of Economy and Finance. The deadline for Property tax payment is on 30th September each year.

## 7.3 Unused land tax

The unused land tax is levied on unused land which are located in the cities and areas which are levied by Unused Land Appraisal Committee (ULAC). The unused land tax is paid by owners. Tax on unused land is based on 2% of the market price per square meter as determined by ULAC.

## 7.4 Patent tax

All entities carrying on business activities in Cambodia must register annually a standard patent tax rate as follow:

- Small Taxpayer: KHR 400,000 (approximately USD100.00)
- Medium Taxpayer: KHR 1,200,000 (approximately USD300.00)
- Large Taxpayer: Minimum KHR3,000,000 (approximately USD750.00) and Maximum: KHR5,000,000 (approximately USD1,250.00)

Patent payment deadline is 31st March of the current fiscal year.

## 7.5 Accommodation tax (AT)

AT is a tax imposed on the provision of hotel accommodation service. AT is levied at a rate of 2% on hotel accommodation services charge, inclusive of other services charge and all kind of taxes, but excluding of the AT itself and VAT.

## 7.6 Property transfer tax (Stamp Duty Tax)

Except the inheritance of property among direct relatives, other transfers of ownership of immovable property and certain vehicles are subjected to 4% property transfer tax of the transferred value. It is the obligation of transferee to pay the tax.

## 7.7 Registration Tax (Stamp Duty Tax)

Registration tax of 0.1 % applies to transfer of company's shares. 0.1% registration tax also applies on the government contract value related to the supply of goods/ services that are used under the state budget.

The following legal documents are subject to a registration tax (stamp duty) of KHR 1 million (approximately USD250.00)

1. Document on establishing company
2. Document on merging the companies
3. Document on resolving the company

## 7.8 Tax for Public Lighting (PL)

PL is levied on the supply of cigarette and alcohol products. The PL rate is increased from 3% to 5% for the supply of all alcohol, beverage, and tobacco effective from 1st January 2024.

The deadline of PL is 20th day of the following month by paper based (25th day of the following month if using E-Filing Application).

## 7.9 Others

N/A

## OTHERS

### 8.1 Types of Taxpayers

GDT now has classified taxpayers in Cambodia into 3 types of categories:

- i. Large Taxpayers:
  - Annual turnover above KHR 4,000 million (USD 250,000) for taxpayers in the agricultural sector; (Companies/Sole Prop/Partnership).
  - Annual turnover 6,000 million (USD 1,500,000) for taxpayers in the service and commercial sectors; and
  - Annual turnover above KHR 8,000 million (USD 2,000,000) in the industrial sector.
- ii. Medium Taxpayers: Annual Taxable Turnover between KHR700 million and KHR4,000 million
- iii. Small Taxpayers: Annual Taxable Turnover between KHR250 million and KHR700 million
  - Small Taxpayer will be entitled to simplified accounting system.

### 8.2 Types of Tax Audit

Three types of corporate tax audits are commonly carried out in Cambodia.

1. Desk Audit,
2. Limited Audit,
3. Comprehensive Audit

It is very normal for GDT to perform at least one of the audits during a financial year and the notification of tax re-assessment will be completed with a comprehensive audit.

The company might also have an investigation tax audit if tax crime found out by tax department.

## 8.3 Official Licensing of Tax Service Agent

To improve the level of compliance, official licensing of tax agent system has been implemented in Cambodia. Licensed tax services agents must be recognized and approved by the GDT through renewing their license valid for two years. Client outsourcing tax related services to unlicensed tax agent shall be liable for a fine of KHR 5 million.

## 8.4 Tax Incentives for SME

Tax incentive to SME include:

- 3 years profit tax, minimum tax and PPT exemption for newly registered company of overall industry, and can enjoy up to 5 years income tax exemption if
  - the raw material used in the production is at least 60% locally purchase i.e. Cambodia), or
  - increase more than 20% of their employee over current number of employees, or
  - Located in SME cluster zone
- Deductible expense of 200% for the expense on the usage on accounting software and accounting training, 150% for the R&D of the machine aim for increase of the productivity.
- Custom duty exemption of the imported raw material and machinery
- The following industries will be able to enjoy the SME tax incentive
  - Agriculture
  - Food processing
  - Production of consumable supplies, and production for tourism
  - Waste recycling
  - R&D of the IT, supplies of IT innovative related service
  - SME located in the SME cluster zone

## POINT OF CONTACT

### Name of contact

Larry Ng

### Telephone with country code

+855 (0) 88 77 66 865  
+852 9527 7825

### Email address

info@reandallkg.com; larry.ng@reandallkg.com





# CHINA

## GENERAL INFORMATION

### 1.1 Country/Region

Chinese mainland

### 1.2 Currency

Renminbi (RMB)

### 1.3 Principal business entities

#### Resident enterprise

- State-owned enterprise
- Collective enterprise

#### Private enterprise

- Joint ownership enterprise
- Joint-stock enterprise
- Foreign-funded enterprise
- Foreign enterprise
- Other organizations

#### Non-resident enterprise

### 1.4 Foreign exchange control

The “State Administration of Foreign Exchange” is the authority in charge of foreign exchange management in China and is responsible for foreign exchange administration under the current account and the capital account and the administration on foreign exchange operations of financial institutions, etc.

### 1.5 Current economy climate (Industry overview/encouraged business development)

In recent years, China has become a major economic and trade power around the globe. It is the world’s second largest economy, No. 1 commodity exporter and No. 2 commodity importer, second biggest destination for Foreign Direct Investment (FDI), biggest manufacturer, top holder of foreign exchange reserves, and biggest creditor country as well.

Catalogue of Encouraged Industries for Foreign Investment (2019 edition) and Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2019 edition) went into effect on 30 July 2019, supporting more foreign investment in high-end manufacturing, smart manufacturing and green manufacturing sectors, and advancing even wider opening up to the outside world in all areas.

### 1.6 National tax authority

**Name:** State Taxation Administration

**Website:** <https://www.chinatax.gov.cn/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

The enterprises and other organizations (hereinafter referred to as the enterprises) which have incomes within the territory of the People’s Republic of China shall be the corporate income tax payers and shall pay their corporate income taxes according to the Corporate Income Tax Law of the People’s Republic of China.

Sole proprietorship and partnership enterprises are not applicable to the Corporate Income Tax Law of the People’s Republic of China.

“Resident enterprise” refers to an enterprise which is legally incorporated within the territory of China, or which is incorporated under the law of a foreign country (region) but whose actual management organ is within the territory of China. A resident enterprise shall pay the corporate income tax for its incomes derived from inside and outside the territory of China.

“Non-resident enterprise” refers to an enterprise which is incorporated under the law of a foreign country (region) and whose actual management organs are not within the territory of China but who has venues or establishments within the territory of China; or who does not have any venue or establishment within the territory of China but has incomes derived from China. The duty to pay taxes of non-resident enterprises shall be identified accordingly.

### 2.2 Rates of tax

The corporate income tax shall be levied at the statutory rate of 25%. For qualified non-resident enterprises, the tax rate shall be 20%, but in actual taxation, the tax rate shall be 10%. (Please refer to “Key Tax incentives” below.)

### 2.3 Year of assessment

Corporate income tax shall be levied annually, paid in advance on a monthly or quarterly basis, and the payable or refundable amount of taxes shall be settled at the end of the year, with a refund for over payment or a supplemental payment for deficiency. The year of assessment shall commence on 1 January and end on 31 December of the Gregorian calendar year. In case an enterprise’s business operations are started or terminated in the middle of the year of assessment for reasons such as merger and shutdown, which leads to its actual business operation period in this year of assessment shorter than 12 months, its actual business operation period shall constitute the year of assessment. Where an enterprise is liquidated according to law, the liquidation period shall be deemed as the year of assessment.

An enterprise shall file a corporate income tax return to the tax authority within 15 days after the ending of a quarter; and file an annual corporate income tax return for the settlement of tax payments within 5 months after the ending of the year



of assessment. In case an enterprise terminates its business operation, it shall file a corporate income tax return within 60 days after the actual termination of its business operations.

## 2.4 Chargeable gains

The chargeable gains are the basis for taxation of corporate income tax and they shall be the balance after deducting the non-taxable income, tax-exempt income, deduction items as well as the permitted remedies for losses of the previous year(s).

An enterprise's total gains refer to the monetary and non-monetary incomes from various sources and includes:

- (1) income from selling goods;
- (2) income from providing labor services;
- (3) income from transferring property;
- (4) equity investment gains, such as dividend, bonus;
- (5) interest incomes;
- (6) rental income;
- (7) royalty income;
- (8) income from accepting donations; and
- (9) other incomes.

The following incomes in the total gains shall be tax-free:

- (1) treasury appropriations;
- (2) the administrative fees and governmental funds which are levied in accordance with the law and fall under the scope of the treasury administration;
- (3) other tax-free incomes.

An enterprise's following incomes in its total income amount shall be tax-free:

- (1) the interest incomes from treasury bonds;
- (2) dividends, bonuses and other equity investment gains generated between qualified resident enterprises;
- (3) dividends, bonuses and other equity investment gains which are obtained by qualified non-resident enterprises;
- (4) incomes of qualified not-for-profit organizations.

When calculating the chargeable gains, the reasonable expenditures actually incurred by an enterprise in connection with the acquisition of income, including costs, expenditures, taxes, losses, etc. may be deducted.

In relation to an enterprise's expenditures for public welfare donations, the portion falling within 12% of the total annual profits is permitted to be deducted when such enterprise's chargeable gains are calculated; the portion beyond 12% of its total annual profits is permitted to be deducted from its chargeable gains within three years after it is carried forward.

When calculating the chargeable gains, none of the following expenditures shall be deducted:

- (1) such equity investment gains as dividends, bonuses paid to the investors;
- (2) payment for corporate income tax;
- (3) overdue payment for taxes;

- (4) pecuniary punishment, fines and losses of confiscated properties;
- (5) expenditures for donations exceeding the required standards;
- (6) sponsorship expenditures;
- (7) unverified reserve expenditures;
- (8) expenditures for payment of management fee among enterprises, rentals and royalties among business establishments within the enterprise, and interests paid among business establishments within the non-bank enterprises;
- (9) other expenditures irrelevant to the obtaining of incomes.

## 2.5 Utilization of tax losses

The losses suffered by an enterprise during the year of assessment may be made up by its income generated within the next 5 years. An enterprise may not offset the losses of its overseas business establishments against the profits of its domestic business establishments in the consolidated calculation of its corporate income tax.

Since 1 January 2018, for enterprises which become eligible hi-tech or science and technology-oriented small & medium-sized enterprises in the current year, their losses suffered within the 5 years before the year in which they gain eligibility and have not been fully made up may be carried forward and made up by their incomes in the subsequent years, and the carry-forward period extends from 5 years to 10 years at most.

## 2.6 Key Tax incentives

### 1. Tax exemption and reduction

In relation to the following incomes of an enterprise, the corporate income tax may be exempted or reduced:

- Income from the projects in the fields of agriculture, forestry, husbandry and fishery;
- Income generated from the investment in the important public infrastructure projects supported by the state;
- Income generated from the qualified projects of environmental protection, energy and water saving;
- Income generated from qualified transfer of technologies;
- Income from rural water safety projects;
- Income from the implementation of contractual energy management projects by energy-saving service companies.

2. Preferential tax rate for hi-tech enterprises: The corporate income tax on qualified high-tech enterprises which have the priority to be supported by the state shall be levied at the reduced tax rate of 15%.

3. Preferential tax rate for service enterprises with advanced technology: Since 1 January 2017, the corporate income tax on enterprises which are identified as service enterprises with advanced technology shall be levied at the reduced tax rate of 15%.

4. From January 1, 2023 to December 31, 2024, the part of the annual taxable income of small and low-profit enterprises not exceeding 1 million yuan shall be reduced

by 25% and included in the taxable income amount, and the enterprise income tax shall be paid at the rate of 20%.

From January 1, 2022 to December 31, 2024, the part of the annual taxable income of small and low-profit enterprises exceeding 1 million yuan but not more than 3 million yuan shall be reduced by 25% and included in the taxable income, and the enterprise income tax shall be paid at the rate of 20%.

The aforesaid “small meagre-profit enterprises” refer to enterprises engaging in industries not restricted or prohibited by the state and meeting the following conditions at the same time: with an annual taxable income not exceeding 3 million yuan, with no more than 300 employees, and with a total asset of not more than 50 million yuan.

## 5. Additional deduction

Additional deduction means further deduction of enterprise expenditures at a specified rate on the basis of pretax deduction, of which

- (1) For the research and development expenses incurred by general enterprises from 2018 to 31 December 2020, if they do not form intangible assets but are charged to the profits and losses for the current period, an additional deduction of 75% of the research and development expenses may be made on top of the actual deduction; where intangible assets are formed, they shall be amortized at 175% of the costs of the intangible assets. Since January 1, 2023, for the research and development (R&D) expenses occurred during the R&D activities conducted by enterprises that have not been the intangible assets included in current profits and losses, an additional deduction of 100% of the actual amount before tax shall be made on the basis of actual deduction according to regulations; for those that have been intangible assets, since January 1, 2023, it shall be amortized at 200% of the costs of the intangible assets before tax. For the R & D expenses actually incurred in the R & D activities of the IC enterprises and the industrial enterprises during the 1st January 2023 to 31 December 2027 for the intangible assets, the amortization shall be 220% of the cost of intangible assets during the above period.
- (2) An additional deduction of 100% of the salaries paid to the handicapped staff shall be made on top of the actual deduction of the salaries paid by enterprises to such handicapped staff.

## 6. Preferential treatments for venture capital enterprises

For venture capital enterprises which are engaged in venture capital investment and need to be supported and encouraged by the state with priority, a certain percentage of their investment amount may be deducted from their taxable income.

## 7. Preferences for accelerated depreciation

- (1) In case an enterprise definitely needs to accelerate the depreciation of any fixed asset by virtue of technological progress or for any other reason, it may curtail the term of depreciation or adopt a method for accelerated depreciation;

Depreciation of the fixed assets newly purchased by enterprises in six industries including biotech drugs manufacturing and special equipment manufacturing after 1 January 2014 may be accelerated;

Depreciation of key industries in four sectors including light industry, textile, machinery and automobile may be accelerated.

For equipment and devices newly purchased by all enterprises from 1 January 2024 to 31 December 2027, as long as their unit price doesn't exceed 5 million yuan, it may be included in costs of the current period and deducted before tax.

For the new equipment and devices whose unit price is more than 5 million yuan purchased by micro, small and medium-sized enterprises from January 1, 2022 to December 31, 2022, it may be deducted at a certain proportion of the unit price before tax of corporate income tax voluntarily. Specifically, for the equipment and devices whose minimum depreciable life is three years according to the enforcement regulations of the Corporate Income Tax Law, 100% of its unit price can be deducted before tax at once in that year; for those whose minimum depreciable life is four, five and ten years, 50% of its unit price can be deducted before tax at once in that year, and the left 50% shall be deducted before tax after calculating depreciation in the remaining years according to the regulations.

## 8. Income deduction preference

In relation to the incomes earned by an enterprise from producing products complying with the industrial policies of the state by comprehensively utilizing resources, they may be downsized in the calculation of the amount of taxable incomes.

In order to further support entrepreneurship and innovation, the tax policies for venture capital enterprises and angel investment individuals in start-up technology enterprises are announced as follows:

For the conditions that start-up technology enterprises should meet, the number of employees will continue to not exceed 300, and the total assets and annual sales revenue will continue to not exceed 50 million yuan. Other conditions stipulated in the Notice of the State Administration of Taxation of the Ministry of Finance on Tax Policies for Venture Capital Enterprises and Angel Investment Individuals (No.55,2018) will remain unchanged.

If this period has been invested for more than 2 years and newly occurred, the relevant tax policies may be applied according to document No.55,2018 and the provisions of this Announcement.

This announcement shall be implemented until December 31, 2027.

## 9. Credit against tax payable

In case an enterprise purchases and actually uses the required special equipment for environment protection, energy and water saving, work safety, etc., 10% of the investment in such special equipment may be deducted from the enterprise's tax payable in the current year. In

case the amount is not sufficient to offset such deduction, it may be carried forward and deducted in the subsequent five years.

#### 10. Tax preferences for special industries

For software enterprises and integrated circuit industry, enterprises producing and assembling specialised supplies for disabled persons, and innovative enterprises issuing depositary receipts in China, the corporate income tax is preferentially reduced or exempted.

#### 11. Preferential treatments for non-resident enterprises (withholding tax)

For qualified non-resident enterprises, the corporate income tax shall be levied at the reduced tax rate of 10%. The following incomes obtained by such non-resident enterprises shall be exempted from the corporate income tax:

- (1) Interest income from loans which are provided by a foreign government for the Chinese government;
- (2) Interest income from preferential loans which are provided by an international financial organization for the Chinese government and resident enterprises;
- (3) Other incomes.

## 2.7 Withholding tax

For incomes gained by a non-resident enterprise which has no venue or establishment within the territory of China, or which has a venue or establishment within the territory of China, but whose incomes have no actual connection to its venue or establishment inside the territory of China, the following methods shall be adopted in calculation of its chargeable gains:

- (1) In relation to dividends, bonuses and other equity investment gains, interests, rentals and royalties, the chargeable gains shall be the total gains;
- (2) In relation to incomes from property transfer, the chargeable gains shall be the balance after the total gains less the net value of the property; and
- (3) In relation to other incomes, the chargeable gains shall be calculated by reference to the methods as mentioned in the preceding two paragraphs.

For payable income taxes on the incomes obtained by a non-resident enterprise which has no venue or establishment within the territory of China, or which has a venue or establishment within the territory of China, but whose incomes have no actual connection to its venue or establishment in the territory of China, they shall be withheld by sources, with the payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due.

## 2.8 Transfer Pricing

N/A

## 2.9 Filing requirements of tax return

Filing due dates	N/A
Penalties	N/A
Payment of profit tax and application of holdover	N/A

# PERSONAL TAX

## 3.1 Basis of taxation (Residence, Personal assessment)

**Resident taxpayer:** A resident individual is an individual who has domicile in China or who has no domicile in China but has stayed for 183 days or more accumulatively in the year of assessment in China. A resident individual shall bear unlimited tax liability, and pay personal tax on his/her income obtained inside and outside China in accordance with the law.

**Non-resident individual:** is a taxpayer who does not meet the resident individual judgment standard. A non-resident individual shall bear limited tax liability and pay personal tax on his/her income obtained inside China in accordance with the law.

Scope of taxation

- (1) income from wages and salaries;
- (2) income from remuneration for labor services;
- (3) income from author's remuneration;
- (4) income from royalties;
- (5) business income;
- (6) income from interests, dividends and bonuses;
- (7) income from the lease of property;
- (8) income from property transfer;
- (9) contingent income.

Resident individuals shall calculate by the year of assessment on a consolidated basis the personal tax, and non-resident individuals shall calculate by itemization on a monthly or transaction-by-transaction basis the personal tax, on the income obtained as set forth in the above subparagraphs (1) to (4) (hereinafter referred to as the 'comprehensive income'). The personal tax on the income set forth in the above subparagraphs (5) to (9) obtained by a taxpayer shall be calculated respectively.

## 3.2 Rates of tax

1. The progressive tax rate ranging from 3% to 45% shall apply to comprehensive income in excess of specific amount, and the pretax annual deduction amount increases from 42,000 yuan to 60,000 yuan. Besides, there are special deductions of expenses for basic endowment insurance, basic medical insurance, unemployment insurance and housing provident fund, which are paid according to the state-stipulated scope and standard of payment, and seven types of additional special deductions of expenses for children's education, continuing education, medical expenses for serious diseases, housing mortgage interest, house rent, care for the elderly, and care for infants and children under three years old.

A foreign individual complies with the requirements for resident individual may choose additional special deductions for personal tax, or choose to continue to enjoy the existing tax exemption provided to him/her for housing subsidies, language training expenses and children's education expenses, but may not enjoy both the deduction and the tax exemption for the same item of expenses at the same time. After making a choice, the foreign individual shall not change it in the year of assessment. Since 1 January 2022, foreign individuals will no longer enjoy tax exemption for housing subsidies, language

training expenses and children's education expenses, and shall enjoy special additional deductions as stipulated.

The balance after 20% of the income from labor remuneration, author's remuneration and gains from royalties is deducted shall be the amount of income. Income from author's remuneration shall be counted in taxable individual income at a rate of 70%.

1. A 7-bracket progressive tax rate ranging from 3% to 45% shall apply to comprehensive income in excess of specific amount.

#### Personal Tax Rates for Comprehensive Income

Bracket	Annual taxable income	Rate of tax (%)	Quick deduction
1	Up to 36,000 yuan	3	0
2	36,001 yuan–144,000 yuan	10	2,520
3	144,001 yuan–300,000 yuan	20	16,920
4	300,001 yuan–420,000 yuan	25	31,920
5	420,001 yuan–660,000 yuan	30	52,920
6	660,001 yuan–960,000 yuan	35	85,920
7	960,001 yuan and above	45	181,920

3. A 5-bracket progressive tax rate ranging from 5% to 35% shall apply to business income in excess of specific amount.

#### Personal Tax Rates for Business Income

Bracket	Annual taxable income	Rate of tax (%)	Quick deduction
1	Up to 30,000 yuan	5	0
2	30,001 yuan–90,000 yuan	10	1,500
3	90,001 yuan–300,000 yuan	20	10,500
4	300,001 yuan–500,000 yuan	30	40,500
5	500,001 yuan and above	35	65,500

The balance after the total income amount less the amount of costs, expenses and losses in the year of assessment shall be the taxable amount of business income.

4. A proportional tax rate of 20% shall apply to income from interests, dividends and bonuses, income from royalties, income from the lease of property, income from the conveyance of property, and individual contingent income.

For income from the lease of property, a deduction of 800 yuan shall be allowed for a single income less than 4,000 yuan; for a single income of 4,000 yuan or more, a deduction of 20% of the amount shall apply. For income from property transfer, the balance after the income from property transfer less the original value of the property and a reasonable amount of expenses shall be the taxable income. The income from interests, dividends, bonuses and contingent income shall be taxed on the amount received for each payment.

5. In case an individual donates his/her income to educational, poverty alleviation and other public welfare undertakings, the part of the donation which does not exceed 30% of the amount of his/her taxable income declared by him/her may be deducted from his/her taxable income. In case there is a provision on full deduction of the donated amount, such provision shall apply.

6. For a resident individual's income which is obtained from outside China, the personal tax already paid by such resident individual outside China shall be deducted from his/her tax payable, but the deducted amount shall not exceed the tax payable, calculated according to the Chinese law, on such taxpayer's income which is obtained from outside China.

### 3.3 Year of assessment

N/A

### 3.4 Allowances and Deductions

N/A

### 3.5 Taxation of dividends

N/A

### 3.6 Taxation of capital gain

N/A

### 3.7 Taxation of interest income

N/A

### 3.8 Personal assessment and utilization of losses

N/A

### 3.9 Withholding tax

N/A

### 3.10 Statutory obligation of employers

N/A

### 3.11 Filing requirement of tax return

Filing due dates	N/A
Penalties	N/A
Application of holdover	N/A

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

- (1) social insurance agencies
- (2) the Ministry of Human Resources and Social Security of the People's Republic of China

### 4.2 Basis of contribution

In China, Chinese citizens who are employees of Chinese economic entities enjoy the right to social security. On 1 July 2011, Social Insurance Law of the People's Republic of China came into effect; and on October 15, 2011, Interim Measures for Social Insurance System Coverage of Foreigners Working within the Territory of China came into effect, too. Foreigners who are employed in China and their Chinese employers are required to pay social insurance fund, including endowment insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

### 4.3 Contribution rate

The social insurance contribution base varies in different places. Employers pay social insurances for their employees according to the latter's gross income and the contribution



rate determined by the organ handling social insurance matters, and the contribution base shall not be lower than the local minimum wage.

#### 4.4 Exemption from tax

When personal tax and corporate income tax are calculated, the social insurance expenditures may be deducted from the taxable income.

### GST/VAT

#### 5.1 Basis of tax

Entities and individuals engaged in the sales of goods and import of goods within the territory of the People's Republic of China are VAT taxpayers.

The scope of VAT taxation shall cover taxable sales of goods and import of goods within the territory of the People's Republic of China. Specifically, it includes:

- (1) selling or importing goods;
- (2) selling labor;
- (3) selling services;
- (4) selling intangible assets;
- (5) selling immovable property.

In case an entity or individual does not have any establishment within the territory of the People's Republic of China, but sells labor services within the territory of the People's Republic of China, its agent within the territory of the People's Republic of China shall be the obligatory withholder. In case it does not have an agent within the People's Republic of China, its buyer shall be the obligatory withholder.

#### 5.2 Rates of tax

The VAT taxpayers can be divided into general taxpayers and small-scale taxpayers:

General taxpayers: for production-oriented taxpayers, the annual taxable sales volume shall exceed 500,000 yuan; for non-production-oriented taxpayers engaged in wholesales and retailing, the annual taxable sales volume shall exceed 800,000 yuan; and the annual taxable sales volume of services shall be over 5 million yuan.

1. A VAT rate of 3% is applied to small-scale taxpayers, unless otherwise stipulated by the Ministry of Treasury and State Taxation Administration;
2. VAT rates for general taxpayers:
  - (1) Standard VAT rate: Taxpayers selling goods, labor services, rental services of tangible movable property or importing goods are taxed at a rate of 13%, except specially provided for;
  - (2) Taxpayers selling transportation, postal, basic telecommunications, construction and real estate rental services, real estate, transfer of the land use right, or selling or importing specific products are taxed at a rate of 9%;
  - (3) Taxpayers selling services and intangible assets are taxed at a rate of 6%, except specially provided for;
  - (4) For cross-border sales of services and intangible assets within the specified scope by units and

individuals within the territory of China, a zero-tax rate shall apply.

3. Tax rate: 0.5%--5%.

#### 5.3 Registration

A VAT general taxpayers qualification registration system is applied and taxpayers shall handle the registration formalities with its competent tax authority.

#### 5.4 Filing requirements

The term of VAT payment shall be 1 day, 3 days, 5 days, 10 days, 15 days, a month or a quarter.

Taxpayers who take a month or a quarter as a tax period shall report their income to the tax authority within 15 days from the expiry date. Taxpayers who take 1 day, 3 days, 5 days, 10 days or 15 days as a tax period shall pay the tax in advance within 5 days from the expiry date, and report their income to the tax authority and settle the tax payable in the previous month within 15 days from the first day of the subsequent month.

The term of settlement of tax by the obligatory withholder shall be subject to the provision in the preceding paragraph.

### International taxation management

1. International taxation agreements

As of December 2023, China had officially signed 111 double tax relief agreements with foreign countries and regions, of which 105 have come into effect, and had signed tax arrangements with Hong Kong Special Administration Region and Macao Special Administrative Region, and a tax agreement with Taiwan region.

2. Taxation management of non-resident enterprises, including:

- (1) resident representative offices of foreign enterprises;
- (2) contracting projects and providing labor service;
- (3) Dividends, interests, rentals, royalties and income from property transfer: from January 1, 2018, for profits which are obtained by overseas investors from resident enterprises within the territory of China and are invested directly in such projects and sectors that are not prohibited for foreign investment, if they are eligible, a deferred tax payment policy shall apply, and no withholding tax shall be levied temporarily.
- (4) Circumstances under which foreign exchange payments need to be recorded at the tax authority: When making a single payment of the following foreign exchange funds, which is equivalent to over 50,000 US dollars (excluding 50,000 US dollars, the same below), to overseas, an establishment or individual within the territory of the People's Republic of China shall handle the tax recordation formalities at the competent tax authority at its locality, except when tax recordation is unnecessary;

Incomes which are obtained by an overseas establishment or individual from service trade including transportation, tourism, communications, construction installations and labor contracting, insurance services, financial services, computer and information services, proprietary rights use and licensing, sports, cultural and recreational services, other business services, and government services within the territory of China;



Remuneration for their work which is earned by overseas individuals from within the territory of China, incomes gained by overseas establishments or individuals from within the territory of China, including dividends, bonuses, profits, interests on direct debts, guarantee fee, as well as donations, compensation, tax revenue and incidental income from non-capital transfers, and incomes from current transfers;

Rentals of financial lease, and incomes from transfer of real estate and transfer of equity which are obtained by overseas establishments or individuals from within the territory of China, as well as other legal gains of foreign investors.

3. In case a resident enterprise or a non-resident enterprise has already paid, outside China, the income tax for the taxable incomes that are obtained overseas by its venue or establishment within the territory of China, it may deduct it from the tax payable of the current period. The limit of tax credit shall be the amount of tax payable on such incomes calculated in accordance with Corporate Income Tax Law of the People's Republic of China. The portion exceeding the limit of tax credit may, during the subsequent 5 years, be offset from the balance of the limit of tax credit of each year minus the tax amount which ought to be offset in the current year.

#### 4. International anti-avoidance

- (1) General anti-avoidance: the tax authority has the right to review and assessment, investigation and adjustment of an enterprise in case the enterprise makes any other arrangement not for any reasonable commercial purpose and causes the decrease of its taxable revenue or income. The "not for any reasonable commercial purpose" means that the main purpose is to reduce, exempt or defer the payment of taxes.

- (2) Indirect transfer of assets: where a non-resident enterprise indirectly transfers equities and other assets of a Chinese resident enterprise to avoid its corporate income tax payment obligation by making an arrangement not for any reasonable commercial purpose, such indirect transfer shall be redefined in nature and recognized as the direct transfer of equities and other assets of the Chinese resident enterprise in accordance with relevant provisions of the "Corporate Income Tax Law".

- (3) Special adjustments to tax payments

Transfer pricing: the tax authority may review, assess and investigate whether a transaction between an enterprise and its affiliates conforms to the arms length principle.

Cost amortization agreement: when an enterprise and its affiliates sign a cost amortization agreement for jointly developing or accepting intangible assets, or jointly providing or accepting labor services, they shall follow legal provisions.

Controlled foreign enterprise: refers to a foreign enterprise which is set up in a country (region) where the actual tax burden is lower than 50% of the corporate income tax rate of 25%; controlled by a resident enterprise or by an resident enterprise and a resident individual (hereinafter collectively referred to as Chinese resident shareholder, including Chinese resident enterprise shareholder and Chinese resident

individual shareholder); and which fails to distribute the profits or decreases the distribution not by virtue of reasonable business operations. The portion of the aforesaid profits attributable to such resident enterprise shareholder shall be included in its incomes of the current period.

Thin capitalization: in relation to an enterprise's interest expenditures for any credit investments and equity investments accepted from its affiliates, in excess of the prescribed criterion, the enterprise may not deduct them when calculating the chargeable gains. For the enterprise's actual interest expenditures paid to its affiliates, unless meeting the required conditions, the ratio of credit investments to equity investments accepted from its affiliates shall be:

For financial enterprises: 5:1

For other enterprises: 2:1

#### 5. Transfer pricing tax administration

The tax authority may review, assess and investigate whether a transaction between an enterprise and its affiliates conforms to the arm's length principle. In case the taxable revenue or income of the enterprise or its affiliates reduces by virtue of the failure to conform to the arm's length principle, the tax authority may apply a reasonable method to make a tax payment adjustment of transfer pricing. A resident enterprise which pays the corporate income tax according to its financial records or a non-tax resident enterprise that has an establishment or a venue in China and declares and pays the corporate income tax on an actual basis shall, at the time of filing its annual corporate income tax return, report affiliated transactions between it and its affiliates, which may include:

- (1) A country-by-country report;
- (2) Contemporaneous transfer pricing documentation (including master files, local files and special files)

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duty is payable on instruments created in the course of economic activities and exchanges or on the licensee and certificates granted by the administrative authority.

Taxable items and rates of tax:

Taxable Items and Rates of Stamp Duty			
Taxable item		Rates of tax	Rwmarks
Contracts (refers to written contracts)	Contracts for borrowing money	0.05% of the amount borrowed	Refer to contracts for borrowing money that are signed by the banking financial institutions, other financial institutions established by the approval of banking regulator under the State Council and borrowers (excluding contracts on interbank lending)
	Finance lease contracts	0.05% of the rent	

Taxable Items and Rates of Stamp Duty			
Taxable item		Rates of tax	Remarks
Contracts (refers to written contracts)	Purchase and sales contracts	0.3% of the contracted price	Refer to the sales contracts for the movable property (excluding the sales contracts for the movable property written and concluded personally)
	Contracts for work	0.3% of the remuneration	
	Construction contracts	0.3% of the contracted	
	Transportation contracts	0.3% of the transportation charges	Refer to the freight contracts and multimodal transportation contracts (excluding pipeline transport contracts)
	Technology contracts	0.3% of the contracted price, remuneration or the charge for use	Excluding the assignments of the exclusive right and the right to use proprietary technology
	Lease contracts	0.1% of the rent	
	Safekeeping contracts	0.1% of the safekeeping fee	
	Storage contracts	0.1% of the storage fee	
	Property insurance	0.1% of the insurance premium	Excluding the reinsurance contracts
Documents of the transfer of property title	Documents of the transfer of land use right	0.5% of the contracted price	The transfer includes sales (selling), succession, gift, exchange and split-up
	Documents of the transfer of the land use right, the ownership of buildings and structures (e.g. house) (excluding the transfer of the contractual right of land and land management right)	0.5% of the contracted price	
	Documents of equity transfer (excluding those need to pay for the security transaction stamp tax)	0.5% of the contracted price	
	The assignments of the exclusive right to use trademark, copyright, the exclusive right and the right to use proprietary technology	0.3% of the contracted price	
Business book of accounts		0.25% of the total amount of paid-in capital (share capital) and capital reserve	
Security transaction		0.1% of the turnover	

## 7.2 House duty

The house duty is charged on a property owner over his/her property according to the taxable residual value or rental income of the property. Where the property has been mortgaged, the tax shall be paid by the mortgagee. Where neither the owner nor the mortgagee lives in the locality, or the ownership of the property is yet to be established or the disputes concerning the rental or mortgage of the property are yet to be settled, the tax shall be paid by the custodian or the user of the property.

### Rates of tax:

- (1) In relation to taxable residual value, the tax shall be calculated on the residual value following the subtraction of between 10% and 30% of the original value of the property. The tax rate is 1.2%.
- (2) For rental income, the tax shall be calculated on rental income, and the tax rate is 12%.

The house duty shall be levied on an annual basis and paid in monthly installments.

## 7.3 Estate duty

N/A

## 7.4 Net wealth/net worth tax

N/A

## 7.5 Others

Deed tax	Deed tax, a tax on property, is levied from the property right holder on transfers of land and housing ownership within the territory of the People's Republic of China. The rates of deed tax vary from 3% to 5%.		
Land appreciation tax	Land appreciation tax is levied from units and individuals on their gains of value-added incomes from paid transfer of state-owned land use right, the property right to buildings that are constructed on the land, and the property right to other attachments to the land. A 4-bracket extra progressive tax rate is applied to land appreciation tax.		
	<b>Four-bracket Extra Progressive Tax Rates for Land Appreciation Tax</b>		
	Bracket	Appreciated value as a percentage of the deductible amount	Quick deduction coefficient (%)
	1	Not exceeding 50%	0
	2	Exceeding 50% but not exceeding 100%	5
Excise tax	3	Exceeding 100% but not exceeding 200%	15
	4	Exceeding 200%	35
	Excise tax is a commodity tax levied on the turnover of specific consumer goods and consuming behavior. The excise tax covers tobacco, alcoholic drinks and alcohol, top grade cosmetics, jewelry and precious stones, fireworks, refined oil, autos, motorcycles, golf and golf clubs, premium watches, yachts, disposable wooden chopsticks, solid wood flooring, batteries, coating materials, etc. It applies either proportional tax rate or quota tax rate, and the former ranges from 1% to 40%.		

**POINT OF CONTACT**

**Name of contact**

Yunmei Wu

**Telephone with country code**

+86 10 8588 6680

**Email address**

ho@reanda.com



# CYPRUS

## GENERAL INFORMATION

### 1.1 Country/Region

Cyprus

### 1.2 Currency

Euro

### 1.3 Principal business entities

- Public Companies – unlimited number of shareholders and no restrictions on transfer of shares
- Private Companies – limited number of shareholders and possible restrictions on transfer of shares
- Partnerships
- Branches of foreign companies
- Trusts
- Funds
- Investment Firms
- SE Companies – Societas Europaea

### 1.4 Foreign exchange control

No foreign exchange controls

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Cyprus is an island lying at the south-eastern corner of the Mediterranean. It is the third largest island in the Mediterranean. The geographical position of the island played a significant role in rendering it into an international business centre, as it is in the crossroads of three continents (Europe, Asia, Africa) and the Middle East.

The Cyprus economy is based mainly on professional services and tourism.

There are more than 198,000 business entities registered in Cyprus, evidence of the attractiveness of Cyprus' taxation system benefits and international investors' confidence in Cyprus economy.

The banking system in Cyprus is capable of providing fast and effective services worldwide. The system is under the supervision of the Central Bank of Cyprus ([www.centralbank.cy/](http://www.centralbank.cy/)) which controls all businesses carried out by commercial banks and other financial institutions. All financial institutions provide a wide range of services and they are all subscribers to the SWIFT system (Society for World Interbank Financial Telecommunications).

Operating through a company registered in Cyprus can significantly reduce the tax liability of the business and the ultimate shareholders, thus increasing the net return on the investment.

Cyprus has been a full member of the European Union since 2004 and adopted the Euro as its official currency since the beginning of 2008.

The strategic position and time zone of Cyprus, enables comfortable connections between Europe, Middle East, Africa and Asia and make the island a natural hub for business and trade.

Cyprus is an established and reputable business and financial centre supported by an advanced legal, accounting and banking system, highly skilled and multilingual workforce, excellent telecommunication systems and convenient year-round flight connections.

In addition, due to the great numbers of international businesses already situated in Cyprus, there are outstanding networking possibilities for all of new entrants.

The local governments have traditionally been promoting Cyprus as an international business centre, through the enactment of favourable tax laws and incentives (which are in full compliance with EU directives), the reduced paperwork and costs necessary to register a Cyprus company.

### 1.6 National tax authority

#### Name

Cyprus Tax Office

#### Website

<https://www.gov.cy/mof/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Trading profits of a Cyprus tax resident company are taxed on their income accrued or derived out of sources in Cyprus and abroad. A unilateral tax credit is given for income taxed abroad. A company is considered to be tax resident in Cyprus, if its management and control is exercised in Cyprus, or is registered in Cyprus and is not tax resident in any other country.

### 2.2 Rates of tax

The corporation tax for all companies is the flat rate of 12.5%, among the lowest tax rate within Europe. Income from dividends, gains on trading and valuation of securities and gain on disposal of shares in subsidiaries and associates is tax exempt. 80% of income generated out of qualifying Intellectual Property in Cyprus is also exempt, subject to conditions. Special incentives in terms of reduced taxes are offered for audio-visual and innovative companies.

## 2.3 Year of assessment

The tax year of each company covers the year from 1st of January to 31st of December.

## 2.4 Profits deemed to be taxable

- Business profits
- Interest income
- Income from intangible assets (e.g. royalties)
- Rental income
- Grants and subsidies
- Income from disposal of immovable property situated in Cyprus

## 2.5 Taxation of dividends

Dividends received by Cyprus entities are generally tax exempt.

A tax credit will be afforded according to the Double Taxation Agreements concluded by Cyprus. In the absence of a Double Taxation Agreement, Cyprus unilaterally affords a credit for the foreign tax paid on such income. For dividends received from EU Member States, Cyprus adopts the EU Parent-Subsidiary Directive.

## 2.6 Taxation of capital gains

Capital gains are not included in the ordinary trading profits of a business, but instead are taxed separately under the Capital Gains Tax (CGT) Law. Capital gains from the sale of immovable property situated in Cyprus as well as from the sale of shares in companies (other than quoted shares) in which the underlying asset is immovable property situated in Cyprus, are taxed at a flat rate of 20% after allowing for indexation. Capital Gains that arise from the disposal of immovable property held outside Cyprus or shares in companies which may have as an underlying asset immovable property held outside Cyprus, are completely exempt from capital gains tax.

## 2.7 Taxation of interest income

There are two types of taxes that may apply to interest income earned by a Cypriot company: income tax at 12.5% levied on interest derived, less any allowable expenses or Special Defence Contribution (SDC) at 17% applied to gross interest income. Interest earned by a Cypriot tax resident company derived in the ordinary course of business or closely connected thereto is only subject to income tax. Interest income by all other companies is subject to SDC.

## 2.8 Utilization of tax losses

Income tax losses are carried forward for five years. Capital gains tax losses are carried forward indefinitely.

Group relief is allowed for at least seventy-five percent (75%) group structures and is applicable only on yearly results, if claimants are Cyprus tax resident companies and are members of the same group for the whole tax year. Losses incurred from business carried outside Cyprus through a Permanent Establishment (PE) are allowed as a deduction against other taxable profits generated by the Cyprus Company.

## 2.9 Key Tax incentives

### Royalties

There is an 80% exemption on the net income generated from the utilization of patent, or any other qualifying intellectual

property (IP) rights. This exemption results in an effective tax rate of 2.5% from the utilization of Cyprus held / registered IP.

Gross amounts of royalties from sources within Cyprus by a company which is not a tax resident of Cyprus are liable to 10% (unless a Double Tax Treaty exists, where a reduced or nil rate might be available) withholding tax at source. If the intangible property right, however, is granted to a Cyprus company for use outside Cyprus, then there is no withholding tax and the corporate rate is applied only on the profit margin left in the Cyprus company.

### Trading in Titles

Gains from trading and disposal of securities are tax free. The term 'Titles' includes:

- ordinary and preference shares;
- founder's shares;
- options on titles;
- debentures;
- bonds;
- short positions on titles;
- futures / forwards on titles;
- swaps on titles;
- depositary receipts on titles;
- rights of claims on bonds and debentures;
- index participations (if they result in titles);
- repurchase agreements or Repos on titles;
- participations in companies; and
- units in open-end or closed-end collective investment schemes such as Mutual Funds, International Collective Investment Schemes (ICIS) and Undertakings for Collective Investments in Transferable Securities (UCITS).

### Cyprus Holding Company

Cyprus companies have been traditionally used by experienced and sophisticated investors as holding companies for international investments (subsidiaries, associates and other), since Cyprus provides an extensive range of tangible and intangible advantages in comparison with other international investment hubs and financial centres.

Cyprus is not considered to be an offshore, but rather onshore European Union jurisdiction and companies registered in the island enjoy the same status as any other E.U. companies. Cyprus has adopted the E.U. Parent-Subsidiary Directive, which prohibits withholding taxes on dividends flowing between E.U. companies when the shareholding is greater than 10%. In addition, Cyprus has in place more than 65 Double Taxation Avoidance Agreements (DTAA) with countries covering more than 80% of the global GDP like China, Russia, United States, U.K., India, Canada, Germany, Ukraine and United Arab Emirates. On the other hand, Cyprus has in effect DTAA's with a number of offshore jurisdictions like Mauritius and Seychelles, which may facilitate the flow of funds for investments between onshore and offshore jurisdictions.

Furthermore, Cyprus unilaterally does not withhold taxes on outbound dividends and dividends coming from abroad are



exempted from tax irrespective of the country of origin, unless both of the following conditions are not satisfied, in which case they are taxed to Special Contribution for Defence (SCD) at 20%:

- (1) The company paying the dividend must not engage directly or indirectly more than 50% in activities which lead to passive income (non-trading income), and
- (2) The foreign tax burden on the income of the company paying the dividend is not substantially lower than the tax burden in Cyprus (an effective tax rate higher than 6.25% in the country paying the dividend satisfies this condition).

As a result, an investor from any country in the world can make an investment within E.U. or any other country and receive the return (dividend) suffering only the withholding tax on the outbound dividend towards the Cyprus company from the end investment, if any. And in that case, a tax credit will be allowed by Cyprus tax authorities according to the DTAA in force. In the absence of a DTAA, Cyprus unilaterally grants a credit for the foreign tax paid on such income.

Besides the tax advantages in relation to the annual return/dividend stream, the Cyprus holding company offers a great investment exit route as well, since the gain on disposal of shares is exempt from taxation, unless the company of which shares are disposed maintains immovable property in Cyprus. Therefore, disposing any type of international investment held under a Cyprus company is virtually tax free.

Given the fact that Cyprus holding companies are used to facilitate international investments, the tax residency status of those companies becomes of crucial importance. The company needs to be a tax resident of Cyprus in order to enjoy the rights of the local taxation system, but most importantly the rights derived under DTAAs. The main determining factor for establishing management and control in Cyprus is to ensure local physical presence and that all board of directors' meetings take place in Cyprus. Minutes of such meetings should be prepared and maintained at the company's registered office in Cyprus. In addition, the majority of the board members should be Cyprus tax residents. If the local tax authorities get satisfied by the evidence provided by the company then a tax residency certificate is issued.

#### Audio-visual companies

Cyprus has recently introduced a tax incentive package to attract companies that produce feature Films (including animation), television Series or mini-series, documentaries for Theatrical or Television release, animation (digital or analogue), television research programs and natural history. The Scheme consists of a combination of grants and tax incentives as follows:

- Cash rebate up to 35% of eligible expenditures incurred in Cyprus will be granted, where the amount will depend on the score of the production at the cultural test. The rebate will be given once filming is completed, on receipt of the audit report and its review by the relevant committee.
- Tax credit, as an alternative to cash rebate, offers a reduction of the corporate tax liability of the company responsible for the implementation of a production, with the same criteria that apply for cash rebate. The sum of the tax credit against the taxable income shall not exceed 50% of the Applicants' taxable income for the tax year within which the production is

made. The tax credit, to the extent that it is not granted due to the above percentage restriction, shall be carried forward and be given within the next five years, subject to the above percentage restriction.

- Tax Allowance for investment in infrastructure and equipment. Any small and medium-sized enterprise subject to a tax liability in Cyprus investing in cinematographic infrastructure and technological equipment will be entitled to deduct the amount of its investment from its taxable income. The aid may not exceed 20% of the qualifying production expenditures in the case of small enterprises and 10% of the qualifying production expenditures in the case of medium-sized enterprises. Investment in the case of equipment should remain in the territory of Cyprus for a period of at least 5 years.
- Return of VAT on expenditure. For qualifying production expenditures incurred in Cyprus by natural or legal persons from third countries and which are related to the implementation of productions, the company is entitled to a refund of VAT.

#### Notional interest deduction

New equity introduced to a company as from 1 January 2015 in the form of paid-up share capital or share premium is eligible for an annual notional interest deduction (NID). The NID is calculated as a percentage on the new equity which is based on the yield of the 10-year government bond (as at December 31 of the previous tax year) of the country where the funds are employed in the business of the company, plus a 5% premium. In case the country in which the funds are employed does not have an issued 10-year government bond, the yield of the 10-year Cyprus government bond plus a 5% premium should be used.

#### Shipping Companies

The new tonnage tax system for Cyprus merchant shipping was approved by the European Commission on 24th March 2010 (case N. 37/2010), as compatible with the requirements of the EU acquis, in accordance with the relevant guidelines on State Aid to Maritime Transport. This simplified tonnage tax system is approved for the first time for an EU Member State, a state with an open registry. It extends the favourable benefits applicable to owners of Cyprus flag vessels and ship managers to owners of foreign flag vessels and charterers. It also extends the tax benefits that previously covered only profits from the operation of vessels in shipping activities, to cover profits on the sale of vessels, interest earned on funds used other than for investment purposes and dividends paid directly or indirectly from shipping related profits.

The Merchant Shipping (Fees & Taxing Provisions) Law was enacted in May 2010 and introduces a new tonnage tax system in Cyprus, applicable as from the fiscal year 2010. The application of the law has been extended in 2020, until 2029, with the possibility of further extension by the Council of Ministers with the approval of the EU Commission.

The new tonnage tax system contains most of the favourable features found in tonnage tax systems in other EU countries, and more. The system, therefore, provides Cyprus with a competitive advantage and is expected to significantly contribute to the improvement of the already strong position of the country in the shipping world.

## Beneficiaries

The tonnage tax system is available to any owner, charterer or ship manager who owns, charters or manages a qualifying ship in a qualifying shipping activity. The tonnage tax is calculated on the net tonnage of the ship according to a broad range of bands and rates prescribed in the legislation. The rates applicable to ship managers are 25% of those applied for ship owners and charterers.

## Tonnage Tax Rates

The following table summarizes the applicable rates for the tonnage tax calculation:

Net Tonnage				
0 - 1,000	1,001-10,000	10,001-25,000	25,000-40,000	> 40,000
€36.50	€31.03	€20.06	€12.78	€ 7.30

Note: The rates applicable to ship managers are 25% of the above.

- Departure and arrival on the same day is considered to be a day outside Cyprus.

Any foreign taxes paid can be credited against income tax liability.

In addition, in cases of individuals that are not tax residents in any other country (less than 183 days in each country), Cyprus can grant residency if the individual is at least 60 days in Cyprus per year subject to conditions.

## 3.2 Rates of tax

Chargeable Income	Tax Rate	Accumulated Tax
€	%	€
0 - 19,500	Nil	Nil
19,501 - 28,000	20	1,700
28,001 - 36,300	25	3,775
36,301 - 60,000	30	10,885
over 60,000	35	

## 3.3 Year of assessment

The tax year of each individual covers the year from 1st of January to 31st of December.

## 3.4 Allowances and Deductions

The following types of income are exempted from Income Tax:

- Interest, except for interest derived out of ordinary business activities – it is subject to Special Defence Contribution.
- Dividends – subject to Special Defence Contribution
- 50% of income/remuneration of an individual is exempted, if and only if, the individual was not a Cyprus tax resident for a period of 15 consecutive years prior to his/her employment commencing on or after 1st of January 2022 in relation to income/remuneration exceeding €55,000 annually.
- 20% of income/remuneration from first employment in Cyprus of an individual is exempted (with a maximum amount of €8,550 annually) for up to 7 years, if and only if, the individual was employed abroad for a foreign tax employer for a last 3 consecutive years immediately prior to his/her employment starting on 1st of January following the year of the commencement of his employment.
- Profits from a permanent establishment.
- Profits as derive out of the sale of securities.
- Capital/lump sum as derived out of approved provident funds, retiring gratuity and/or compensation for death or injuries.

The following deductions are permissible:

- Subscriptions to trade unions and/or other professional bodies.
- Loss of current and previous years.
- 20% of annual rental income.
- Donations to approved institutions.
- Expenditure incurred for the maintenance of preserved buildings – up to €1,400, €1,300 or €1,300 depending on the size of the building.

## 2.10 Withholding tax

There are no withholding taxes on payments to non-tax resident persons (companies or individuals) in respect of dividends and interest.

## 2.11 Transfer Pricing

Transactions between 'related parties' must be in accordance with the 'arm's length principle'. The Cyprus tax legislation adopted the OECD model and guidelines to determine whether a transaction is at arm's length.

## 2.12 Filing requirements of tax return

Filing due dates	15 months after the year end
Penalties	€100 for late submission
Payment of profit tax and application of holdover	Income tax is paid provisionally based on estimated income in 2 instalments (by 31 July and 31 December of the current year). If the final assessment is lower than 75% of the estimated taxable profits, a 1.25% additional tax is paid on the balance. The final balancing payment is due by August of the following year.  Application of holdover: Not applicable under Cyprus tax.

# PERSONAL TAX

## 3.1 Basis of taxation (Residence, Personal assessment)

Cyprus tax residents are taxed on their chargeable income as derived or being accrued from all sources in Cyprus and abroad. On the other hand, individuals that are not tax residents are taxed on their income accrued or derived only in Cyprus.

An individual is considered to be Cyprus tax resident if he/she resides more than 183 days in the Republic within one calendar year. The following rules are applied for calculating the exact number of days in the Republic:

- The day of the departure from the Republic is considered to be a day outside of Cyprus.
- The day of the arrival to the Republic is considered to be a day in Cyprus.
- Arrival and departure on the same day is considered to be a day in Cyprus.

- Social Insurance, provident fund and pension fund contributions and medical fund – up to 1/5 of the annual chargeable income.
- Medical fund contributions with maximum of 1.5% of remuneration and up to 1/5 of the annual chargeable income.
- Life insurance premiums with maximum of 7% of the insured amount and up to 1/5 of the annual chargeable income.

### 3.5 Taxation of dividends

Physical persons, tax residents of Cyprus suffer a 17% SDC.

Physical persons, tax residents of Cyprus but not domiciled (new tax residents/investors) are exempt from dividend tax.

### 3.6 Taxation of capital gain

Capital gains are not included in the ordinary trading profits of a business, but instead are taxed separately under the Capital Gains Tax (CGT) Law. Capital gains from the sale of immovable property situated in Cyprus as well as from the sale of shares in companies (other than quoted shares) in which the underlying asset is immovable property situated in Cyprus, are taxed at a flat rate of 20% after allowing for indexation. Capital Gains that arise from the disposal of immovable property held outside Cyprus or shares in companies which may have as an underlying asset immovable property held outside Cyprus, are completely exempt from capital gains tax.

Individuals are entitled to a general life time exemption of €17,086 (€85,430 for principal private residence and €25,629 for agricultural land).

### 3.7 Taxation of interest income

SDC at 17% applies to gross interest income.

### 3.8 Personal assessment and utilization of losses

Allowable expenses and deductions can never exceed 1/5 of income, therefore taxable losses will not arise for physical persons, hence no utilization of losses.

### 3.9 Withholding tax

It is the responsibility of the banking institutions to withhold SDC on behalf of their clients receiving interest income. The same applies to companies distributing dividends.

### 3.10 Statutory obligation of employers

The employers are responsible for withholding social insurance contributions and income tax from their employees on a monthly basis.

### 3.11 Filing requirement of tax return

<b>Filing due dates</b>	31 July of the year following the year of assessment
<b>Penalties</b>	€100 for late submission
<b>Application of holdover</b>	N/A

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

The Department of Social Insurance Services under the Ministry of Labour and Social Insurance.

### 4.2 Basis of contribution

Social insurance contributions (SICs) are mandatory requirement and comprise of savings for retirement scheme introduced by the Republic. The SICs are suffered equally by the employer and the employee and are deductible from the taxable income of the employee/employer accordingly.

SICs are restricted to a maximum amount of €62,868 (weekly €1,209, monthly €5,239) and might be reviewed and adjusted annually depending on inflation rates.

Other than the above, the employer makes the following additional contributions as a percentage of employee's remuneration:

- Social Cohesion Fund
- Redundancy Fund
- Industrial Training Fund
- Holiday Fund
- General Health Care Plan

The contributions of self-employed depend on the type of profession or trade of each individual.

### 4.3 Contribution rate

- Social Insurance – 8.8% by the employer and 8.8% by the employee (16.6% for self-employed)
- Social Cohesion Fund – 2% by the employer
- Redundancy Fund – 1.2% by the employer
- Industrial Training Fund – 0.5% - by the employer
- Holiday Fund – 8% (if not exempted)
- General Health Care Plan– 2.9% by the employer and 2.65% by the employee (4% for self-employed)

### 4.4 Exemption from tax

All of the abovementioned contributions are tax allowable for a Cyprus Company.

## GST/VAT

### 5.1 Basis of tax

In accordance with the Cyprus legislation every corporation must be registered in the Value Added Tax (VAT) Register provided that they have an annual turnover exceeding €15,600. Voluntary registration is also possible.

Where the exclusive purpose of a holding company is the acquisition and holding of interest in shares in other companies, with the intention of deriving dividend income, such a company is not considered to be performing an economic activity for VAT purposes and consequently it does not have the status of a taxable person.

Companies which are not performing economic activities have neither the liability nor the right to register for VAT purposes and consequently they cannot claim input VAT. However, holding companies may be liable to register for VAT where, in addition to the holding of investments, they also have taxable or exempt activities such as:

- Supply management services at a consideration to subsidiaries;

- Supply finance to subsidiaries;
- Trade in shares i.e. purchase and sell shares on a frequent basis with the intention to profit from the fluctuations of the share price.

Where a holding company is registered for VAT purposes, it may claim input VAT on goods and services acquired in Cyprus and other EU Member States. The right to claim input VAT depends on which type of the holding company's activities the acquired goods or services, directly or indirectly relate.

## 5.2 Rates of tax

The following VAT rates are currently applicable:

- Zero rated – 0%
- Reduced rate - 5%
- Reduced rate - 9%
- Standard rate – 19%

Supply of certain goods and services is exempted from VAT as follows:

- Letting of immovable property
- Banking, financial and insurance services
- Medical care services
- Betting

## 5.3 Registration

Registration is compulsory when the turnover (subject to VAT) of the business exceeded €15,600 the prior 12 months or expected to exceed this threshold within the next 30 days. Voluntary registration is also available.

## 5.4 Filing requirements

VAT returns must be submitted quarterly and the payment for the VAT must be made 40 days after the end of the quarter.

# DOUBLE TAX RELIEF

## 6.1 Foreign tax credit

Unilateral tax credit is granted for taxes suffered abroad or according to the Double Tax Treaty in place.

## 6.2 List of double tax treaties signed:

Andorra	Ethiopia	Kuwait
Armenia	Finland	Kyrgyzstan
Austria	France	Latvia
Azerbaijan	Georgia	Lebanon
Barbados	Germany	Lithuania
Belarus	Greece	Luxembourg
Belgium	Hungary	Malta
Bosnia	Iceland	Mauritius
Bulgaria	India	Moldova
Canada	Iran	Montenegro
China	Ireland	Netherlands
Czech Republic	Italy	Norway
Croatia	Jersey	Poland
Denmark	Jordan	Portugal
Egypt	Kazakhstan	Qatar
Estonia	Kingdom of Bahrain	Romania

Russia	Slovenia	The States of Guernsey
San Marino	South Africa	Ukraine
Saudi Arabia	Spain	United Arab Emirates
Serbia	Sweden	United Kingdom
Seychelles	Swiss Confederation	USA
Singapore	Syria	Uzbekistan
Slovakia	Thailand	

# OTHER SIGNIFICANT TAXES

## 7.1 Stamp duty

The relevant law is active.

## 7.2 Real property tax

Abolished in 2018.

## 7.3 Estate duty

There are no inheritance or estate taxes on shares held in a Cyprus company.

## 7.4 Net wealth/net worth tax

Cyprus imposes no tax on wealth.

## 7.5 Others

### Consumption tax, etc.

N/A

### General Health Scheme Fund

2.65% on all income (rent, dividends, interest), capped at €180,000, received by Cyprus tax resident natural persons.

# POINT OF CONTACT

### Name of contact:

Adonis Theocharides

Phivos Theocharides

### Telephone with country code:

+357 22 670680

### Email address:

Adonis Theocharides: atheocharides@reandacyprus.com

Phivos Theocharides: ptheocharides@reandacyprus.com





# GERMANY

## GENERAL INFORMATION

### 1.1 Country/Region

Federal Republic of Germany

### 1.2 Currency

Euro

### 1.3 Principal business entities

Civil Law Partnership

Registered Commercial Businesses:

General Partnership

Limited Partnership

Limited Liability Company

Joint-Stock Company

Limited Partnership on Shares

Sole Proprietorship

Entrepreneurial Company at Limited Liability

### 1.4 Foreign exchange control

No foreign exchange control, however there is a reporting obligation for transfers of more than 12,500 EUR.

### 1.5 Current economy climate (Industry overview/ encouraged business development)

The real gross domestic product (GDP) of Germany likely declined slightly in the fourth quarter of 2023. Foreign orders for the German industry continued to decrease. The increased financing costs continued to dampen investments, especially in residential construction. Additionally, the uncertainty about the future direction of fiscal and climate policies is likely to have weighed on economic activity. Consumers remained cautious. They barely increased their consumer spending, although their spending scope is likely to have increased. The labour market remained robust, inflation declined and wages grew strongly.

In addition, unfavourable weather conditions for construction activity and according to data from company health insurance the relatively high sickness rate dampened economic activity. The remaining existing order backlog in industry and construction may have had a supporting effect, but production in both sectors fell sharply. Overall, the economy is currently slightly weaker than expected in the December projection.

In summary the German economic performance in the first quarter of 2024 could at best stagnate. This would delay the recovery expected in the December projection.

### 1.6 National tax authority

#### Name

Federal Central Tax Office (Bundeszentralamt für Steuern) and local Tax Administrations in each state

#### Website

[http://www.bzst.de/EN/Home/home\\_node.html](http://www.bzst.de/EN/Home/home_node.html)

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Basis of taxation is the firm's net profit, as shown in the financial statements produced according to German Commercial Law (accrual basis of accounting). However, taxable income differs from the profit under commercial law.

Tax deductible expenses are specified by Income Tax Law and Corporate Income Tax Law.

Generally, normal and reasonable business expenses are tax-deductible from the corporation's gross income. Personal taxes, fines and half of the supervisory board compensation are not deductible.

All types of limited companies, joint-stock companies and other corporations such as cooperatives, associations and foundations are subject to corporate income tax. Corporation tax is not charged on partnerships and sole proprietorships. These companies have to pay Income Taxes with tax rates similar to those for individuals and are subject to a trade tax (trade tax reduces the Income Tax payment as the paid trade tax is credited).

Resident corporations having either their management or registered office within the country have full tax liability.

### 2.2 Rates of tax

At corporate level a flat tax rate of 15% on retained and distributed profits is charged.

On top of that, a Solidarity Surcharge of 5.5% of corporate tax payable is levied.

Furthermore, there is a municipal trade tax of 7% to 17.5%. Hence, effective corporation tax rate amounts to approximately 30%.

### 2.3 Year of assessment

Period of assessment is the calendar year, a financial year differing from the calendar year might be adopted.

### 2.4 Profits deemed to be taxable

Resident corporations who are subject to unlimited taxation are taxed on their globally generated income.

Non-resident corporations who neither have their management nor registered office in Germany are subject to taxation of their German-source income only.

### 2.5 Taxation of dividends

Dividends received by resident corporations are 95% tax exempt, the remaining 5% qualify as non-deductible business expenses leading to an approximate tax rate of 1.5% including



municipal trade tax.

## 2.6 Taxation of capital gains

There is no explicit capital gains tax since capital gains are included in taxable business income.

Capital gains generated from the selling shares, however, are 95% tax exempt. The remaining 5% qualifies as non-deductible business expenses.

## 2.7 Taxation of interest income

See under "Withholding tax"

## 2.8 Utilization of tax losses

Losses can be offset against profits in the same year, remaining losses can be carried back or forward. Loss carry back is granted for one year, loss carry forward is indefinite.

For the purpose of minimum taxation, losses might be carried back up to a maximum of 1 Million EUR. Losses can be carried forward up to 1 Million EUR without restriction, 60% of income exceeding 1 Million EUR can be offset against remaining loss carry forward. A direct or indirect change in ownership of a corporation might lead to a complete or partial loss of future loss carry forwards.

## 2.9 Key Tax incentives

Various incentive programmes have been introduced, mainly in favour of the foundation of new business and the spread of new energies.

## 2.10 Withholding tax

Withholding tax is charged on dividends, interests on deposits from German financial institutions and royalties paid to non-resident recipients.

For dividends and interest income, the tax rate amounts to 26.675% including solidarity surcharge. Deducting a possible 40% refund on tax withheld on dividends for non-resident companies, the effective tax rate is 15.825% (not considering a further possible reduction on basis of a Double Taxation Agreement).

On royalties, a statutory tax rate of 25% is applied.

Dividends paid are not subject to a withholding tax within the European Union (substance requirement for foreign Holding companies have to be met). Furthermore, no withholding tax will be levied, if foreign recipients are from countries with Double Taxation Agreements.

## 2.11 Transfer Pricing

Transactions between related entities must satisfy the arm's length principle: An independent third party would have agreed on the exact same transaction. Administrative instructions provide standard transfer pricing methodologies which are accepted by German tax authorities. Affected taxpayers have a duty to cooperate and document all important information.

Cross-border transfers of functions among affiliates are taxed with an exit tax on "profit potential" that is transferred abroad.

Generally, a documentation has to be submitted within 60 days after a Tax Auditor has requested a submission during a Tax Audit.

## 2.12 Filing requirements of tax return

<b>Filing due dates</b>	The final corporate tax return must be filed by 31st July of the following year (this dead line can be extended, if the company consults a tax advisor: in this case the tax return must be filed by 28th February of the year after next). Corporate income tax and municipal trade tax must be filed electronically.
<b>Penalties</b>	For late filing: up to 10% of the tax payable, maximum 25,000 EUR For late payment: 1% of the overdue tax per month Taxes assessed in succession of an audit: no penalty, but interest of 0.5% per month, beginning 15 months after the calendar year in which the assessment became effective Transfer pricing documentation: No or insufficient documentation: punitive fine of 5 to 10% of any transfer pricing adjustment, minimum 5,000 EUR Late submission of documentation: charge of at least 100 EUR per day, up 1 Million EUR
<b>Payment of profit tax and application of holdover</b>	Corporate tax is assessed yearly but quarterly advance payments must be made in March, June, September and December Municipal trade tax is due in February, May, August and November.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

An individual is resident if he/she is domiciled in Germany or has his/her habitual residence within the country. Any individual having spent at least six months in Germany has a habitual residence in Germany. A domicile can be any permanent accommodation that is at the individual's disposal.

Residents are taxable on their worldwide income whereas non-residents are taxed on basis of their German-source income.

Taxable income is the sum of income from employment, from trade or business, from agriculture and forestry, from independent work, from rent or leasing, from capital and other income.

### 3.2 Rates of tax

Tax rates are progressive from 14% for income exceeding 11,604 EUR in 2024 to 45% for income exceeding 277,826 EUR. A solidarity surcharge of 5.5% on income tax payable is levied as well as a church tax of 9%.

### 3.3 Year of assessment

Tax year is the calendar year.

### 3.4 Allowances and Deductions

Any taxpayer is granted a personal exemption of currently 11,604 EUR (tax year 2024) as well as a deduction for children. Additionally, within the range of further restrictions, one may deduct contributions to certain insurances, costs of professional training, donations, alimony paid and church tax.

Generally, expenses related to the generation of income are deductible.

### 3.5 Taxation of dividends

Income from private capital investment is taxed by means of a withholding tax at the source (25% / 26.275% including solidarity surcharge). Dividends are taxed with a flat rate of 25 % plus 5.5% solidarity surcharge.

Gains from the sale of minor shareholdings (<1% of share capital) also fall within the scope of this withholding tax.

### 3.6 Taxation of capital gain

Sales of private property rights and real estate is taxable if the seller has owned the property for less than ten years, all other assets must be held for at least one year before resale.

### 3.7 Taxation of interest income

"See under withholding tax" Also Interest Income is taxed with a flat rate of 25 % plus 5.5% solidarity surcharge.

### 3.8 Personal assessment and utilization of losses

Losses can be offset against profits in the same year, remaining losses can be carried back or forward. Loss carry back is granted for one year, loss carry forward is indefinite.

For the purpose of minimum taxation, losses might be carried back up to a maximum of 1 Million EUR (2 Million EUR for spouses with joint assessment). Losses can be carried forward up to 1 Million EUR (2 Million EUR) without restriction, 60% of the income exceeding 1 Million EUR can be offset against remaining loss carry forward.

### 3.9 Withholding tax

See under "Withholding tax" (2.10) above

### 3.10 Statutory obligation of employers

Employers have the obligation to withhold salaries tax on a monthly basis. The salaries tax has to be declared and paid monthly.

### 3.11 Filing requirement of tax return

<b>Filing due dates</b>	Tax returns must be filed by 31st July of the following year (this dead line can be extended if a tax advisor files the individual's tax declaration); in this case the declaration has to be submitted by 28th February of the year after next. If a taxpayer receives income apart from income from employment, quarterly advance payments must be made
<b>Penalties</b>	-For late filing: up to 10% of the tax payable. As from 2019 you pay a default fine of 25€ per month if the tax return was submitted to late. For late payment: 1% of the overdue tax per month
<b>Application of holdover</b>	See under "Penalties"

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Federal Ministry of Health, Federal Ministry of Labour and Social Affairs

### 4.2 Basis of contribution

The German social security system is based on five branches: Unemployment insurance,

Pension insurance, health insurance, accident insurance and long-term care insurance. Both, employer and employee are obliged to contribute with (mostly) an equal share.

The employee's contribution is deducted directly from the gross wage by the employer and together with the employer's contribution, is transferred to the insurance company responsible for the collection.

Employers bear 50% of their total contribution to pension, health and unemployment insurance.

### 4.3 Contribution rate

#### Employer's contribution:

Pension Insurance: 9.3%

Health Insurance: 7.3%

Unemployment insurance: 1.3%

Long-term care insurance: 1.7%

Accident insurance: 1.6%

#### Employee's contribution:

Pension Insurance: 9.3%

Health Insurance: 7.3%

Unemployment insurance: 1.3%

Long-term care insurance: 1.7%

Accident insurance: 0%

### 4.4 Exemption from tax

For the contributions made by an employee, tax deduction can be claimed. If the maximum lump-sum deduction amount of 1,900 EUR is not reached by the employee's health and long-term care insurance contribution, a deduction for other insurance payment can be applied.

## GST/VAT

### 5.1 Basis of tax

VAT is levied on all stages of the production of goods and services. Only the value-added on each production state is taxed (net-all phase principle).

More precisely, the supply of goods and services accomplished by a VAT entrepreneur as well as intra-Community acquisitions and imports of goods are taxable activities.

The VAT entrepreneur calculates the amount of output VAT charged to his/ her customers and then deducts the total input VAT paid to suppliers; resulting in a sum of value added tax payable or a refund.

Hence, the final burden is passed to the consumers, who are not entitled to deduct VAT.

### 5.2 Rates of tax

19%, reduced rate of 7% for "necessities";

Exempt transactions:

Export of goods, intra-community supplies, financial and insurance services, medical services, social welfare activities, cultural and educational activities

### 5.3 Registration

A registration is compulsory for resident and non-resident entrepreneurs with turnovers exceeding the 22,000 EUR threshold in the previous calendar year (as from 2020) and with an estimated turnover higher than 50,000 EUR in the current year.

### 5.4 Filing requirements

Entrepreneurs must file a quarterly turnover tax advance return and pay the respective amount of tax due. If VAT payable in the previous year exceeds 7,500 EUR the advance return must be filed monthly. Also, start-up entrepreneurs have to submit VAT declarations on a monthly basis. The preliminary returns are to be filed electronically within 10 days after the end of the reporting period. If a prepayment is made, this deadline can be extended; in this case the returns have to be submitted within 10 days after the end of the following month.

An annual VAT return must be filed by the 31st July of the following calendar year.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Double tax treaties ensure the relief of double taxations regarding taxes on all types of income and protect against discriminatory taxation in any of the involved countries.

Taxes paid abroad on foreign-source income might be credited against tax payable according to German law.

Generally, foreign withholding taxes might be offset.

Otherwise, the amount of tax paid abroad might be deducted as business expenses.

### 6.2 List of double tax treaties signed

Double Tax Treaties with respect to taxes on income

Albania	France	Liechtenstein	Slovakia
Algeria	Georgia	Lithuania	Slovenia
Argentina	Ghana	Luxembourg	South Africa
Armenia	Greece	Macedonia	Spain
Australia	Hungary	Malaysia	Sri Lanka
Austria	Iceland	Malta	Sweden
Azerbaijan	India	Mauritius	Switzerland
Bangladesh	Indonesia	Mexico	Syria
Belarus	Iran	Moldova	Taiwan
Belgium	Ireland	Mongolia	Tajikistan
Bolivia	Israel	Montenegro	Thailand
Bosnia-Herzegovina	Italy	Morocco	Trinidad & Tobago
Bulgaria	Ivory Coast	Namibia	Tunisia
Canada	Jamaica	Netherlands	Turkey
China	Japan	New Zealand	Turkmenistan
Costa Rica	Jersey	Norway	Ukraine
Croatia	Kazakhstan	Pakistan	United Kingdom
Cyprus	Kenya	Philippines	United States
Czech Republic	Kosovo	Poland	Uruguay
Denmark	Korea (ROK)	Portugal	Uzbekistan
Ecuador	Kuwait	Romania	Venezuela
Egypt	Kyrgyzstan	Russia	Vietnam
Estonia	Latvia	Serbia	Zambia
Finland	Liberia	Singapore	Zimbabwe

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

None

### 7.2 Real property tax

Real property tax is charged on the owner of any land or buildings in Germany. The tax rate depends on the type of real property. This is sorted into two categories:

- Real property used for agriculture and forestry
- Constructible real property or real property with buildings.

The real property tax rate depends on the type of real property. The tax rate is e.g. 0.26% for property used for (semi-) detached houses with a value of up to EUR 60,000 and 0.35 % for all remaining types of real property (including commercially used real property).

The amount from multiplying the Value of the property and the tax rate has to be multiplied with a municipal multiplier. This municipal multiplier is stipulated by each municipality (e.g. 350 %).

In case of a transfer of Real Estate German Real Estate Transfer Tax ("RETT") could be levied. The RETT rate depends on the location of the real estate and ranges from currently between 3.5 percent and 6.5 percent depending on the Federal State.

### 7.3 Estate duty

Gift and Inheritance Tax: tax rates vary according to degree of kinship between testator (donor) and heir (donee), from 7% to 50%;

Numerous exemptions for businesses

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### Business tax

N/A

#### Consumption tax, etc.

Real estate transfer tax: Real estate transfer tax is levied by the municipality, total level of the tax varies (between 3.5 and 6.5% of the basis of assessment) on basis of the purchase price.

## POINT OF CONTACT

#### Name of contact

Achim Siegmann

#### Telephone with country code

+49 7132 9680

#### Email address

siegmann@lehleiter.de



# GREECE

## GENERAL INFORMATION

### 1.1 Country/Region

Greece

### 1.2 Currency

Euro (EUR)

### 1.3 Principal business entities

Corporation (SA), Limited Liability Company (EPE), Private Company (PC IKE), General Partnership (OE), and Limited Liability Partnership (EE)

### 1.4 Current economy climate (Industry overview)

Greek economy showed particular resilience, recording 2% growth one of the highest rates of economic growth among the member states of the European Union. This success came through fiscal stability, recovery of the investment grade, strengthening of investments and impressive performance in tourism for 2023.

### 1.5 National tax authority

#### Name

Ministry of Finance, Public Revenue Independent Authority

#### Website

<https://www.aade.gr/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Resident entities are taxed on worldwide income; non-resident entities are taxed only on Greek- source income. Profits of branches of foreign companies in Greece are computed in the same way as profits of legal entities and are taxed at the same rate.

### 2.2 Rates of tax

	Rates
Corporate income tax rate	22%
Branch tax rate	22%
Capital gains* tax rate	22%

\* refer 2.6 below.

### 2.3 Year of assessment

The accounting year ends on 31 December or 30 June. Subsidiaries of foreign groups may use other year-end dates.

### 2.4 Profits deemed to be taxable

Corporate tax is imposed on a company's total annual profits before the distribution of dividends, fees paid to directors out of profits, etc. Normal business expenses are deductible for tax purposes, provided they are not included on a list of non-deductible expenses, are incurred for the benefit of the entity,

reflect real transactions that are recorded in the books in the year incurred, and are supported by the necessary tax records and sufficient documentation.

### 2.5 Taxation of dividends

Dividends received from domestic or EU-resident subsidiaries qualifying for the participation exemption (i.e., where a 10% minimum participation is held for an uninterrupted period of at least 24 months, etc.) are exempt from corporate income tax (see 3.5 "Participation exemption," below). Dividends received from non-qualifying participations are taxable as normal business income at the prevailing corporate income tax rate, with certain credits available for taxes already paid.

### 2.6 Taxation of capital gains

The corporate income tax rate is 22% and generally applies to all forms of legal entities in Greece (except in exceptional circumstances, e.g., agricultural cooperatives). However, Greek credit institutions and Greek branches of non-resident credit institutions are taxed at 29% if they are subject to the special "deferred tax asset" recognition provision for all relevant fiscal years.

### 2.7 Taxation of interest income

The withholding tax rate on interest payments to residents and non-residents is 15%, unless in the latter case the rate is reduced under an applicable tax treaty or where the interest paid to corporations is exempt under the EU interest and royalties' directive, as transposed into Greek tax legislation.

### 2.8 Utilization of tax losses

Tax losses may be carried forward for five consecutive tax years, to be set off against the taxable profits of those five tax years. Tax losses carried forward may be forfeited where there is a change in ownership of more than 33%, if the entity also changes its business activity within the same and/or the following fiscal year, and the new business activity represents more than 50% of the annual turnover compared to the fiscal year before the change in ownership took place. A change of activity is not deemed to exist if the entity continues its legacy business using the same assets and infrastructure, or if the new activities belong to the same NACE (Nomenclature of Economic Activities) code as those of the legacy business. The carryback of losses is not permitted.

In principle, losses arising abroad from the business activities of a foreign permanent establishment (PE) may not be utilized in the calculation of the company's taxable profits (of the same fiscal year), or be set off against future profits, except in the case of losses arising from business activities of a PE in an EU or European Economic Area (EEA) member state. To that end, foreign losses of EU/EEA PEs may be used in Greece provided they are tracked separately for each member state and their origin is traceable.



2.9 Key Tax incentives

Incentives: Certain investments qualify for subsidies. A 100% super deduction (i.e., a total deduction of 200%) applies for certain research and development (R&D) expenses, and tax deferral is available on income from the exploitation of qualifying patents. In addition, businesses may benefit from a super deduction of 30% (i.e., a total deduction of 130%) for advertising expenses incurred in fiscal year 2023, subject to certain conditions. A 100% super deduction is provided when calculating taxable profits for expenditure on green initiatives, energy efficiency, and digitization incurred by small and medium-sized enterprises for fiscal years 2023, 2024, and 2025. Assets associated with the upgrade of waste separation and recovery centres, energy efficiency, water saving, or investments characterized as contributing substantially to climate change mitigation can be super depreciated by 100%.

2.10 Withholding tax

Rates

Type of payment	Residents Company	Non-residents Company
Dividends	5%	5%
Interest	15%	15%
Royalties	0%	20%
Fees for technical services	0%	0%/20%

2.11 Transfer Pricing

Transactions between related parties (both domestic and foreign) must be carried out on arm's length terms. Greece allows the following transfer pricing methods: comparable uncontrolled price, cost plus, transactional net margin, resale price, and profit split. Transfer pricing documentation must be prepared. Country-by-country (CbC) reporting and/or notification obligations apply to certain multinational enterprise groups that have consolidated group revenue exceeding EUR 750 million in the fiscal year preceding the fiscal year to which the CbC report relates.

2.12 Filing requirements of tax return

Filing due dates	Greece operates a self-assessment regime. Corporate entities must file a tax return within six months of the tax year end.
Penalties	Penalties and interest apply for late or inaccurate filing of returns, or failure to file a return.
Payment of profit tax and application of holdover	An advance payment of corporate income tax equal to 80% of the tax due (it was 100% previously) for the preceding year is also required.

PERSONAL TAX

3.1 Basis of taxation (Residence, Personal assessment)

Resident individuals are taxed on their worldwide income. Non-residents are taxed only on Greek- source income. Taxable income includes employment income, business income, income from capital (dividends, interest, royalties, and rental income), and capital gains from the alienation of real estate and securities. Each category of income is taxed separately.

3.2 Rates of tax

Rates		
Individual income tax rate	Taxable income	Rate
(Business and employment income)	Up to EUR 10,000	9%
	10,001 - 20,000	22%
	20,001 - 30,000	28%
	30,001 - 40,000	36%
	Over EUR 40,001	44%
Capital gains tax rate		15%
Rental income tax rate	Up to EUR 12,000	15%
	12,001 - 35,000	35%
	Over EUR 35,001	45%

3.3 Year of assessment

Calendar year

3.4 Allowances and Deductions

Individuals may qualify for a specific tax reduction on employment income (with the amount depending on the total taxable income and the number of children).

Taxpayers are required to use a certain minimum amount of their income (pursuant to a progressive scale) to purchase goods or services (in Greece or in the EU/EEA) using an electronic means of payment (e.g., debit or credit card). Certain taxpayers are excluded from this obligation (e.g., elderly or disabled taxpayers). If a taxpayer fails to make the minimum payment, the income tax assessment will be increased by 22% of the difference between the minimum required payment and the actual payment.

3.5 Taxation of dividends

Dividends paid to non-residents are subject to a 5% dividend withholding tax, unless the rate is reduced under an applicable tax treaty. No withholding tax applies on distributions to corporations if the requirements under the EU parent-subsidiary directive are met (i.e., broadly, a 10% minimum shareholding for an uninterrupted period of at least 24 months), subject to the provisions of the anti-abuse rule (see "Participation exemption" under "Corporate taxation," above). The same requirements for an exemption apply to dividend distributions between domestic companies; otherwise, a 5% rate applies. A 5% withholding tax rate also applies to dividends paid to resident individuals. No withholding tax is imposed on distributions of partnerships that maintain simplified accounting books.

3.6 Taxation of capital gain

Capital gains tax at a rate of 15% applies to gains arising from the sale of securities (listed and unlisted) and derivatives. Capital gains tax on the sale of real estate has been suspended through 31 December 2024 (following suspension from 1 January 2015 through 31 December 2022). A deferral of capital gains tax may apply under certain conditions to Greek tax resident individuals who contribute domestic or foreign securities (e.g., shares) to a domestic or foreign legal entity for the purpose of covering/increasing the entity's capital, in exchange for securities (e.g., shares) issued by that entity.



### 3.7 Taxation of interest income

Interest income tax at a rate of 15%

### 3.8 Personal assessment and utilization of losses

Individuals are resident in Greece if they are present in Greece for more than 183 days within any 12-month period. Individuals are treated as a Greek tax resident for the calendar year during which that 12-month period ends. Exceptions apply to individuals who visit Greece exclusively for tourism, medical, therapeutic, or similar personal purposes. Individuals also are considered resident in Greece if their centre of vital interests is in Greece.

### 3.9 Withholding tax

Rates		
Type of payment	Residents	Non-residents
	Individual	Individual
Dividends	5%	5%
Interest	15%	15%
Royalties	20%	20%
Fees for technical services	20%	20%

### 3.10 Statutory obligation of employers

Statutory obligations of an employer to report remuneration paid to an employee

- need to notify the IRD in 2 months from 1 January of the following year of assessment

### 3.11 Filing requirement of tax return

Filing due dates	Individuals must file a tax return by 30 June of the year following the relevant calendar year. In principle, income tax is paid in three equals bimonthly instalments, with the first instalment due by the last business day of July and the others by the last business day of September and November, respectively. However, the Ministry of Finance may decide to apply alternative filing deadlines or instalment plans each fiscal year depending on other factors (e.g., special circumstances such as the COVID-19 pandemic).
Penalties	Penalties and interest apply for late or inaccurate filing of returns, or failure to file a return.
Application of holdover	Binding rulings are not available, but a taxpayer can submit a question to the Ministry of Finance for the administration's nonbinding view on the issue.

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Social Security in Greece is mainly regulated by Law 4387/2016 regarding the Unified Social Security System – Reform of the social security and pension system as amended and currently in force.

### 4.2 Basis of contribution

The provisions of the law provide, among other issues, for the integration of all public main pension funds into one fund (the so-called “Unified Social Security Institution” – (Ε.Φ.Κ.Α.)) and of all auxiliary pension and lump sum benefits funds into one fund (the so-called “Unified Auxiliary Social Security and Lump Sum Benefits Fund” (Ε.Τ.Ε.Α.Ε.Π.)).

### 4.3 Contribution rate

Employers generally must contribute approximately 22.29% of each employee's gross salary to the social insurance fund, while full-time salaried employees must contribute 13.87%.

### 4.4 Exemption from tax

The contributions made by an employer to the Unified Social Security are tax deductible.

## GST/VAT

### 5.1 Basis of tax

VAT is imposed on the sale of goods and the provision of services by a VATable person acting as such toward another VATable person for a consideration when Greece is the place of taxation, in accordance with the place of supply rules, unless a specific VAT exemption applies. VAT also is due on intra-Community acquisitions of goods from EU-based suppliers with transportation of the goods from an EU member state to Greece. Imports of goods from non-EU jurisdictions are performed in Greece, provided these are within the Greek territory when they enter the EU and, therefore, import VAT is due, unless the goods are placed under a special VAT and customs suspension regime. In case of local receipt of services of a general nature from a Greek-based supplier, Greek VAT should be charged on the invoice issued, unless a specific exemption or process applies according to which no VAT is due. The receipt of services of a general nature from a non-Greek supplier (either an EU or non-EU-based supplier) is, in principle, subject to Greek VAT and such VAT should be attributed to the Greek state by the recipient through the application of the reverse charge mechanism. In case of services falling under the “place of supply” exception (such as services related to real estate located in Greece), further factual analysis is required.

The supply of newly built property is subject to VAT, under certain conditions, provided the building contractor has not applied for the VAT suspension regime. If the building contractor has elected the VAT suspension regime, the sale of real estate is subject to real estate transfer tax and not VAT and the taxpayer is not able to deduct any construction or operational VAT incurred. The sale of old property is a VAT-exempt activity, without an input VAT deduction right.

### 5.2 Rates of tax

Rates	
Standard rate	24%
Reduced rate	6%/13%

### 5.3 Registration

Greek-based entities generally must register for tax purposes and are assigned a unique tax/VAT number, which is used for all taxes. Non-Greek VATable persons must register for VAT in case they incur VAT liabilities in Greece; EU entities must register directly electronically or, at their option, through the appointment of a fiscal representative; and non-EU entities must register only through the appointment of a fiscal representative. Greece has incorporated the provisions of Council Directives (EU) 2017/2455, 2019/1995, and 2018/1910 into Greek VAT legislation with respect to intra-Community distance sales of goods and distance sales of imported goods, the supply of

goods through the use of electronic interfaces, and the supply of services to non-VATable persons (e-commerce). Under the One Stop Shop (OSS) regime, taxable persons/suppliers may opt to be subject to one of the OSS special schemes (through electronic application), instead of registering for VAT purposes in each member state where the related transactions take place. More specifically, the non-EU OSS scheme covers all cross-border business-to-consumer (B2C) services supplied by non-EU established suppliers to non-taxable persons, including the supply of telecommunications, broadcasting, and electronically supplied services (TBE services).

## 5.4 Filing requirements

VAT returns are due on a quarterly or monthly basis by the last working day of the following month, depending on the type of books kept by the VAT payer; non-Greek VATable persons merely registered for VAT purposes in Greece must file returns on a quarterly basis. The VAT payment is due on the same date. In cases where the amount of VAT due does not exceed EUR 30, the liability is transferred to the next tax period; if the amount due exceeds EUR 100, it may be paid in two equal consecutive monthly instalments, without any additional charges. The amount of the first instalment must be paid by the last business day of the month in which the VAT return was submitted, and the second by the last business day of the next month. A statistical declaration (Intrastat Intra-EU Import/Intra-EU Export Declaration) and EC sales/purchases/acquisitions lists must be submitted on a monthly basis by the 26th day of the following month, if intra-Community transactions take place.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Greece is a signatory to a Treaty for the Prevention of Double Taxation with many countries all over the world.

### 6.2 List of double tax treaties signed

Double Taxation Agreements:

List of Countries

Albania	Hungary	Qatar
Armenia	Iceland	Romania
Austria	India	Russia
Azerbaijan	Ireland	San Marino
Belgium	Israel	Saudi Arabia
Bosnia Herzegovina	Italy	Serbia
Bulgaria	Korea	Singapore
Canada	Kuwait	Slovakia
China	Latvia	Slovenia
Croatia	Lithuania	South Africa
Cyprus	Luxembourg	Spain
Czech Republic	Malta	Switzerland
Denmark	Mexico	Tunisia
Egypt	Moldova	Turkey
Estonia	Morocco	Ukraine
Finland	Netherlands	USA
France	Norway	Uzbekistan
Georgia	Poland	UAE
Germany	Portugal	UK

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Rentals of non-residential properties are subject to 3.6% stamp duty (with the exception of shopping centres and logistics centres subject to VAT).

In general, loans and interest may be subject to a 2.4% stamp duty. However, there are a number of exemptions, the main one covering bank loans and bond issues.

Other stamp duties may apply in certain limited cases.

### 7.2 Real property tax

Real estate ownership tax is imposed annually on property located in Greece. For legal entities, the tax consists of two elements: a main tax and an additional tax. The main tax is imposed based on a statutory formula that takes into account specific features of the property (size, location, zone price, surface, age, use, and other characteristics). The additional tax is calculated at a rate of 0.55% on the total tax value of all of the company's property. Property occupied by the company and used for its own business is subject to a 0.1% additional tax. Individuals are subject to a main tax (calculated as above), plus a "tax per total property value," an additional main tax component for properties whose value exceeds EUR 400,000. In addition, a tax readjustment increasing the total tax burden applies to individuals whose properties' total taxable value exceeds EUR 500,000 (excluding plots outside urban planning areas).

For companies, there is also an annual special tax of 15% of the tax value of property, subject to certain exemptions. The tax normally is not payable if the company discloses its shareholders up to the level of the individual or a qualifying investment firm/fund.

A special real estate duty is payable to the municipal authorities, at rates ranging from 0.025% to 0.035%.

### 7.3 Estate duty

For close relatives, inheritance tax at rates ranging from 0% to 10% is imposed on the "tax value"

of real estate after the deduction of a tax-free amount, which varies depending on the taxpayer's relationship with the deceased. For other heirs, the applicable rates range from 0% to 40%.

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### Business tax

Special tax regimes apply to shipping companies, coordination centres, real estate investment companies, and mutual funds.

#### Consumption tax, etc.

In addition to transfer taxes (e.g., on real estate), acquisitions can result in income tax if they cannot be justified by the taxpayer's declared revenue (deemed income). If there is a difference between the taxpayer's real income (declared in the tax return) and the deemed income, the difference is subject to income tax, depending on the type of income.

## POINT OF CONTACT

**Name of contact:**

Apostolopoulos Panagiotis

**Telephone with country code:**

+30 6978 909 280

**Email address:**

contact@artiaporeia.gr



# HONG KONG, CHINA

## GENERAL INFORMATION

### 1.1 Country/Region

Hong Kong, China

### 1.2 Currency

Hong Kong Dollar (HKD)

### 1.3 Principal business entities

- Public company
- Private company
- Branch of a foreign corporation
- Sole proprietorship
- Partnership

### 1.4 Foreign exchange control

No foreign exchange control

### 1.5 Current economy climate (Industry overview/ encouraged business development)

During the past year, Hong Kong has returned to normalcy after the epidemic. The society and the daily lives of Hong Kong people are back to normal as they have longed for. Visitors are returning, and economy is regaining positive growth. A series of mega events have helped to restore a buoyant mood in the community. Meanwhile, geopolitical uncertainties and high interest rates have impacted capital flows. Resumption of outbound travel, changes in consumption patterns and a shift in inbound visitors' preferences, along with competition from other economies and so forth have all weighed down economic confidence.

Underpinned by our country's firm and steady development, the institutional advantages of Hong Kong under "One Country, Two Systems" and its highly international characteristics, Hong Kong will attract yet a bigger pool of talent, capital and enterprises.

In the medium term, the Hong Kong economy will see sustained and solid development. While geopolitical tensions will continue to impact international capital flows and trade patterns, and the expansionary fiscal and monetary policies vigorously pursued by most economies during the pandemic have also added vulnerabilities to the global economy and financial system, global demand should be able to revive gradually in tandem with the anticipated progressive declines in interest rates in the US and the euro area in the coming few years.

Moreover, with its comprehensive financial services platform as well as a liquid capital market that is uniquely connected to the Mainland, Hong Kong is the natural choice for ultra-high-net-worth-individuals to manage their portfolios in the region. Indeed, the Asset and Wealth Management Activities Survey

2020 published by the Securities and Futures Commission ("SFC") has recorded a 46% year-on-year increase to HK\$2,037 billion (or around US\$263 billion) in 2020 in Hong Kong's private banking and private wealth management business attributed to family offices and private trusts clients.

The Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Ordinance 2023 was gazetted and came into operation on 19 May 2023. It provides profits tax concessions for (a) eligible Family-owned Investment Holding Vehicles (FIHVs) managed by eligible Single Family Offices (SFOs) in Hong Kong; and (b) Family-owned Special Purpose Entities (FSPEs) in respect of a year of assessment commencing on or after 1 April 2022. By offering tax incentives to family offices and private trusts clients, the Government is envisaging to attract and invite more of them to manage their wealth portfolios in Hong Kong.

### 1.6 National tax authority

#### Name

The Inland Revenue Department (the "IRD")

#### Website

<https://www.ird.gov.hk/eng/welcome.htm>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

A person who carries on a trade, profession or business in Hong Kong is chargeable to profits tax on the profits from that trade, profession or business (excluding profits arising from the sale of capital asset) that arise in or are derived from Hong Kong. Foreign-sourced income is not taxed even if it is remitted to Hong Kong. The tax residence of a person is generally irrelevant for profits tax purposes.

Territorial concept is the fundamental concept on the taxation of profits in Hong Kong adopted by the Hong Kong IRD. In determining whether profits arise in or are derived from Hong Kong, one looks to see what the taxpayer has done to earn the profits in question and where he has done it. If the profits are generated from operations in Hong Kong, the profits are subject to Hong Kong profits tax. The IRD has issued Departmental Interpretation and Practice Notes ("DIPN") No. 21 "Locality of profits" stating the IRD's interpretation and practice in respect of this area.

### 2.2 Rates of tax

All entities with profits chargeable to Profits Tax in Hong Kong would qualify for the two-tiered profits tax rates, except those with a connected entity which is nominated to be chargeable at the two-tiered rates.

If, at the end of the basis period of the entity for the relevant year of assessment, the entity has one or more connected

entities earning profits chargeable under Hong Kong profits tax, the two-tiered profits tax rates would only apply to the one which is nominated to be chargeable at the two-tiered rates. The others would not qualify for the two-tiered profits tax rates. Further, if an entity has made an election under Section 14B(2)(a), Section 14D(5)(b), Section 14H(4)(b) or Section 14J(5)(b) of the Inland Revenue Ordinance, the entity would not qualify for the two-tiered rates.

Two-tiered tax rate:

	Corporation	Unincorporated business
First HK\$2 million of assessable profits	8.25%	7.5%
Remaining assessable profits hereafter	16.50%	15.0%

Entity that is not entitled for the two-tiered profits tax rates:

	Corporation	Unincorporated business
All assessable profit amounts	16.50%	15.0%

## 2.3 Year of assessment

From 1 April to 31 March of the following year or where the annual accounts are made up to any day other than 31 March, the year ended on that day in the relevant year. Two-tiered tax rates have been applicable from Year of Assessment 2018/19 onwards.

## 2.4 Profits deemed to be taxable

- The assessable profits or adjusted loss are the net profits or losses, except for capital gains or losses, for the basis period, arising in or derived from Hong Kong.
- Certain sums received from the use of intellectual properties ("IP"), such as royalty, trademarks, patent, are deemed as receipts arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong:
  - For royalties, the assessable profit is generally 30% of the gross sum of royalties, and effective withholding tax rate at 4.95% (i.e. 30% x 16.5% profits tax rate). If the IP was previously owned by a person carrying on a business in Hong Kong and the sum is paid to an associate, 100% of the gross sum is charged as the assessable profits instead.
  - "Patent box" tax incentive is eligible to qualifying profits sourced in Hong Kong and derived from eligible IPs (patents, copyrighted software and new plant variety rights) created through research and development activities starting from the year of assessment 2023/24.
- Grants, subsidies or similar financial assistance in carrying on a trade, profession or business in Hong Kong;
- Consideration for the transfer of certain rights to receive income from property;
- Profits made by a financial institution through or from the carrying on of its business in Hong Kong from the sale or on the redemption on maturity or presentment of any certificate of deposit or bill of exchange;
- Hong Kong sourced profits from the sale or on the redemption on maturity or presentation of a certificate of deposit or bill of exchange except for individuals in a nonbusiness capacity.

## 2.5 Taxation of dividends

Dividend income is generally not taxable and no withholding tax applied thereon.

## 2.6 Taxation of capital gains

Capital gains are not taxable.

## 2.7 Taxation of interest income

Only interest income arising in or derived from Hong Kong is liable to profits tax. Offshore interest income is not taxable.

Furthermore, for interest earned by corporations or persons other than financial institutions, who carry on a trade, profession or business in Hong Kong and where the interest income is in respect of funds of such trade, profession or business, is exempted from payment of profits tax.

This exemption does not apply to:

- interest income received by financial institutions
- interest income arising on deposits that have been pledged as collateral for financing facilities, if the interest expenses incurred on the financing facilities are allowable for tax deduction.

## 2.8 Utilization of tax losses

- Time limit to utilize – tax losses can be carried forward indefinitely.
- Loss relief among group companies – Not allowed. The IRD restricts the use of tax losses by changing shareholding for the purpose of utilizing the losses to obtain a tax benefit.

## 2.9 Key Tax incentives

### a) Capital allowance

Includes (i) industrial building allowance, (ii) commercial building allowance, (iii) depreciation allowance for plant and machinery and (iv) refurbishment allowance.

### b) Offshore funds

Offshore funds with Hong Kong fund managers and investment advisors with full discretionary powers are exempted, whereas they are derived in Hong Kong from six categories of transactions which are carried out or arranged by "specified persons".

### c) Quality debit instrument (QDI)

With effect from 24 May 1996, interest income and trading profits derived from a QDI issued in Hong Kong with an original maturity of not less than 5 years are subject to a concessionary tax rate equivalent to 50% of the normal profits tax rate. Commencing from the year of assessment 2003/04, this concession is expanded to cover a "medium term debt instrument" issued in Hong Kong on or after 5 March 2003 having an original maturity of less than 7 years but not less than 3 years. In addition, interest income and trading profits derived from a "long term debt instrument" issued in Hong Kong on or after 5 March 2003 but before 1 April 2018 with an original maturity of not less than 7 years are exempt from profits tax.

From 25 March 2011 onwards, the 50% tax concession further extends to cover interest income and trading profits derived from a "short term debt instrument" issued on or after that date but before 1 April 2018 with a tenor of less than 3



years. Existing tax concession granted to “medium term debt instrument” and tax exemption granted to “long term debt instrument” issued before 25 March 2011 are not affected. However, the tax concession and exemption will not apply in relation to a QDI issued on or after 25 March 2011 if, at the time during which the interest income and trading profits is/are so received or accrued, the person is an associate of the issuer of the QDI.

The tax exemption available for QDI has been expanded. Interest income and trading profits derived from a QDI issued on or after 1 April 2018, regardless of its tenor, are all exempted from profits tax. However, the exemption is also subject to the same condition set out as above that it will not apply if at the time during which the interest income and trading profits are so received or accrued, the person is an associate of the issuer of the QDI.

#### d) Expenditure on research and development

Allowable deduction on expenditure for research and development is granted for payments to an approved research institute and development related to the taxpayer's trade, profession or business.

#### e) Environmental protection facilities

##### Expenditure on environmental protection machinery

A full deduction is allowed during the basis period in which the expenditure is incurred.

##### Expenditure on environmental protection installation

Before the year of assessment 2018/19, capital expenditure incurred in relation to any environmental protection installation is allowed as a deduction by five equal instalments that the first instalment is allowed in the basis period for the year of assessment in which the expenditure was incurred, and the remaining four instalments in the basis periods for the next succeeding four years of assessment.

For the year of assessment 2018/19 and thereafter, the capital expenditure in relation to such installations is deducted in full in the basis period for the year of assessment in which it was incurred. Any part of expenditure carried forward from past years that remains to be deducted for the year of assessment 2018/19 is fully deducted in that year.

##### Expenditure on environment-friendly vehicle

A full deduction is allowed during the basis period in which the expenditure is incurred.

#### f) Tax concessions for family-owned investment holding vehicles

For the year of assessment 2022/23 and thereafter, the concessionary profits tax rate for the assessable profits of an eligible Family-owned Investment Holding Vehicle (FIHV) managed by eligible Single Family Office (SFO) in Hong Kong and Family-owned Special Purpose Entities (FSPEs) earned from the qualifying transactions and incidental transactions is 0%.

#### g) Tax concessions for “patent box” intellectual properties

For the year of assessment 2023/24 and thereafter, the “patent box” concessionary profits tax rate is 5%.

## 2.10 Withholding tax

<b>Dividends</b>	No withholding tax
<b>Interests</b>	No withholding tax
<b>Royalties</b>	Effective tax rates as below
<b>Technical service fee</b>	No withholding tax

#### Royalties entitled for two-tier tax rate

Tax rate of sums not from an associate:

First HK\$2 million of royalty income – 2.475%; Remaining balance – 4.95%

#### Tax rate of sums from an associate:

First HK\$2 million of royalty income – 8.25%; Remaining balance – 16.5%

#### Royalties not entitled for two-tier tax rate

Tax rate of sums not from an associate: gross royalty income – 4.95%

Tax rate of sums from an associate: gross royalty income – 16.5%

## 2.11 Transfer Pricing

### Transfer Pricing Policy

Inland Revenue (Amendment) (No. 6) Ordinance 2018 (IRO) became effective in July 2018, which codified the Hong Kong's transfer pricing (“TP”) rules and documentation requirements as recommended under the OECD BEPS project. The HKIRD further released three Departmental Interpretation and Practice Notes (DIPNs) in July 2019, which provided guidance to taxpayers on issues contained in the IRO, as follows:

1. DIPN 58: Transfer Pricing Documentation and Country-by-Country Reports
2. DIPN 59: Transfer Pricing between Associated Persons
3. DIPN 60: Attribution of Profits to Permanent Establishments in Hong Kong.

Transactions between associated persons or non-Hong Kong resident persons' permanent establishments in Hong Kong, to which the transfer pricing-related provisions in the IRO do not apply, should be dealt with in accordance with DIPNs 45 “Relief from double taxation due to transfer pricing or profit reallocation adjustments” and 46 “Transfer pricing guidelines - Methodologies and related issues”.

Taxpayer may reach an agreement with the Inland Revenue Department in an Advance Pricing Arrangement (APA), which determines, in advance of controlled transactions, an appropriate set of criteria for the determination of the transfer pricing for those transactions over a fixed period of time. It provides a tool for multinational enterprises managing and mitigating the transfer pricing risk with overseas associated enterprises on a prospective basis.

### Transfer Pricing Documentation

The three-tiered standardized structure of transfer pricing documentation includes:

- (a) Country-by-country (CbC) report containing information relating to the global allocation of income and taxes paid together with certain indicators of the location of economic activities of a multinational enterprise (MNE) group;

- (b) Master file containing standardized information relevant for all constituent entities of the group; and
- (c) Local file referring to material transactions of a specific constituent entity of the group.

#### Overview of Requirements for Master File and Local File

<b>Effective period</b>	An accounting period beginning on or after 1 April 2018
<b>Person obligated</b>	A Hong Kong entity with two or more of the thresholds provided in Part 2 of Schedule 17I to the IRO exceeded
<b>Documentation required</b>	A master file and a local file prescribed in Part 3 of Schedule 17I to the IRO
<b>Exemption provided</b>	Based on the size of business: <ul style="list-style-type: none"> <li>the total amount of annual revenue for the accounting period does not exceed \$400 million</li> <li>the total value of assets at the end of the accounting period does not exceed \$300 million</li> <li>the average number of the entity's employees during the accounting period does not exceed 100</li> </ul> Based on the amounts of controlled transactions: <ul style="list-style-type: none"> <li>transfers of properties (whether movable or immovable but excluding financial assets and intangibles) do not exceed \$220 million</li> <li>transactions in respect of financial assets do not exceed \$110 million</li> <li>transfers of intangibles do not exceed \$110 million</li> <li>Other transactions do not exceed \$44 million</li> </ul> A Hong Kong entity that is fully exempted from preparing a local file is not required to prepare a master file
<b>Language used</b>	English or Chinese
<b>Timing</b>	Within 9 months after the end of the accounting period
<b>Submission</b>	Upon request by assessor
<b>Updating</b>	Annually; rolling-forward of 3 years will be allowed for certain documents if there are no substantial changes in the documents
<b>Retention period</b>	Not less than 7 years after the end of the accounting period
<b>Penalty for non-compliance</b>	A fine at level 5 (i.e. HK\$50,000) and the court may order for compliance; a further fine at level 6 (HK\$100,000) for non-compliance with court order

Transfer Pricing and its filing documents may refer to Division 2 to Division 6 of Inland Revenue (Amendment) (No.6) Ordinance 2018 ([www.ird.gov.hk/eng/pdf/2018/ira\\_no6b\\_e.pdf](http://www.ird.gov.hk/eng/pdf/2018/ira_no6b_e.pdf)) for details.

## 2.12 Specified Foreign-sourced Income

With a view to supporting international efforts in combating cross-border tax evasion and preventing double non-taxation, Hong Kong committed to amending its Foreign Source Income Exemption (FSIE) regime for passive income in accordance with the Guidance on FSIE regimes promulgated by the European Union (EU).

The Inland Revenue (Amendment) (Taxation on Foreign-sourced Disposal Gains) Ordinance 2023 was enacted on 8 December 2023 to refine the FSIE regime. Specified foreign-sourced income by means of the following arising in or derived from a territory outside Hong Kong are subject to FSIE reporting on or after the following dates:

- 1 January 2023 – interest, dividend, IP income, and equity interest disposal gain
- 1 January 2024 – disposal gain other than equity interest disposal gain

Only MNE entity as defined under the Inland Revenue Ordinance will be subject to the FSIE regime.

Specified foreign-sourced income being regarded as received in Hong Kong will not be brought into charge if the MNE entity meets the exception requirements specifically for the particular types of incomes, summarized as follows:

Exceptions	Specified Foreign-sourced income					General IP income (e.g. royalty)
	Interest	Dividend	Disposal gain			
			Non-IP assets		IP assets	
			Equity interest	Others		
Economic substance requirement	✓	✓	✓	✓		
Nexus requirement					✓	✓
Participation requirement		✓	✓			

Subject to specified anti-abuse rules, intra-group transfer was given relief to defer charging of tax on foreign-sourced disposal gain derived from the transfer of property between associated entities.

## 2.13 Filing requirements of tax return

<b>Filing due dates</b>	Normal profits tax return issue date: 1 April Normal due date: 2 May If the taxpayer has appointed a tax representative, the filing due dates can be extended as follows:	
	<b>For accounting year end dates</b>	<b>Normal filing date for cases with tax representative</b>
	1 April to 30 November	2 May
	1 December to 31 December	15 August
<b>Penalties</b>	1 January to 31 March	
	15 November	
<b>Payment of profit tax and application of holdover</b>	Penalties may be imposed for failure to submit tax return to the IRD on time. The Commissioner of IRD has authority to institute prosecution, to compound or to assess additional tax (in a form of penalty) in respect of an offense.	
	<p>Surcharges of 5% or 10% will be imposed for overdue payment of tax, depending on the length of time of late payment. Provisional profits tax for the following year of assessment has to be charged and estimated based on the assessable profits of the preceding year. If the estimated profits are less than 90% of that previously assessed, an application for holdover of provisional tax can be lodged to the IRD in writing. The application should be lodged not later than:</p> <ul style="list-style-type: none"> <li>28 days before the due date for payment of the provisional tax, or</li> <li>14 days after the date of issue of the notice for payment of the provisional tax, whichever is later.</li> </ul>	

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Salaries tax shall be charged on every person in respect of his income arising in or derived from Hong Kong from any office or employment of profit; and any pension. Income from any office or employment includes:

- wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite, or allowance
- certain pension or provident fund
- the rental value of any place of residence provided rent-free by the employer or an associated corporation or relevant rental subsidies
- rights to acquire shares or stock in a corporation

Directors' fee is subject to salaries tax if the company is managed and controlled in Hong Kong.

According to DIPN 10, the IRD generally accepts that an employment is a non-Hong Kong employment if: (1) the contract of employment was negotiated and entered into, and is enforceable outside Hong Kong; (2) the employer is a resident outside Hong Kong; and (3) the employee's remuneration is paid outside Hong Kong. Only an employment with all of the three factors above will be treated as a non-Hong Kong employment.

If an employee paid tax outside Hong Kong on income from employment which is chargeable to Hong Kong salaries tax, he could apply exemption on payments of Hong Kong salaries tax on such income, provided that such income has been charged and the employee has paid individual tax in the territory he rendered services and a double tax arrangement has been signed with that territory.

### 3.2 Rates of tax

Tax payable is calculated at progressive rates on the net chargeable income or at standard rate on the net income (before deducting allowances), whichever is lower. Net chargeable income refers to the income less deduction and allowance.

	Y/A 2023/24	Y/A 2024/25
First HK\$50,000 at	2%	2%
Next HK\$50,000 at	6%	6%
Next HK\$50,000 at	10%	10%
Next HK\$50,000 at	14%	14%
On the remainder at	17%	17%
Standard rate of tax, first HK\$5 million	15%	15%
Standard rate of tax, thereafter (*Note)	15%	16%

The maximum tax payable is limited to tax at the standard rate of 15% on the person's income from employment less allowable deductions and charitable donations, but without deducting personal allowances. A married couple may opt for joint or separate assessment.

\*Note – a two-tiered standard rates regime for salaries tax and tax under personal assessment will be implemented starting from the year of assessment 2024/25.

### 3.3 Year of assessment

From 1 April to 31 March of the following year.

### 3.4 Allowances and Deductions

#### a) Allowances (in HK dollars)

	Y/A 2023/2024 (HK\$)
Basic allowance	\$132,000
Married person's allowance	\$264,000
Child allowances	
– 1st to 9th child (each)	
• In the year of birth	\$260,000
• In the following years	\$130,000
Dependent parent and grandparent allowance	
– Aged 60 or above	
• not living with taxpayer	\$ 50,000
• living with taxpayer throughout the year	\$100,000
– Aged 55 to 59	
• not living with taxpayer	\$ 25,000
• living with taxpayer throughout the year	\$ 50,000
Dependent brother or sister allowance	\$ 37,500
Single parent allowance	\$132,000
Personal disability allowance	\$ 75,000
Disabled dependent allowance	\$ 75,000

#### b) Deductions

Allowable deduction includes expenses that must be wholly, exclusively and necessarily incurred in the production of the assessable income.

For the year of assessment 2018/19 and thereafter, HKIRD provides tax deductions for people who (1) subscribe qualifying annuity premiums, deduction allowable at the ceiling of HK\$60,000 for each year of assessment, and (2) purchase eligible health insurance products for themselves or their dependents under the Government's Voluntary Health Insurance Scheme, deduction allowable at the ceiling of HK\$8,000 for each beneficiary subscribed.

For the year of assessment 2022/23 and thereafter, HKIRD further provides tax deductions for domestic rents. A taxpayer chargeable to salaries tax or tax charged under personal assessment is eligible to claim deduction of the rent paid by him / her as a tenant under a qualifying tenancy of domestic premises. Deduction of rent paid by a taxpayer's spouse (who is not living apart from the taxpayer) as a tenant under a qualifying tenancy of domestic premises may be allowed. The maximum amount of deduction allowable to a taxpayer is HK\$100,000 for each year of assessment.

### 3.5 Taxation of dividends

N/A

### 3.6 Taxation of capital gain

N/A

### 3.7 Taxation of interest income

N/A

### 3.8 Personal assessment and utilization of losses

A Hong Kong resident may elect for personal assessment if himself / herself is a sole proprietor, a partner in a business

or a property owner. By aggregating the assessable income under salaries tax, profits tax and property tax, adjusting by certain deductions, the overall tax assessment may be reduced. The balance after deducting allowances and eligible deductions are taxed at the same rates as salaries tax. Personal assessment allows a taxpayer to deduct loan interest incurred for rental properties and/or off-set losses from the business of sole proprietor or partnership.

### 3.9 Withholding tax

Employer does not have the obligation to withhold salaries tax for its employee except for:

- Payment(s) made to a non-resident, an employer has an obligation to withhold an amount from that is sufficient to produce the amount of tax due; or
- Employee(s) about to leave Hong Kong more than 1 month, an employer should withhold all amounts due to be paid to him until such time the employee has made tax clearance.

### 3.10 Statutory obligation of employers

Statutory obligations of an employer to report remuneration paid to an employee:

- For commencement of employment, need to notify the IRD in 3 months;
- For continuance of employment as at 31 March, need to notify the IRD in 1 month from 1 April of the following year of assessment;
- For cessation of employment, need to notify the IRD not later than 1 month before cessation; or
- For departure from Hong Kong, need to notify the IRD not later than 1 month before departure and withhold money for tax clearance.

### 3.11 Filing requirement of tax return

Filing due date	<b>Employer's return</b>	
	Due date	1 April
	Filing deadline	2 May
	<b>Individual return</b>	
	Date of issue	2 May
	Normal due date	2 Jun
	With sole-proprietors due date businesses	2 August
	An extension of one month will be granted automatically if the return is filed electronically. If the tax payer has appointed a tax representative, a further extension of one month is granted.	
Penalties	Penalties may be imposed for failure to submit tax return to the IRD on time. Surcharge of 5% or 10% will be imposed for overdue payment, depending on the length of time of late payment.	
Application of holdover	Provisional salaries tax for the following year of assessment has to be charged and estimated by net chargeable income of the preceding year.  If the net chargeable income for the year of assessment for which provisional tax was charged is likely to be less than 90% of the net chargeable income for the preceding year, or the tax payer becomes entitled to an allowance, an application for holdover of provisional tax can be applied to the IRD in writing not later than: <ul style="list-style-type: none"> <li>• 28 days before the due date for payment of the provisional tax, or</li> <li>• 14 days after the date of issue of the notice for payment of the provisional tax, whichever is later.</li> </ul>	

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

The Mandatory Provident Fund Schemes Authority regulates and supervises the operations of Mandatory Provident Fund ("MPF") schemes and occupational retirement schemes.

### 4.2 Basis of contribution

The MPF system is a saving for retirement scheme introduced by Hong Kong government. It is designed as an employment-based system. MPF contributions are invested in MPF funds, which are managed by trustee and their service providers. Employees and self-employed persons who are aged between 18 and 65 are covered by MPF.

MPF contribution can be withdrawn only until the employees reach the age of 65. Early withdrawal is allowed if the person who is an early retirement at the age of 60; or permanent departure from Hong Kong; or total incapacity; or terminal illness; or death; or having the balance amount of HK\$5,000 or less, and no contributions made for 12 months.

### 4.3 Contribution rate

Employees and employers each are required to make mandatory contributions to an MPF scheme, statutorily at 5% of the employee's relevant income. For monthly-paid employees, the minimum and maximum relevant income levels are HK\$7,100 and HK\$30,000 respectively. For employee's monthly relevant income which is less than HK\$7,100, the employee is not required to make the contribution but the employer is still required to do so.

### 4.4 Exemption from tax

For the mandatory contributions made by an employee to an MPF scheme, a maximum tax deduction of HK\$18,000 annually can be claimed. Voluntary contributions made by an employee are not deductible.

Severance payments or long service payments made in accordance with the provisions of the Employment Ordinance are not subject to salaries tax.

## GST/VAT

### 5.1 Basis of tax

N/A

### 5.2 Rates of tax

N/A

### 5.3 Registration

N/A

### 5.4 Filing requirements

N/A

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Where there is a double tax agreement, foreign tax paid may be credited against profits tax on the same profits, but the credit is limited to Hong Kong tax payable on the same income.



## 6.2 List of double tax treaties signed

As of the date, Hong Kong has comprehensive double tax agreements/arrangement on income concluded with the following jurisdictions:

- Armenia
- Austria
- Bahrain
- Bangladesh
- Belarus
- Belgium
- Brunei
- Cambodia
- Canada
- Croatia
- Czech Republic
- Estonia
- Finland
- France
- Georgia
- Guernsey
- Hungary
- India
- Indonesia
- Ireland
- Italy
- Japan
- Jersey
- Korea
- Kuwait
- Latvia
- Liechtenstein
- Luxembourg
- Macau SAR
- Mainland of China
- Malaysia
- Malta
- Mexico
- Netherlands
- New Zealand
- Pakistan
- Portugal
- Qatar
- Romania
- Russia
- Saudi Arabia
- Serbia
- South Africa
- Spain
- Switzerland
- Thailand
- United Arab Emirates
- United Kingdom
- Vietnam

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

#### a) Basis of tax

The Stamp Duty Ordinance imposes duty on certain types of documents, which include

- Transfer of immovable property in Hong Kong
- lease of immovable property in Hong Kong
- transfer of Hong Kong stock

For immovable property in Hong Kong, or Hong Kong stock, transferred at less than its market value, stamp duty may be imposed based on the market value at the date of transfer.

#### b) Rates of tax

##### Immovable property

##### (i) Ad Valorem Stamp Duty

Property consideration

Scale 1	Rate	Scale 2	Rate
Up to \$2,000,000	1.50%	Up to \$3,000,000	\$100
\$2,000,001 – \$3,000,000	3.00%	\$3,000,001 – \$4,500,000	1.50%
\$3,000,001 – \$4,000,000	4.50%	\$4,500,001 – \$6,000,000	2.25%
\$4,000,001 – \$6,000,000	6.00%	\$6,000,001 – \$9,000,000	3.00%
\$6,000,001 – \$20,000,000	7.50%	\$9,000,001 – \$20,000,000	3.75%
\$20,000,001 and above	8.50%	\$20,000,001 and above	4.25%

Notes:

1. Marginal relief is available upon entry into each higher value band.
2. The Scale 2 rates apply to residential property acquired by a Hong Kong permanent resident

(HKPR) who does not own any other residential property in Hong Kong at the time of acquisition. The Scale 1 rates applied to all other cases prior to 28 February 2024 only.

##### (ii) Special Stamp Duty (“SSD”) on disposal of residential properties

Abolished with effective from 28 February 2024.

##### (iii) Buyer’s Stamp Duty (“BSD”) on acquisition of residential properties

Abolished with effective from 28 February 2024.

With effective from 28 February 2024, the Government announced to abolish all demand-side management measures for residential properties with immediate effect. The SSD, BSD and the New Residential Stamp Duty (i.e. Scale 1 Ad Valorem rates) are no longer charged on all residential property transactions.

##### Lease of immovable property in Hong Kong

For leases, stamp duty is calculated at a specified rate of the annual rental that varies with the term of the lease as indicated in following table:

Lease period	Applicable rate
Where the lease term is not defined or is uncertain	0.25%
Not more than one year	0.25%
More than one year but does not exceed three years	0.50%
More than three years	1.00%

##### Hong Kong stock

With effect from 17 November 2023, stamp duty on sale or purchase of any Hong Kong stock is charged at rate which vary with the amount or value of the consideration as follows:

Nature of document	Applicable rate
Contract Note for sale or purchase of any Hong Kong stock	0.1% of the amount of the consideration or of its value on every sold note and every bought note
Transfer operating as a voluntary disposition inter vivos	HK\$5 + 0.2% of the value of the stock
Transfer of any other kind	HK\$5

### 7.2 Real property tax

#### a) Basis and rate of tax

Property tax is charged on the owner of any land or buildings in Hong Kong at the standard rate (15%) on the net assessable value of such land or buildings. The assessable value of a property is the consideration, in money or money’s worth, payable in that year of assessment to the owner for the right to use the land or buildings. Net assessable value is the assessable value less rates paid by the owner and a 20% statutory allowance for repairs and outgoings.

A corporation is allowed to apply in writing for an exemption from property tax provided that the rental income from the property will be assessable under profits tax.

#### b) Filing due date

The normal tax filing date is 2 May.



- c) Payment of property tax and application of holdover of provisional property tax

Surcharge of 5% or 10% will be imposed from overdue property tax payment, depending on the length of time of late payment.

The provisional property tax payable is estimated by the assessable value of the preceding year of assessment.

If the estimated assessable value is less than 90% of that previously assessed, an application of holdover of provisional tax can be applied to the IRD in writing. The application should be lodged not later than:

- 28 days before the due date for payment of provisional tax; or
- 14 days after the date of the notice for payment of the provisional tax, whichever is later.

### 7.3 Estate duty

With effect from 11 February 2006, estate duty was abolished. No estate duty will be imposed on the value of an individual's Hong Kong estate passing on death.

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### **Business tax**

N/A

#### **Consumption tax, etc.**

N/A

#### **Hotel Accommodation tax (HAT)**

To resume 3% of room rate with effective from 1 January 2025 (under proposal)

## POINT OF CONTACT

#### **Name of contact:**

Franklin Lau

Ellis Au Yeung

LS Chan

Tanny Yu

Kenny Choi

#### **Telephone with country code:**

+852 2541 4188

#### **Email address:**

franklin@hkreanda.com

ellisay@hkreanda.com

lschan@hkreanda.com

tanny@hkreanda.com

kennychoi@hkreanda.com



# INDONESIA

## GENERAL INFORMATION

### 1.1 Country/Region

Indonesia

### 1.2 Currency

Indonesian Rupiah (IDR)

### 1.3 Principal business entities

- Individual or Sole proprietorship
- Commanditaire Vennotschap (CV or “Persekutuan Komanditer”)
- Civil Partnership (“Persekutuan Perdata”)
- Fellowship Firm (“Persekutuan Firma”)
- Branch or Representative Office of foreign corporation
- Foundation (“Yayasan”)
- Cooperative (“Koperasi”)
- Individual Limited Liability Company (“Perseroan Perorangan”)
- Limited Liability Company (Public or Private Company)

Note:

The limited liability company (Perseroan Terbatas or “PT”) is the most common form of legal business entities in Indonesia. Foreign companies are allowed to set up a PT or representative office. Branches of foreign corporations generally are not permitted except for constructions, oil and gas and banking services, unless the foreign corporations are using PT as a legal entity. Foreign companies should refer to the negative investment list for the list of sectors that are partially or wholly closed to foreign investment.

### 1.4 Foreign exchange control

Foreign exchange rate operates on a managed-float regime against a market rate. The Central Bank of Indonesia (“Bank Indonesia”) supports the overall macroeconomic objective of maintaining monetary and financial stability while safeguarding the balance of payments position. Furthermore, the rupiah is freely convertible.

The Indonesian commercial banks are restricted from carrying out overseas transfers of Indonesian Rupiah (IDR), hence it must be converted into a foreign currency prior to the transfer of funds. Furthermore, the Indonesian citizens, legal entities, and residents who purchases foreign currency in excess of USD 100,000 or its equivalent per month must provide information on the underlying transaction as required by the bank, which relates to trading goods and services; investments; and/or extension of credit of financing by a bank in foreign currencies or Rupiah.

All the transfers are controlled by the Bank Indonesia, so the transfer of foreign currencies from Indonesia requires the sender to provide the bank with the identity of both the sender and the recipient, as well as the purpose of such transfer, data and supporting documents related to underlying transaction (for the amount more than USD 100,000).

Furthermore, an individual who brings in/out foreign currencies to/from Indonesia in excess of IDR 100 million or its equivalent must do a custom declaration or obtain an approval from the Central Bank of Indonesia if the amount is in excess of IDR 100 billion. For a corporation or an individual acting on behalf of a corporation, it must obtain an approval from the Central Bank of Indonesia for bringing in/out foreign currencies to/from Indonesia in excess of IDR 1 billion or its equivalent.

Indonesia does not restrict the transfers of funds to or from foreign countries, but banks must report transfers of funds to foreign countries to Bank Indonesia. There is no set minimum transfer amount for reporting purposes.

Based on the Currency Law stipulated by the Indonesian government, IDR must be used in all transactions that have a purpose of payment, settlement of obligations that have to be satisfied with a cash payment and other financial transactions conducted in Indonesia. Exemptions are provided for the following transactions: certain transactions related to the implementations of the State budget; receipt or grant of offshore grant; international commercial transactions; bank deposits in foreign currency; or offshore loan transactions.

Pursuant to Indonesia Central Bank Regulation, exporters are required to receive all foreign exchange proceeds from exports through domestic foreign exchange banks in Indonesia no later than 90 (ninety) days subsequent to the export notice. The Central Bank may impose penalties when the income from exports is not transferred into domestic foreign exchange banks in Indonesia before the deadline.

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Economic growth in Indonesia remains solid at 5.04% (year-on-year) in 2023 despite global economic moderation (2022: 4.94% year-on-year). The inflation rate was also under control at 3.71% in 2023 (2022: 4.14%). Indonesia has the fourth largest population in the world at around 278 million people and contributes 41% of total ASEAN population. Indonesia also offers a labor cost advantage with an average minimum wage of USD 200-300 per month. This minimum wage is 50-70% lower than US and Japan, 20-93% lower than China, and 333-500% lower than Singapore.

Indonesia continues to attract more and more foreign investments. For 2024, the Government of Indonesia offers 13 (thirteen) sustainable investment projects in energy, industry, electric vehicles, tourism, infrastructure, transportation, mining, and digitalization (<https://www.bkpm.go.id/>), including investments in the new capital city of Nusantara.

## 1.6 National tax authority

### Name

Directorate General of Taxation (DGT)

### Website

<https://www.pajak.go.id/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Resident companies are taxed on worldwide income. Non-resident companies are taxed only on income sourced in Indonesia including income attributable to a permanent establishment in the country.

Taxable net income is defined as assessable income less tax-deductible expenses.

Taxable business profits are modified by certain tax adjustments. Generally, a deduction is allowed for all expenditures incurred to obtain, collect, and maintain taxable business profits. A timing difference may arise if an expenditure recorded as an expense for accounting cannot be immediately claimed as a deduction for tax.

A company is treated as a resident of Indonesia for tax purposes by virtue of having its establishment or its domicile is in Indonesia. A foreign company carrying out business activities through a Permanent Establishment (PE) in Indonesia will generally have to assume the same tax obligations as a resident taxpayer.

### 2.2 Rates of tax

Generally, a flat corporate tax at 22% is applied starting from 2022 fiscal year. Variations apply as part of the incentives scheme (please see section 2.9)

Companies engaged in upstream oil and gas and geothermal industries typically must calculate Corporate Income Tax (CIT) in accordance with their production sharing contracts (PSCs). Certain companies engaged in metal, mineral and coal mining are governed by a contract of work (CoW) for the CIT calculation. Different provisions may apply to them pertaining to corporate tax rates, deductible expenses and how to calculate taxable income.

### 2.3 Year of assessment

Generally, the year of tax assessment is January to December. However, a corporate taxpayer can elect to file a corporate tax return based on the company's book year other than the calendar year of January to December. The approval from Minister of Finance is required if taxpayer intends to change the fiscal periods.

### 2.4 Profits deemed to be taxable

The following business have deemed profit margins for tax purposes:

	Deemed Profit on Gross Revenue	Effective Income Tax Rate (EITR)*
Domestic shipping operations	4%	1.2%
Domestic airline operations	6%	1.8%
Foreign shipping and airline operations	6%	2.64%
Foreign oil and gas drilling operations	15%	3.75%
Foreign Trade Representative offices	1% of export value	0.44%

\* The EITR is calculated using the old tax rate of 30% because the MoF has not revised the decrees which regulate deemed profit margins.

## 2.5 Taxation of dividends

Tax is withheld from dividends as follows:

### a. Resident recipients

Dividend income received by resident corporate taxpayers is exempted from the income tax object if the dividends come from Indonesia. However, if the dividend come from outside of Indonesia, in order to qualify for an exemption, it must follow the following conditions:

Equity investments in stock exchanges outside of the jurisdiction of Indonesia: must be invested or used for business activities in Indonesia under a certain time limit.

- Equity investments in a non-listed company outside of the jurisdiction of Indonesia: must invest in Indonesia at a minimum of 30% of earnings before tax as long as a tax assessment letter is not issued.

The type of investments qualified for the exemption as well as the time limit are regulated.

### b. Non-resident recipients

20% (or lower for treaty countries referring to 6.2 for reduced rates based on tax treaties) final withholding tax is due on dividends paid to a non-resident recipient.

### c. The Controlled Foreign Corporation (CFC)

Certain income (dividend, interest, rental income, royalty, and gain from sale or transfer of assets) are subject to deemed dividend rules in Indonesia. The deemed dividend rules are applied for:

- Indonesian company that has a foreign subsidiary/ branch and owns at least 50% of shares in that offshore company.

Rule exemption: this rule does not apply only when the Company's shares are listed on a stock exchange.

## 2.6 Taxation of capital gains

Capital gains are taxable as ordinary income and capital losses are tax-deductible. Gains from certain transactions are taxed under a special regime (e.g. gains from the disposal of land and/ or building properties are subject to a final tax at 2.5% rate from the transaction value).

## 2.7 Taxation of interest income

Interest on time or saving deposits and on Bank Indonesia certificates (SBIs) other than that payable to banks operating in Indonesia and to government-approved pension funds is subject to 20% final tax.

Interest on bonds other than that payable to banks operating in Indonesia and to government-approved pension funds is subject to 15% final tax. If the recipient is a mutual fund registered with Indonesia Financial Services Authority (Otoritas Jasa Keuangan/OJK), the tax rate is 5% for 2011-2013 and 15% thereafter. If the recipient is a non-resident tax payer, the tax rate is 20% (or a lower treaty rate).

Interest and other benefits including premium or discount which is the interest between loans received or obtained by the Corporate Taxpayer are assessable to the company earning the interest at the ordinary corporate tax rate alongside the company's other income. Interests are subject to withholding tax at 15%. The amount withheld constitutes a prepayment of the CIT liability for the company earning the interest.

## 2.8 Utilization of tax losses

Losses may be carried forward for 5 years following the year the loss was incurred (this period may be extended on certain industries and for operations in remote areas who obtained the tax facilities). Losses are not allowed to be carried back.

## 2.9 Key Tax incentives

### a. Tax cut for public companies

The public companies are granted a 3% corporate tax cut off the standard rate, giving an effective rate of 19% for 2022 fiscal year and onwards. A 3% corporate tax cut can be granted to public companies which satisfy the following conditions:

- At least 40% of their paid-in shares are listed for trading in the IDX. Shares owned by certain related parties and treasury shares cannot be counted for this purpose; and
- The public should consist of at least 300 individuals, each holding less than 5% of the paid-in shares.

These two conditions must be maintained for at least 6 months (183 days) in a tax year.

### b. Income Tax for medium enterprises

The Companies with an annual turnover of not more than Rp50 billion, are entitled a 50% discount of the standard corporate tax rate of 22% which is imposed proportionally on taxable income of the part of gross turnover up to Rp4.8 billion.

### c. Income Tax for small enterprises

Companies (exclude permanent establishments) with an annual turnover less than 4.8 billion are subject to 0.5% final income tax on the gross sales turnover. This final tax is paid on monthly basis. It can only be applied for 3 fiscal years for Limited Liability Company ("Perseroan Terbatas"), and 4 fiscal years for cooperative, limited partnership ("CV"), or fellowship partnership ("firma").

The above final tax rate cannot be applied for the certain taxpayers, such as taxpayers who are subject to other final tax such as construction services, land and building rental, those who choose the normal corporate tax calculation, or those who obtain certain Tax Facilities.

### d. Tax holiday

The corporate taxpayers who are engaged in certain 18 sectors of pioneer industries, and makes new investment at least IDR 100 billion, may enjoy a reduction of Corporate Income Tax ("CIT"):

1. 100% of CIT payable – for new investment value at least IDR 500 billion;

The period of tax holiday is:

- 5 years – for new investment value at least IDR 500 billion to less than IDR 1,000 billion
- 7 years – for new investment value at least IDR 1,000 billion to less than IDR 5,000 billion
- 10 years – for new investment value at least IDR 5,000 billion to less than 15,000 billion
- 15 years – for new investment value at least IDR 15,000 billion to less than 30,000 billion
- 20 years – for new investment value at least IDR 30,000 billion

After the above period is ended, the taxpayer will be granted the reduction 50% of CIT payable for the following 2 fiscal years.

2. 50% of CIT payable – for new investment value at least IDR 100 billion.

The period of Tax holiday is: 5 years

After the above period is ended, the taxpayer will be granted the reduction 25% of CIT payable for the following 2 fiscal years.

Tax holidays may be granted for taxpayers conducting main activities in Special Economic Zones (Kawasan Ekonomi Khusus/KEK).

### e. Direct tax incentives for new enterprises

Under the Capital Investment Law and certain tax provisions, the new foreign and local direct investment Enterprises may apply for an exemption from the income tax payable on the importation of capital goods and raw materials. The exemption is granted for capital goods indicated in the Master List and the request must be applied for each importation. Furthermore, new Enterprises should secure an exemption certificate from the Directorate General of Taxes (DGT) where the new enterprise is registered.

### f. Tax facilities on investment in certain business and or certain regions

The tax facilities are available for the limited liability companies (Perseroan Terbatas) who make investment in main business activities, both new investment and expansion of existing business, or the expansion of the existing business which does not include replacement and/or addition of machines and/or equipment carried out in a production line that is already in commercial production.

The criterias are:

- high investment value or for export purposes;
- labor intensive;
- high local content

The tax facilities are in the forms of:

1. 30% (thirty percent) net income reduction of the total investment value in the form of tangible fixed assets including land, which is used for Main Business Activities, is charged for 6 (six) years each 5% (five percent) per year;
2. Accelerated depreciation of tangible fixed assets and accelerated amortization of intangible assets acquired in the context of investment, with the useful life and depreciation/amortization rate, as follows:

#### Depreciation

Class of Assets	Useful Life (years)	Straight Line Method	Double Declining Method
I	2	50%	100%
II	4	25%	50%
III	8	12.5%	25%
IV	10	10%	20%
Building-Permanent	10	10%	
Building-Non Permanent	5	20%	



## Amortization

Class of Assets	Useful Life (years)	Straight Line Method	Double Declining Method
I	2	50%	100%
II	4	25%	50%
III	8	12.5%	25%
IV	10	10%	20%

- A reduction of the withholding tax rates on dividends paid to foreign taxpayers other than a permanent establishment in Indonesia to 10% (or a lower rate according to the applicable double tax avoidance agreement).
- The tax loss carried forward that are longer than 5 (five) years but not more than 10 (ten) years, with the certain conditions applied.

The tax facilities request must be submitted before the start of commercial production. In addition, the implementation of the tax facilities will be evaluated no longer than 2 years after the Government Regulation is released.

## 2.10 Withholding tax

**Dividends** – Based on the new Tax Regulations Harmonization Law, starting from the 2022 fiscal year, in general dividends are non-tax-objects. This was in the contrary of the previous regulations of which dividends were tax objects. To qualify for non-tax-objects, dividends paid by a domestic corporate taxpayer to a resident individual must be invested in Indonesia for a certain period. If not met, a 10% final withholding tax is imposed on dividends paid to a resident individual.

If dividends paid by a domestic corporate taxpayer to a non-resident, dividends are subject to a final 20% withholding tax (or a reduced treaty rate).

If dividends were paid by a domestic corporate taxpayer to a domestic corporate taxpayer, it is exempted as tax objects without any investment requirements (non-taxable).

Dividends paid from foreign corporate taxpayer to a domestic individual and/or domestic corporate taxpayer must be invested in Indonesia for a certain period and at least 30% must be invested in Indonesia and before the DGT issues any tax assessment letters on the dividends.

**Interests** - Interest paid to a non-resident is subject to a 20% withholding tax (or a reduced treaty rate). Interest paid by a domestic taxpayer to a resident is subject to a 15% withholding tax, which represents an advance payment of tax liability.

**Royalties** - A 20% withholding tax is imposed on royalties remitted abroad (or a reduced treaty rate). For tax purposes, royalties refer to any charge for the use of property or know-how in Indonesia, as well as the transfer of a right to use property or know-how in Indonesia.

Royalties paid by a domestic taxpayer to a resident are subject to a 15% withholding tax, with the payment representing an advance payment of tax liability.

**Technical service fees and rental** - A 2% withholding tax applies on gross payments made by a domestic taxpayer to a resident taxpayer for technical, management and consulting services and rentals (except for land and building rentals). For

the land and building rental is subject to 10% Final Income Tax.

Under the domestic tax law, a 20% withholding tax (or a reduced treaty rate) is imposed on technical service fees remitted abroad.

**Branch Profit Tax** - Permanent establishments are subject to a 20% branch profits tax (or a reduced treaty rate) on after-tax profits.

## 2.11 Transfer Pricing (TP)

Related parties are defined as:

- Taxpayer has capital participation directly or indirectly at least 25% upon another taxpayers; the relationship between taxpayers through ownership at least 25% upon two or more taxpayers; or relationship between two or more taxpayers mentioned later;
- Taxpayer controls the other taxpayer or two or more taxpayers are under the same control, either directly or indirectly; or
- There is family relationship either blood relationship or by marriage in vertical and/or horizontal lineage of one degree.

Transactions between related parties must be consistent with the arm's length principle. If the arm's length principle is not followed, the DGT has the authority to recalculate the taxable income or deductible costs arising from such transactions applying the arm's length principle.

Taxpayers under certain criteria are required to prepare TP documentation, i.e. Master file, Local file, and Country-by-Country Report (CbCR). The Master file and Local file must be available if requested by the DGT while the detailed TP disclosures are required in the CITR, which include:

- The nature and value of transactions with related parties;
- The TP methods applied to those transactions and the rationale for selecting the methods; and
- Whether the company has prepared TP documentation.

The notification of the CbCR obligation and the CbCR itself (if required) must be submitted to the ITO within 12 months after the end of a tax year.

Transfer Pricing Documentation, if required, must consist of an overview of the taxpayer's business operation and structure, its transfer pricing policy, comparability analysis, selected comparable, and an explanation of how the arm's length price or profit was determined (including the transfer pricing methodology), etc.

## 2.12 Filing requirements of tax return

<b>Filing due date</b>	The monthly income tax returns must be filed by the 20th of the following month. Annual corporate tax returns must be filed within 4 months from the end of the book year. For annual income tax returns, taxpayers may extend the filing deadline for up to 2 months.
<b>Penalties</b>	Penalties vary depending on the situation, such as late tax pay-ment, late filing, tax underpayment and voluntary amendment of returns. The most common penalty is 2% monthly interest on tax underpaid.



<b>Penalties</b>	Late filings are subject to the following penalties: - Monthly income tax return: IDR 100,000 (for income taxes) - Monthly VAT return: IDR 500,000 - Annual corporate income tax return: IDR 1,000,000
<b>Payment of profit tax and application of holdover</b>	Payment of profit tax and application of holdover. The monthly tax instalment operates under a self-assessment system, with tax due on the 15th day of the calendar month, following the tax-assessment month. Corporate income tax is due at the end of the fourth month after the book year end before filing the tax re-turn.

## PERSONAL INCOME TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Individual residents in Indonesia are generally taxed on their worldwide gross income less allowable deductions and non-taxable income. However, foreign citizens may be taxed only on their Indonesian-sourced income for the first 4 (four) years if they fulfil certain requirements. Also, the following overseas (offshore) income may be exempted from income tax if it is reinvested or used for business activities in Indonesia within a certain period:

- Income received by an Indonesian taxpayer from a PE abroad;
- Dividends paid by companies abroad; and
- Active business income received by an Indonesian taxpayer from abroad (not from a PE or foreign subsidiary).

An individual is a tax resident if he/she fulfils any of the following conditions:

- He/she resides in Indonesia;
- He/she is present in Indonesia for more than 183 days in any 12-months period (the provisions of tax treaties may overwrite this rule);
- He/she is present in Indonesia during a fiscal year and intends to reside in Indonesia.

An Indonesian citizen who is present in Indonesia for less than 183 days in any 12-month period may be considered as a non-resident if they fulfil additional requirements such as having a permanent home, center of vital interest, habitual abode, the status of tax subject, or other criteria outside Indonesia.

The taxable income of individuals includes profits from a business, employment income, capital gains, overseas income, and other passive income such as royalty, interest, dividend.

#### Benefits-in-kind (BIK)

BIKs are generally taxable to the employee, except for BIKs are required for the execution of a job, the costs of providing BIKs in certain areas, food and drink provided to all employees, BIKs financed from the Government's budget, and certain types of BIKs with a certain threshold.

### 3.2 Rates of tax

For individual resident taxpayer, income is taxed at the following progressive tax rates:

Taxable Income	Rate
Up to IDR 60,000,000	5%
Above IDR 60,000,000 up to IDR 250,000,000	15%
Above IDR 250,000,000 up to IDR 500,000,000	25%
Above IDR 500,000,000 up to IDR 5,000,000,000	30%
Above IDR 5,000,000,000	35%

#### Tax incentives for small individual resident taxpayer

For small individual resident taxpayers (see also section 2.9 for the same incentives applied for small corporate taxpayers) with an annual gross turnover of no more than Rp4.8 billion, their income is subject to 0.5% final income tax rate from their gross turnover and if their annual turnover is less than IDR 500 million, it is not taxed. Exception from these incentives are income from independent personal services such as doctors, lawyers, consultants, and notaries, and income that is already subject to final income tax such as construction services and rental or sale of assets, land and buildings.

For non-resident taxpayers: 20% withholding tax rate (or other rates based on tax treaty) on Indonesia-sourced income.

### 3.3 Year of assessment

The calendar year (January to December).

### 3.4 Allowances and Deductions

An individual who conducts a business may deduct expenses from business income. Expenses generally are deductible if they are incurred for the purposes of generating income. The allowances are provided for the taxpayer, the taxpayer's spouse and up to 3 dependent children.

Annual non-taxable income threshold and allowable deduction for individual resident taxpayer are as follows:

	IDR
Taxpayer	54,000,000
Spouse	4,500,000
Each dependent (max of 3)	4,500,000
Occupational expenses (5% of gross income, max Rp 500,000/month)	6,000,000
Employee contribution to BPJS Ketenagakerjaan for old age security savings (2% of gross income)	Full amount
Pension contributions (5% of gross income, max Rp 200,000/month)	2,400,000

### 3.5 Taxation of dividends

Dividend income received by an individual tax payer from Indonesia-income source is exempted from the income tax object with a condition that the dividends must be invested in Indonesia within a certain time limit. If the dividends came from outside of Indonesia with the following sources:

- Equity investments in stock exchanges outside of the jurisdiction of Indonesia: must be invested or used for business activities in Indonesia under a certain time limit.
- Equity investments in a non-listed company outside of the jurisdiction of Indonesia: must invest in Indonesia at a minimum of 30% of earnings before tax as long as a tax assessment letter is not issued.

The type of investments qualified for the exemption as well as the time limit are regulated

Dividends received by resident individual tax payers are subject to final income tax at a maximum rate of 10%. If received by nonresident recipients, they are subject to final withholding tax of 20% (or lower for treaty countries).

### 3.6 Taxation of capital gain

Capital gains derived by an individual are taxed as income at the normal rates; gains on shares listed in Indonesia stock exchange are taxed at 0.1% (final tax) of the transaction value (an additional tax of 0.5% applies to the share value of founder shares at the time of an initial public offering). Gains on the disposal of land and/ or buildings are taxed at 5% (final tax) of the transaction value.

### 3.7 Taxation of interest income

Interest income on time or saving deposits and on Bank Indonesia (SBIs) other than that payable to banks operating in Indonesia and to government-approved pension funds is subject to 20% final tax.

Interest on bonds other than that payable to banks operating in Indonesia and government-approved pension funds is subject to 15% final tax. If the recipient is a mutual fund registered with the Capital Market Supervisory Board (now Indonesia Financial Services Authority), the tax rate is 5% for 2011-2013 and 15% thereafter. If the recipient is a non-resident tax payer, the tax rate is 20% (or a lower treaty rate).

Interest and other benefits including premium or discount which is the interest between loans received or obtained by the Individual Taxpayers are assessable to the individual earning the interest at the ordinary tax rate alongside the other income. Interest are subject to withholding tax at 15% if it is paid by the Corporate. The amount withheld constitutes a prepayment of the Income tax liability for the individual earning the interest.

### 3.8 Personal assessment and utilization of losses

Personal tax is self-assessed. There is no utilization of losses for deemed income.

### 3.9 Withholding tax

Employers are required to withhold income tax from the salaries payable to their employees and pay the tax to the State Treasury on their behalf. The same withholding tax is applicable for other payments to non-employee individuals (e.g. fees payable to individual consultant or service providers). Resident individual taxpayers without a Personal Tax Number Nomor Pendaftaran Wajib Pajak (NPWP) are subject to a surcharge of 20% in addition to the standard withholding tax.

Non-resident individuals (and non-resident corporations) are subject to withholding tax of 20% (unless treaties apply) in respect of the following payments:

- a. On gross amounts:
  - Dividends;
  - Interest, including premiums, discounts and guarantee fees;
  - Royalties, rents and payment for the use of assets;
  - Fees for services, work, and activities;

- Prizes and awards;
- Pensions and any other periodic payments;
- Swap premiums and other hedging transactions;
- Gains from debt write-offs;
- After-tax profits of a branch of PE.

- b. On Estimated Net Income (ENI), being a specified percentage of the gross amount:

	ENI	Effective tax rate
Insurance premiums paid to non-resident insurance companies:		
by the insured	50%	10%
by Indonesian insurance companies	10%	2%
by Indonesian reinsurance companies	5%	1%
Sale of non-listed Indonesian company shares by non-residents	25%	5%
Sale by non-resident of a conduit company where this company serves as an intermediary for the holding of Indonesian company shares or a PE	25%	5%

### 3.10 Statutory obligation of employers

Employers are required to withhold, remit, and report income tax on the employment income of their employees.

### 3.11 Filing requirement of tax return

<b>Filing due date</b>	<p><u>For employer</u></p> <p>Monthly employee tax return must be filed by an employer by 20th of the following month.</p> <p><u>For individual</u></p> <p>Individual must file his/her Annual Income Tax Return (Form 1770) by the end of the third month after the year end. In AITR, individual must provide a summary of the individual's assets and liabilities.</p>
<b>Penalties</b>	<p>Penalties vary depending on the situation, such as late tax payment, late filing, tax underpayment and voluntary amendment of returns. The most common penalty is 2% monthly interest on tax underpaid with a maximum of 48%. Late filings are subject to the penalties of IDR 100,000.</p>
<b>Application of holdover</b>	<p>For annual income tax returns, taxpayers may extend the filing deadline by up to 2 months.</p>

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY

### 4.1 Regulatory organization

Social Security Agency (Badan Penyelenggara Jaminan Sosial/BPJS) consists of:

- Social Security Agency for worker's social security (BPJS Ketenagakerjaan), covering accident insurance, old age savings, death insurance, unemployment insurance, and pensions.
- Social Security Agency for health insurance (BPJS Kesehatan), covering health insurance.

### 4.2 Basis of contribution

Employers are responsible for ensuring that their employees are covered by a social security programme. Therefore,

employers are required to register themselves first before registering their employees. The compulsory requirement to join the new social security scheme applies to all employees, including expatriates who have been working in Indonesia for more than 6 (six) months.

Employees' contributions are collected by the employers through payroll deductions. These must be paid together with the employers' contributions.

### 4.3 Contribution rate

Areas Covered	As a percentage of regular salaries/wages	
	Borne by employers	Borne by employees
Working accident protection	0.24% -1.74%	-
Death insurance	0.3%	-
Unemployment insurance (Jaminan Kehilangan Pekerjaan) – for workers affected by lay-off	Reallocated from Death insurance and Working accident protection	
Old age savings	3.7%	2%
Health Care*	4%	1%
Pension**	2%	1%

\* Maximum calculation base is IDR 12,000,000 per month

\*\* Maximum calculation base is updated annually based on BPJS regulation

### 4.4 Exemption from tax

Working accident protection, death insurance and health care borne by employers are taxable in an employee's income while the pension funds/old age saving borne by employers is exempted from tax. The pension funds/Old age savings borne by employees are tax deductible from an employee's income.

### 4.5 Saving Management of People's Housing (Tapera)

Saving management of people's housing (Tabungan Perumahan Rakyat/Tapera) is a mechanism to collect and provide a long-term low-cost funds for house financing. Employees and freelancers who receive a compensation at a regulated minimum wage and minimum age of 20 years old or are married by status. Contributions are 0.5% for employer and 2.5% for employee or 3% for freelancers.

This program is made compulsory by 2027.

## GST/VAT

### 5.1 Basis of tax

VAT is levied on the "delivery" of taxable goods and the provision of taxable services. In general, delivery means sale, but this is not always the case. VAT also applies to intangible goods (including royalties) and to virtually all services provided outside Indonesia to Indonesian business. VAT applies equally to all manufactured goods, whether produce locally or imported. Manufacturing is defined as any activity that changes the original form or nature of a good, creates a new good or increases its productivity. Certain goods and services are non-taxable for VAT purposes.

### 5.2 Rates of tax

The standard rate is 11% starting from 1 April 2022 (previously 10%) and will become 12% by 1 January 2025. VAT on exports

of taxable goods and certain taxable services are zero rated. Zero-rate export services are limited to toll manufacturing services; repair and maintenance services attached to or for movable goods utilized outside the Indonesia customs area; and construction services attached to or for immovable goods located outside the Indonesia customs area.

### 5.3 Registration

Entrepreneurs exceeding a certain amount (i.e. IDR4.8billion) in annual sales of taxable goods and/or taxable services are required to register for VAT purposes and issue a VAT invoice on the delivery of taxable goods and/or taxable services.

### 5.4 Filing requirements

A monthly VAT return must be filed by the end of the following month, while payment must be made prior to the tax return filing deadline.

### 5.5 Import and self-assessed VAT

Import VAT on goods and self-assessed VAT on the consumption or use of foreign taxable services or intangible goods should be understood in the context of the standard input-output mechanism.

#### VAT on e-commerce

Indonesian VAT will be imposed on the utilization of certain intangible goods and services provided from overseas to Indonesian customers through an electronic system. Foreign sellers/service providers/e-commerce marketplaces and domestic e-commerce marketplace will be appointed as VAT Collectors if their activities in the Indonesia market meets one of the following thresholds:

- Transaction value with customers in Indonesia exceeding IDR 600 million in a year (or IDR 50 million in a month); or
- Access to their e-commerce platform from Indonesia exceeds 12,000 users in 12 months, or 1,000 users in one month.

The appointed VAT collectors must collect and pay the VAT from customers as well as submit reports. However, if non-resident vendors or service providers are not appointed as VAT Collectors and thus cannot collect the VAT, the Indonesian buyer/importer has to pay the VAT for and on behalf of the non-resident vendors or service providers.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Resident companies deriving income from foreign sources are entitled to a unilateral tax credit with respect to foreign tax paid on the income. The credit is limited to the amount of Indonesian tax.

### 6.2 Double Taxation Agreements (DTAs/tax treaties)

Indonesia's DTAs provide for tax benefits in the form of withholding tax exemptions for service fees and for reduced withholding tax rates on dividend, interest, royalties, and branch profits received by tax residents of its treaty partners.

To claim for the reduced rates, the foreign party must present its Certificate of Domicile (CoD) to the ITO through the Indonesian party paying the income. Without the CoD, the party is not entitled to the tax benefit and therefore, tax is withheld at a rate of 20%.

Country	Note	Dividend		Interest	Royalty	Branch Profit Tax
		Portfolio	Substantial Holdings			
Algeria		15%	15%	15/0%	15%	10%
Armenia		15%	10%	10/0%	10%	10%
Australia		15%	15%	10/0%	15/10%	15%
Austria		15%	10%	10/0%	10%	12%
Bangladesh		15%	10%	10/0%	10%	10%
Belgium		15%	10%	10/0%	10%	10%
Brunei		15%	15%	15/0%	15%	10%
Bulgaria		15%	15%	10/0%	10%	15%
Cambodia	1,5	10%	10%	10/0%	10%	10%
Canada		15%	10%	10/0%	10%	15%
China	2	10%	10%	10/0%	10%	10%
Croatia		10%	10%	10/0%	10%	10%
Czech Republic		15%	10%	12.5/0%	12.5%	12.5%
Denmark		20%	10%	10/0%	15%	15%
Egypt		15%	15%	15/0%	15%	15%
Finland		15%	10%	10/0%	15%/10%	15%
France		15%	10%	15/10/0%	10%	10%
Germany	1	15%	10%	10/0%	15%/10%	10%
Hong Kong		10%	5%	10/0%	5%	5%
Hungary	3	15%	15%	15/0%	15%	20%
India	1	10%	10%	10/0%	10%	15%
Iran		7%	7%	10/0%	12%	7%
Italy		15%	10%	10/0%	15%/10%	12%
Japan		15%	10%	10/0%	10%	10%
Jordan	3	10%	10%	10/0%	10%	20%
Korea (North)		10%	10%	10/0%	10%	10%
Korea (South)	2	15%	10%	10/0%	15%	10%
Kuwait		10%	10%	5/0%	20%	10%/0%
Laos		15%	10%	10/0%	10%	10%
Luxembourg	1	15%	10%	10/0%	12.5%	10%
Malaysia	4,5	10%	10%	10/0%	10%	12.5%
Mexico		10%	10%	10/0%	10%	10%
Mongolia		10%	10%	10/0%	10%	10%
Morocco		10%	10%	10/0%	10%	10%
Netherlands		10/15%	5%	10/5/0%	10%	10%
New Zealand	3	15%	15%	10/0%	15%	20%
Norway		15%	15%	10/0%	15%/10%	15%
Pakistan	1	15%	10%	15/0%	15%	10%
Papua New Guinea	1	15%	15%	10/0%	10%	15%
Philippines		20%	15%	15/10/0%	15%	20%
Poland		15%	10%	10/0%	15%	10%
Portugal		10%	10%	10/0%	10%	10%
Qatar		10%	10%	10/0%	5%	10%
Romania		15%	12.5%	12.5/0%	15/12.5%	12.5%
Russia		15%	15%	15/0%	15%	12.5%
Serbia		15%	15%	10/0%	15%	15%
Seychelles	3	10%	10%	10/0%	10%	20%
Singapore	5	15%	10%	10/0%	10/8%	10%
Slovakia		10%	10%	10/0%	15/10%	10%
South Africa	3	15%	10%	10/0%	10%	10%
Spain		15%	10%	10/0%	10%	10%
Sri Lanka		15%	15%	15/0%	15%	20%
Sudan		10%	10%	15/0%	10%	10%
Suriname		15%	15%	15/0%	15%	15%
Sweden		15%	10%	10/0%	15/10%	15%
Switzerland	1	15%	10%	10/0%	10%	10%

Country	Note	Dividend		Interest	Royalty	Branch Profit Tax
		Portfolio	Substantial Holdings			
Syria		10%	10%	10/0%	20/15%	10%
Taiwan		10%	10%	10/0%	10%	5%
Tajikistan		10%	10%	10/0%	10%	10%
Thailand		20/15%	20/15%	15/0%	15%	20%
Tunisia		12%	12%	12/0%	15%	12%
Turkey		15%	10%	10/0%	10%	10%
Ukraine		15%	10%	10/0%	10%	10%
United Arab Emirates	1	10%	10%	7/0%	5%	5%
United Kingdom		15%	10%	10/0%	15/10%	10%
United States of America		15%	10%	10/0%	10/0%	10%
Uzbekistan		10%	10%	10/0%	10%	10%
Venezuela	1	15%	10%	10/0%	20%	10%
Vietnam		15%	15%	15/0%	15%	10%
Zimbabwe	1,5	20%	10%	10/0%	15%	10%

Notes:

1. Service fees including for technical, management and consulting services rendered in Indonesia are subject to withholding tax at rates of 5% for Switzerland, 7.5% for Germany, 10% for Luxembourg, Papua New Guinea, Venezuela and Zimbabwe, and 15% for Pakistan.
2. VAT is reciprocally exempted from the income earned on the operation of ships or aircraft in international lanes.
3. The treaty is silent concerning the branch profit tax rate. The ITO interprets this to mean that the tax rate under Indonesia Tax Law (20%) should apply.
4. Labuan offshore companies (under the Labuan Offshore Business Activity Tax Act 1990) are not entitled to the tax treaty benefits. Amended protocol was signed on 20 October 2011 and ratified on 4 August 2017 but pending the exchange of ratification documents.
5. Ratified but not yet effective, pending the exchange of ratification documents.-

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duty is a tax on documents. Certain documents are subject to stamp duty at a nominal amount of 10,000.

### 7.2 Real property tax

Land and building tax is payable annually on land, buildings and permanent structures. The rate is typically not more than 0.5% of the sale value of the property.

### 7.3 Estate duty

No estate duty will be imposed on the value of an individual's property passing on death. However, further distributions which require a change in certificates of ownership are subject to duty on the acquisition of land and building rights with 5% rate to the relevant tax object acquisition value, minus an allowable nontaxable threshold.

### 7.4 Net wealth/net worth tax

N/A

## 7.5 Others

### Business tax

N/A

### Consumption tax

Regional tax is charged mostly at 10% e.g. hotel, restaurant, and place of recreation and entertainment, etc.

### Carbon tax

Carbon tax is to be imposed on carbon emissions. The subjects of carbon tax are individuals or companies purchasing goods containing carbon and/or carrying out activities that result in a certain level of carbon emissions within a certain period. Taxpayers who participate in emission trading (under "cap and trade" mechanism) and emission offset can be granted a Carbon Tax reduction and/or other benefits for the fulfillment of Carbon Tax obligation.

Carbon tax is implemented gradually, starting from 1 April 2022 for coal emissions with a rate of IDR30/kg CO<sub>2</sub>e. The first reporting of Carbon emission and its resulting Carbon Tax, if any, should be filed by 30 April 2024 and Carbon Tax, if due, should be paid before filing.

To facilitate the carbon trading (currently for emission offset), the Government of Indonesia launched the Indonesian carbon exchange (IDX Carbon) on 26 September 2023.

## POINT OF CONTACT

### Name of contact:

Michelle Bernardi

Vera Butarbutar

Heru Prasetyo

### Telephone with country code:

+62 21 2305569; +62 21 39899079 80

### Email address:

Michelle Bernardi: michelle.bernardi@reandabernardi.com

Vera Butarbutar: vera.butarbutar@reandabernardi.com

Heru Prasetyo: heru.prasetyo@reandabernardi.com

enquiries@reandabernardi.com





# ITALY

## GENERAL INFORMATION

### 1.1 Country/Region

Italy

### 1.2 Currency

Euro (EUR)

### 1.3 Principal business entities

- Public Limited companies (S.p.A);
- Private limited company (S.R.L.)
- Partnership limited by shares (S.A.P.A.)
- Cooperatives companies (S.C.R.L., S.C.)
- Branch of foreign corporation
- Representative Office of a foreign corporation
- Partnership or Transparent entities: General partnership (S.N.C.), Limited partnership (– S.A.S.), sole proprietorship.

### 1.4 Foreign exchange control

No exchange control

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Italy is the world's eighth biggest economy. Its economic structure relies mainly on services and manufacturing. Italy is the 2nd largest manufacturer in Europe and the 5th top manufacturer in the world. The services sector accounts for almost three quarters of total GDP and employs around 65% of the country's total employed people.

The GDP of the Italian economy grew by 0.9 per cent in 2023.

In the first quarter of 2024, Italian GDP grew (+0.3%), although industrial production and consumption of goods contracted. Positive tourism (at record levels), services (moderate growth) and net exports. The problems in world freight transport, energy still expensive, rates at the highest levels are having a negative effect. The confidence of households and companies is falling.

The Italian GDP is expected to grow by 1% in 2024 and 1.1% in 2025, with a moderate acceleration compared to 2023.

### 1.6 National tax authority

#### Name

Ministry of Finance

Italian Revenue Agency

#### Website

<https://www.mef.gov.it/>

<https://www.agenziaentrate.gov.it/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

The corporate income produced by Italian companies are subject to a double taxation: the first is IRES or "imposta sul reddito delle società"; the second is a regional production tax known as IRAP o "imposta regionale sulle attività produttive". IRES applied only on resident and non-resident corporate entities; while IRAP is calculated on any business activity, i.e. entrepreneurs, corporate entities, partnership (excludes simple partnership) and similar ones.

The art. 72 of TUIR (Italian Tax Consolidated Text) lays down IRES tax assumption that is the possession of income, in cash or in kind, falling into one of these categories: land income, capital income, employment income, self-employment income, corporate income and other income produced by corporate entities resident or non-resident in Italy.

The IRES taxable base is the sum of the income produced in Italy and abroad; while foreign companies apply the IRES tax only on income produced in Italy.

IRAP was instituted under Italian Legislative Decree 446/97. It affects resident or non-resident companies, business partnerships and individual enterprises that produce and/or exchange goods or services on an Italian regional territory.

### 2.2 Rates of tax

IRES: 24%

IRAP: 3.9% (Regions are allowed to increase or decrease the standard IRAP rate up to 0.92%).

### 2.3 Year of assessment

Financial year lasts 12 months, usually the calendar year

### 2.4 Profits deemed to be taxable

The IRES taxable base is different from the IRAP taxable base.

Taxable profit for IRES purposes is computed on the basis of accounting profits and on an accrual basis (save for certain exceptions such as dividends or directors' fees which are tax-relevant on a cash basis). Base value of this is the pre-tax profit: this item is integrated by downward and upward adjustments, based on specific rules provided for by the Italian tax law. Such of these include non-deductibility of no business activity expenses and other costs exceeding certain percentages.

The IRAP taxable base for resident is the net production value given by the algebraic sum of A and B item of income statement; but provisions for liabilities and risks, as well as extraordinary item (known as non-deductible items), interest income, expense and provisions for bad debts, cannot be considered when determining it.

Non-residents are subject to IRAP only on the value of production generated by permanent establishments in Italian territory, following the same rules mentioned.

A different treatment is held to bank whose IRAP taxable base is calculated as follow:

- Intermediation margin reduced by 50% of dividends.
- 90% of amortization costs relating to fixed tangible and intangible assets.
- 90% of other administrative expenses.

Net value of adjustments and reassessments for bad debts.

## 2.5 Taxation of dividends

Dividends received by Italian resident companies from Italian residents or from companies' resident in countries other than tax havens (i.e. not included in the 'black list') are excluded from the IRES taxable base for 95% of their amount. No exemption applies to dividends paid by entities that are resident in tax haven jurisdictions (unless those dividends derive from profits that were already taxed under the Italian controlled foreign company rules). There are specific rules for entities adopting IFRS for Italian statutory financial reporting purposes. For such entities, dividends from investments in shares and other financial instruments held for trading are fully taxable. Dividends generally are excluded from the IRAP taxable base.

## 2.6 Taxation of capital gains

Capital gains normally are treated as ordinary income and taxed at the 24% corporate income tax rate. Capital gains derived from the sale of participations, however, are 95% exempt from taxation if the following requirements are met: (1) the participation has been held for a minimum continuous period that may range between 12 and 13 months; (2) the participation is classified as a financial fixed asset in the first financial statement closed after the participation was acquired; (3) the company in which the participation is held is not considered a "low-tax jurisdiction" (LTJ) entity for purposes of Italy's controlled foreign company (CFC) regime; and (4) the company in which the participation is held carries out a business activity (this requirement will not be met if assets are represented primarily by real property not used in the business activity). The last two conditions must have been satisfied continuously over the last three years or the life of the company, if shorter.

Capital gains realized by non-resident companies on the sale of participations ordinarily are taxed at a 26% flat rate. In some cases, capital gains from participations may be exempt, according to specific rules or a relevant tax treaty.

## 2.7 Taxation of interest income

Interest income is generally part of the IRES taxable base.

## 2.8 Utilization of tax losses

Tax losses can be carried forward for IRES purposes and used to offset income in the following tax periods without any time limitation.

Tax losses can only be offset with taxable income for an amount not exceeding 80% of the taxable income. Thus, corporations are required to pay IRES on at least 20% of taxable income.

Note that losses arising in the first three years of activity can be offset with 100% of taxable income.

For IRAP purposes, tax losses may not be carried forward.

Specific (tax anti-avoidance) rules limit the carry-forward of tax losses in the event of:

- change of control and an effective change of the main activity (performed by the company carrying forward the losses).

The mentioned changes must occur together in order for the limitations to be applicable. The change of the main activity is relevant for these purposes if it takes place in the tax period in which the change of control occurs or in the two subsequent or preceding periods.

Specific anti-abuse provisions are also applicable to net operating losses in cases of merger or de-merger.

In Italy, tax losses may not be carried back.

## 2.9 Key Tax incentives

### 1. Tax credit for investments in new capital assets.

All companies can benefit from this tax credit, regardless of the legal form, the economic sector in which they operate, the size and the regime applied for income determination, provided that such enterprises are compliant with the legislation on safety in the workplace and with the payment of the social security contributions. The percentages of this tax credit change depending on the type of entities and their turnover.

### 2. Tax credit on investments in Research & Development (R&D), Technological innovation and Design and aesthetic ideation.

The measure aims to support the competitiveness of companies by stimulating investment in Research and Development, Technological innovation, also within the scope of the 4.0 paradigm and the circular economy, Design and aesthetic design.

Tax credits are available to all enterprises that invest in eligible activities, regardless of the legal form, the economic sector in which they operate, the size and the regime applied for income determination, provided that they are tax resident in Italy. Also, Italian permanent establishment of companies based abroad can benefit from the tax credits, provided that eligible activities are carried out in Italy and the costs are attributed to the PE.

### 3. Tax credit on training expenses for Industry 4.0 plan.

The measure aims to support companies in the process of technological and digital transformation by creating or consolidating skills in enabling technologies necessary to achieve the 4.0 paradigm.

### 4. Advertising campaign tax credit.

The tax credit is recognised at a single rate of 75% of the incremental value of investments made in advertising campaigns only for daily and periodical press, including online, and up to a maximum of €30 million, which is a ceiling on expenditure.

## 5. Foreign tax credit.

Where foreign-source income definitively is taxed abroad, a tax credit can be claimed for use against a company's IRES liability. The amount of the tax credit that can be claimed is the lower of the foreign tax incurred and the proportion of the IRES liability related to the foreign-source income. For partially exempt income (e.g. dividends), the foreign tax credit is reduced in proportion to the amount of the income taxable in Italy.

If an Italian company receives foreign income from more than one country, this limitation is applied separately to each country. Foreign taxes borne by the foreign PE of an Italian resident company are allowed to be offset against the overall consolidated tax liability (IRES).

Any excess of foreign tax credit over the maximum amount allowed for recovery in the same tax period can be carried back or carried forward for eight years and recovered if specific conditions are met (e.g. same source country of the income, occurring because of an excess of the IRES liability related to the foreign-source income).

## 6. Patent box regime

Italian resident companies and PEs of non-resident entities that carry out R&D activity may elect to apply the Italian patent box regime. The regime exempts a portion of the income derived from the exploitation, either directly or by licensing, of qualifying intangible assets. The general exemption is 50%. R&D costs incurred with related parties are not eligible. The election for the new patent box procedure lasts for five fiscal years, is irrevocable and renewable. In order to benefit from this new procedure, taxpayers have to opt for it in the annual CIT return and prepare a proper documentation set, whose possession has to be declared in the annual CIT return. This documentation will allow taxpayers to benefit from the penalty protection relief in case of tax audit and related challenge.

## 7. Super ACE

The ACE is abolished from 2024, but companies that have accumulated surpluses will be able to use them out of the income of the following years, until exhaustion.

## 8. Tax credit on training expenses for Industry 4.0 plan

From the tax period following the one in course on 31 December 2019, the tax credit for training 4.0 is calculated on the whole amount of the following costs: trainers' personnel costs, for the hours during which the trainers participate in the training activities, trainers' and trainees' operating costs directly relating to the training project, costs of advisory services linked to the training project., trainees' personnel costs and general indirect costs (administrative costs, rent, overheads) for the hours during which the trainees participate in the training.

## 9. Other tax incentives.

They are: access to financial credit for purchasing of new machinery, plants, and equipment, as well as digital technologies and software; purchase of recycled plastic products; energy requalification of buildings; donations to finance interventions on public buildings and lands, investments in innovative start-ups.

## 2.10 Withholding tax

### Dividends

Dividends paid to a non-resident corporation is generally subject to a 26% final withholding tax unless the rate is reduced under a tax treaty or the dividends qualify for an exemption under the EU parent- subsidiary directive. A domestic final withholding tax of 1.20% applies to dividends distributed to shareholders resident in an EU/European Economic Area (EEA) country.

### Interest

Italian-source interest payable to a non-resident is generally subject to a 26% final withholding tax. Interest derived from a direct/indirect investment in government bonds and similar securities is subject to a 12.5% substitute tax (domestic exemptions apply). The withholding tax may be reduced under a tax treaty or eliminated under the EU interest and royalty's directive.

### Royalties

Royalties paid to a non-resident company is subject to a 30% withholding tax calculated (generally) on 75% of the gross royalty, resulting in an effective tax of 22.5%. The withholding tax may be reduced under a tax treaty or eliminated under the EU interest and royalty's directive.

### Technical service fees

Fees paid to a non-resident company for the use of industrial, commercial or scientific equipment located in Italy is subject to a final 30% withholding tax, unless reduced under a tax treaty. Management fees are exempt from withholding tax.

## 2.11 Transfer Pricing

The business income of a resident enterprise arising from transactions with non-residents that directly or indirectly control the resident company, are under the control of the resident company or are controlled by the same entity that controls the resident company is assessed on the basis of the arm's length value of the goods transferred, services rendered or services received.

OECD guidelines generally are followed to determine the arm's length price, and both traditional methods (comparable uncontrolled price, cost-plus and resale price methods) and profit-based methods (e.g. the transactional net margin method) are used and may be acceptable based on the specific circumstances. A withholding tax exemption or a reduced rate under an applicable tax treaty may be denied to the extent the price paid is higher than arm's length.

## 2.12 Filing requirements of tax return

<b>Filing due date</b>	A company must file the annual corporate income tax returns (IRES and IRAP) electronically within eleven months following the end of the financial year.
<b>Penalties</b>	Failure to file a tax return results in a penalty ranging from 120% to 240% of the taxes due. Minimum penalties (ranging from EUR 250 to EUR 1,000) are applicable if no tax liability emerged in the return. A tax return showing either a taxable income lower than the one assessed or a tax credit higher than those owed to the taxpayer (i.e. an untrue tax return) results in a penalty ranging from 90% to 180% of the higher taxes ultimately due.

<b>Penalties</b>	Omitted and/or late payments of taxes, of whichever kind and nature, result in a penalty equal to 30% of the unpaid/late paid tax. However, in cases where the delay is within 15 days, the penalty is equal to 1% per day; if the delay is between 15 and 90 days, the penalty is equal to 15%.
<b>Payment of profit tax and application of holdover</b>	<p><b>IRES</b></p> <p>IRES 2023 amount is paid through a down payment and a balance.</p> <p>IRES 2023 down payment will be paid if his previous year's amount is greater than € 20.66 and it will be paid with two instalments if the amount of first of it is greater or equal than € 103. The instalments' amount will be:</p> <ul style="list-style-type: none"> <li>• 40% of the amount of IRES 2023 down payment year by June 30th, with IRES 2022 balance.</li> <li>• 60% of the IRES 2023 down payment by November 30th.</li> </ul> <p>IRES 2024 balance will be paid by June 30th 2025.</p> <p><b>IRAP</b></p> <p>IRAP will be paid following IRES rules.</p>

## 1. Employment expenses

The main deductions from employment taxable income are the following: employee's mandatory social security contributions are fully deductible; and contributions paid to the specific complementary pension funds are deductible, up to EUR 5,164.57.

## 2. Personal deductions

The main deductions from gross taxable income, if they have not been deducted from each kind of income, if properly documented, are: employee's mandatory social security contributions (100%); social security contributions paid for domestic employees and contributions paid to the specific complementary pension (both up to EUR 1,549.37); medical expenses.

## 3. Personal exemptions

Italy has adopted a system of tax credits: employment tax credits, family tax credits and other tax credits for expenses.

Employment tax credits vary depending on the income.

Until February 2022, family tax credits are granted to resident taxpayers with a dependent spouse, children, and other relatives living with the taxpayer, provided that each dependent's annual income does not exceed EUR 2,840.51.

From 1st March 2022, dependent children deduction is replaced by "Single and universal Check": it's payed on monthly basis for the period starting to March of each year and following year February, based on ISEE rating.

Some other expenses entitle the taxpayer to a tax credit. The tax rate is 19% of the total amount paid, like in case of medical and education expenses.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

The Personal Income Tax (PIT), known as IRPEF (Imposta sul reddito delle persone fisiche) is applied on taxpayers, individual entities and every single type of partnership. These subjects will be tax on national, regional and municipal incomes.

According to the Italian tax law, both Italian residents and non-resident individuals are subject to taxation in Italy, but on a different basis.

For resident, IRPEF is applied on both domestic and foreign income; furthermore, they must declare all their foreign investments (financial and not) for monitoring purposes through the Italian tax return.

Non-resident will be subjected to PIT only on Italian personal income.

### 3.2 Rates of tax

National PIT is calculated on a progressive tax rates on all income. The rates is as below:

- 23% from Eur 0 to EUR 18,000;
- 35% from EUR 28,001 to EUR 50,000;
- 43% over 55,001.

Self-employed individuals may apply a national flat tax of 15% on up to EUR 85,000 of business and professional gross income.

Regional income tax depends on the region of residence: its tax rate ranges from 1.23% to 3.33%. Municipal income tax depends on the municipality of residence: its tax rate ranges from 0% to 0.8% and municipalities can establish progressive tax rates applicable to the national income bracket.

### 3.3 Year of assessment

Calendar year

### 3.4 Allowances and Deductions

The Italian tax law allows for certain expenses to be deducted from a taxpayer's gross income, while tax credits can be used as an offset against a taxpayer's tax liability.

### 3.5 Taxation of dividends

Resident individuals are taxed on interest at a flat 26% rate (12.5% for interest on Italian treasury bonds or similar bonds). The 26% flat rate also ordinarily applies to dividends related to nonqualified participations and to capital gains related to qualified and nonqualified participations. As from 1 January 2018, the 26% flat rate also generally applies to dividends related to qualified participations.

Non-resident individuals ordinarily are taxed at the 26% flat rate on dividends and, under certain conditions, who moving their tax residence to Italy may apply an EUR 100,000 lump-sum tax on their income earned abroad.

### 3.6 Taxation of capital gain

The capital gains earned by the sale of qualified shareholdings is taxed as follows: Capital gains made as of January 2019 will be taxed applying a flat tax rate of 26% on the whole capital gains amount. The 2018 Italian Financial Bill introduced a final WHT at 26% both to tax resident and non-tax resident individuals for capital gains deriving from a qualified and a non-qualified shareholding (starting from 1 January 2019).

The capital gains earned by the sale of non-qualified shareholdings is taxed applying a flat tax rate of 26%.

### 3.7 Taxation of interest income

Interest is subject to a flat tax rate of 26% to be applied at source. For specific interest stated by the tax law (e.g.



government bonds and other bonds issued by public entities mentioned in Article 31 of D.P.R. 29 September 1973, no. 601 and similar financial instruments), the tax rate will remain at 12.5%.

### 3.8 Personal assessment and utilization of losses

N/A

### 3.9 Withholding tax

26% on capital gain see section 3.6.

### 3.10 Statutory obligation of employers

Italian Constitution, law and National Collective Labour Agreements manage the employment relationship.

Trade Union represents the employee's interests through collective bargaining.

Many employer's obligations exist such as anti-discrimination duties, the employer's duty to perform the contract, sick leave, maternity and family Leave, paid leave, severance payment, avoid unfair dismissal, etc.

### 3.11 Filing requirement of tax return

<b>Filing due date</b>	All resident and non-resident taxpayers who derive income subject to individual income tax must file an annual tax return, except for individuals deriving only exempt income or income subject to a final withholding tax and other specific categories of income. The "Modello 730" tax return must be filed by 31st May according to the ordinary terms of the fiscal year; while the "Modello UNICO" tax return must be filed by 30 September of the year following the relevant fiscal year (deadlines not falling on working days are postponed to the next working day).
<b>Penalties</b>	Penalties and interest apply for late filing, failure to file and tax avoidance and evasion.
<b>Payment of revenue tax</b>	IRPEF 2024 balance will be paid by 30th June 2025.

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

INPS (<https://www.inps.it/>)

### 4.2 Basis of contribution

Social security contributions are made by both the employee and the employer.

Mandatory social charges are payable by the employer and vary depending on the employee's job and the size of the workforce. Contributions are calculated on the total amount of employment income received if the contributions started before January 1st 1996; otherwise social security is calculated up to a maximum amount of 119,650 euro for the year 2024.

### 4.3 Contribution rate

Rates depend on the sector and the employee's job title.

The total social security rate is around 40% of the employee's gross compensation and is shared as follows:

- Employer's charge is around 30%.

- Employee's charge is around 10%.

In general, only 33% of the total rate is paid into the National Pension Fund, the remainder is paid to the following Social Security funds:

- Unemployment fund
- Sickness fund (not applicable for executives)
- Maternity fund.
- Temporary unemployment compensation fund (ordinary and extraordinary, not applicable to executives)
- Social mobility fund (not applicable to executives)
- Other minor funds.

### 4.4 Exemption from tax

Specific exemptions apply, provided certain conditions are satisfied.

## VAT

### 5.1 Basis of tax

There are three conditions that must be met for a transaction to be subject to VAT:

1. objective condition: there must be a transfer of goods or provision of services;
2. subjective condition: the operations must be carried out in running business or in practicing arts and professions;
3. territorial condition: the operations must be carried out within Italy.

For VAT purposes, "Italy" is considered to be the territory of the Italian Republic, excluding the Communes of Livigno, Campione di Italia and the waters of Lake of Lugano on Italian territory.

However, some operations are, in fact, tax exempt, while others fall outside the scope of VAT.

### 5.2 Rates of tax

- 22%, Standard: All other taxable goods and services;
- 10%, Reduced: Some foodstuffs; water supplies; some pharmaceutical products; domestic passenger transport; admission to cultural events; some social housing; renovation and repair of private dwellings; some construction work on new buildings; some supplies of new buildings (non-luxurious); some agricultural supplies; hotel accommodation; restaurants; admission to certain sports events; energy products (excluding district heating); firewood; collection of domestic waste; some waste water treatment; alcoholic beverages in bars and cafes; take away food; cut flowers and plants for decorative use and food production;
- 5%, Reduced: Some foodstuffs; some social services; certain passenger transport;
- 4%, Reduced: Some food products; certain medical equipment for disabled persons; certain books; newspapers and some periodicals; e-books with an international standard book number (ISBN); online journals newspapers; TV licence; some social housing;



some agricultural supplies; certain social services; motor vehicles for the disabled; construction work on new buildings (for first housing); supplies of new buildings (for first housing).

Specific supplies of goods and services expressly listed in Presidential Decree n. 633/72 are exempt from Vat, for example education, insurance services, specific financial services, supply, leasing of particular immovable property.

### 5.3 Registration

If a person (individual person, partnership, company with share capital or institution) intends to carry out an operation relevant for VAT purposes in running a business or in an art or profession, he/she/it is required to apply for an Italian VAT number before implementing the operation. VAT is applied through the reverse charge mechanism by the recipient of the goods or services.

If the foreign operator has a permanent establishment in Italy, he/she/it should apply for an Italian VAT number and comply to all legally required provisions, as if he/she/it were a national person. If the foreign operator does not have a permanent establishment in Italy, he/she/it may also: appoint an Italian VAT tax representative, i.e. an individual person or institution resident in Italy, responsible for fulfilling the obligations and exercising the rights laid down by the regulations on VAT; or identify itself directly for VAT purposes in Italy, directly fulfilling the obligations and exercising the rights laid down by Italian regulations, if resident in one of the EU countries or in one of the non-EU countries with which Italy has reciprocal assistance agreements on indirect taxation.

The VAT position of a person remains valid until the termination of all activities

By implementing the new e-commerce VAT package rules, Legislative Decree No. 83/2021 also transposes in Italy the new OSS and IOSS special regimes.

OSS and IOSS are the new optional European VAT clearance system, centralised and digital, that extends the scope of the mini one-stop shop (MOSS), currently covering electronic, telecommunications, and broadcasting services only.

The MOSS is an electronic system that allows taxpayers who provide TTE services in the European Union to declare and pay the VAT due in all the EU member states in a single member state.

As of 1st July 2021, the MOSS has therefore become an OSS.

The OSS scheme simplifies the VAT compliance obligations applicable for taxable persons that sell goods and provide services to final consumers in the European Union, enabling them to:

- register electronically for VAT purposes in a single member state for all the eligible supplies of goods and provisions of services carried out towards final consumers in the other 27-member states
- declare VAT by means of a single electronic VAT declaration and make a single payment of the VAT due on all the eligible supplies of goods and services carried out, and

- collaborate with the tax authorities of the member state in which they are registered for the OSS and in a single language, even if their supplies take place in other EU countries.

With the new regulations, a single threshold of EUR 10,000 is recognised; once this is exceeded, the VAT is applied in the country where the service or sale is to be made.

Moreover, the new provisions also abolish the VAT exemption for goods of negligible value imported into the European Union. Since 1 July, therefore, the VAT is due on all the imported goods regardless of their value.

The creation of the IOSS regime allows suppliers who sell goods delivered or transported from a third country or territory to final customers in the European Union to collect VAT from the purchaser on distance sales of low-value imported goods and to declare and pay this tax through the IOSS.

If IOSS is used, the import of low-value goods (with an intrinsic value not exceeding EUR 150) into the European Union is exempt from VAT.

Please note that, since 1st April 2021, on the Italian tax authorities' website it is possible to register in order to exercise the option for the application of OSS and IOSS special regimes.

The use of the special regimes is optional; however, if a taxpayer exercises the option, it should apply them for all the operations that fall within them.

### 5.4 Filing requirements

All VAT registered businesses must submit VAT returns and VAT ledgers on a quarterly basis.

In addition, monthly or quarterly VAT payments must be made depending on the turnover of the company in Italy. This threshold is different for goods and for services. Where the annual turnover exceeds €800,000 for companies supplying goods and services; and €500,000 companies supplying services exclusively, monthly VAT payments are due. In case this threshold is not exceeded, quarterly VAT payments must be made. When the taxpayer is paying VAT quarterly, the amount due should be increased by 1% to pay for index price fluctuations.

Italian monthly VAT calculations must be paid by the 16th day of the month following the reporting period. Quarterly VAT calculations must be paid by the 16th day of the second month following the reporting period for the first three calendar quarters of the year. The fourth quarter VAT return is due by 16 March.

As a general rule, quarterly VAT calculations follow the calendar quarter (January to March, April to June, etc.). If the due date falls on a Saturday, Sunday or bank holiday, the date is shifted to the next working day.

In addition to monthly or quarterly VAT payments, an annual prepayment must be made by the 27 December.

VAT payments must reach the bank account of the tax authorities within the deadlines listed by law and mentioned above.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

A tax credit is allowed against Italian net tax for final foreign taxes paid on foreign-source earnings in the year in which the taxes were paid. The amount of the foreign tax credit may not exceed the amount of Italian tax due.

### 6.2 List of double tax treaties signed

Many states have concluded double tax treaties with Italy over the years. There are currently more than 70 agreements between Italy and other countries, including with: Albania, Algeria, Argentina, Armenia, Australia, Austria, Azerbaijan, Bangladesh, Belgium, Belarus, Brazil, Bulgaria, Canada, China, Cyprus, Congo, Croatia, Czech Republic, Slovakia, Denmark, Ecuador, Egypt, Estonia, Ethiopia, Finland, France, Georgia, Germany, Ghana, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Ivory Coast, Japan, Kazakhstan, Kuwait, Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mauritius, Mexico, Morocco, Mozambique, Netherlands, New Zealand, Norway, Oman, Pakistan, Philippines, Poland, Portugal, Qatar, Romania, Russia, Serbia, Senegal, Singapore, South Africa, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Syria, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Turkey, Ukraine, Uganda, United Arab Emirates, United Kingdom, United States of America, Uzbekistan, Venezuela, Vietnam, Zambia.

For double tax treaties concluded with states that no longer exist (for example the treaties signed with Yugoslavia, Czechoslovakia and USSR), the same regulations and provisions, with certain amendments and actualization, are applied with their predecessors.

Along with the double tax treaties in Italy, tax information exchange agreements are signed in order to regulate the exchange of information between the partner countries and also to maintain the good application of the treaties for foreign investors.

Each country applies different taxes on dividends, interests, and royalties. The rates of the withholding taxes levied on dividend, interest, and royalties' payments are usually influenced by several factors, one of the most important being the recipient's shareholding ownership in the company paying them.

However, the taxes applied through the double tax treaties in Italy are usually lower than the ones applicable otherwise.

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duty is levied on legal and banking transactions, at varying rates.

A "Tobin tax" applies in the form of a stamp duty on transfers of shares and other financial instruments issued by Italian joint stock companies (including derivative instruments, if one of the parties to the transaction is an Italian tax resident). The tax rate is 0.2% of the transaction value, reduced to 0.1% where the sale takes place on a listed market (a flat tax is applied on the value of derivative instruments).

### 7.2 Real property tax

Property owners, whether or not resident in Italy, are liable for a property tax on buildings and land owned in Italy for their own use or as investments. The tax comprises three different elements: IMU (wealth tax), TASI (tax for services) and TARI (tax on refuse). The basic rate of IMU is 0.76% of the taxable value of the property, but the competent municipality can increase or reduce the basic rate by up to 0.3%. IMU normally does not apply to an individual's main residence. TASI rates range from 0% to 3.3% depending on the municipality in which the property is situated. The TARI rates also vary depending on the municipality.

### 7.3 Estate duty

The percentage and exemption limit applicable to transfers of money or assets depend on the beneficiary's relation with the deceased person or the donor.

In summary, in case of transfers made in favour of:

- the spouse or relatives in a direct line, the inheritance or donations tax will be imposed at 4% on the value of the assets exceeding the tax-free threshold of EUR 1 million (per heir)
- a sister and brother, the inheritance or donations tax will be imposed at 6% on the value of the transfer exceeding EUR 100,000 (per heir)
- other family members up to the fourth generation, the inheritance or donations tax will be imposed at a 6% tax rate on the entire value of the transfer, and
- all other beneficiaries not previously mentioned will be subject to an 8% tax rate to be applied on the entire value of the transfer.

Specific provisions apply to a handicapped person.

### 7.4 Net wealth/net worth tax

The Italian tax on financial investments (IVAFE) owned outside of Italy by an individual who qualifies as a resident for Italian tax purposes is proportionate to the percentage owned and the size of the property.

The taxable base is the value of the financial investments as of 31 December or the end of the holding period. The applicable tax rate is equal to 0.2% for FY 2024.

Only for bank accounts, the above-mentioned tax is a flat amount equal to EUR 34.20 for each bank account. This flat amount is not due if the average saving amount is lower than euro 5,000, taking into consideration all the bank accounts owned by the taxpayer.

If the financial investments are subject to a foreign wealth tax, the individual can deduct such amount from the Italian wealth tax.

The mentioned wealth taxes will be determined when the Italian tax return is filed.

## POINT OF CONTACT

**Name of contact:**

Marco Rigobon

Alessandra Bitetti

**Telephone with country code:**

+39 0276004040

**Email address:**

info@studiorbd.pro



# MACAU, CHINA

## GENERAL INFORMATION

### 1.1 Country/Region

Macau, China

### 1.2 Currency

Macau Pataca (MOP)

### 1.3 Principal business entities

- Limited company by share (SA)
- Private limited company by quotas
- Partnership
- Sole proprietorship
- Branch of a foreign corporation

### 1.4 Foreign exchange control

No control

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Macau has shifted from a light industrial-based economy, which placed great emphasis on the garment sector, to a service and tourist economy that focuses on the gaming and tourism sectors. In 2020, gambling activities contributed more than half of Macau's Gross Domestic Product and gaming taxes accounted for over 65% of the government's revenue.

### 1.6 National tax authority

#### Name

Financial Services Bureau

#### Website

<https://www.dsف.gov.mo/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Individuals and corporations, regardless of the residence or location of their domicile or head offices, once they carry on commercial or industrial activities in Macau, are subject to COMPLEMENTARY TAX on profits earned in or derived from Macau. Complementary tax is similar to the business profits tax as commonly seen in other places which is charged on the tax adjusted profits obtained from commercial or industrial activities.

Taxpayers liable to Complementary Tax are divided into two groups, A and B. Group A taxpayer is an individual or a collective body with complete and appropriate accounting records. Meanwhile, any collective body with capital not less than MOP1,000,000 or on yearly average taxable profit for the last three years of over MOP1,000,000 will also be classified

as a Group A taxpayer. All tax group A taxpayer has to submit an annual tax compliance audit return certified by a Macau registered accountant. Any other taxpayers not fulfilling such criteria are regarded as Group B taxpayers.

Macau Offshore company is fully exempted from Complementary Tax, and Business Tax.

### 2.2 Rates of tax

Exemption allowance for Complementary Tax assessment in 2020 is MOP600,000. The progressive rates from 9% to 12% will be taxed on taxable profit: the taxable profit over MOP600,000 will be taxed at 12%.

### 2.3 Year of assessment

The basis period of tax computation is commencing on 1 January and ending on 31 December.

### 2.4 Profits deemed to be taxable

In the case of Group A, annual financial statements are required to be compliance checked and signed by taxpayers and accountants or auditors registered with the Macau Finance Services Bureau while Group B filings are reported by taxpayers without accountant certification.

The reporting of Complementary Tax of Group A taxpayers' profits is similar to other places. Basically, A taxpayers' accounting profit should be calculated based on generally accepted accounting principles. Then, this accounting profit is subject to adjustments due to the specific requirements or provisions as stated in the Regulation of Complementary Tax and other related statutes. Usually, the adjustments include deduction the non-taxable income and adding back and non-deductible expenses from the accounting profit. Since Macau is a Civil Law jurisdiction, all adjustments should follow strictly the statutes which set out in detail what items are taxable, non-taxable, deductible or non-deductible. This is different from the common law approach in which, for example, the deductibility of certain expenses are often dependent on allowed percentages.

On the other hand, Group B taxpayers will be taxed on estimated profits deemed or adjusted by the Finance Services Bureau based on the type of industry that the particular taxpayer is in, the performance of the industry and taxpayer in recent years and other relevant factors. Well-documented procedures for re-assessment, objection, and appeal are available in case the taxpayer does not concur with the initial estimated assessment.

Macau offshore company can be exempted from all Macau profit tax earned from Portuguese speaking countries only providing a valid offshore operating permit can be granted from Macau authority. But all such Macau offshore company has to be approved by the Macau Investment and Promotion Institution. Such a company has to actually operate in Macau territory and file annual statutory audit reports.

## 2.5 Taxation of dividends

It is no tax of the dividend was paid out of profit after Macau taxation. This should include dividend income received in Macau.

## 2.6 Taxation of capital gains

No special capital gain tax but It has to be included as income item except for rental income generated from properties investment.

## 2.7 Taxation of interest income

It is treated as a normal income item.

## 2.8 Utilization of tax losses

For Group A taxpayers, and net loss incurred in any year of operation can be deducted from the taxable profit of the one or more subsequent years but limited to a maximum of three years. For other taxpayers, any net loss can only be deducted from the current year of operation.

## 2.9 Key tax incentives

Macau government offer profit tax exemption for assessed profit under MOP600,000 for the year of 2020.

## 2.10 Withholding tax

N/A

## 2.11 Transfer Pricing

N/A

## 2.12 Filing requirements of tax return

<b>Filing due dates</b>	All taxpayers are required to submit complementary tax returns in respect of the preceding fiscal year within prescribed periods. The tax filing period for Group A taxpayers is between April and June while Group B taxpayers file between February and March each year.
<b>Penalties</b>	<ol style="list-style-type: none"> <li>1. Absence of or inaccuracy in the declarations which the taxpayers are obliged to submit according to the terms of this regulation, as well as the verified omissions in them, will result in a fine of MOP100 to MOP10,000.</li> <li>2. If the absence, inaccuracy or omission is verified to be deliberate, a fine of MOP1,000 to MOP20,000 will result.</li> </ol>
<b>Payment of profit tax and application of holdover</b>	Profit tax is payable in September and November of this coming year. No hold over is allowed.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Personal tax in Macau is named Professional Tax. It is applied to the income derived from services rendered for others or individual professionals.

According to the Regulations, taxpayers subject to professional tax are classified into two groups.

Group 1 taxpayers are those who render work for others. They are further classified into two types, namely employees and casual workers. The former performs intellectual work and are

paid monthly, while the latter perform physical and handicraft work and are paid on a daily basis.

Group 2 taxpayers are those who are self-employed and exercise professional activities. They are obliged to issue receipts on the date of collection for all amounts received from their clients under the titles of remuneration, provisions, prepayments or any others. Their respective tax numbers should also be mentioned in that receipt which was pre-printed by the Macau Finance Services Bureau.

### 3.2 Rates of tax

Sliding scale tax rates are shown as follows:

From	To	Tax Rate
0.00	144,000.00	0%
144,000.01	164,000.00	7%
164,000.01	184,000.00	8%
184,000.01	224,000.00	9%
224,000.01	304,000.00	10%
304,000.01	424,000.00	11%
Above 424,000.00		12%

### 3.3 Year of assessment

The basis period of tax computation is commencing on 1 January and ending on 31 December.

### 3.4 Allowances and Deductions

Maximum 1/4 of the total gross amount of income can be allowed as deductibles.

### 3.5 Taxation of dividends

N/A

### 3.6 Taxation of capital gain

N/A

### 3.7 Taxation of interest income

N/A

### 3.8 Personal assessment and utilization of losses

As for Group 1 taxpayers, professional tax is collected on a Pay as You Earn ("PAYE") basis where employers are required to deduct the tax from their payments to employees at source. Professional tax collected is then payable to the tax authority by the employer on a quarterly basis. By the end of February each year, employers are also obliged to lodge the annual professional tax returns M3/M4 with the tax authority in respect of the preceding year for all of their employees.

Group 2 taxpayers are primarily self-employed professionals. Those with appropriate accounting books and records are required to submit their personal tax returns not later than 15 April each year. Taxpayers without appropriate accounting books and records are required to submit their personal tax returns annually by the end of February each year for tax calculation according the official receipt pre-printed by Macau Government.

### 3.9 Withholding tax

All professional tax payable shall be withheld by employer and payable to Finance Services Bureau by seasons.



### 3.10 Statutory obligation of employers

All employees shall be registered under professional tax within 15 days of services commenced. Any withheld professional salary tax shall reimburse to the Finance Services Bureau tax each season due on Apr, Jul, Oct and Jan each year.

### 3.11 Filing requirement of tax return

<b>Filing due dates</b>	End of February
<b>Penalties</b>	1.The absence of or inaccuracy in the declaration of tax return, as well as omissions verified in them will result in a fine of MOP500 to MOP5,000. 2. In case such absences, inaccuracies or omissions are made deliberately, the fine will be from MOP1,000 to MOP10,000.
<b>Application of holdover</b>	N/A

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Fundo de Segurança Social do Governo da RAEM (Social Security Funds)

### 4.2 Basis of contribution

After the working relation is established between employer and employee, the Social Security Fund System should also be mandated to set up within 15 days.

### 4.3 Contribution rate

MOP45 per month (MOP30 by employers, MOP15 by employees) for resident employees;

MOP200 per month (fully by employers) for non-resident employees

### 4.4 Exemption from tax

No exemption

## GST/VAT

### 5.1 Basis of tax

N/A

### 5.2 Rates of tax

N/A

### 5.3 Registration

N/A

### 5.4 Filing requirements

N/A

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

N/A

## 6.2 List of double tax treaties signed

1. The Kingdom of Denmark
2. The Faroes
3. Iceland
4. The Kingdom of Norway
5. The Republic of Finland
6. China
7. Vietnam
8. Portugal
9. Hong Kong

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Currently there are 22 items subject to stamp duty including transfers of property lease, property ownership, tendering contracts, auctions, private contracts. The rates of such duties vary from 0.5% to 10%.

### 7.2 Real property tax

Property tax is levied on revenues from urban properties through leasing or self-accommodation. Taxpayers may be the registered owners or tenants physically occupying the properties. Taxes are generally levied on two categories. The first category refers to leased properties from which the owner receives rental income and the tax rate is 10%. The second category covers those properties not rented to a third party, i.e. where the owner occupies the property for self-usage. The tax rate for this category is 6% on the deemed rental value of the property.

For the 2020 tax relief measures, a standard deduction of property tax for MOP 3,500 is levied on each unit.

### 7.3 Estate duty

N/A

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### Business tax

N/A

#### Consumption tax, etc.

Charged on fuel and lubricants, tobacco, alcohol. The tax on some alcoholic drinks is levied ad valorem according to the CIF/Macau value; the remainder is specified by the Government.

## POINT OF CONTACT

**Name of contact:** Jackson Chan

**Telephone with country code:** +853 28562288

**Email address:** chanjacksn@hotmail.com



# MALAYSIA

## GENERAL INFORMATION

### 1.1 Country/Region

Malaysia

### 1.2 Currency

Ringgit Malaysia (RM) which is divided into 100 sen (cent).

### 1.3 Principal business entities

There are generally three types of business entities operating in Malaysia:

#### (i) Sole Proprietorship and Partnership

Sole proprietorships are basically one-owned businesses whereas partnerships are business concerns consisting of not less than 2 and not more than 20 partners that must register with the Companies Commission of Malaysia (CCM) to formalize their registration. Owner of sole proprietorship and partners in partnership business entities are bounded by unlimited liability. Sole proprietorship and partnership are regulated under the Registration of Business Act 1956 in Peninsular Malaysia; Trade Licensing Ordinance 1948 in Sabah; and, Business Name Ordinance and Businesses, Professions and Trades Ordinance in Sarawak. The Partnership Act 1961 applies to all partnerships unless a formal agreement has been drawn up setting out the rights or obligations of the partners.

#### (ii) Limited Liability Partnership (LLP)

A Limited Liability Partnership (LLP) is an alternative business vehicle to carry out business which combines the characteristics of a company and a conventional partnership. The minimum number of partners for LLP is 2 natural persons/entities/companies. LLP provides limited liability status to its partners and offers the flexibility of internal business regulation and arrangement through an agreement between the partners. LLP is governed by Limited Liability Partnership Act 2012. It provides the flexibility of controlling the business operation in accordance with the partnership agreement whilst enjoying the limited liability status as compared to a company which is subject to strict compliance requirements under the Companies Act 2016 in most of its affairs.

#### (iii) Company

A "Sdn Bhd" is an abbreviation for a private limited company which prohibits any invitation to the public to subscribe to any of its shares. Minimum member in a private limited company is 1 and maximum is 50. A "Bhd" is an abbreviation for a public limited company where its shares can be offered to the public for a fixed period. Both private limited company and public limited company are regulated under the Companies Act 2016.

### 1.4 Foreign exchange control

The ringgit exchange rate operates on a managed-float regime against a trade-weighted basket of currencies. Malaysia maintains a liberal foreign exchange administration (FEA) policy which are mainly prudential measures to support the overall macroeconomic objective of maintaining monetary and financial stability while safeguarding the balance of payments position.

### 1.5 Current economy climate (Industry overview/ encouraged business development)

The domestic economic growth is expected to grow by 4.5% in 2024, driven by a rebound in exports and sustained growth in local demand. Domestic demand is expected to contribute 4.3% to GDP growth, while exports of goods and services will contribute 1.4%. Both fiscal and monetary policies will continue to support the economy, alongside a robust labour market with a record high labour participation rate of 70.1%. Additionally, improvements in tourist arrivals and spending are anticipated, especially with the introduction of visa-free entry for citizens of China and India.

Malaysia is actively working to enhance its appeal as a business and investment hub, with increased involvement from the private sector in key industries like information and communications technology (ICT), electrical and electronics (E&E), and chemicals. Ongoing infrastructure projects and strategic initiatives under various plans are aimed at laying a strong foundation for future growth.

Over the past couple of years, the ringgit, along with other regional currencies, has faced depreciation due to global economic conditions. However, with inflation in advanced economies stabilizing and central banks expected to pause or even lower interest rates, the pressure on the ringgit is likely to ease. Forecasts suggest a stronger ringgit in 2024, supported by positive economic fundamentals and planned structural reforms.

### 1.6 National tax authority

#### Name

Inland Revenue Board of Malaysia (IRB)

#### Website

<https://www.hasil.gov.my/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Income is taxable on modified territorial basis. Generally, any income accruing in or derived from Malaysia is taxable locally notwithstanding the fact that the income may not have been received in Malaysia. Effective 1-1-2022, income tax is imposed on residents in Malaysia in respect of income derived

from outside Malaysia and received in Malaysia, with the exception of resident companies carrying out a business of sea/ air transport, banking or insurance which are assessable on a world income scope.

However, effective from 1-1-2022 to 31-12-2026, subject to conditions outlined in the gazette orders and guidelines issued, the Government has agreed to exempt Malaysian tax residents from the imposition of tax on the following foreign-sourced income:

- Foreign dividend income received in Malaysia by a resident company, resident Limited Liability Partnership (LLP) and resident individual in relation to a partnership business in Malaysia (it does not apply to a resident carrying on the business of banking, insurance or sea/ air transport).
- All foreign income exclude income from a partnership business received in Malaysia by a resident individual.

Effective from 1-1-2024, gains from the disposal of foreign capital assets is an income under paragraph 4(aa) of the Income Tax Act 1967, subject to prevailing tax rate. Gains from the disposal of foreign capital assets received in Malaysia are eligible for tax exemption from 1-1-2024 to 31-12-2026 if comply with the economic substance requirement.

In Budget 2025 announcement, the exemption for foreign-sourced income received by resident individuals in Malaysia is extended for another 10 years until 31 December 2036.

## 2.2 Rates of tax

	YA 2024 onwards
Corporate income tax rates:	
• Resident company incorporated in Malaysia with paid up capital of RM2.5 million or less, having gross income from business source or sources of not more than RM50 million, and not more than 20% of the paid-up capital in respect of ordinary shares of the company is directly or indirectly owned by foreign shareholder	
o On first RM150,000 chargeable income	15%
o On subsequent RM450,000 chargeable income	17%
o On chargeable income exceeding RM600,000	24%
• Resident company with paid up capital more than RM2.5 million	24%
• Non-resident company/ branch	24%

## 2.3 Year of assessment

Each tax year or year of assessment (YA) begins on 1 January and ends on 31 December. However, for companies, the basis period will be the financial year of the company which not necessary be the calendar year.

## 2.4 Profits deemed to be taxable

Gross income in respect of:

- interest or royalty,
- special classes of income (e.g. technical assistance, rent of moveable property, etc.) shall be deemed to be derived from Malaysia,
- Other income such as commission, guarantee fee, agency fees and etc. is deemed to be derived from Malaysia:

- if responsibility for payment lies with the government or state government; or
- if responsibility for payment lies with a person who is resident for that basis year; or
- if the payment of the above or other payments is charged as an outgoing or expense in the accounts of a business carried on in Malaysia.

## 2.5 Taxation of dividends

Malaysia adopted a single-tier tax system. Under this system, corporate income is taxed at corporate level and this is a final tax. Companies may declare single tier exempt dividend that would be exempt from tax in the hands of their shareholders.

## 2.6 Taxation of capital gains

Generally, capital gains are not taxed in Malaysia, except for the Real Property Gains Tax (RPGT).

Effective from 1-1-2024, company, limited liability partnership, trust body or co-operative society are subject to Capital Gains Tax (CGT). Individuals would continue to be subject to RPGT for disposal of real property or shares in real property company.

CGT is imposed at 10% of chargeable income or 2% of gross disposal price for capital asset acquired before 1-1-2024; CGT is imposed at 10% of chargeable income for capital asset acquired on or after 1-1-2024.

CGT is applicable to the disposal of the following capital asset consisting of: -

- Share of a company incorporated in Malaysia not listed on the stock exchange;
- Share of a controlled company incorporated outside Malaysia which owns real property situated in Malaysia or share of another controlled company or both.

## 2.7 Taxation of interest income

Generally, interest income is assessed under Section 4(c) of the Income Tax Act 1967 (ITA) as investment income.

Interest income may be assessed under Section 4 (a) of the ITA as business income if the interest is receivable by a person in the course of carrying on a business of lending money licensed under any written law.

## 2.8 Utilization of tax losses/ Capital Allowance

With effect from YA2006, the utilization of unabsorbed business losses for a dormant company is subject to the continuity of ownership test. From YA2019, a time frame is given for the carry forward of the unabsorbed losses to a maximum of 10 consecutive years of assessment, unlike the indefinite time frame that exists pre YA2019.

Group relief is available to all locally incorporated companies' resident in Malaysia, having paid up capital in respect of ordinary shares of more than RM2.5million, both companies have same accounting period and both companies are related with at least 70% shareholding owned. The amount of relief is limited to 70% of current year adjusted loss from the surrendering company against aggregate income of claimant company.

Unutilised capital allowance shall be carried forward to the next year and all subsequent YAs until the excess amount is fully set off against the same business source.

## 2.9 Key Tax Incentives

A variety of tax incentives are available to various industries (i.e. manufacturing, IT services, biotechnology, Islamic finance, energy conservation, agriculture, tourism, research and development (R&D), education and health care, green technology, waste recycling and other sectors). Main incentives available include Pioneer Status of tax holidays up to 10 years; Investment Tax Allowances (i.e. 100% allowance on capital investments made up to 10 years); Accelerated Capital Allowances; Double Deductions; Reinvestment Allowances (i.e. 60% allowance on capital investments made in connection with approved projects); Automation Allowance and others.

## 2.10 Withholding tax

### 1. Payment to non-resident

Payment Type	WT Rate %
Royalty	10
Rental of moveable property	10
Technical or management service fees *[note]	10
Interest	15
Contract Payment on: - - Account of contractor - Account of employee	10 3
Other income such as commission, guarantee fee, agency fees and etc.	10

The ITA provides that where a person is liable to make payment as listed above to a non-resident person, he shall deduct withholding tax at the prescribed rate from such payment and pay that tax to the Director General of Inland Revenue within one month after such payment has been paid or credited.

Where the recipient is a resident of a country which has a double tax treaty with Malaysia, the above withholding tax rates may be reduced.

\*[Note]: Income derived by non-resident shall be deemed to be derived from Malaysia and subject to withholding tax where the services were performed in Malaysia.'

### 2. Withholding tax on payments to resident agents, dealers or distributors

Payments made by companies in monetary form to resident agents, dealers or distributors arising from sales, transactions or schemes carried out by them, are subject to withholding tax at 2%.

The withholding tax is only applicable where the resident agents, dealers or distributors have received payments (in monetary form or otherwise) of more than RM100,000 from the same company in the preceding basis year.

The withholding tax shall be remitted to the Inland Revenue Board cumulatively not later than the end of the following calendar month after payment to the individuals in the current month.

## 2.11 Transfer Pricing

Transfer Pricing (TP) is applicable to business with gross income exceeding RM25 million and the total amount of related party transactions exceeding RM15 million; and persons providing financial assistance exceeding RM50 million (transactions involving financial institutions are excluded).

Failure to furnish contemporaneous TP documentation is subject to penalty as follows:

Prosecuted in court	<ul style="list-style-type: none"><li>• Fine between RM20,000 to RM100,000 or imprisonment of up to 6 months, or both; and</li><li>• Court may order for the TP documentation to be submitted within 30 days or any other period deemed fit by the court</li></ul>
In lieu of prosecution	<ul style="list-style-type: none"><li>• Penalty between RM20,000 to RM100,000</li></ul>

## 2.12 Filing requirement of tax return

Filing due date	All companies must file the tax returns within 7 months from the end of the accounting period.
Penalties	<p>a. Failure to submit a tax return</p> <p>Upon conviction, the taxpayer will be liable to a fine ranging from RM200 to RM20,000 or imprisonment for a term not exceeding 6 months or both.</p> <p>The fine for failure to furnish tax return for 2 years of assessment or more shall upon conviction, be liable to a fine ranging from RM1,000 to RM20,000 or imprisonment for a term not exceeding 6 months or both; and 3 times of tax payable.</p> <p>If no prosecution is initiated, a penalty equal to treble the amount of tax payable (before any set-off, repayment or relief) maybe imposed.</p> <p>b. Failure to remit tax payable</p> <p>A penalty equivalent to 10% on the balance of tax payable may be imposed.</p>
Payment of profit tax and application of holdover	<p>Under the Self-Assessment System (SAS), every company is required to determine and submit in a prescribed form (Form CP204) an estimate of its tax payable (ETP) for a YA, 30 days before the beginning of the basis period. However, when a company first commences operations, the ETP must be submitted within 3 months from the date of commencement of its business. The ETP submitted for a particular YA cannot be less than 85% of the estimate/revised estimate for the immediately preceding YA.</p> <p>When the estimate of tax payable has been submitted, the company is required to remit this amount in equal monthly instalments according to the number of months in its basis period.</p>

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Income derived from Malaysia is subject to income tax whereas income derived from foreign sources outside Malaysia is exempt (except for those carrying on a partnership business in Malaysia). Resident individuals are taxed at progressive rates ranging from 0% to 30% after deducting personal reliefs. Non-resident individuals are taxed at a flat rate of 30%. Generally, an individual is a tax resident if he/she stays in Malaysia for 182 days or more in a calendar year.



### 3.2 Rates of tax

Income tax rates for resident individuals.

Chargeable income (RM)		YA 2023 onwards	
		Tax Rate (%)	Tax Payable (RM)
On the first	5,000	0	0
On the next	15,000	1	150
	20,000		150
On the next	15,000	3	450
	35,000		600
On the next	15,000	6	900
	50,000		1,500
On the next	20,000	11	2,200
	70,000		3,700
On the next	30,000	19	5,700
	100,000		9,400
On the next	300,000	25	75,000
	400,000		84,400
On the next	200,000	26	52,000
	600,000		136,400
On the next	1,400,000	28	392,000
	2,000,000		528,400
Exceeding	2,000,000	30	

### 3.3 Year of assessment

The tax year starts on 1 Jan and ends on 31 December of every year.

### 3.4 Allowances and Deductions

In the case of an individual resident for the basis year for a year of assessment, there shall be allowed for that year of assessment personal reliefs and tax rebate if applicable.

### 3.5 Taxation of dividends

With effect from 1 January 2008, company is effectively placed on single tier dividend system. Any dividend paid out under single tier dividend system will be tax-exempt in the hand of shareholders.

Effective from YA2025, dividends received by individual shareholders is taxed at 2%. This is applicable to individual shareholders receiving annual dividend income exceeding RM100,000.

### 3.6 Taxation of capital gain

Generally, capital gains are not taxed in Malaysia, except for the Real Property Gains Tax (RPGT).

### 3.7 Taxation of interest income

Generally, interest income is assessable to tax under Section 4(c) of the ITA as investment income. With effect from 30 August 2008, an individual resident in Malaysia is exempted from payment of income tax on gains or profit, interest or bonus received from money deposited in approved institutions.

### 3.8 Personal assessment and utilization of losses

From YA2019, a time frame is given for the carry forward of the unabsorbed losses to a maximum of 10 consecutive years of assessment, unlike the indefinite time frame that exists pre YA2019.

### 3.9 Withholding tax

The employer is responsible to deduct Monthly Tax Deduction (MTD) from the remuneration of employee in the relevant month and pay to the IRB not later than the 15th day of the following calendar month.

In certain circumstances, however, an employer may be required to withhold payments to an employee who is about to leave Malaysia.

Non-resident individuals are subject to withholding tax in respect of payments mentioned under the item 2.10 (1) withholding tax above.

Resident individuals who act as authorized agents, dealers or distributors are subject to withholding tax in respect of payments mentioned under item 2.10 (2) withholding tax above.

### 3.10 Statutory obligation of employers

An employer is responsible for the following:

#### 1. Commencement of Employment

An employer is required to notify the IRB of the employment of an individual likely to be chargeable to tax within 30 days from date of commencement of employment. An individual who first arrives in Malaysia and is chargeable to tax have to notify the IRB within 2 months from date of arrival.

#### 2. Cessation of Employment

An employer is required to notify the IRB of the cessation of employment of an individual who is or is likely to be chargeable to tax not less than 30 days from the expected date of cessation.

#### 3. Departure from Malaysia for a Period Exceeding 3 months

An employer is required to notify the IRB of departure of an employee from Malaysia for a period exceeding 3 months who is or is likely to be chargeable to tax not less than 30 days before the expected date of departure.

#### 4. Money to be withheld on Cessation of Employment and Departure from Malaysia

An employer is required to withhold money payable to employee who has ceased or about to cease to be employed, or who is about to leave Malaysia for a period of more than 3 months for 90 days or until tax clearance is received, whichever is earlier.

#### 5. Filing of Return by Employer

Every employer is required to furnish the Return Form of Employer (Form E) no later than 31 March. In addition, every employer is required to prepare and deliver to his employee the Employee's Statement of Remuneration (Form EA) on or before the last day of February.

#### 6. Deductions from Remuneration

An employer is required to remit to the IRB the tax deducted from employees' remuneration:

- As directed by IRB
- Under the Monthly Tax Deduction (MTD) Scheme

by the 15th day of the following calendar month.



### 3.11 Filing requirement of tax return

<b>Filing due date</b>	Every individual who do not carry on business must file a tax return by 30 April of the following year. The tax filing deadline for individuals who carry on business is 30 June of the following year.
<b>Penalties</b>	Please refer to Item 2.12 Filing requirements of tax return above.
<b>Application of holdover</b>	The IRB may issue a prescribed form (Form CP500) setting out the ETP under an instalment scheme to individuals other than salaried individuals. The individual is required to pay the ETP in 6 bi-monthly instalments commencing from March.  Income tax is deducted through MTD Scheme for salaried individuals.

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

- Employees Provident Fund (EPF)
- Social Security Organization (SOCSO)
- Employment Insurance System (EIS)
- Human Resource Development Corporation (HRD Corp)

### 4.2 Basis of contribution

- Employees Provident Fund (EPF)

The EPF is a social security institution formed in helping members achieve a better future, includes aiding national infrastructural development while safeguarding and growing members' retirement savings. The age for withdrawing one's retirement savings is at 60 years.

- Social Security Organization (SOCSO)

Under these schemes, employees are given coverage against job-related injury and disability, workplace accidents, occupational diseases and death. Among the many functions undertaken by SOCSO is registering employer/ employees, collection of employers/ employee contributions, processing and disbursing claims made by salaried employees and their dependents. In addition, SOCSO also provides physical and vocational rehabilitation benefits to claimants and promotes occupational safety and health awareness.

- Employment Insurance System (EIS)

The EIS provides protection to workers who have lost their employment through income replacement, reskilling and up-skilling training to enhance their employability as well as employment services so that they can secure other suitable jobs faster.

- Human Resource Development Levy

HRD Corp is responsible for driving Malaysia's talent development aspirations through the collection of levies from employers and the funding of training and development programmes for the Malaysian workforce's professional development and skills enhancement initiatives.

### 4.3 Contribution Rate

- Employees Provident Fund (EPF)

A contribution constitutes the amount of money credited to members' individual accounts in the EPF. The amount is calculated based on the monthly wages of an employee.

Employees contribute 11% of their salary to EPF, while employers must put in a minimum of 12% for monthly salaries of more than RM5,000 and 13% for monthly salaries of RM5,000 & below.

Contribution rate for employees above the age of 60 remains unchanged at 0% while the minimum employers' share of EPF statutory contribution rate is 4%

- Social Security Organization (SOCSO)

Employers and employees are required to make social security contributions to the SOCSO. Generally, an employer contributes 1.75% while employees will contribute 0.5% of an employee's remuneration.

Employment Injury (EI) Scheme under the SOCSO Act – Employers are obliged to make contributions on behalf of the foreign workers at the rate of 1.25% of their monthly wages. The foreign workers' benefit under the EI scheme is inclusive of medical benefit, temporary and permanent benefit, dependent's benefit, funeral benefit, constant-attendance allowance, and rehabilitation.

- Employment Insurance System (EIS)

The contribution rate for EIS is 0.2% for the employer and 0.2% for employee based on the employee's monthly salary.

- Human Resource Development Levy

The contribution rate for HRD Levy for the employer with 10 or more Malaysian employees are 1.0% and 0.5% for employer with 5-9 Malaysian employees.

### 4.4 Exemption from tax

- Employees Provident Fund (EPF)

With effect from YA 2019, the relief of RM4,000 is applicable to contributions for approved scheme (EPF) other than a private retirement scheme.

- Social Security Organization (SOCSO)

With effect from YA 2022, the relief of RM350 is applicable to contributions made to the Social Security Organization. The scope for this relief is also expanded to include employee's contribution to EIS.

## SALES AND SERVICES TAX (SST)

### 5.1 Basis of tax

On 1 September 2018, GST has been repealed and replaced with Sales Tax and Service Tax. Sales Tax and Service Tax become the two major types of consumption taxes levied and charged on certain taxable services and taxable goods in Malaysia.

### Service Tax

Service Tax in Malaysia is a form of indirect single stage tax imposed on specified services termed as “taxable services” prescribed under First Schedule of the Service Tax Regulations 2018.

Service Tax is charged on:

- Any taxable services provided in Malaysia by a registered person in carrying on his business.
- Any imported taxable services.
- Digital service provided to any consumer in Malaysia.

Service Tax Act 2018 applies throughout Malaysia excluding designated areas, free zones, licensed warehouses, licensed manufacturing warehouses and Joint Development Area (JDA).

### Sales Tax

Sales Tax is a single stage tax charged and levied on all taxable goods manufactured in or imported into Malaysia.

Sales Tax is charged on:

- Manufactured taxable goods in Malaysia by a registered manufacturer and sold, used or disposed of by him.
- Imported taxable goods into Malaysia by any person.

Sales Tax Act 2018 applies throughout Malaysia, excluding the Designated Areas and the Special Areas.

## 5.2 Rates of tax

### Service Tax

The rate of Service Tax is fixed at 6% and a specific rate of MYR 25 is chargeable on the date of the issuance of the principal or supplementary credit card or charge card services.

Effective from 1 March 2024, the rate of service tax under the Service Tax Act 2018 is increased from 6% to 8% on all taxable services excluding food & beverage services, telecommunication services, provision of parking spaces services and logistics services.

### Sales Tax

Sales Tax is an ad valorem tax and different rates apply based on group of taxable goods. The Sales Tax rate is at 5%, 10% or a specific rate, unless it is exempted.

## 5.3 Registration

### Mandatory Registration

A person is required to be registered for Service Tax if he provides any taxable service where his total value of taxable services has exceeded the prescribed threshold in 12 months as below:

Category	Threshold
Accommodation	RM 500,000
Food and beverage operator	RM1,500,000
Night-clubs, Dance Halls, Health and Wellness Centres, Massage Parlours, Public Houses and Beer Houses	RM 500,000
Private Club	RM 500,000
Golf club and golf driving range	RM 500,000
Betting and gaming services	RM 500,000

Category	Threshold
Professional services	RM500,000
Credit Card or Charge Card Services	No threshold specified
Other Service Providers	RM500,000 unless otherwise indicated
Logistic services	RM500,000

A person is required to be registered for Sales Tax if he is engaged in the manufacturing of taxable goods or carries out sub-contractor work with threshold exceeding RM500,000 in 12 months.

### Voluntary Registration

Service Tax – A person can apply for voluntary registration if he is satisfied that the said person is providing taxable service but has not reached the threshold or is intending to carry on a business of providing taxable service.

Sales Tax – A person can apply for voluntary registration if his operation complies with the definition of ‘manufacture’ where the value of taxable goods is below the prescribed threshold or persons who are exempted from registration.

‘Manufacture’ is defined as:

- In relation to goods other than petroleum, manufacture is defined as a conversion of organic or inorganic materials by manual or mechanical means into a new product by changing the size, shape, composition, nature or quality of such materials and includes the assembly of parts into a piece of machinery or other products. However, manufacture does not include the installation of machinery or equipment for the purpose of construction.
- In relation to petroleum, any process of separation, purification, conversion, refining and blending.

## 5.4 Filing requirements

A taxable person must furnish a Form SST-02 every two months according to his taxable period which is defined as two calendar months. The submission should not be later than the last day of the month following the end of his taxable period.

## 5.5 Low value good

Sales tax on low value goods (LVG) has come into force from 1 January 2024, and it will be imposed at the rate of 10%, where any seller with the total sale value of LVG brought into Malaysia in 12 months exceeds RM500,000, is liable to register (registered seller) and charge sales tax on LVG accordingly.

The term “LVG” refers to any prescribed goods or class of goods outside Malaysia which are sold at a price not more than RM500 and brought into Malaysia by land, sea or air.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

The Double Taxation Agreement (DTA) provide for the avoidance of double taxation on the same income. Where there is no DTA, unilateral tax credit is allowed but it is limited to 50% of the foreign tax payable on the foreign income for the year.

## 6.2 List of double tax treaties signed

### EFFECTIVE DOUBLE TAXATION AGREEMENT (DTA)

• Albania • Australia • Austria • Bahrain • Bangladesh  
• Belgium • Bosnia and Herzegovina • Brunei • Cambodia  
• Canada • Chile • China • Croatia • Czech Republic  
• Denmark • Egypt • Fiji • Finland • France • Germany  
• Hong Kong • Hungary • India • Indonesia • Iran • Ireland  
• Italy • Japan • Jordan • Kazakhstan • Korea • Kyrgyz  
• Kuwait • Laos • Lebanon • Luxembourg • Malta • Mauritius  
• Mongolia • Morocco • Myanmar • Namibia • Netherlands  
• New Zealand • Norway • Pakistan • Papua New Guinea  
• Philippines • Poland • Qatar • Romania • Russia • San  
Marino • Seychelles • Singapore • South Africa • Spain  
• Slovak Republic • Sri Lanka • Sudan • Sweden • Switzerland  
• Syrian • Thailand • Türkiye • Turkmenistan • Ukraine  
• United Arab Emirates (UAE) • United Kingdom • Uzbekistan  
• Venezuela • Vietnam • Zimbabwe

### LIMITED AGREEMENT

Argentina • Saudi Arabia • United States of America

### INCOME TAX EXEMPTION ORDER

• Taiwan

### EFFECTIVE TAX INFORMATION EXCHANGE AGREEMENT (TIEA)

• Bermuda

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duty is chargeable on certain instruments or documents. The rate of duty varies according to the nature of the instruments/ documents and transacted values. Exemption of stamp duty is given on certain instruments and documents. The following are rates of stamp duty for some more common instruments and documents.

Conveyance, assignment or transfer

Value RM	Rate	Duty Payable RM
i. Properties		
On the first 100,000	RM1 per RM100 or part thereof	1,000
On the next 400,000	RM2 per RM100 or part thereof	8,000
On the next 500,000	RM3 per RM100 or part thereof	15,000
1,000,000		24,000
In excess of 1,000,000	RM4 per RM100 or part thereof	
ii. stock, shares or marketable securities	RM3 per RM1,000 or part thereof	

A flat rate stamp duty of 4% be imposed on the instrument of transfer of property (except stocks, shares or marketable securities) executed by foreign-owned companies and non-citizen individuals (excluding Malaysian permanent residents).

### 7.2 Real Property Gains Tax (RPGT)

Real Property Gains Tax (RPGT) is charged on gains arising from the disposal of real property, and any interest, option, or other right in or over such real property. RPGT is also charged on the disposal of shares in real property company (RPC). An RPC is a controlled company holding real property or shares in

another RPC of which the defined value is not less than 75% of the value of its total tangible assets.

#### Rate of Real Property Gains Tax Table

	w.e.f 01.01.2022 %
Disposal within 3 years after date of acquisition	30
Disposal in the 4th year after date of acquisition	20
Disposal in the 5th year after date of acquisition	15
Disposal in the 6th year after date of acquisition or thereafter	0/ 10*

\* Notes:

- 0% applies to individual who is a Malaysian citizen or a permanent resident; while 10% applies to company.
- Disposal by individuals who are not Malaysia citizens or permanent resident is subject to 30% RPGT rate for disposal within 5 years, and 10% for disposal after 5 years.

### 7.3 Estate duty

N/A

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Capital gain tax (CGT)

CGT is a tax imposed on gains or profits from the disposal of a capital asset by a company, limited liability partnership, trust body or co-operative society on or after 1 January 2024 (or 1 March 2024 for domestic capital assets).

	Domestic source	Foreign sources
Taxable capital assets (CA)	Unlisted shares of a company incorporated in Malaysia.	All capital assets
Tax rate	10 % on net gain of disposal (CA acquired before 1 Jan 2024, taxpayer may opt to pay 2% of gross disposal)	Prevailing tax rate
Tax return	CGT Return Form and tax payment with 60 days from the date of disposal	Part of annual tax return
Exemptions	- Internal Restructuring - Approved IPO - Venture Capital Companies	Economic substance requirement

### 7.6 Others

#### Business tax

N/A

#### Consumption tax, etc.

Please refer to Item 5 GST/ VAT above

## POINT OF CONTACT

**Name of contact:** Bigi Neoh

**Telephone with country code:** +603 2166 2303

**Email address:** bigi@reandallkg.com



# NEPAL

## GENERAL INFORMATION

### 1.1 Country/Region

Nepal

### 1.2 Currency

Nepalese Rupee (NPR)

### 1.3 Principal business entities

Public Company

Private Company

Sole Proprietorship

Partnership

Branch of Foreign Company

Foreign Permanent Establishment

### 1.4 Foreign exchange control

Regulated by Nepal Rastra Bank (NRB) through Foreign Exchange Regulation Act, 1962

### 1.5 Current economy climate (Industry overview/encouragement for business development)

Nepal is strategically located between two large and rapidly growing economies China and India, with easy access to markets of more than 2.6 billion people. It has large pool of capable workers (out of total population of 28.17 million, 61% are of working age i.e. 15-65 years) and has a relatively low cost of labour. Nepal is ranked 3rd after India and Bhutan among South Asia countries in the "Ease of Doing Business Report 2020" by the World Bank Group. Foreign investors are allowed 100% ownership of a company in majority of sectors. Repatriation of capital and profits are allowed by law. Various bilateral investment protection and double tax avoidance arrangements are in place. Nepal has signed Bilateral Investment Promotion and Protection Agreement (BIPPA) with India, Finland, Germany, Mauritius, UK, and France. Compared to other countries in South Asia, Nepal offers the lowest tax burden in the region. Some of the reasons for comparatively high Return on Investment (ROI) in Nepal include:

- Huge investment potential in tourism, hydro-power, agriculture, and mine and mineral sectors
- Abundance of natural resources
- Income tax concession on profits from exports
- Customs, excise duties, and Value Added Tax (VAT) levied on raw materials and auxiliary raw materials of export-oriented industries is reimbursed to the exporter on the basis of the amount of exports within 60 days of application

Nepal has open boarder access to India. Nepal has duty free access to China for around 8,000 products. Nepal has duty

free access to US market for 66 types of garment items for 10 years starting from 2016.

### 1.6 National tax authority

#### Name

Inland Revenue Department (IRD)

#### Website

<https://www.ird.gov.np/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Generally, income of a person is taxed on two principles. One is 'Residence Based' and the other one is 'Source Based'. Any income derived by a person who is resident of Nepal is taxed in Nepal. In other words, if a person is resident in Nepal, his global income is taxable in Nepal. On the other hand, the income of a non-resident person is taxable in Nepal if it has source of income in Nepal. In other words, the income of non-resident is taxable in Nepal if it has source in Nepal. Broadly, there are four categories of Income in Nepal. They are, Income from Employment, Income from Business, Income from Investment and Income from Windfall Gains.

### 2.2 Rates of tax

Normal Rate of Tax is 25%. However, some entities operating in banking and general insurance business, telecommunication, dealing in petroleum products, producing cigarettes, cigars, liquors and other related products are subject to 30% tax rate. Similarly, 20% tax rate is applicable to certain special industries.

### 2.3 Year of assessment

Mid-July to Mid-July

### 2.4 profits deemed to be taxable

Any profits derived by a person from trade, business or profession is taxable in Nepal.

### 2.5 Taxation of dividends

Dividend payment is subject to withholding tax at the rate of 5%.

### 2.6 Taxation of capital gains

Advance Tax on disposal of land and building – 1.5% of disposal value

Sale of shares by Person (other than natural person (individual))

- Listed Company: 10%
- Unlisted Company: 15%

Normal tax rate will be applicable and withholding tax paid will be allowed to set off from the tax liability.



## 2.7 Taxation of interest income

Interest income derived by a resident bank or financial institution from other resident bank or financial institution is not taxable. Any natural person deriving interest income from deposits, security, debentures or government bonds is subject to 6% withholding tax provided such interest is sourced in Nepal and is not related to business operation. This withholding tax is the final tax deduction in respect of such income.

## 2.8 Utilization of tax losses

Normal loss of business/investment: Up to next 7 years. For specific industries (industries dealing in petroleum products, public infrastructure projects to be built, operated and transferred to Government of Nepal (BOOT model) projects, Electricity/ Power generation, transmission and others) – 12 years loss can be carried back in case of long-term contract obtained from international bidding.

## 2.9 Key Tax incentives

### General Deduction

Any expenses incurred by a person in connection with generation of income from business or investment during an income year is allowed as deduction.

### Interest Expense

Any interest incurred by a person from the money borrowed in connection with generation of income from business or investment during an income year is allowed as deduction.

### Cost of Trading Stock

The cost of trading stock calculated either on first-in-first out basis or weighted average cost basis is allowed as deduction.

### Repair and Maintenance Expense

Repair and Maintenance Expense of depreciable asset, owned and used by the person, incurred in connection with generation of income from business or investment during an Income Year subject to maximum of 7% of depreciation base at the closing of the year is allowed as deduction. The limit is not applicable to Airline Company if it is within the parameter of Civil Aviation Authority. Further, the amount or part thereof, which is in excess of limit, can be added to the depreciation basis prevailing in the beginning of subsequent Income Year, of the pool to which it relates. Any excess cost of repair and improvement for which deduction is not allowed can be added to the depreciation base prevailing in the beginning of subsequent income year, of the pool to which it relates.

### Pollution Control Cost

Pollution Control Cost incurred in connection with conducting the business during an Income Year subject to maximum of 50% of adjustable taxable income from all business conducted by the person is allowed as deduction. The amount or part thereof, which is in excess of limit, can be capitalized in the asset in the beginning of subsequent Income Year and depreciation is allowed subsequently.

### Research and Development Cost

Research and Development Cost incurred in connection with conducting the business during an Income Year subject to maximum of 50% of adjustable taxable income from all business conducted by the person is allowed as deduction.

The amount or part thereof, which is in excess of limit, can be capitalized in the asset in the beginning of subsequent Income Year and depreciation is allowed subsequently.

### Depreciation Allowance

Depreciation of depreciable asset, owned and used by the person, in connection with generation of income from business or investment during an Income Year is allowed as deduction.

## 2.10 Withholding tax

Payment Subject to Withholding	Withholding Tax Rate (%)	Final Withholding- Yes or No
Interest, Natural Resource, Royalty, Commission, Service Fee, payment by a resident person having source in Nepal	15	No
Resident employment company making payment to non-resident	5	Yes
Lease of aircraft payment	10	No
<ul style="list-style-type: none"> <li>Service payment to a resident person registered under VAT</li> <li>Payment of more than NPR 50K under a contract or agreement</li> </ul>	1.5	No
Rent payment having source in Nepal	10	Yes
Payment made by resident person for the use of satellite, bandwidth, optical fibre, equipment relating to telecommunication, and for the use of electricity transmission line	10	No
Payment of interest by resident Banks and Financial Institutions on loans availed in foreign currency from foreign banks or other financial institutions to invest in the areas as specified by NRB	10	No
Rent paid on transportation service	2.5	No
Dividend, Gain from Investment Insurance	5	Yes
Wind fall Gain	25	Yes
Service payment to a non-resident company	15	Yes
Payment of repair & maintenance and other contract or agreement of aircraft payment to a non-resident company	5	Yes
Payment of re-insurance to a non-resident	1.5	Yes
Other payment to non-resident	As per written information by IRD	Yes

## 2.11 Digital Service Tax

Digital Service Tax (DST) of 2% on transaction value shall be collected on digital services provided by non-residents to Nepalese customers. However, such tax shall not be applicable in cases when the annual transaction is up to NPR 2 million. Such foreign service providers shall file the return and deposit tax amount in each fiscal year. Income on which digital service tax has been deposited shall not be taxable under the Income Tax Act, 2058 (2002 AD). Fine of 0.1% per annum of turnover to be collected for the delay in filing return and interest at the rate of 15% per annum to be charged on delay in payment of tax. 25% fine to be levied in case of under deposit of tax or fraudulent activities.



## 2.12 Transfer Pricing

'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'.

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.

'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 person. '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.

## 2.13 Filing requirements of tax return

<b>Filing due date</b>	<b>Income Tax Return</b> Within three months from the end of Income Year. If application is made to Tax Office for extension, IRD may extend such notice for maximum of three months. <b>Advance Tax Return</b> If estimated tax liability of a person from business or investment is more than or equal to NPR 7.5 k, then the entity is required to file statement of estimated tax by the date for payment of first instalment i.e. Mid-January. For businesses registered after Mid-January, time to file return is Mid-April, and for businesses registered after Mid-April, time to file return is Mid-July. <b>Instalment amounts</b> Within in Mid-January (Poush end) of Income Year (First Instalment) – 40% of Tax Liability Within in Mid-April (Chaitra end) of Income Year (Second Instalment) – 70% of Tax Liability Within in Mid-July (Ashad end) of Income Year (Third Instalment) – 100% of Tax Liability
<b>Penalties</b>	<u>For non-filing of Income tax return on time:</u> 0.1% of gross turnover or NPR 100 per month, whichever is higher. <u>For non-filing of Estimated tax return on time:</u> 0.01% of assessable income or NPR 5,000, whichever is higher
<b>Payment of profit tax and application of holdover</b>	Interest at the rate of 15% is chargeable on delayed payment of taxes. Further, if the amount of advance tax payable is outstanding by 90%, the interest is 15% on unpaid tax.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

A resident person in case of Natural Person means an individual whose normal place of abode is in Nepal, who is present in Nepal for 183 days or more in 365 consecutive days, or who is an employee of Nepal Government posted abroad at any time during the Income Year.

The following payments made by the employer to the individual is considered as income from employment of such individual:

- Payments of salary, wages, leave pay, overtime pay, fees, commissions, prizes, gifts, bonuses, and other facilities;
- Payments of any personal allowance including any cost of living, subsistence, rent, entertainment and transportation allowance;
- Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual;
- Payments for the individual's agreement to any conditions of employment;
- Payments for redundancy or loss or termination of the employment;
- Retirement contributions including those paid by the employer to a retirement fund in respect of employee and retirement payments;
- Other payments made in respect of employment

### 3.2 Rates of tax

Taxable income (Individual) (Amount in NPR)	Taxable income (Couple) (Amount in NPR)	Tax rates (%)
First 500,000	First 600,000	1
Next 200,000	Next 200,000	10
Next 300,000	Next 300,000	20
Next 1,000,000	Next 900,000	30
Next 3,000,000	Next 3,000,000	36
Above 5,000,000	Above 5,000,000	39

### 3.3 Year of assessment

Mid-July to Mid-July

### 3.4 Allowances and Deductions

The following amounts are deductibles.

- Contribution to Retirement Payment up to maximum of NPR 500,000
- Donation up to maximum of NPR 100,000
- Insurance premium up to NPR 40,000
- Remote area allowances up to maximum of NPR 50,000. Further, medical tax credit up to maximum of NPR 750 is allowed and remaining can be carried forward. Additionally, 10% tax rebate is allowed to female individual.

### 3.5 Taxation of dividends

Withholding tax at the rate of 5% on dividend payment is applicable.

### 3.6 Taxation of capital gain

In case of individual, withholding tax on capital gain exceeding NPR 1 million

- Disposal of land or land and building owned for 5 years or more – 5%
- Disposal of land or land and building owned for less than 5 years – 7.5%

Withholding tax on capital gain on sale of shares is as follows;

In case of sale by resident Natural Person (Individual)

- Listed Company : 5% (Holding more than 365 days)  
: 7.5% (Holding for 365 days or less than 365 days)
- Unlisted Company: 10%

### 3.7 Taxation of interest income

Final withholding tax at the rate of 6% is applicable.

### 3.8 Personal assessment and utilization of losses

An individual natural person may elect himself as single or couple for the purpose of tax assessment. Further, if he has sole proprietorship only, he may be assessed as individual. Expenses related to sole proprietorship business can be claimed and the balance amount of income is taxable as per applicable tax rates. A business loss of sole proprietorship can be set off with the business income of such sole proprietorship.

### 3.9 Withholding tax

An employer is obliged to withhold tax for the remuneration paid to an individual at the applicable rates. The employer is also obliged to withhold tax for the remuneration paid to a non-resident person.

### 3.10 Foreign currency income from providing digital service

50% tax rebate is provided on the income earned by resident individual in foreign currency by providing services based on software programming, cloud computing, electronic services, business process outsourcing or similar information technology related services outside Nepal.

### 3.11 Statutory obligation of employers

An employer is obliged to withhold and deposit tax on behalf of individual employees to the tax authority with 25 days from the end of Nepalese Calendar month.

### 3.12 Filing requirement of tax return

<b>Filing due date</b>	In case of an individual having income from employment, such individual is not required to file Income Tax Return. However, if such individual has income exceeding NPR 4 million in an Income Year, he has to submit his Income Tax Return. The due date of filing Income Tax Return is within three months from the end of Income Year and the department may extend further three months' time to submit such return of income.
<b>Penalties</b>	Penalties shall be imposed if an individual fails to submit income tax return on time.
<b>Application of holdover</b>	N/A

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Social Security Fund (SSF), Nepal

### 4.2 Basis of contribution

To regulate and supervise the fund contribution of employees of various organization.

### 4.3 Contribution rate

Employer and employees each are required to make contribution to SSF. The contribution rate is 11% of basic salary for employees and 20% of basic salary for employer.

### 4.4 Exemption from tax

A maximum of NPR 500,000 is allowed as deduction from taxable income.

## GST/VAT

### 5.1 Basis of tax

Value Added Tax (VAT) is charged on supply of goods or services. Goods or services imported into or exported out of country are both subject to VAT. There are some goods or services which are of basic necessities, are exempted from VAT and some goods or services such as export of services are subject to zero rate.

### 5.2 Rates of tax

13% single rate

### 5.3 Registration

Transaction related to supply of goods in excess of NPR 5 million in last 12 months, supply of services in excess of NPR 2 million in last 12 months and supply of mixture of goods and services in excess of NPR 2 million and supply of transportation service and transportation rental service in excess of NPR 5 million cumulative are required to register under VAT.

Non-resident person having a business of digital services whose taxable transaction for the past twelve months exceeds Twenty Lakhs must be registered under VAT.

### 5.4 Filing requirements

Every registered person is required to submit VAT return within 25 days from the end of tax period (Nepalese Calendar month, or trimester). Further, separate record of purchase register, sales register and VAT accounts are to be kept.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

In case that a resident person has paid overseas income tax on its taxable income derived from sources outside Nepal, the income tax paid overseas can be creditable against its Nepal Tax payable. However, the creditable amount of overseas income tax cannot exceed the amount of income tax otherwise payable in Nepal in respect of non-Nepal sourced income.

## 6.2 List of double tax treaties signed

Nepal has signed Double Taxation Avoidance Agreement with 11 countries namely Republic of Austria, People's Republic of Bangladesh, People's Republic of China, Republic of India, Republic of Korea, Republic of Mauritius, Kingdom of Norway, Islamic Republic of Pakistan, State of Qatar, Democratic Socialist Republic of Sri Lanka and Kingdom of Thailand.

Nepal has also signed a SAARC Limited Multilateral Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters.

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

N/A

### 7.2 Real property tax

In case of individual, withholding tax on capital gain exceeding NPR 1 million

Disposal of land or land and building owned for 5 years or more – 5%

Disposal of land or land and building owned for less than 5 years – 7.5%

In case the personal building has been owned continuously for 10 years or more and the person has stayed continuously or intermittently for more than 10 years, then no tax shall be levied on the gain.

In case of Others, as per normal rate of tax is applicable.

### 7.3 Estate duty

N/A

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### Business tax

N/A

#### Consumption tax, etc.

##### Education tax:

Tax @ 3% to be collected by Foreign Exchange providers (banks & financial institutions) while providing exchange facility to students studying abroad.

##### Telecommunication Service Charge:

To be charged from customer 10% of telecommunication charges.

##### Infrastructure Tax:

NPR 10 per litre for import of petrol and diesel.

##### Casino Royalty:

Annual License Fee for Casino – NPR 50 million.

Annual License Fee for Casino using only modern equipment and machines – NPR 15 million.

## POINT OF CONTACT

### Name of contact:

Bharat Rijal  
Gopal Prasad Pokharel  
Bishnu Prasad Bhandari  
Abhaya Poudel  
Sudip Paudel

### Telephone with country code:

+977 1 4533221

### Email address:

Bharat Rijal: [bharat.rijal@rpbnepal.com](mailto:bharat.rijal@rpbnepal.com)  
Gopal Prasad Pokharel: [gopal.pokharel@rpbnepal.com](mailto:gopal.pokharel@rpbnepal.com)  
Bishnu Prasad Bhandari: [bishnu.bhandari@rpbnepal.com](mailto:bishnu.bhandari@rpbnepal.com)  
Abhaya Poudel: [abhaya.poudel@rpbnepal.com](mailto:abhaya.poudel@rpbnepal.com)  
Sudip Paudel: [sudip.paudel@rpbnepal.com](mailto:sudip.paudel@rpbnepal.com)  
[info@rpbnepal.com](mailto:info@rpbnepal.com)



# NETHERLANDS

## GENERAL INFORMATION

### 1.1 Country/Region

The Netherlands

### 1.2 Currency

Euro

### 1.3 Principal business entities

Dutch law recognises two types of companies, both of which possess legal personality: the private limited liability company (besloten vennootschap met beperkte aansprakelijkheid – B.V.) and the public limited liability company (naamloze vennootschap – N.V.). These legal entities are commonly used for doing business in the Netherlands. Other frequently used legal entities in the Netherlands are the cooperative (coöperatie) and the foundation (stichting). The foundation is a common form used within the non-profit and health care sector.

Other common business forms are the sole proprietorship (eenmanszaak), the general partnership (vennootschap onder firma) and the limited partnership (commanditaire vennootschap – C.V.). Notably, none of these business forms possess legal personality, and as a consequence thereof, the owner or owners will be fully liable for the obligations of the entity.

All entrepreneurs engaged in commercial activities, as well as legal entities, are obligated to register their business with the Trade Register (Handelsregister) at the Dutch Chamber of Commerce (Kamer van Koophandel).

### 1.4 Foreign exchange control

The Netherlands doesn't impose strict foreign exchange controls like some other countries do. Dutch residents and businesses generally have freedom in managing foreign currency transactions. However, certain reporting requirements may apply for large transactions, especially for anti-money laundering purposes.

### 1.5 Current economy climate (Industry overview/ encouraged business development)

The Netherlands boasts an open economy, strongly influenced by global economic trends, making it an attractive hub for business and investment. Its prime geographical location and sound financial policies have propelled the country into a pivotal role as a major importer and exporter. Key industrial sectors include oil refineries, chemicals, food processing and electronics manufacturing. Germany, Belgium, Luxembourg, China, the United Kingdom, France, and the United States stand as the Netherlands' primary trade partners.

#### Sanctions with Russia and impact Brexit

It's crucial to note that trade with Russia has been significantly curtailed due to various international sanction measures,

resulting in a substantial reduction in import and export activities since the war in Ukraine. Concurrently, trade with the Eurasian Economic Union, closely associated with Russia, has significantly increased.

Additionally, the effects of Brexit are becoming increasingly evident, particularly affecting Dutch exports. Nevertheless, the Netherlands remains an attractive location for British and other global companies, whether to establish new operations or to expand existing activities within the European Union.

#### Growth Netherlands economy

The Dutch economy witnessed robust growth, with an overall GDP growth of approximately 4.5% in 2022, following a growth of 4.8% in 2021, marking the first consecutive years of such substantial growth in this century. Both inflation and household consumption soared to record highs during this period. Currently, the unemployment rate is historically low around 3.6%, contrasting starkly with the 6% average of the past two decades, alongside an unparalleled surge in labour participation, where job vacancies surpass job seekers.

#### Prinsjesdag

Each year on the third Tuesday in September Budget Day also known as "Prinsjesdag" or "Prince's Day" is held. This day represents the beginning of the new parliamentary year, whereby the King delivers the "Speech from the Throne" which contains the government's key plans for the coming year.

### 1.6 National tax authority

#### Name

Belastingdienst

#### Website

<https://www.belastingdienst.nl/wps/wcm/connect/nl/home/home>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

The tax system in any given country is invariably an extremely important criterion when it comes to companies finding a country of incorporation. The view taken by the Dutch government is that the tax system may under no circumstances form an impediment for companies wishing to incorporate in the Netherlands. In addition, the Netherlands has also signed tax treaties with many other countries to prevent the occurrence of double taxation. At the same time, its vast network of tax treaties offers instruments for international tax planning. In this context, it is possible to obtain advance certainty regarding the fiscal qualification of international corporate structures in the form of so-called Advance Tax Rulings (ATR) / Advanced Pricing Arrangements (APA). The present Dutch ruling policy is still only aimed at

making agreements in advance with companies who make a considerable contribution to the national economy (so-called economic nexus presence) with an establishment – branch or subsidiary – in the Netherlands and this establishment in the Netherlands is not primarily for tax reasons.

### Corporate Income Tax

The Corporate Income Tax rate for the year 2024 remains unchanged from 2023, and will be evaluated in 2025.

## 2.2 Rates of tax

	Year 2024	
Taxable profit (€)	≤ € 200,000	> € 200,000
Tax rate	19.00%	25.80%

## 2.3 Year of assessment

From January 1st to December 31st. Some highly seasonal companies may apply for a different fiscal year.

## 2.4 Profits deemed to be taxable

In general, the taxable profit of an enterprise is the aggregate amount of benefits derived from that enterprise, regardless of name or form, minus the costs and losses attributable to those benefits. Profits are only taken into account when they are actually realized and losses should be taken as soon as they occur.

Applicable exceptions to the above-mentioned general rule include (for example):

- benefits from exempted forestry companies;
- some exempted benefits from agricultural enterprises;
- benefits obtained by the relinquishment of unrealizable rights by creditors.

## 2.5 Taxation of dividends

Subject to meeting certain conditions, a Dutch company or branch office of a foreign company is exempt from tax on benefits arising from a qualifying shareholding, including cash dividends, dividends in kind, bonus shares, hidden profit distributions, capital gains and exchange rate results.

## 2.6 Taxation of capital gains

Gains are taxed as ordinary income. However, capital gains realized on the disposal of qualifying shares are exempt from tax.

To defer taxation, a capital gain on the sale of depreciable assets can be transferred to a so-called reinvestment reserve. If this reserve is not fully deducted from the acquisition value of a comparable asset within three years and thus utilized, the remainder of the deferred tax will be due at that time.

Capital losses are deductible unless attributable to the exempted disposal of qualifying shares.

## 2.7 Taxation of interest income

Interest income is taxed as ordinary income.

## 2.8 Utilization of tax losses

The Dutch loss settlement rules have been changed with effect from January 1, 2022. The compensable losses can be forward indefinitely to the extent that the taxable profit for a

year is € 1 million or less. When a taxable profit of a year exceeds € 1 million, only 50% of that taxable profit can be used to offset losses from previous years. The term for carry back remains limited to one year.

For financial years up to and including 2018 losses incurred in any given year can be set off against the taxable profits of the previous year and the nine subsequent years. As of 2019, the carry forward is reduced to 6 years. Part of this reduction is the introduction of a transitional measure, based on which the losses of 2019 and 2020 can be used before the 2017 and 2018 losses.

## 2.9 Key tax incentives

- Discretionary depreciation of:
  - o environmental assets;
  - o occupational health and safety equipment;
  - o certain other designated business assets.
- Investment allowance for:
  - o small-scale investments;
  - o energy investments;
  - o environmental investments.
- Certain R&D activities are subsidised by a wage taxes reduction on salary costs and other costs and expenses that are attributable to those R&D activities.

## 2.10 Withholding tax

With effect from 2021, the Netherlands has implemented a conditional withholding tax (WHT) on interest and royalty payments to affiliated entities in low-tax jurisdictions (i.e. jurisdictions with a statutory CIT rate of less than 9%) or on the EU list for non-cooperative jurisdictions, as well as in certain tax abuse situations.

Starting from January 1, 2024, the Netherlands will apply a conditional withholding tax on dividend payments. The tax rate for conditional WHT is levied at the highest rate of the Corporate Income Tax in the current tax year. For 2024, this rate is set at 25,8%. However, this rate may be subject to reduction under a tax treaty.

## 2.11 Transfer Pricing

The arm's length principle is codified in the Dutch Corporate Income Tax (CIT)-act and has been further elaborated in secondary legislation.

In the Netherlands all Dutch entities are obliged to prepare documentation that describes how transfer prices have been established and substantiate the at arm's length nature of the transfer prices.

The type of documentation that is obligated depends on the following:

- Group revenues of less than 50 million euros: general TP-documentation;
- Group revenues of 50 million euros or more: annually Master File and Local File;
- Group revenues of 750 million euros or more: annually Country-by-Country report in addition to the Master File and Local File.



2.12 Filing requirements of tax return

Filing due date	Generally, five months after the end of the company's fiscal year. In exceptional situations you can apply for an extension for filing the corporate income tax return.
Penalties	The penalty for not filing on time is € 2,757 and can be increased to € 5,514 if you fail to file a CIT return for several consecutive years.
Payment of profit tax and application of holdover	In principle within two months, but it is possible for the taxpayer to request payment in monthly instalments.

PERSONAL TAX

3.1 Basis of taxation (Residence, Personal assessment)

In the Netherlands, worldwide income is divided into three different types of taxable income, and each income type is taxed separately under its own schedule, referred to as a 'box'. Each box has its own tax rate(s). An individual's taxable income is based on the aggregate income in these three boxes.

- Box 1: Income from employment (work) and residential ownership (home);
- Box 2: Income from substantial interest (ownership of direct or indirect interest of 5% or more in a company or partnership);
- Box 3: Income from assets, savings and investments.

3.2 Rates of tax

Box 1:

Tax rates for box 1 income 2023		
Tax bracket	Taxable income	Tax (%)
1	< € 75,624	36.97%
2	=> € 75,625	49.50%

Tax rates for box 1 income 2024 and beyond		
Tax bracket	Taxable income	Tax (%)
1	< € 73,031	36.93%
2	=> € 73,032	49.50%

Box 2:

	2023	2024
Tax rate for box 2 income	26.90%	26.90%

Box 2:

	2023	2024
Tax rate for box 3 income	32%	36%
Tax-free allowance	€ 57,000	€ 57,000

3.3 Year of assessment

1st January till 31 December.

3.4 Allowances and Deductions

- Under certain conditions, deductions include payments regarding:
- Alimony
  - Charitable contributions
  - Education expenses

- Medical and disability expenses
- Life insurance premiums
- Mortgage interest expenses

Under certain conditions, personal allowances may include:

- Health care allowance
- Housing rent allowance
- Childcare allowance
- Child-related budget

3.5 Taxation of dividends

Income from savings and investments (e.g. dividends) is, as such, not taxable. However, the net assets (assets minus debts) of an individual valued on January 1st are deemed to generate an annual fixed return on investment. This fixed return is taxed in box 3 at a flat rate of 31% (2022). All net assets that are not intended for daily use and that are not taxed in box 1 or box 2 belongs to box 3 taxable base. For residents and non-residents, part of the taxable base is exempt and several specific deductions can be applicable.

Non-residents are subject to taxation only on the net value of a limited number of Dutch assets, including the following:

- Dutch real estate not used as the primary residence.
- Profits rights unrelated to shares or an employment.

Please note that in the Netherlands a dividend withholding tax (WHT) of 15% applies. Resident taxpayers could use the withholding tax as a tax credit on their income tax that is levied in box 3. For non-resident taxpayers, the withholding tax would be the final levy applied in the Netherlands.

3.6 Taxation of capital gain

See 3.5.

3.7 Taxation of interest income

See 3.5.

3.8 Personal assessment and utilization of losses

- Most components of taxable income can be divided between tax partners in the way that is most beneficiary for them.
- Losses can be utilised in a limited time period with certain conditions.

3.9 Withholding tax

A dividend tax of 15% applies. Resident taxpayers could use the withholding tax as a tax credit on their income tax that is levied in box 3. For non-resident taxpayers, the withholding tax would be the final levy applied in the Netherlands.

3.10 Statutory obligation of employers

Various.

3.11 Filing requirement of tax return

Filing due date	The income tax return must be received by the Dutch tax authorities before 1 May. In exceptional situations you can apply for an extension for filing the income tax return.
Penalties	The penalty for not filing on time is € 385 and can be increased to € 5,514 if you fail to file the income tax return for several consecutive years.
Application of holdover	N/A

# STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

## 4.1 Regulatory organization

Various (industry) pension funds.

## 4.2 Basis of contribution

The Dutch Pension Act (Nederlandse Pensioenwet).

## 4.3 Contribution rate

Varies.

## 4.4 Exemption from tax

N/A

# GST/VAT

## 5.1 Basis of tax

The Dutch turnover or value added tax system is based on Directive 2006/112/EC - the EU's common system of value added tax (VAT) or 'BTW' in Dutch). This means that tax is charged at each and every stage of the production chain and in the distribution of goods and services. Taxable persons (VAT-registered businesses) charge one another VAT for goods and/or services provided. The taxable person that charges the VAT is required to pay the VAT amount to the tax authorities. If a taxable person is charged VAT by a taxable person, it is entitled to reclaim this VAT if the taxable person performs VAT taxable activities itself. By doing so, the system ensures that the end user is effectively responsible for paying the VAT.

Foreign taxable persons that perform taxed services in the Netherlands are in principle also liable to pay VAT. Those taxable persons, too, will be required to pay the VAT due in the Netherlands and will, therefore, also be able to claim the VAT invoiced to it by taxable persons. The VAT system entails formal invoicing rules. The rules are determined by the EU Directive on VAT Invoicing rules and implemented by EU Member States in their national VAT Law.

### ICP declarations

For services and goods moving from one EU member state to another EU member state, an intracommunity listing has to be filed. In principle, this return also has to be filed quarterly. However, if the threshold (per quarter) of € 50,000 for goods is met, monthly returns have to be filed. If a taxable person acquires more than € 1,000,000 of goods or has transferred more than € 1,200,000 of goods to other countries per year, Intrastat declarations have to be filed (in principle monthly).

### VAT on cross-border sales

As of 1 July 2021, the new VAT e-commerce rules came into effect. As a result, the cross-border sales of goods and (digital) services to consumers within the EU are subject to VAT in the country to which the goods are transported or dispatched. The Dutch Tax Authorities (Belastingdienst) have introduced a One Stop Shop (OSS) system to make it easier for the entrepreneurs to report the VAT. In this simplified system, the entrepreneur can file a VAT return for the VAT due in other countries. To make use of this, the entrepreneur can register for the Union Scheme within the OSS system of the Dutch Tax Authorities.

An exception is made for 'small' entrepreneurs, whom have a maximum total turnover for cross-border sales in the current year of €10,000 (threshold). For these suppliers, the basic principle is that VAT is due in the country from which the goods are transported.

## 5.2 Rates of tax

In the Netherlands, the standard VAT rate is 21%. There are two additional special rates: the 9% rate (reduced VAT rate) and the 0% rate (zero rate).

In addition, some goods and services are exempt from VAT, such as insurance and healthcare.

## 5.3 Registration

When VAT is required to be carried down to Dutch tax authorities.

## 5.4 Filing requirements

Generally, per quarter, but the taxpayer can apply for monthly or yearly.

# DOUBLE TAX RELIEF

## 6.1 Foreign tax credit

Either in the form of a tax credit or a deduction of foreign profits.

## 6.2 List of double tax treaties signed

Albania	Hungary	Qatar
Algeria	Iceland	Romania
Argentina	India	Russian Federation
Armenia	Indonesia	Saudi Arabia
Aruba	Ireland	Serbia
Australia	Israel	Singapore
Austria	Italy	Slovakia
Azerbaijan	Japan	Slovenia
Bahrain	Jordan	South Africa
Bangladesh	Kazakhstan	South Korea
Barbados	Korea	Spain
Belarus	Kuwait	Sri Lanka
Belgium	Kyrgyzstan	St. Maarten
Bermuda	Latvia	Surinam
BES Islands	Liechtenstein	Sweden
Bosnia and Herzegovina	Lithuania	Switzerland
Brazil	Luxembourg	Taiwan
Bulgaria	Macedonia	Tajikistan
Canada	Malawi	Thailand
China	Malaysia	The Philippines
Croatia	Malta	Tunisia
Curaçao	Mexico	Turkey
Czech Republic	Moldova	Turkmenistan
Denmark	Mongolia	Uganda
Egypt	Montenegro	Ukraine
Estonia	Morocco	UAE
Ethiopia	New-Zealand	UK
Finland	Nigeria	USA
France	Norway	Uzbekistan
Georgia	Oman	Venezuela
Germany	Pakistan	Vietnam
Ghana	Panama	Zambia
Greece	Poland	Zimbabwe
Hong Kong	Portugal	

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

N/A

### 7.2 Real property tax

Varies by municipality

### 7.3 Estate duty

Varies

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### **Business tax**

Varies

#### **Excise duty and consumption tax**

In the Netherlands you need to pay excise duties (accijns) on alcoholic beverages (beer and wine), tobacco products (cigarettes and cigars) and mineral oils (petrol, diesel and LPG).

## POINT OF CONTACT

#### **Name of contact:**

Merve Onay

#### **Telephone with country code:**

+31 20 723 5270

#### **Email address:**

m.onay@reanda-netherlands.com



# NIGERIA

## GENERAL INFORMATION

### 1.1 Country/Region

Nigeria

### 1.2 Currency

Nigerian Naira (NGN)

### 1.3 Principal business entities

- Sole Proprietorship
- Partnerships
- Limited Company and Public Limited Company
- Branches of foreign companies
- Joint Venture

### 1.4 Foreign exchange control

The Central Bank of Nigeria

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Weakened economic fundamentals led the country's persistent inflation to reach 29.9% in January 2024, which, in combination with sluggish growth, is leaving millions of Nigerians in poverty. Currently, retail and wholesale sales make up 16% of Nigeria's GDP, making these sales the third largest contributors, even though most of these sales are conducted through informal markets, such as open markets, street vendors, and kiosks. Manufacturing accounts for 8.7% of Nigeria's GDP.

### 1.6 National tax authority

#### Name

Federal Inland Revenue Service

#### Website

<https://www.firs.gov.ng/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Taxation of Worldwide Income

In Nigeria, residents are taxed on their worldwide income, all income earned globally is subject to Nigerian tax. This applies to both individuals and companies. Residents must report all income, whether from Nigeria or abroad, in their annual tax returns. To prevent double taxation, Nigeria has Double Taxation Agreements (DTAs) with various countries, allowing taxpayers to claim credits for taxes paid abroad. This ensures residents contribute to Nigeria's tax base, while DTAs help mitigate the risk of being taxed twice on the same income.

### 2.2 Rates of tax

Value Added Tax (VAT) - 7.5%

Company Income Tax (CIT) - There are currently three (3) CIT rates applicable to companies in Nigeria depending on their turnover, viz, 30% for large companies with over ₦100 million turnover, 20% for medium companies with ₦25 million to ₦100 million turnover, and 0% for small companies with less than ₦25 million turnover.

Nigerian companies and Non-Resident Companies are liable to a minimum tax where: the total assessable profit for any year of assessment (YOA) results in a loss; or the computed total profits results in no tax payable; or tax payable is less than the minimum tax, unless they meet the criteria for minimum tax exemption. Finance Act, 2019 amended the base and rate of minimum tax to 0.5% of a company's turnover less franked investment income.

Capital Gain Tax (CGT) - Capital Gains Tax is generally levied at a rate of 10% of the profit made from assets disposal.

Police Trust Fund Levy - (0.005% of the net profit of companies operating a business in Nigeria)

Tertiary Education Tax (TET) - (3% of the assessable profit for each year of assessment - non-resident companies and unincorporated entities are exempt). The 3% rate became effective for accounting periods ending on or after 1 September 2023.

National Agency for Science and Engineering Infrastructure Levy (NASENI) - (0.25% of the profit before tax of commercial companies in the banking, mobile communication, ICT, aviation, maritime, and oil and gas sectors - only applies to companies with a turnover above NGN 100 million)

### 2.3 Year of assessment

Actual Year Basis (AYB) and Preceding Year Basis (PYB) Taxes like Company Income Tax (CIT), Capital Gain Tax (CGT), Personal Income Tax (PIT) are on Preceding Year Basis (PYB) while Withholding Tax (WHT) and Value Added Tax (VAT) are on Actual Year Basis (AYB).

### 2.4 Profits deemed to be taxable

A Nigerian company (company registered in Nigeria) is liable to tax on its worldwide income being its profits accruing in, derived from, brought into, or received in Nigeria.

Non-resident companies (NRCs) have historically been liable to tax on income derived from Nigeria, that is, income attributable to their Nigerian operations (through a fixed base, agency or single contract with offshore components and local installation).

- Digital, online or e-commerce activities ("Digital SEP"): NRCs that earn annual revenues of N25m and above from remotely performing a range of digital activities to customers in Nigeria. Such companies will be required to file annual tax returns in Nigeria.

- Technical, Professional, Management and Consultancy services ("TPMC SEP"): NRCs that remotely provide the above-mentioned services to customers in Nigeria. Withholding Tax (WHT) at 10% deducted by the customers is final tax for the foreign companies

## 2.5 Taxation of dividends

When a Nigerian company distributes dividend to any company or person, the distributing company shall at the point of payment of such dividend, deduct from such payment, tax at the rate of 10% and remit the deducted amount to either the Federal Inland Revenue Service (FIRS) for Corporate entities or the relevant State Internal Revenue Service (SIRS) for individuals. This tax which is deducted and remitted at the point of payment of dividend to the shareholder is called the withholding tax on dividends (WHT)

## 2.6 Taxation of capital gains

The Tax rate is 10% on capital gains. The capital gain is the difference between the sale proceeds from sale of the assets. Expenses that are incidental to the disposal are allowed as a deduction from the sales proceeds. A positive difference is a gain while the negative difference is a loss.

## 2.7 Taxation of interest income

Interest received by a Nigerian company is liable to tax at the relevant Company Income Tax (CIT) rate, with tax withheld at 10% available as an offset against the final tax liability. Interest on government bonds is tax exempt.

## 2.8 Utilization of tax losses

Companies can carry forward their losses to offset against future taxable income, reducing their tax liability. Here are some key points on the utilization of tax losses in CIT:

**Carry forward Period:** In Nigeria, companies are generally allowed to carry forward tax losses for a specified number of years. The carry forward period is typically set by tax regulations and may vary. However, in practice, companies are generally allowed to carry forward tax losses indefinitely.

**Offsetting Against Future Profits:** Companies can use the carried-forward tax losses to offset against future taxable profits. This helps reduce the amount of taxable income subject to Corporate Income Tax.

**Utilization Limitations:** Some jurisdictions may impose limitations on the amount of tax losses that can be utilized in a given year. This could be a percentage of the current year's taxable income or a specific monetary limit.

**Compliance with Regulations:** Companies must comply with the relevant tax regulations and guidelines to ensure proper utilization of tax losses. This may involve documenting and substantiating the carried-forward losses and adhering to any specific requirements set by the tax authorities.

## 2.9 Key tax incentives

Nigeria has various tax incentives intended to encourage investment in key sectors of the economy, as follows:

- Rural location incentives.

Certain incentives are available to companies located in rural areas. The incentives take the form of tax reductions at graduated rates for enterprises located at least 20 kilometres from available electricity, water, and

tarred roads. This incentive has been deleted effective 1 September 2023. However, there is scope to claim the incentive for expenditure incurred on or before the effective date.

- Export incentives

Export processing zones (EPZs) and free trade zones (FTZs) are locations within Nigeria designated by the government as free areas where export trade activities can be carried on free of tax and foreign exchange restrictions.

A company that is engaged in an approved manufacturing activity in an EPZ and incurs expenditures in its qualifying building and plant equipment is entitled to 100% capital allowance in that year of assessment.

In addition, a company that is 100% export oriented but located outside an EPZ will enjoy a three-year tax holiday, provided the company is not formed by splitting up or reconstruction of an already existing business and the export proceeds from at least 75% of its turnover.

Profits of companies whose supplies are exclusively inputs to the manufacture of products for export are exempt from tax. Such companies are expected to obtain a certificate of purchase of the input from the exporter in order to claim tax exemption.

Where plant and machinery are transferred to a new company, the tax written down value of the asset transferred must not exceed 25% of the total value of plant and machinery in the new company. The company should also repatriate at least 75% of the export earnings to Nigeria and place it in a Nigerian domiciliary account in order to qualify for a tax holiday.

Profits of any Nigerian company in respect of goods exported from Nigeria are exempt from tax, provided that the proceeds from such exports are repatriated to Nigeria and are used exclusively for the purchase of raw materials, plant, equipment, and spare parts. This exemption does not apply to companies in the oil and gas industry (upstream, midstream, and downstream).

The tax exemption for FTZ companies is subject to such companies filing income tax and transfer pricing (where applicable) returns to the FIRS.

- Export Expansion Grant (EEG) Scheme

The EEG Scheme grants the Export Credit Certificate (ECC) as an incentive that can be used to settle all federal government taxes, such as VAT, WHT, CIT, etc. It can also be used to purchase government bonds and repay government credit facilities and debts due to the Assets Management Company of Nigeria (AMCON).

To encourage export of value added and processed/ manufactured products, exporters are divided into four categories with maximum applicable EEG rates as indicated below:

- Fully manufactured products: 15%
- Semi-manufactured products: 10%
- Processed/intermediate products: 7.5%
- Merchants/primary agricultural commodities: 5%



- Gas utilization incentives

Companies engaged in gas utilisation are entitled to:

- A tax-free period for up to five years.
- Accelerated capital allowance after the tax-free period.
- Tax-free dividends during the tax-free period.

Investors in gas pipelines can obtain an additional tax-free period of five years.

- Tourism incentives

25% of the income derived from tourism by hotels in convertible currencies is exempt from tax if such income is put in a reserve fund to be utilised within five years for expansion or construction of new hotels and other facilities for tourism development. This incentive has been deleted effective 1 September 2023. However, there is scope to utilised reserved funds prior to the effective date of the Act until the funds are fully utilised or the five years limit has elapsed, whichever occurs first.

- Interest incentives

Interest accruing on deposit accounts of a non-resident company is tax-exempt, provided the deposits are made by transfer of funds to Nigeria on or after 1 January 1990 and the depositor does not become non-resident after making the deposit while in Nigeria.

Interest on foreign-currency domiciliary accounts is also tax-exempt.

Interest on any foreign loans, and interest on any loan granted by a bank for the purpose of manufacturing goods for export, is exempt from tax as follows:

Repayment Period	Moratorium	Exemption (%)
Over 7 years	Not less than 2 years	70
5 to 7 years	Not less than 1.5 years	40
2 to 4 years	Not less than 1 year	10

Interest on any loan granted by a bank to a company engaged in primary agricultural trade, fabrication of local plant and machinery, or as working capital to any cottage industry is 100% tax free if the loan has a moratorium of not less than 12 months and the rate of interest is not more than the base lending rate at the time the loan was granted, refinanced, or otherwise restructured.

- Investment allowances

An investment allowance of 10% on the cost of qualifying expenditures in respect of plant and machinery is available as a deduction from assessable profits in the year of purchase. This incentive has been deleted effective 1 September 2023. However, there is scope to claim the incentive for expenditure incurred on or before the effective date.

There is no restriction to the full claim of capital allowance in any year of assessment for companies in the mining, manufacturing, and agricultural sectors, and upstream and midstream gas operations.

- Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme

Participants in the Road Infrastructure Development and Refurbishment Investment Tax Scheme are entitled to recover the cost incurred by them in the construction or refurbishment of eligible roads as credit against CIT payable. Participants are also entitled to a single uplift, equivalent to the Central Bank of Nigeria (CBN) Monetary Policy Rate plus 2% of the project cost. This uplift will not be taxable in the hand of the participant. The tax credit can be carried forward to subsequent years until it is fully utilised. A participant may sell or transfer its tax credit to other companies, as a form of security or otherwise.

- Foreign Tax Credit

Nigeria does not grant automatic tax credits to Nigerian companies for foreign tax on income derived from other countries. The Nigerian tax laws already provide for tax exemption for dividends, interest, and royalties.

Foreign tax credits are only granted based on the provisions of existing DTTs and partial credits as applicable to Commonwealth countries. In this regard, full tax credits are usually provided for in the DTTs. Tax credits for members of Commonwealth countries are granted at up to half the Nigerian CIT rate.

## 2.10 Withholding tax

Withholding tax is an advance income tax payment which is intended to bring taxpayers such as consultants' contractors, suppliers, landlords, and shareholders into the tax net. There are varying rates of WHT ranging from 2.5% to 10% for companies and 5% to 10% for individuals depending on the transaction.

Transactions	Companies	Individual
Dividends, Interest and Rent	10%	10%
Royalties	10%	5%
Hire of Equipment, Motor Vehicles, Plants and Machinery	10%	10%
Commission, Consultancy, Technical and management fees, legal fees, audit fees and other professional fees	10%	5%
Construction of road bridges, building and power plant	2.5%	5%
Other types of construction	5%	5%
All types of contracts and agency arrangements, other than sales in the ordinary course of business	5%	5%
All types of contracts and agency arrangements, other than sales in the ordinary course of business	N/A	10%

## 2.11 Transfer pricing

Transfer Pricing documentation is the taxpayer's justification that the transactions were conducted and priced at arms' length. They are records maintained by taxable persons as proof that the arms' length principle was followed in the pricing of transactions between related persons.

## 2.12 Filing requirements of tax return

### Filing due date

Within 6 months of the company's accounting year end. However, a new company must file its returns within 18 months from the date of incorporation or 6 months after the end of its first accounting period, whichever is earlier

## Penalties

Failure to file CIT returns attracts a penalty of NGN 25,000 for the first month and NGN 5,000 for each subsequent month of default. Late payment of CIT attracts a 10% penalty and interest at the commercial rate

## Payment of profit tax and application of holdover

# PERSONAL TAX

## 3.1 Basis of taxation (Residence, personal assessment)

Personal Income Tax is charged on the income of sole traders, self-employed, partnership, trustees, and executors. In Nigeria, personal income tax is based on residency rule. Thus, an individual will be a tax resident if the Individual; Works fully (or partially) in Nigeria.

## 3.2 Rates of tax

Personal Income Tax (PIT) is applied on a graduated scale and taxable income bands are set out below:

Tax Band (₦)	Rate (%)
First 300,000	7
Next 300,000	11
Next 500,000	15
Next 500,000	19
Next 1,600,000	21
Above 3,200,000	24

## 3.3 Year of assessment

Actual Year Basis (AYB)

## 3.4 Allowances and deductions

Consolidated Relief Allowance (CRA): The CRA is a tax allowance provided to individuals to reduce their taxable income. It encompasses several allowances, including the following: Basic allowance, Housing allowance, Transport allowance, Meal subsidy, Utility allowance. There is also dependent relief which is for individuals supporting dependents such as children or family members. Other tax deduction includes Pension Contributions, National Housing Fund (NHF) Contributions, Life Assurance Premiums, National Health Insurance Scheme (NHIS), Interest on Mortgage Loans, Donations and Charitable Contributions.

## 3.5 Taxation of dividends

Mentioned above in Para 2.5

## 3.6 Taxation of capital gain

Mentioned above in Para 2.6

## 3.7 Taxation of interest income

Mentioned above in Para 2.7

## 3.8 Personal assessment and utilization of losses

Carry-Forward of Losses: Businesses in Nigeria may be allowed to carry forward tax losses incurred in a particular year to offset against profits in subsequent years. This is often subject to certain conditions and limitations.

Set-off of Losses Against Other Income: In some cases, individuals may be allowed to set off losses from one source of income against gains or profits from another source.

Capital Allowances: Businesses are generally entitled to claim capital allowances on qualifying capital expenditures, and these allowances can be used to reduce taxable profits.

Group Relief: Companies that are part of the same group may be allowed to surrender losses from one entity to be offset against profits of another entity within the group, subject to certain conditions.

## 3.9 Withholding tax

Mentioned above in Para 2.10

## 3.10 Statutory obligation of employers

Employers are required to deduct and remit the appropriate amount of PAYE tax from the salaries and wages of their employees. The deducted tax should be remitted to the relevant tax authority within a specified period.

Employers are required to deduct and remit the NHF contribution from employees' salaries and make corresponding employer contributions, and also deduct and remit pension contributions on behalf of employees to approved pension fund administrators.

Tax Returns and Filings: Employers are responsible for filing various tax returns with the tax authorities, including annual returns providing details of employees, salaries, and taxes deducted.

Withholding Tax (WHT): Employers may be required to withhold tax on payments made to suppliers, contractors, and service providers and remit the withholding tax to the tax authorities.

Tax Clearance Certificate (TCC): Employers may be required to ensure that their employees obtain and maintain valid Tax Clearance Certificates. This is often a condition for certain employment or business transactions.

Expatriate Employment Levy (EEL): The (Expatriate Employment Levy) EEL is a government-mandated contribution imposed on organizations which engage expatriate workers in Nigeria, subject to certain exemptions. Its objectives are to promote skills transfer and knowledge sharing, balance economic growth and social welfare, enhance collaboration between public and private sectors and address demographic shifts. The effective date of implementation of the Expatriate Employment Levy (EEL) which was earlier scheduled as 15th March has been suspended by the Federal Government.

## 3.11 Filing requirement of tax return

### Filing due dates

Individuals are to file returns not later than 31 March annually in respect of the preceding year.

### Penalties

Late filing attracts a fine of NGN 500,000 in the case of corporate bodies, and NGN 50,000 in the case of individuals

### Application of holdover

Not Applicable

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Ministry of Finance of the government of Nigeria regulates all benefits to employees of different government and non-government organization.

### 4.2 Basis of contribution

Monthly basis

### 4.3 Contribution rate

Not less than 18% of monthly emoluments (with a minimum contribution of 10% by the employer and up to 8% by the employee). The employer and/or the employee may make additional voluntary contributions.

Where an employer decides to solely contribute to the scheme, the contribution shall not be less than 20% of the employee's monthly emolument.

### 4.4 Exemption from tax

- Persons mentioned in Section 291 of the constitution of the Federal Republic of Nigeria, 1999 (as amended), members of the Armed Forces, the Intelligence, and Secret Services of the Federation.
- Expatriate employees may join the scheme at their discretion and with the agreement of their employers.

## GST/VAT

### 5.1 Basis of tax

VAT [Value Added Tax] is imposed on the supply of goods and services at each stage of the production and distribution chain.

The Act provides a list of goods and services that are exempt from VAT, including basic food items, medical and pharmaceutical products, educational materials, and services rendered by microfinance banks. VAT is applicable to the importation of goods into Nigeria. Importers are required to pay VAT on the value of imported goods at the point of entry.

### 5.2 Rates of tax

Standard rate of 7.5% of the value of goods and services

### 5.3 Registration

**Mandatory Registration:** Businesses with an annual turnover above a specified threshold are required to register for VAT with the Federal Inland Revenue Service (FIRS) and obtain a Tax Identification Number (TIN).

**Voluntary Registration:** Businesses with turnover below the mandatory threshold may voluntarily register for VAT if they wish to claim input VAT on their purchases.

### 5.4 Filing requirements

The following should be submitted to the tax authority.

- Completed VAT returns form
- VAT schedule showing Tax Identification number (TIN), name and address, date of transaction, invoice number, contract sum, rate applied, tax paid and month of return.

VAT Returns are required to be filed every 21st day of the month following the month of transaction.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Foreign tax credit allows Nigerian taxpayers to offset foreign taxes paid against their Nigerian tax liability.

### 6.2 List of double tax treaties signed

Nigeria has signed several double tax treaties (DTTs) to avoid the issue of double taxation on income earned in foreign countries. These treaties are designed to prevent taxpayers from being taxed on the same income in both their home country and the country where the income is earned. Here is a list of some countries with which Nigeria has signed double tax treaties

**United Kingdom (UK):** The DTT between Nigeria and the UK aims to prevent double taxation and facilitate the exchange of information between the two countries.

**France:** Nigeria has a double tax treaty with France to address issues related to double taxation of income.

**South Africa:** The DTT with South Africa is intended to provide relief from double taxation and encourage economic cooperation between the two countries.

**Canada:** Nigeria has a double tax treaty with Canada to avoid the taxation of the same income in both jurisdictions.

**Belgium:** The double tax treaty with Belgium is designed to eliminate the possibility of double taxation on income derived from both countries.

**China:** Nigeria has a double tax treaty with China, which covers various types of income to prevent double taxation.

**Netherlands:** The DTT with the Netherlands aims to provide a framework for the avoidance of double taxation and the prevention of fiscal evasion.

**Pakistan:** Nigeria and Pakistan have a double tax treaty in place to address taxation issues and promote economic cooperation.

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duty is chargeable either at fixed rates or ad valorem (i.e., in proportion to the value of the consideration) depending on the class of instrument. An "Electronic Money Transfer" levy is applicable on electronic receipts or electronic transfer for money deposited in a financial institution, on any type of account. The applicable levy is ₦50 on any transfer of ₦10,000 or more. The levy is to be accounted for by the person to whom the transfer or deposit is made.

All instruments (written and electronic documents) relating to an act to be performed in Nigeria must be stamped, except such instrument is specifically exempted.

#### Exemptions/Incentives

Instruments in connection with a scheme for the reconstruction or amalgamation of companies may enjoy relief from stamp duties subject to specified condition –

- Transfer from self to self, whether inter or intra bank i.e., transfers between accounts held by the same person
- Receipts given by any person in a Regulated Securities Lending Transaction carried out under regulation issued by the Securities and Exchange Commission.
- Shares, stocks or securities transferred by a Lender to its approved agent or a Borrower in furtherance of a Regulated Securities Lending Transaction
- Shares, stocks or securities returned to a lender or its approved agent by a borrower in pursuant to a Regulated Securities Lending Transactions
- All documents relating to a Regulated Securities Lending Transaction carried out pursuant to regulations issued by the Securities and Exchange Commission

## 7.2 Real property tax

N/A

## 7.3 Estate duty

N/A

## 7.4 Net wealth/net worth tax

N/A

## 7.5 Others

### Business tax

The following are taxes applicable to business in Nigeria:

- Company Income Tax (CIT)
- Personal Income Tax (PIT)
- Value Added Tax (VAT)
- Withholding Tax (WHT)
- Petroleum Profit Tax
- Stamp Duty

### Consumption tax, etc.

Consumption tax is typically levied on the purchase of goods or services and is paid directly or indirectly by the consumer in the form of retail sales taxes, excise taxes, tariffs, value-added taxes (VAT), or an income tax where all savings is tax-deductible.

## POINT OF CONTACT

### Name of contact

Emmanuel Ogiaga

### Telephone with country code

+234 803 829 9593

### Email address

emmanuel.ogiaga@gbc-consult.com



# PAKISTAN

## GENERAL INFORMATION

### 1.1. Country/Region

Pakistan

### 1.2 Currency

Pakistani rupee (PKR) is divided into 100 paisa.

### 1.3 Types of Entitles

- Public Listed Company.
- Public Unlisted Company.
- Private Limited Company.
- Single Member Company Private Limited
- Limited Liability Partnership (LLP) - (Regulated by SECP)
- Association of persons (Partnership Firm) - (Regulated by the registrar of firms)
- Branch or Liaison office of a Foreign Corporation.
- Sole proprietorship.

### 1.4 Foreign exchange control

Foreign exchange policy and its operations in Pakistan are formulated and regulated in accordance with the provisions of the "Foreign Exchange Regulation Act, 1947" (the Act).

### 1.5 Current economy climate (Industry overview / encouraged business development)

Pakistan's economy has shown periodic 'boom-bust' growth cycles. The reasons for such volatile growth cycles include wide-ranging economic challenges like shrinking fiscal space, exchange rate pressure, mounting current account deficit, inflation, energy sector bottlenecks, and the absence of a supportive environment for the private sector.

In FY2024, the real GDP growth remained at 2 percent, which is 340 billion USD at the close of December 2023. The growth, however, is also accompanied by external and internal imbalances, as has been the case historically with Pakistan's economy.

The inflation rate measured at 23.1% while the base interest rate is 22% at the month of February 2024.

### 1.6 National tax authority

#### Name

Federal Board of Revenue (FBR)

#### Website

<https://fbr.gov.pk/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Any company incorporated or formed under any law in force in Pakistan or any company controlled or managed from within Pakistan shall be treated as a resident company for the purpose of tax laws and subject to tax on income derived from within Pakistan as well as foreign-sourced income. However, credit for any income tax paid on foreign sourced income shall be allowed to the company.

Bodies of persons subject to corporate tax are:

- a company incorporated under the Companies Act, 2017
- a body corporate formed by or under any law in force in Pakistan;
- a modaraba;
- a body incorporated by or under the law of a country outside Pakistan relating to the incorporation of companies;
- a cooperative society, a finance society or any other society;
- a non-profit organization;
- a trust, an entity or a body of persons established or constituted by or under any law for the time being in force;
- a foreign association, whether incorporated or not, which the [Board] has, by general or special order, declared to be a company for the purposes of this Ordinance;
- a Provincial Government;
- a Local Government in Pakistan;
- a Small Company

### 2.2 Rates of tax

Applicable Income Tax rates for Companies:

Companies (other than banking companies)	29%
Banking companies	39%
Small Companies	20%

#### Applicable Income Tax rates for Small and Medium Enterprises:

The tax payable by a small and medium enterprise for tax year 2021 and onwards shall be computed and paid at the rates specified below:

S. No.	Category	Turnover	Rates
1.	Category - 1	Where annual business turnover does not exceed Rupees 100 million	7.5% of taxable income
2.	Category - 2	Where annual turnover exceeds Rupees 100 million but does not exceed Rupees 250 million	15% of taxable income



### Super tax on high earning persons:

A super tax shall be imposed for the tax year 2022 and onwards at the rates specified below on the income of every person:

S. No.	Income	Rate of Super Tax
1.	Where income does not exceed Rs.150 million	0% of the income
2.	Where income exceeds Rs. 150 million but does not exceed Rs. 200 million	1% of the income
3.	Where income exceeds Rs. 200 million but does not exceed Rs. 250 million	2% of the income
4.	Where income exceeds Rs. 250 million but does not exceed Rs. 300 million	3% of the income
5.	Where income exceeds Rs. 300 million but does not exceed Rs. 350 million	4% of the income
6.	Where income exceeds Rs. 350 million but does not exceed Rs. 400 million	6% of the income
7.	Where income exceeds Rs. 400 million but does not exceed Rs. 500 million	8% of the income
8.	Where income exceeds Rs. 500 million	10% of the income

Notes:

- i. The Banking companies are subject to super tax from the tax year 2023 onwards. The rate of super tax shall be 10%, where the income exceeds Rs. 300 million.

### 2.3 Year of assessment

For the purpose of taxation, the tax year shall be a period of twelve months ending on the 30th day of June. However, if the Company has a compelling need to adopt a tax year other than the above (normal tax year), the Company may have a special tax year after approval from the concerned competent authority.

### 2.4 Profits deemed to be taxable

The income assessable to tax includes:

- Rental Income from Property
- Income / (Loss) from Business – (Manufacturing/Trading/ Service/Other)
- Gains / (Loss) from Capital Assets
- Foreign Income
- Agriculture Income
- Royalty
- Profit on Debt (Interest, Yield, etc.)
- Fee for Technical / Professional Services
- Accounting Gain on Sale of intangibles & tangibles
- Net Gain / (Loss) on Securities held long term
- Rent from sub lease of Land or Building
- Rent from lease of Building with Plant and Machinery
- Deemed income derived from the capital assets situated in Pakistan
- Income from other sources

### 2.5 Taxation of dividends

Rate of Dividend Tax

Dividend received from:

Independent Power Producers	7.5%
Other cases	15%
From a company where no tax is payable by such company due to exemption of income or carry forward of business losses	25%

Dividend received from Special Purpose Vehicle under the Real Estate Investment Trust Regulations, 2015:

in the case of dividends received by a REIT scheme	0%
in the case of dividends received by others	35%

### 2.6 Taxation of capital gains

Gain arising on disposal of open plot and constructed property would be calculated based on the holding period as follows:

S. No.	Holding period	Open Plots	Constructed Property	Flats
1.	Not exceeding one year	15%	15%	15%
2.	Exceeds one year but does not exceed two years	12.5%	10%	7.5%
3.	Exceeds two years but does not exceed three years	10%	7.5%	—
4.	Exceeds three years but does not exceed four years	7.5%	5%	—
5.	Exceeds four years but does not exceed five years	5%	—	—
6.	Exceeds five years but does not exceed six years	2.5%	—	—
7.	Exceeds six years	0%	—	—

### CAPITAL GAIN ON SECURITIES:

“Security” means;

- Share of a public company;
- Voucher of Pakistan Telecommunication Corporation;
- Modaraba Certificate;
- Instrument of redeemable capital;
- Debt Securities;
- Unit of exchange traded fund; and,
- Derivative products.

### TAX RATES FOR CAPITAL GAIN ON SECURITIES:

Capital gain on disposal of securities shall be chargeable to tax at the following rates:

S. No.	Holding Period	Rate of Tax for Tax year 2023 and onwards
1.	Where the holding period does not exceed one year	15%
2.	Where the holding period exceeds one year but does not exceed two years	12.5%
3.	Where the holding period exceeds two years but does not exceed three year	10%

S. No.	Holding Period	Rate of Tax for Tax year 2023 and onwards
4	Where the holding period exceeds three years but does not exceed four years	7.5%
5	Where the holding period exceeds four years but does not exceed five years	5%
6	Where the holding period exceeds five years but does not exceed six years	2.5%
7	Where the holding period exceeds six years	0%
8	Future commodity contracts entered into by members of the Pakistan Mercantile Exchange	5%

- A mutual fund or a collective investment scheme or a REIT scheme shall deduct Capital Gains Tax and on Redemption of securities at 10% for stock funds and 25% for other funds.

## 2.7 Taxation of interest income

Interest income derived by any company shall be taxable under the head "Income from other source" under minimum tax regime.

- The withholding rate u/s 151 is 15% of the profit on debt.

## 2.8 Taxation of deemed income

Deemed income effective from the tax year 2022 has been imposed on an amount equal to 5% of the fair market value of capital asset situated in Pakistan held on the last day of the tax year, excluding the following:

- One capital asset owned by the resident person;
- Self-owned business premises;
- Self-owned agriculture land where agriculture activity is carried out;
- Capital asset allotted to Shaheed (Martyred) or dependents;
- Any property from which income is chargeable to tax;
- Capital asset in the first tax year of acquisition where tax under section 236K has been paid;
- Where the fair market value of the capital assets in aggregate does not exceed Rs. 25 million;
- Capital assets owned by a provincial government or a local government;
- Farmhouse not exceeding 2000 square yards; or
- Capital assets owned by a local authority, a development authority, builders and developers for land development and construction, subject to the condition that such persons are registered with the Directorate General of Designated Non-Financial Businesses and Professions.

The rate of tax shall be 20% of deemed income.

## 2.9 Utilization of tax losses

### Business losses:

Loss incurred under the heading of "Income from Business" by the Company can be set off against the taxable income of the company under any heading for the year. Unadjusted loss, if any, can be carried forward up to the following immediate six tax years.

Where a loss relating to a tax year commencing on or after the first day of July 2020 is sustained by a resident company engaged in the hotel business in Pakistan, the said loss shall be carried forward for a period of eight years.

**Depreciation, initial allowance and amortization of intangibles** – Loss incurred on account of Initial Allowance, Depreciation/Amortization under the heading of "Income from Business" shall be carried forward for an indefinite period.

### Carry forward of capital losses:

Capital loss sustained by a Company for a tax year is not wholly set off, then the amount of the loss not set off shall be carried forward to the following tax year, and so on, but no loss shall be carried forward to more than six tax years immediately succeeding the tax year.

However, loss arising on the following capital assets shall never be recognised.

- A painting, sculpture, drawing or other work of art;
- Jewelry;
- A rare manuscript, folio or book;
- A postage stamp or first day cover;
- A coin or medallion; or
- An antique.

No loss shall be deducted/allowed on the disposal of a capital asset where a gain on the disposal of such asset would not be chargeable to tax.

### Capital loss on disposal of securities:

Further loss arising on securities can be adjusted against capital gain on securities only. Any unadjusted loss can be carried forward for immediately succeeding three tax years for which the loss was first computed.

## 2.10 Key tax incentives

### Tax Incentive on Export of IT Services:

Income from exports of computer software or IT services or IT enabled services is taxable at the reduced rate of 0.25% of the export proceeds, which is the final tax liability on the income.

### Tax Incentive on Export of Other Services:

The export of services other than IT Services is taxable at 1% of the export proceeds as the final tax liability. It includes:

- services or technical services rendered outside Pakistan or exported from Pakistan
- royalty, commission or fees derived by a resident company from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial or scientific knowledge, experience or skill made available or provided to such enterprise;
- construction contracts executed outside Pakistan
- foreign commission due to an indenting commission agent

### Tax Credit for Startup:

100% tax credit against the tax payable is applicable on the income of a startup in a tax year in which startup is certified by

the Pakistan Software Export Board and the next following two tax years. Startup means “a business of a resident individual, AOP or a company that commenced on or after the first day of July 2012 and the person is engaged in or intends to offer technology driven products or services to any sector of the economy provided that the person is registered with and duly certified by the Pakistan Software Export Board (PSEB) and has a turnover of less than one hundred million in each of the last five tax years.”

## 2.11 Withholding tax

To expunge tax evasion and leakage, the tax laws have been designed as such to impose withholding tax on almost every single transaction being undertaken in Pakistan. This involves withholding taxes on salary, utilities, banking transactions, transfer and registration of property and motor vehicles, imports and exports, payment for goods and services, and property rentals. The rate of withholding taxes varies on a transactional basis and, in some cases, varies on a progressive basis.

## 2.12 Transfer Pricing

The Commissioner of Tax is empowered to reclassify any transaction entered between associates (related party) under a tax avoidance scheme to reflect the income that the company would have realised in an arm's length transaction.

## 2.13 Filing requirements of tax return

<b>Filing due date</b>	Companies with tax year end between 1 January and 30 June are liable to file their return of income by 31 December. Companies with tax year end on any other dates are liable to file their return of income by 30 September following the end of the financial year.
<b>Penalties</b>	A Company shall pay a penalty equal to higher of – a) 0.1% of the tax payable in respect of that tax year for each day of default; or b) rupees one thousand for each day of default. Provided that the minimum penalty shall be rupees fifty thousand. Provided further that the maximum penalty shall not exceed two hundred percent of the tax payable by the person in a tax year.

# PERSONAL TAX

## 3.1 Basis of taxation (Residence, Personal assessment)

An individual shall be a resident individual for a tax year if the individual

- is present in Pakistan for a period of, or periods amounting in aggregate to, one hundred and eighty-three days or more in the tax year; or,
- is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year; or,
- being a citizen of Pakistan is not present in any other country for more than one hundred and eighty-two days during the tax year or who is not a resident taxpayer of any other country.

Individual income tax shall be classified under the following categories:

- Salary
- Income from property

- Dividends
- Profit on debt
- Income from business
- Capital gains
- Income from other sources

## 3.2 Rates of tax

### Salaried Individual:

S. No.	Income Group	Rate
1	up to Rs. 600,000	0
2	Rs. 600,001 to Rs. 1,200,000	2.5% of the amount exceeding Rs. 600,000
3	Rs. 1,200,001 to Rs. 2,400,000	Rs. 15,000 + 12.5% of the amount exceeding Rs. 1,200,000
4	Rs. 2,400,001 to Rs. 3,600,000	Rs. 165,000 + 22.5% of the amount exceeding Rs. 2,400,000
5	Rs. 3,600,001 to Rs. 6,000,000	Rs. 435,000 + 27.5% of the amount exceeding Rs. 3,600,000
6	Rs. 6,000,001 and above	Rs. 1,095,000 + 35% of the Amount exceeding Rs. 6,000,000

### Other Individual/AOP:

S. No.	Income Group	Rate
1	up to Rs. 600,000	0
2	Rs. 600,001 to Rs. 800,000	7.5%
3	Rs. 800,001 to Rs. 1,200,000	Rs. 15,000 + 15% of the amount exceeding Rs. 800,000
4	Rs. 1,200,001 to Rs. 2,400,000	Rs. 75,000 + 20% of the amount exceeding Rs. 1,200,000
5	Rs. 2,400,001 to Rs. 3,000,000	Rs. 315,000 + 25% of the amount exceeding Rs. 2,400,000
6	Rs. 3,000,001 to Rs. 4,000,000	Rs. 465,000 + 30% of the amount exceeding Rs. 3,000,000
7	Rs. 4,000,001 and above	Rs. 765,000 + 35% of the amount exceeding Rs. 4,000,000

### SEPARATE TAXATION:

However, Capital gain on immovable property and Capital gain on securities are taxable as a separate block of income.

## 3.3 Year of assessment

The tax year of each individual covers the year from 1st of July to 30th of June, unless Special Tax Year.

## 3.4 Allowances and Deductions

An individual resident is allowed for the following personal relief from the total income:

- Zakat
- Workers' welfare fund
- Workers' participation fund
- Deductible allowance for educational expenses
- Charitable donations
- Contribution to an Approved Pension Fund.

### 3.5 Taxation of dividends

Dividend income is subject to Withholding Tax (WHT) if paid by:

Independent Power Producers	7.5%
Other cases	15%
From a company where no tax payable by such company, due to exemption of income or carry forward of business losses.	25%

### 3.6 Taxation of capital gain

Gain arising on disposal of open plot and constructed property would be calculated same as for corporate taxation explained in 2.6.

Further loss arising on immovable property can be adjusted against gain under the head capital gain only. Any unadjusted loss can be carried forward for the following immediate six tax years.

#### **CAPITAL GAIN ON SECURITIES:**

#### **TAX RATES FOR CAPITAL GAIN ON SECURITIES:**

Capital gain on disposal of securities shall be chargeable to tax same as the corporate tax explained in 2.6.

A mutual fund or a collective investment scheme or a REIT scheme shall deduct Capital Gains Tax and on Redemption of securities at 10% for all funds.

Capital loss on disposal of securities will be adjusted in the same way as corporate tax, as explained in 2.6.

### 3.7 Taxation of interest income

Interest income of individuals is subject to a final tax of 15% where the total income earned in a tax year does not exceed PKR 5 million. Where the interest income exceeds PKR 5 million, it would be subject to tax at normal slab rates applicable for individual. Income tax withholding in the instant case is fixed at 15%.

### 3.8 Taxation of deemed income

Deemed income effective from the tax year 2022 has been imposed on an amount equal to 5% of the fair market value of capital asset situated in Pakistan held on the last day of the tax year, excluding the following:

- One capital asset owned by the resident person.
- Self-owned business premises.
- Self-owned agricultural land where agricultural activity is carried out.
- Capital asset allotted to Shaheed (Martyred) or dependents.
- Any property from which income is chargeable to tax.
- Capital asset in the first tax year of acquisition where tax under section 236K has been paid.
- Where the fair market value of the capital assets in aggregate does not exceed Rs. 25 million.
- Capital assets owned by a provincial government or a local government;
- Farmhouse not exceeding 2,000 square yards; or

- Capital assets owned by a local authority, a development authority, builders and developers for land development and construction, subject to the condition that such persons are registered with the Directorate General of Designated Non-Financial Businesses and Professions.

The rate of tax shall be 20% of deemed income.

### 3.9 Personal assessment and utilization of losses

#### **Business losses:**

Loss incurred under the head "Income from Business" by the Individual can be set off against the taxable income of the Individual under any head for the year except income from salary. Unadjusted loss, if any, can be carried forward up to the following immediate six tax years.

**Depreciation, initial allowance and amortization of intangibles** – Loss incurred on account of Initial Allowance, Depreciation/Amortization under the head "Income from Business" shall be carried forward for an indefinite period.

#### **Carry forward of capital losses:**

Capital loss sustained by an Individual for a tax year is not wholly set off, then the amount of the loss not set off shall be carried forward to the following tax year, and so on, but no loss shall be carried forward to more than six tax years immediately succeeding the tax year.

#### **Capital loss on disposal of securities:**

Capital loss (Loss on Securities) sustained by a company, if not wholly set off, can be carried forward up to the following three tax years to be adjusted against respective income only.

### 3.10 Withholding tax

Please refer to the point mentioned above under section 2.10.

### 3.11 Statutory obligation of employers

Employers have the obligation to withhold salary tax on a monthly basis. The salary tax has to be declared and paid on monthly basis.

### 3.12 Filing requirement of tax return

<b>Filing due date</b>	A return of income other than a company shall be furnished on or before the thirtieth day of September every year.
<b>Penalties</b>	A person shall pay a penalty equal to higher of – a) 0.1% of the tax payable in respect of that tax year for each day of default; or b) rupees one thousand for each day of default. Provided that the Minimum penalty shall be – (i) rupees ten thousand in case of an individual having seventy five percent or more income from salary; or Provided further that the maximum penalty shall not exceed two hundred percent of the tax payable by the person in a tax year.

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Federal and Provincial authorities.

## 4.2 Basis of contribution

Every commercial and industrial establishment having a certain number of employees must provide the retirement benefit. Mostly there are two types of retirement benefits, one is gratuity and the other is provident fund.

## 4.3 Contribution rate

### Gratuity:

Rate of gratuity is "thirty (30) days wages for every completed year of service or any period in excess of six months".

### Provident Fund:

Employers and employees each are required to make mandatory contributions to a Provident Fund. It is 10% of the employee's relevant income.

## 4.4 Exemption from tax

The contributions made by an employee and employer are exempt.

## GST/VAT

### 5.1 Basis of tax

Sales tax (VAT) shall be charged, levied and paid at the standard rate of eighteen per cent of the value of:

- taxable supplies made by a person registered under sales tax; and,
- goods imported into Pakistan.

### 5.2 Rates of tax

The standard rate is 18% on goods by the Federal Government (Other than Services).

Provincial sales tax rates on services:

Sindh Province:	13%
Baluchistan Province:	15%
Punjab Province:	16%
KPK Province:	15%
Islamabad Capital Territory (Tax on Services):	15%

### 5.3 Registration

The following sectors are required to be registered for sales tax and charge sales tax on their supplies/services:

- Manufacturers (excluding cottage industry);
- Importers;
- an exporter (who intends to obtain a sales tax refund against his zero-rated supplies);
- Service providers;
- Distributors, wholesalers & retailers.

Sales tax is chargeable on all locally produced and imported goods except for computer software, poultry feeds, medicines, gold, silver and unprocessed agricultural produce of Pakistan subject to condition where specified under the Sales Tax Act 1990.

### 5.4 Filing requirements

Sales tax returns shall be filed on a monthly basis by the eighteenth day of the following month's end, and payment shall be made by the fifteenth day of the month's end.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

For salaried individuals:

Any foreign-source salary received by a resident individual is exempt from tax in Pakistan if the individual has paid foreign income tax in respect of that salary.

For Individuals/AOPs/Companies:

Where a resident taxpayer derives foreign source income chargeable to tax in respect of which the taxpayer has paid foreign income tax, the taxpayer shall be allowed a tax credit of an amount equal to the lesser of –

- Foreign income tax paid; or
- Pakistan tax payable in respect of the income.

### 6.2 List of double tax treaties signed

Pakistan has signed comprehensive double tax agreements/arrangement on income with more than 60 countries which aim to eliminate double taxation of income or gains arising in one territory and paid to residents of another territory.

#### Agreements signed and effective:

Austria	Japan	Serbia
Azerbaijan	Jordan	Singapore
Bahrain	Kazakhstan	South Africa
Bangladesh	Korea	Spain
Belgium	Kuwait	Sri Lanka
Belarus	Kyrgyz Republic	Sweden
Bosnia and Herzegovina	Libya	Switzerland
Brunei Darussalam	Lebanon	Syria
Bulgaria	Malaysia	Tajikistan
Canada	Malta	Thailand
China	Mauritius	Tunisia
Czech Republic	Morocco	Turkey
Denmark	Nepal	Turkmenistan
Egypt	Netherlands	Ukraine
Finland	Nigeria	United Arab Emirates
France	Norway	United Kingdom
Germany	Oman	United States of America
Hong Kong	Philippines	Uzbekistan
Hungary	Poland	Vietnam
Indonesia	Portugal	Yemen
Iran	Qatar	
Ireland	Romania	
Italy	Saudi Arabia	

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duty in Pakistan is a fee imposed by provincial governments on all property-related transactions, and it varies from province to province. However, it is usually a certain percentage of the value of a property. Stamp duty is paid during the registration of the property when the title of ownership is transferred from the seller to the buyer.

### 7.2 Real property tax

Property taxes are levied on both buildings (commercial and residential building) and land by the provincial governments



of Pakistan. The Excise and Taxation Departments of the provincial governments release Valuation Tables every year, which provide certain figures based on different measures for each province and sometimes for different cities within a province.

### 7.3 Estate duty

N/A

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### **Business tax**

N/A

#### **Consumption tax, etc.**

N/A

## POINT OF CONTACT

#### **Name of contact**

Ali Lakhany

#### **Telephone with country code**

+92 21 35674741-44

#### **Email address**

ali.lakhany@hzco.com.pk



# SAUDI ARABIA

## GENERAL INFORMATION

### 1.1 Country/Region

Kingdom of Saudi Arabia – GCC

### 1.2 Currency

Saudi Riyal

### 1.3 Principal business entities

Joint liability company

Establishment/sole proprietorship

Limited partnership company

Joint venture

Joint-stock company

### 1.4 Foreign exchange control

Saudi Central Bank (SAMA)

### 1.5 Current economy climate (Industry overview/ encouraged business development)

During its modern era, the Saudi economy witnessed growth in a large number of sectors, taking advantage of the Kingdom's natural resources and its geographical and cultural position among the three continents of the world. This growth resulted in constituting a solid economic base since it became among the twenty largest global economies, an active member of the G20, and one of the main players in the global economy and global oil markets supported by a strong financial system, an effective banking sector and giant government companies that depend highly upon qualified Saudi staff.

In the past years, the Kingdom has also witnessed structural reforms on the economic and financial side, which have enhanced the increase in economic growth rates while maintaining financial stability and sustainability. This is evident in the improvement of the business environment in the Kingdom and the continuous quest to empower the private sector to support economic diversification by improving the business environment and overcoming obstacles to make it a more attractive environment in addition to investing in previously untapped sectors as well as improving the investment environment and increasing its attractiveness to local and foreign investors.

In order to develop and diversify the economy and reduce dependence on oil, the Kingdom of Saudi Arabia launched the Saudi Vision 2030, that stresses many economic and financial reforms which aimed at transforming the structure of the Saudi economy into a diversified and sustainable economy based on enhancing productivity, raising the contribution of the private sector and enabling the third sector.

Since the launch of this vision, the Kingdom has succeeded in implementing many supportive initiatives and structural

reforms to enable economic transformation. This transformation included several major efforts centered on a sectorial dimension that includes enhancing local content and national industry, launching and developing promising economic sectors, and an enabling dimension that aimed at maximizing the role of the private sector and small and medium-sized enterprises, and enhance the sustainability of public finances. These structural changes have contributed to enhancing the Kingdom's economy's ability to steadily overcome the COVID-19 pandemic in 2020. The pace of this structural transformation towards sustainable economic growth is expected to continue in the coming years, especially in light of a number of giant investment initiatives under the supervision of the Public Investment Fund and leading companies. It is also expected that the pace of localization of knowledge and innovative technologies will accelerate.

### 1.6 National tax authority

#### Name

Zakat, Tax, and Customs Authority (ZATCA)

#### Website

<https://zatca.gov.sa/ar/contactus/Pages/default.aspx>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

1. Resident capital company for shares owned directly or indirectly by non-Saudi, as well as shares owned directly or indirectly by a person working in the production of oil and hydrocarbons.
2. Non-Saudi resident is a normal person who practices an activity in the kingdom.
3. Non-Saudi person who practices an activity in the kingdom through a permanent establishment.
4. Non-resident person with taxable income from sources in the kingdom without having a permanent establishment.
5. A person working in the field of natural gas investment.
6. A person who works in the production of oil and hydrocarbon production.

The income tax rules in the Kingdom apply to non-Saudi companies and natural persons who obtain sources of income from the Kingdom to practice activity in the Kingdom.

### 2.2 Rates of tax

- A- The tax rate on the tax base is twenty percent (20%) for each of:
  - 1- The resident capital company.
  - 2- A non-Saudi resident natural person who exercises the activity.

- 3- A non-resident person as a result of an activity he exercises in the Kingdom through a permanent establishment.
- B- The tax rate on the tax base of the taxpayer who works in the field of natural gas investment is twenty percent (20%).
- C- The tax rate for the taxpayer who works in the production of oil and hydrocarbons is as follows:
- 1- (50%) for the taxpayer whose total capital investment in the Kingdom is more than 375 billion riyals.
  - 2- (65%) for the taxpayer whose total capital investments in the Kingdom amount to more than (300) billion riyals and up to an amount of (375) billion riyals.
  - 3- (75%) for the taxpayer whose total capital investments in the Kingdom amount to more than (225) billion riyals and up to an amount of (300) billion riyals.
  - 4- (85%) for the taxpayer whose total capital investments in the Kingdom amount to no more than (225) billion riyals.

For the purposes of applying this paragraph, total capital investments refer to the total accumulated value of fixed assets such as property, equipment, machinery, supplies, etc. and of intangible assets, including the costs of exploration and drilling works and development of oil and hydrocarbons before deducting depreciation and amortization.

## 2.3 Year of assessment

The tax year for a single taxpayer for all aspects of his activity is the fiscal year of the state. The fiscal year for the taxpayer starts from the date of obtaining the commercial register or license unless proven otherwise by evidence. A different tax year may be used in the following cases:

- If the taxpayer uses a different fiscal year approved by the authority before the system comes into force.
- If the taxpayer uses a Gregorian fiscal year.

If the taxpayer is a member of a group of companies or a branch of a foreign company that uses a different fiscal year.

## 2.4 Profits deemed to be taxable

- A- The tax base of the resident capital Company and the shares of partners engaged in the production of oil and hydrocarbons from its taxable income through any activity which sources in the Kingdom.
- B- The tax base of the non-Saudi resident is a normal person.
- C- The tax base of a non-resident who practices the activity in the Kingdom through a permanent establishment.
- D- The tax base of the person engaged in the production of oil and hydrocarbons, and this does not include the tax base related to the field of natural gas investment of that person.
- E- The tax base of the person working in the field of natural gas investment, and this tax base is independent of the tax base related to the rest of the other aspects of the person's activity.

## 2.5 Taxation of dividends

The commission for buying and selling shares in the Saudi market is 0.155% of the transaction value, equivalent to 15,5 riyals per 10,000 riyals. According to the General Authority

of Zakat and Tax (ZATCA), trading proceeds earned from securities or commodities, as well as trading gains, are exempt from VAT. All trading commissions are subject to VAT (15%).

## 2.6 Taxation of capital gains

In general, capital gains are taxed as ordinary income, along with other income earned for the same period, at a rate of 20% if the individual is a taxable person in Saudi Arabia and if the profit is made in relation to the person's ownership.

## 2.7 Taxation of interest income

Generally, interest income payable is taxable as ordinary income, along with other income earned for the same period, at a rate of 20% if the individual is a taxable person in Saudi Arabia.

## 2.8 Utilization of tax losses

The taxpayer has the right to carry forward the modified operating losses, in accordance with the controls of the Law and these Regulations for tax purposes, to the tax years following the year of loss by reducing the profits of the following years until the accumulated operating losses are fully recovered, without being bound by a specific period, provided that the maximum allowed deduction in each tax year does not exceed (25%) of the annual profit according to the taxpayer's declaration.

## 2.9 Key tax incentives

- 1- The 30-year regional headquarters tax exemption package includes zero (0%) percent for income tax on regional headquarters entities and withholding tax for activities approved for regional headquarters.
- 2- The foreign investor shall be granted the advantages resulting from the agreements for the avoidance of double taxation and agreements for the promotion and protection of investments concluded by the Kingdom.
- 3- Industrial projects established in those zones shall be granted tax credits not exceeding 15% of the paid-up capital of the industrial project, whether in cash or in kind, but in the case of capital expansions, this shall be done in accordance with the following:
  - a- This benefit is deducted if the tax due on the project per year remains what can be deducted after applying a tax deduction of 50% of the tax credits, whether on the costs of annual training or annual wages paid to Saudis, as mentioned above.
  - b- The remaining balance may be carried forward for the following years until this benefit is exhausted or the exemption period expires, whichever is earlier.
  - c- This benefit is granted once throughout the life of the project.

## 2.10 Withholding tax

Withholding tax is a mechanism for imposing income tax in a way that differs from the general rule of imposing the tax since it obligates the resident (the taxpayer) in the Kingdom who pays sums to a non-resident person in the Kingdom from a source in the Kingdom (achieved income for the non-resident) to deduct a percentage of the paid amount according to the applicable tax rates (5%, 15%, 20%) and deposit the value of the withholding tax at the Authority.

A non-resident is subject to tax on any amount obtained from any source in the Kingdom. The tax will be deducted from the total amount according to the following rates:

- Management fee: 20%
- Royalty or royalties, payments for technical services, consulting, or international telephone communications services paid to the head office or a related company: 15%
- Technical or advisory services or international telephone services other than what is paid to the head office or a related company, rent, airline tickets, air or sea freight, distributed profits, loan returns, insurance or reinsurance premium: 5%
- Any other payments: 15%.

## 2.11 Transfer pricing

"Transaction pricing" is defined as pricing transactions between related persons or persons under common control, and the importance of transaction pricing instructions lies in ensuring compliance with the principle of neutral price, which is that transactions between related persons or persons under common control are priced as if they were transactions between independent parties.

### 1. Practical framework for transaction pricing

#### a) Transaction Pricing Instructions apply to:

- Persons who are considered taxable persons according to the income tax system in the Kingdom. This concerns legal persons only, and also includes permanent establishments.
- Companies that are subject to both income tax and zakat (mixed companies,) to the extent that such companies are subject to income tax.

#### b) Transaction pricing instructions do not apply to:

- Person subject to Zakat (not subject to income tax in the Kingdom,) However, the persons concerned under Article XVIII of the Instructions must fulfil the obligations stipulated in that Article regardless of whether they are subject to Zakat only, or to income tax (i.e., the person concerned must submit the country-specific report and comply with the duties stipulated in Article 18) of the Transaction Pricing Instructions)

### 2- Transaction pricing methods

- a. Comparative independent price method: through which a comparison is made between the price determined for the movable property or services in a transaction between persons related to the price charged for the movable property or services in a similar independent transaction, under similar conditions.

The independent comparative price method is preferred over other transaction pricing methods.

- b. Resale price method: through which a comparison is made between the margin achieved by the property buyer in a transaction between related persons from the resale of this property in a separate transaction with the margin that achieves similar transactions and resale between independent persons, and this

method aims to evaluate the amount calculated in the transaction between persons related to the neutral price method with the gross profit margin achieved in independent transactions.

This method is used in distribution and marketing operations by related persons.

- c. Total cost-plus profit margin method: through which a comparison is made between the profit margin of costs incurred directly and indirectly in the supply of property and services under a transaction between related persons with the profit margin of costs incurred directly or indirectly in the supply of property or the provision of services under an independent and similar transaction.

This method is used for application when partially manufactured goods are sold between related parties, and when factory agreements, joint facilities or long-term supplies are concluded between related parties.

- d. Net Profit Margin Method for a Transaction: A comparison is made between the net profit margin related to an appropriate basis obtained by a person in a transaction between related persons and the net profit margin related to the same basis in independent comparable transactions.

- e. Profit division method: It is a method of calculating the total profits of related persons from one or more transactions between related persons based on economic bases, so that it is possible to estimate the method of distribution of the profits of the transaction expected to be achieved if the same transaction is made between independent persons, which is in line with the principle of neutral price.

The applied transaction pricing method shall be the most appropriate method of application to the transaction resulting in the neutral price that is more accurate and appropriate under the facts and circumstances of the transaction.

### 3. Selection

Many practical factors must be taken into account when applying the approved transaction pricing methods described above, where certain margins achieved by independent persons similar to related persons are used as indicators of the neutrality of the prices of transactions between related persons, based on the hypothetical that if independent persons achieve specific margins from one or more transactions, it can be considered that if a related person achieves the same margins from his transactions with persons. The prices of those transactions must comply with the principle of neutral price.

### 4- Documentation

Taxpayers must provide transaction pricing documents proving that interpersonal transactions are complete.

Related to the principle of neutral price are as follows:

- Public documents: Public documents relating to taxpayers who are a party to the transaction between related persons (whether the transaction takes place in the same country or between several countries) are available.

- Profile: The main profile should include an overview of the multinational group's international business, the group's transaction pricing policy and functions, and the economic characteristics of the associated persons.
- Local file: The local file should include details about the transactions between related persons, the taxable person in the Kingdom that are complementary and appended to the file and the president.
- Special Report: The report of each country should include information related to all activities of the multinational group of companies in all countries.

#### 5- Application

Transactions between related persons shall be included in their business accounts based on the accounting rules in force in the Kingdom. Accordingly,, transactions are entered into the accounting systems of related persons where information is used when preparing certain records such as the statement of financial position (balance sheet) and the statement of profits and losses. Records are kept for accounting purposes, and financial statements may reflect the extent to which transaction prices between related persons conform to the principle of neutral price, and therefore whether infringements are required.

Transactions between associated persons must be periodically ensured that the neutral price principle is met, in order to avoid the inclusion of non-compliant transactions in trade accounts. A multinational group of companies usually prepares budgets at the beginning of its fiscal year, and transaction prices between related persons are determined according to its transaction pricing policy. The Authority considers it necessary to review the results achieved by the taxpayer to ensure that they are consistent with the principle of neutral price.

The transaction pricing and documentation method is a government method to control any manipulation that multinationals can do to reduce the net profit in one country and increase it in another country to pay less taxes, and in light of this, we note that the audit not only controls the tax benefits of the authorities, but also protects subsidiaries in Saudi Arabia from being pressured by parent companies to lower their prices and generate lower revenues due to wrong pricing, this is done using the principle of neutral price (ALP).

## 2.12 Filing requirements of tax return

### Filing due dates

The tax statement is submitted within 120 days from the date of the fiscal year.

### Penalties

1% of the total revenue with a maximum of 20,000 riyals.

5% of the unpaid tax if the delay does not exceed 30 days.

10% of the unpaid tax if the delay does not exceed 60 days.

20% of the unpaid tax if the delay does not exceed 90 days.

25% if the delay does not exceed 365 days.

### Payment of profit tax and application of holdover

## ZAKAT

### 3.1 Basis of taxation (ZAKAT)

Zakat is imposed on every natural or legal person engaged in an activity that is subject to levy of zakat in accordance with the provisions of the executive regulations of levying zakat, whether it is an individual institution or a company, or whoever exercises the activity under a license issued by the competent authorities, and referred to as the taxpayer.

### 3.2 Rates of tax

The percentage of legal zakat is (2.50%) of the zakat base for the Hijri year only but if the zakat year of the taxpayer is in the Gregorian calendar, the zakat percentage is calculated according to the actual number of days of the zakat year of the taxpayer. In case the zakat year of the taxpayer is a short or long period upon the start or end of the activity, the percentage of Zakat is calculated on the actual number of days excluding the adjusted profit for the purposes of zakat at the basic rate (2.5%). The percentage of zakat is calculated according to the actual number of days in the zakat year according to the Gregorian calendar as follows:

$[2.50\% / \text{number of days of the Hijri year (354)}] * \text{The number of actual days of the Zakat year of the taxpayer.}$

### 3.3 Year of assessment

Zakat is imposed on the taxpayers for each Zakat year - the financial year of the taxpayer - whether that year is according to the Hijri or Gregorian calendar or if the year is short or long (a short or long financial period) at the beginning of the taxpayer's exercise of his activity or at the end of his practice.

The rules of Zakat accounting stipulate that the Zakat year for the taxpayer starts from the date of issuing the commercial register, depositing the capital, or obtaining the necessary licenses, whichever is earlier. Often the beginning of the first zakat year for the taxpayer is determined from the date of issuance of the commercial register under the companies' articles of association, provided that the zakat year after that is the same as the financial year of the taxpayer.

### 3.4 Zakat base

- The Zakat base of the taxpayer who maintains commercial books and records consists of all his funds subject to Zakat. These funds differ in terms of their sources. Some of them are internally generated from the elements of equity and the like and some of them are externally generated.
- As for the internally generated funds, they are added in full to the zakat base. As for those externally generated funds, only the part that financed a deductible item from the base (deductions) is added in addition to deducting all items that must be deducted in accordance with the executive regulations.

It can be said that adding these funds to the zakat base are represented in matching the deductible assets with the commitments taken in them and accessing the zakat assets financed by internally generated funding sources.

It should be noted that when calculating the zakat base, the obligations of the taxpayer, which arose from external sources of funding, must be added first, assuming their priority in financing deductible items.



Therefore, the order of obligations arising from external sources of financing in adding them to the zakat base becomes as follows:

- Obligations that finance deductible assets.
- Long-term obligations with a term of more than 354 days.

### 3.5 Calculation of Zakat using the estimation method

Calculating Zakat by the estimation method: The Authority settles accounts with those who do not have commercial books in addition to those whose commercial books do not have the legal status using the estimation method.

For the taxpayer who is not obligated to keep commercial books, Zakat is calculated on his behalf by the Authority based on the estimation method. The authority is also entitled to account for Zakat using the estimation method in the following cases:

1. If it is unable to access the financial data and information that reflect the reality of the taxpayer and his activity.
2. If the taxpayer fails to submit the statements within the statutory period for submission.
3. If the taxpayer does not provide the required data and information in Arabic.
4. If the taxpayer is not required to keep commercial books in their regular form.
5. If the Authority finds that the data and information provided by the taxpayer are incorrect.
6. If the taxpayer is unable to prove the validity of the data and information declared in his Zakat statement.

### 3.6 Taxation of capital gain

N/A

### 3.7 Taxation of interest income

N/A

### 3.8 Personal assessment and utilization of losses

N/A

### 3.9 Withholding tax

N/A

### 3.10 Statutory obligation of employers

N/A

### 3.11 Filing requirement of tax return

#### Filing due dates

N/A

#### Penalties

N/A

#### Application of holdover

—

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

—

### 4.2 Basis of contribution

—

### 4.3 Contribution rate

—

### 4.3 Exemption from tax

—

## GST/VAT

### 5.1 Basis of tax

Value Added Tax is an indirect tax imposed on all goods and services that are bought and sold by businesses, with some exceptions.

VAT is imposed at each stage of the supply chain, from production through distribution to the final sale of the good or service.

The consumer pays the cost of value-added tax on the goods and services he purchases. As for facilities, the value-added tax collected from consumer purchases are paid to the government. The facilities recover the value-added tax they paid to their suppliers.

The Zakat, Tax and Customs Authority is responsible for managing and implementing value-added tax in the Kingdom of Saudi Arabia in cooperation with all concerned authorities.

### 5.2 Rates of tax

The Kingdom committed to implementing a value-added tax at 5% starting from January 1, 2018, and starting off July 2020. A decision was applied to raise the value-added tax rate to 15% on all goods and services subject to VAT.

### 5.3 Registration

The limit of companies' VAT registrations is based on the value of their taxable supplies which include standard supplies, zero-rated and reverse-charged received supplies and imported goods.

#### Mandatory registration:

Companies that make an annual taxable supply of goods and services over 375,000 SAR are required to register for VAT with the Zakat, Tax, and Customs Authority. The mandatory registration limit is calculated on the basis of the rate of total taxable sales in the past twelve or the next twelve months.

#### Voluntary registration:

Voluntary registration provides significant benefits to companies as it allows input tax deduction. There are two groups for those whom VAT is optional:

Companies with taxable sales of more than 375,000 SAR and selling exclusively zero-rated products (such as some medical products, international transportation and exports to non-GCC countries) can register voluntarily.

Companies that generate annual revenues less than 187,500 SAR, and companies that provide goods and services that are exempted from VAT, cannot register for VAT.

## Registration of residents outside the Kingdom of Saudi Arabia

Non-residents of Saudi Arabia who make taxable purchases and sales in the Kingdom are required to register and pay VAT. To register for VAT, non-resident businesses are required to appoint a tax representative located in the Kingdom of Saudi Arabia.

Once the representative is approved by the Federal Tax Authority, the representative will be able to submit VAT declaration, pay tax, and correspond with the Federal Tax Authority on behalf of the taxpayer. So, if a business fails to pay tax for an extended period of time, a tax representative may be required to pay it.

### VAT group registration.

Two or more legal individuals are allowed to register as a group if the same entity or individual owns at least 50% or more of the other group members. These groups must apply using the Federal Tax Authority's online application form.

For a group to be eligible, the following conditions must be met:

All members of the group have to carry out an economic activity.

All group members must be legal residents of the Kingdom of Saudi Arabia.

At least one member must independently reach the taxable sales limit to register for VAT.

## 5.4 Filing requirements

A VAT declaration must be submitted for each tax period between the first day and the last day of the month following the end of the tax period. For example:

- To file a VAT declaration for January to March 2024, you must submit your file before April 30th, 2024.
- To submit your January 2024 VAT return, you must submit your file before February 29th, 2024.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

The Kingdom of Saudi Arabia has signed agreements with several countries to avoid double taxation

### 6.2 List of double tax treaties signed

Venezuela	Luxembourg	Bangladesh
Cyprus	Malta	Britain and Northern Ireland
Bulgaria	Ukraine	Pakistan
Mexico	Ireland	Italy
Kazakhstan	Tunisia	Uzbekistan
Russia	Czech	Greece
Jordan	Poland	Japan
Arab Republic of Egypt	Netherlands	India
Turkmenistan	Romania	Austria
Ethiopia	Malaysia	China
Tajikistan	Korea	Spain
Sweden	Vietnam	Georgia
Macedonia	France	UAE
Portugal	Syria	Albania
Kyrgyzstan	Singapore	Kosovo
Hungary	South Africa	
Azerbaijan	Turkey	
Algeria	Belarus	

## OTHER SIGNIFICANT TAXES (Real Estate Transaction Tax (RETT))

### 7.1 Stamp duty

N/A

### 7.2 Real property tax

Real estate disposal is any disposal that transfers ownership of the property or its possession for the purpose of owning it or having the benefit of it. Including contracts whose subject is the transfer of usufruct or the right to a long-term vacation. Examples of this include sale, exchange, gift, will, barter, financial lease, transfer of shares in real estate companies, or determining the right of usufruct for a period of more than 50 years.

#### Tax rate:

Tax is due at a rate of 5% of the total value of the disposal of real estate, regardless of its condition, shape, or use at the time of disposal.

#### Tax base:

The tax is due on the date of disposal based on the value agreed upon between the two parties or parties or the value of the property. Provided that it is not less than the fair market value at the time of disposal.

#### Timing of tax payment:

The due tax payment shall be on or before the date of documentation of the disposition.

#### Exceptions from the scope of tax application:

The following are excluded from the scope of application of the tax, wholly or partially:

- 1- Disposing of the property in cases of division or distribution of estates.
- 2- Free disposal of the property to a charitable endowment or licensed charitable organizations.
- 3- Disposing of the property to a government agency, public legal persons, or entities and projects of public benefit.
- 4- Disposal of the property by a government entity in its capacity as a public authority.
- 5- Forced disposal of property in cases of expropriation for public benefit
- 6- Disposing of the property as a gift documented by the competent authorities to the husband or a relative up to the third degree.
- 7- Disposing of the property according to a documented legal will
- 8- Disposing of the property on a temporary basis for the purpose of using it as collateral for financing or credit, unless execution is carried out on the property subject to the guarantee, by transferring it permanently to the financier or third party.
- 9- Disposing of the property before the effective date of the regulation, in implementation of lease-to-own contracts and financial lease contracts.

- 10- Disposing of the property by offering it as a share in kind by any person in the capital of a company established in the Kingdom, except for joint venture companies. Provided that the shares or shares corresponding to the property disposed of are not disposed of for a period of five years from the date of registering or owning the shares or shares corresponding to the property. These companies must maintain financial statements audited by an accredited external auditor throughout this period.
- 11- Disposing of the property if one of the parties to the disposal is a foreign government, an international organization, a diplomatic or military body or mission, or any member of the diplomatic, consular or military corps or those accredited in the Kingdom, on the condition of reciprocity.
- 12- A real estate supply that was subject to value-added tax before it was documented if it was later documented after the tax took effect, provided that there is no change in either party to the transaction or the value on the contract items subject to value-added tax.
- 13- Disposal of the property by a partner in the company by transferring the property in the name of the company, provided that the property is included in the company's assets before the date the regulation comes into effect and that the disposer submits audited financial statements or a certified certificate from a certified public accountant proving that the property is included in the company's assets before the regulation comes into effect until the date. Action.
- 14- Disposing of the property by offering it as a subscription in kind - by any person in the capital of a real estate investment fund when the fund is initially established in accordance with the regulations of the Capital Market Authority. The exception does not include funds that are established for the purpose of renting the property.

And other exceptions stated in the regulations.

**Fines:**

Anyone who does not pay the tax due within the period specified by law shall be punished with a fine of not less than 5% of the value of the unpaid tax for each month or part thereof for which the tax was not paid.

### **7.3 Estate duty**

—

### **7.4 Net wealth/net worth tax**

—

### **7.5 Others**

**Business tax**

—

**Consumption tax, etc.**

—

## **POINT OF CONTACT**

**Name of contact**

Shorug Alsuhemi

**Telephone with country code**

+966 112290444 - 210

**Email address**

Shorug.h@reanda-sa.com

## GENERAL INFORMATION

### 1.1 Country/Region

Singapore

### 1.2 Currency

Singapore dollar (SGD)

### 1.3 Principal business entities

- Sole-proprietorship
- Partnership
- Limited liability partnership
- Private limited company
- Public limited company
- Branch of a foreign corporation

### 1.4 Foreign exchange control

No foreign exchange control

### 1.5 Current economy climate (Industry overview/ encouraged business development)

As the world recovers from an unprecedented pandemic, geopolitical upheavals, and sluggish growth in China, Singapore's economy is projected to experience growth in the upcoming year, demonstrating resilience in its 2023 recovery journey.

Projections by the Monetary Authority of Singapore (MAS) indicate an acceleration in local economic growth for 2024, alongside a notable easing of the inflation rate. With the anticipated recovery in Singapore's export demand and the stabilisation of interest rates by the Federal Reserve, the coming year could signify a pivotal point in Singapore's financial expansion.

In 2024, Singapore's inflation rate is projected to be 3.4 percent, a notable decrease from the previous 4 percent as of August 2023 (CPI-All Items inflation). This revised forecast considers expectations of moderate private transport inflation and quota increases, with a stabilising housing supply expected to bring about a rebalancing effect on property prices.

### 1.6 National tax authority

#### Name

Inland Revenue Authority of Singapore ("IRAS")

#### Website

<https://www.iras.gov.sg/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

The tax is assessed on a territorial basis. Singapore tax resident companies are subject to tax on income accruing in, derived from and received in Singapore.

### 2.2 Rates of tax

17%

### 2.3 Year of assessment

In Singapore, the term "Year of Assessment" (YA) refers to the year in which taxpayers file their income tax returns of the year prior to it (that is, the financial year) as defined by the Inland Revenue Authority of Singapore ("IRAS") for taxpayers. It is the year in which the income that taxpayers have earned in the financial year that is ended is evaluated.

Example: income earned in the financial year 2024 will be taxed in YA 2025. 2025 is the Year of Assessment (YA), the year in which the income is assessed to tax.

### 2.4 Profits deemed to be taxable

Payment to non-resident company or individual (e.g. interest, commission, management fee, remunerations, rental of movable properties, royalties, and technical fees) are deemed to be derived from Singapore. Such payments are subject to withholding tax of 10% to 24%.

### 2.5 Taxation of dividends

Dividends paid on or after 1 Jan 2008 by a Singapore resident company under the one-tier corporate tax system is exempted from tax.

Specified foreign sourced dividends remitted into Singapore may exempt from tax if they meet all the conditions below:

- a) It has been subjected to tax in foreign jurisdiction
- b) the foreign headline tax rate is at least 15% at the time the foreign dividend is received in Singapore
- c) tax exemption is beneficial to the Singapore tax resident company.

### 2.6 Taxation of capital gains

Effective 1 January 2024, sale or disposal of a foreign asset is subject to capital gain tax.

Under the new foreign-sourced disposal gains tax regime (legislated in "section 10L of the ITA"), foreign-sourced disposal gains received in Singapore by an entity of a relevant group from the sale or disposal of a foreign asset, will be treated as income chargeable to tax under section 10(1)(g) of the ITA under certain circumstances:

- a) the gains are received in Singapore from outside Singapore by a covered entity; and

- b) the gains are derived by an entity without adequate economic substance in Singapore; or
- c) the gains are from the disposal of foreign Intellectual Property Rights.

The foreign-sourced disposal gains are regarded as received in Singapore and chargeable to tax if such gains meet the conditions set out in section 10L (9) of the ITA:

- a) remitted to, or transmitted or brought into, Singapore;
- b) applied in or towards satisfaction of any debt incurred in respect of a trade or business carried on in Singapore;
- c) applied to the purchase of any movable property which is brought into Singapore.

## 2.7 Taxation of interest income

Interest income accrued in or derived from Singapore is subject to tax

## 2.8 Utilisation of tax losses

- Can be carried forward to offset future taxable profit if the company satisfies the shareholding test (common shareholders as at the two relevant dates are 50% or more).
- Can be transferred to another company in the same group with conditions apply (e.g. both claimant and transferor must be incorporated in Singapore, belongs to the same group of companies and maintained 75% shareholding threshold and have same financial year end).
- Under the Loss carry-back relief Scheme, companies are allowed to carry back the losses in a YA to reduce the amount of tax payable in the immediately preceding year of assessment, provided that the companies satisfy the shareholding test. The maximum amount of qualifying deduction that can be carried back is SGD 100,000

## 2.9 Key Tax incentives

### **Singapore Tax incentives for Companies**

Tax incentives for companies are provided in the **Singapore Income Tax Act ("SITA") 1947 and Economic Expansion Incentives Act (Relief from Income Tax) 1967 (EEIA)**.

The following key tax incentives are available: -

Governing Legislation	Types of incentives	Statutory Board
1. SITA – Section 13E	Exemption of international shipping profits	Maritime and Port Authority of Singapore ("MPA") <a href="http://www.mpa.gov.sg">www.mpa.gov.sg</a>
2. SITA – Section 13G	Exemption of income of venture company	Enterprise Singapore <a href="http://www.enterprisesg.gov.sg">www.enterprisesg.gov.sg</a>
3. SITA – Section 13P	Exemption of income of shipping investment enterprise	MPA <a href="http://www.mpa.gov.sg">www.mpa.gov.sg</a>
4. SITA – Section 14B	Further deduction for expenses relating to approved trade fairs, trade exhibitions, trade missions or to maintenance of overseas trade office	Enterprise Singapore <a href="http://www.enterprisesg.gov.sg">www.enterprisesg.gov.sg</a>
5. SITA – Section 14E	Further deduction for expenditure on research and development project	Singapore Economic Development Board ("EDB") <a href="http://www.edb.gov.sg">www.edb.gov.sg</a>

Governing Legislation	Types of incentives	Statutory Board
6. SITA – Section 43C	Exemption and concessionary rate of tax for insurance and reinsurance business	Monetary Authority of Singapore ("MAS") <a href="http://www.mas.gov.sg">www.mas.gov.sg</a>
7. SITA – Section 43E	Concessionary Rate of Tax ("CRT") for Finance and Treasury Centre	EDB <a href="http://www.edb.gov.sg">www.edb.gov.sg</a>
8. SITA – Section 43I	CRT for global trading company and qualifying company	Enterprise Singapore <a href="http://www.enterprisesg.gov.sg">www.enterprisesg.gov.sg</a>
9. SITA – Section 43J	CRT for financial sector incentive company	MAS <a href="http://www.mas.gov.sg">www.mas.gov.sg</a>
10. SITA – Section 43L	CRT for shipping investment manager	MPA <a href="http://www.mpa.gov.sg">www.mpa.gov.sg</a>
11. SITA – Section 43P	CRT for container investment enterprise	MPA <a href="http://www.mpa.gov.sg">www.mpa.gov.sg</a>
12. SITA – Section 43Q	CRT for container investment manager	MPA <a href="http://www.mpa.gov.sg">www.mpa.gov.sg</a>
13. SITA – Section 43T	CRT for ship broking and forward freight agreement trading	MPA <a href="http://www.mpa.gov.sg">www.mpa.gov.sg</a>
14. EEIA – Part 2	Pioneer Industries	EDB <a href="http://www.edb.gov.sg">www.edb.gov.sg</a>
15. EEIA – Part 3	Pioneer Service Companies	EDB <a href="http://www.edb.gov.sg">www.edb.gov.sg</a>
16. EEIA – Part 4	Development and Expansion Incentive	EDB <a href="http://www.edb.gov.sg">www.edb.gov.sg</a>
17. EEIA – Part 8	Investment Allowances	EDB <a href="http://www.edb.gov.sg">www.edb.gov.sg</a>

## 2.10 Withholding tax

Please refer to Section 2.4

## 2.11 Transfer Pricing

IRAS endorses the arm's length principle as the standard to guide transfer pricing. It is an internationally accepted standard adopted for transfer pricing between related parties. IRAS subscribes to the principle that profits should be taxed where the real economic activities generating the profits are performed and where value is created. A proper application of the transfer pricing rules would ensure this outcome.

Where the pricing of related party transactions is not at arm's length and results in a reduced profit for the Singapore taxpayer, IRAS may adjust the profit of the Singapore taxpayer upward. The adjustment to reflect the arm's length results may increase the amount of income or reduce the amount of deduction or loss of the Singapore taxpayer.

Taxpayers should prepare and keep contemporaneous transfer pricing documentation. Transfer pricing documentation refers to the records kept by taxpayers to show that their related party transactions are conducted at arm's length.

The preparation and maintenance of transfer pricing documentation will facilitate reviews by tax authorities and therefore help resolve any transfer pricing issues that may arise.

Without transfer pricing documentation to show that the transfer prices are at arm's length, taxpayers may not be able to deal with transfer pricing enforcement actions by tax authority and double taxation arising from those actions.



## 2.12 Filing requirements of tax return

<b>Filing due date</b>	All companies are required to e-file the tax return by 30 November of the year.
<b>Penalties</b>	<p>In the event the company fails to submit the tax return, the following action will be taken by IRAS:</p> <ol style="list-style-type: none"> <li>Issue estimated Notice of Assessment ("NOA"), and the company is required to pay the estimated tax within one month from the date of NOA.</li> <li>Offer to compound the offence with a composition amount not exceeding SGD 5,000.</li> <li>Issue a Section 65B (3) notice to the company's director to submit the required information in the corporate income tax returns to IRAS.</li> <li>Summon the company or person responsible for running of the company (including the directors) to Court.</li> </ol>
<b>Payment of profit tax and application of holdover</b>	<p>All the companies are required to file Estimated Chargeable Income (ECI) within 3 months from the financial year end. The company will be exempted to file ECI if the 2 conditions below are met:</p> <ol style="list-style-type: none"> <li>ECI is NIL; and</li> <li>Annual revenue is less than SGD 5 million</li> </ol> <p>IRAS will refund the excess paid if the final tax return submitted by the company shows lesser chargeable income to be assessed. Similarly, the company is required to pay additional tax if the final tax return submitted by the company shows more chargeable income to be assessed. IRAS may raise query to the company if there is significant change in the tax assessed between ECI and final chargeable income.</p>

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

All incomes earned and derived from Singapore is subject to income tax. Income tax rates depend on an individual's tax residency status. The tax payer will be treated as a tax resident for a particular year of assessment (YA) if they are: -

- Singapore Citizen or Singapore Permanent Resident who resides in Singapore except for temporary absences; or
- Foreigner who has stayed / worked in Singapore:
  - for at least 183 days in the previous calendar year; or
  - continuously for 3 consecutive years, even if the period of stay in Singapore may be less than 183 days in the first year and/or third year; or
  - for a continuous period straddling 2 calendar years and the total period of stay is at least 183 days (including physical presence immediately before and after employment). This applies to employees who entered Singapore but excludes directors of a company, public entertainers, or professionals.

If otherwise, they will be treated as a non-resident of Singapore for tax purposes.

### 3.2 Rates of tax

**FROM YA 2024 ONWARDS**

**PROGRESSIVE TAX RATES FOR RESIDENTS AS FOLLOWS: -**

Chargeable income (SGD)	Rate (%)	Gross tax payable (SGD)
First 20,000	0	0
Next 10,000	2	200
First 30,000	—	200
Next 10,000	3.50	350
First 40,000	—	550
Next 40,000	7	2,800
First 80,000	—	3,350
Next 40,000	11.5	4,600
First 120,000	—	7,950
Next 40,000	15	6,000
First 160,000	—	13,950
Next 40,000	18	7,200
First 200,000	—	21,150
Next 40,000	19	7,600
First 240,000	—	28,750
Next 40,000	19.5	7,800
First 280,000	—	36,550
Next 40,000	20	8,000
First 320,000	—	44,550
Next 180,000	22	39,600
First 500,000	—	84,150
Next 500,000	23	115,000
First 1,000,000	—	199,150
In excess of 1,000,000	24	No capped amount

Singapore's personal income tax rates for resident taxpayers are progressive. This means that higher income earners pay a proportionately higher tax, with the current highest personal income tax rate of 24% for income in excess of SGD 1,000,000 per annum after deducting personal reliefs which individuals entitled from YA 2024 onwards.

### Non-Resident Tax Rates

- Remuneration including director's fees received by non-resident directors: 24%
- Income received by non-resident professionals (e.g. consultants, trainers and coaches) for services performed in Singapore: 15% of gross income or 24% of net income
- Income received by non-resident public entertainers for services performed in Singapore: 15%

### 3.3 Year of assessment

Please refer to Section 2.3 under Corporate tax. It applies the same to Individual tax.

### 3.4 Allowances and Deductions

TYPES OF PERSONAL TAX RELIEF Earned Income Relief	MAXIMUM AMOUNT CLAIMABLE (SGD)
i) Below 55 years old	1,000
ii) 55 to 59 years old	6,000
iii) 60 years old and above	8,000

Earned Income Relief for handicapped persons	MAXIMUM AMOUNT CLAIMABLE (SGD)
i) Below 55 years old	4,000
ii) 55 to 59 years old	10,000
iii) 60 years old and above	12,000

TYPES OF PERSONAL TAX RELIEF	AMOUNT CLAIMABLE (SGD)
Spouse Relief	2,000
Handicapped Spouse Relief	5,500
Qualified Child Relief	4,000 per child
Handicapped Child Relief	7,500 per child
Handicapped Brother/Sister Relief	5,500 per sibling or sibling-in-law
<b>Parent Relief</b>	
i) Staying with parents	9,000 per dependant
ii) Not staying with parents	5,500 per dependant
<b>Handicapped Parent Relief</b>	
i) Staying with parents	14,000 per dependant
ii) Not staying with parents	10,000 per dependant
<b>Course Fees Relief</b>	Capped at SGD 5,500 each year Any amount paid or reimbursed by the employer or any other organisations (including the use of SkillsFuture Credit) cannot be claimed as Course Fees Relief.
<b>CPF (Central Provident Fund) Relief for Employees</b>	CPF Relief is capped by the amount of compulsory employee CPF contributions made on Ordinary Wages and Additional Wages under the CPF Act.
<b>Life Insurance Relief</b>	The difference between SGD 5,000 and CPF contribution; or up to 7% of the insured value of own/wife's life, or the amount of insurance premiums paid. No relief to be claimed if the total CPF contributed is SGD 5,000 or more.
<b>Foreign Domestic Worker Levy Relief</b>	Twice the levy paid in the previous years on one foreign domestic worker. The relief will lapse for all taxpayers from YA 2025.
<b>Supplementary Retirement Scheme ("SRS") Tax Relief</b>	The SRS contribution cap is SGD 15,300 for Singapore Citizens and Singapore Permanent Residents; and, SGD 35,700 for foreigners.
<b>Grandparent caregiver relief</b>	Relief of SGD 3,000 for parent, grandparent, parent-in-law or grandparent-in-law.
<b>Working mother's child relief (WMCR)</b>	a) First child: 15% of mother's earned income b) Second child: 20% of mother's earned income c) Third child and beyond: 25% of mother's earned income Effective YA 2025, the WMCR will be changed from a percentage of an eligible working mother's annual earned income to a fixed dollar tax relief.
<b>Parenthood Tax Rebate (PTR)</b>	For children born or adopted on or after 1 January 2008: a) First child: SGD 5,000 b) Second child: SGD 10,000 c) Third child: SGD 20,000 d) Fourth child: SGD 20,000 Fifth and subsequent child: SGD 20,000 per child
<b>National Serviceman (NSman) self-relief</b>	SGD 1,500, SGD 3,500, SGD 3,000 or SGD 5,000 depending on the conditions
<b>NSman wife relief</b>	SGD 750
<b>NSman parent relief</b>	SGD 750

A personal income tax relief cap of SGD 80,000 applies to the total amount of all tax reliefs claimed for each YA.

### 3.5 Taxation of dividends

Under the one-tier corporate tax system, shareholders will not be taxed on dividends paid on or after 1 Jan 2008 by a Singapore resident company.

### 3.6 Taxation of capital gain

No capital gain tax for individual.

### 3.7 Taxation of interest income

Interest from the following sources is taxable:

- Deposits with non-approved banks in Singapore;
- Deposits with finance companies not licensed in Singapore;
- Pawnshops in Singapore;
- Loans to companies, persons etc.;
- Interest from refund of excess employee's CPF contributions; and
- Debt securities (e.g. bonds) that are (i) owned by a partnership or (ii) inventory of a trading business

However, Interest received from deposits with approved banks or licensed finance companies in Singapore is not taxable.

### 3.8 Personal assessment and utilization of losses

Business income is income derived from carrying on a trade, a business, a profession, or a vocation. Business income is taxable in the sole-proprietor's or self-employed person's name. Therefore, a sole-proprietor or self-employed person who receives this income has to prepare statement of accounts and report the income in his individual tax return. The business income will be added to all other personal income and the total is subject to personal income tax rates.

#### Business losses can be offset against other income

If trade losses are incurred after deducting the allowable expenses against the gross profit, the trade losses can be offset against other income such as employment, interest, rental income and income from other business in the same year.

#### Carrying business loss forward

If the other income is not sufficient to utilise the trade loss, the unabsorbed trade losses can be carried forward to subsequent years to offset against the income until the trade losses are fully utilised.

### 3.9 Withholding tax

Please refer to Section 2.4

### 3.10 Statutory obligation of employers

Employers are required by law to contribute to the Central Provident Fund ("CPF"). Under the scheme, employers are to ensure that CPF contributions are paid monthly for its employees at the rates set out in the Central Provident Fund Act. The contributions payable should be based on the employee's actual wages earned for the month. The employer is entitled to recover a percentage of that contribution from the employee through deductions from the employee's wages.

CPF contributions are also payable for the following employees:

- Company Directors
- Part-time/Casual Employees
- Operationally Ready National Servicemen on in-camp training. Under the Enlistment Act, employers have to pay the CPF contributions on the wages given by the employer and makeup pay from Ministry of Defence. The employee's share of contributions can be recovered from the employee's wages
- Family members of the business owner, if they are receiving wages for work done for the proprietor
- Employees concurrently employed by another employer
- Singapore Permanent Residents (SPRs)

Employers have a grace period of 14 days to make payment of CPF contributions after the end of the month for which CPF contributions are due.

#### Recovery of the employee's share of CPF contribution

Employers are entitled to recover the employee's share when the contributions are paid for that month. If an employer fails to recover the money by then, and the error was not due to negligence, he can still do so provided:

- The employer has paid the CPF contributions to the Board, and
- The employer has either forwarded the employee's written consent to the Board, or obtained the Board's written permission on the matter.

Recovery of the employee's share of CPF contributions must be done within six months of the time the contributions should have been recovered.

#### Employee Tax Forms

An employer must prepare Form IR8A and Appendix 8A, Appendix 8B or Form IR8S (where applicable) for all employees (who are employed in Singapore) by 1st March each year in accordance with Section 68(2) of the Income Tax Act.

#### Auto-Inclusion Scheme for Employment Income

Employers with 6 or more employees or who have received the "Notice to File Employment Income of Employees Electronically" must submit their employees' income information to IRAS electronically by 1st March each year.

IRAS encourages all employers to join the Auto-Inclusion Scheme (AIS) for Employment Income. Under this scheme, employers submit their employees' income information to IRAS electronically. The employment income information will be shown on the employees' electronic tax return and automatically included in their income tax assessments.

#### Record keeping

Employers are required to keep proper records of all employees' income and deductions submitted to IRAS for 5 years from the relevant Year of Assessment (YA).

#### Tax Clearance for non-citizen foreign employee

Tax Clearance is a process of ensuring that non-citizen foreign employee pays all his taxes when he ceases employment in Singapore or plans to leave Singapore for more than three months. Tax clearance obligations apply to all work pass holders. Employers are obliged to notify IRAS and seek tax clearance for the affected foreign employees.

Foreigners may have left Singapore by the time tax is assessed on their income and payment is due. For this reason, employers have a legal obligation to inform the Comptroller of Income Tax using Form IR21 (notification by employer of an employee's cessation of employment or departure from Singapore) at least one month in advance before the non-citizen employee leaves Singapore.

The employer will have to withhold payment of monies due to the employee until the employer has received the "Tax Clearance" from the Comptroller of Income Tax.

### 3.11 Filing requirement of tax return

<b>Filing due date</b>	<p><u>Individuals income tax returns for employees and self-employed</u></p> <p>Individuals Required to File Tax. If they are resident in Singapore, they are required to e-File their completed tax forms by original filing due date of 18 April every year. If they paper file, the original filing due date is 15 April of each year.</p> <p><u>Payment of CPF contributions for Employer</u></p> <p>CPF contributions are due at the end of each month. However, employers have a grace period of 14 days to pay CPF contributions after the end of the month.</p> <p><u>E-submission of employees' income for Employer</u></p> <p>The Compulsory deadline: 1 March each year.</p> <p><u>Tax Clearance for non-citizen foreign employee</u></p> <p>Employers must seek tax clearance by filing Form IR21 at least one month before the non-citizen employee:</p> <ol style="list-style-type: none"> <li>ceases to work in Singapore; or</li> <li>is on overseas posting; or</li> <li>leaves Singapore for any period exceeding three months.</li> </ol>
<b>Penalties</b>	<p><u>Consequences for Late / Non-Filing of Tax Returns</u></p> <p>An individual is deemed to have committed an offence if he fails to file his income tax return by the due date. Instead of taking prosecution actions, IRAS may allow the individual to settle the offence through the payment of a late filing fee.</p> <p>The composition amount can be up to SGD 5,000 per offence and the amount is dependent on past filing and payment records. A letter will be sent to the individual to notify him of the late filing fee.</p> <p>IRAS may take the following actions if you fail to file the tax return by the due date:</p> <ol style="list-style-type: none"> <li>Impose a late filing fee;</li> <li>Issue an estimated Notice of Assessment (NOA); and/ or</li> <li>Summon you to Court.</li> </ol> <p><u>Employers do not comply with CPF Act</u></p> <p>It is a criminal offence under CPF Act for late/non-payment of CPF contributions. Employers who are found to have failed to pay or underpaid CPF contributions for their employees will be required to pay the arrears in full, including all late payment interest incurred and possibly a fine.</p> <p><u>Penalties are as follows:</u></p> <ol style="list-style-type: none"> <li>Late payment interest charged at 1.5% per month, subject to a minimum amount of \$5.</li> <li>Composition amount of up to SGD 1,000 per offence;</li> <li>Up to SGD 5,000 court fine and no less than SGD 1,000 per offence and/or up to 6 month's imprisonment for 1st conviction.</li> <li>Up to SGD 10,000 court fine and no less than SGD 2,000 per offence and/or up to 12 month's imprisonment for subsequent conviction.</li> </ol>
<b>Application of holdover</b>	N/A

# STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

## 4.1 Regulatory organization

Central Provident Fund Board ("CPF")

## 4.2 Basis of contribution

The CPF is a comprehensive social security savings plan that has provided many working Singaporeans with a sense of security and confidence in their old age. The overall scope and benefits of the CPF encompass the Retirement, Healthcare, Home Ownership, Family Protection and Asset Enhancement. Working Singaporeans and their employers make monthly contributions to the CPF and these contributions go into three accounts: -

- Ordinary Account - the savings can be used for retirement, buy a home, pay for CPF insurance and investment.
- Special Account - for old age and investment in retirement-related financial products.
- Medisave Account - the savings can be used for hospitalization expenses and approved medical insurance.

CPF contributions are payable at the prevailing CPF contribution rates for employees who are Singapore Citizens and Singapore Permanent Residents (SPR).

## 4.3 Contribution rate

**From 1 January 2024 to 31 December 2024:**

Employee Age (Years)	Employer (% of wages)	Employee (% of wages)
55 and below	17%	20%
Above 55 to 60	15%	16%
Above 60 to 65	11.5%	10.5%
Above 65 to 70	9%	7.5%
Above 70	7.5%	5%

**From 1 January 2025 onwards**

55 and below	17%	20%
Above 55 to 60	15.5%	17%
Above 60 to 65	12%	11.5%
Above 65 to 70	9%	7.5%
Above 70	7.5%	5%

## 4.4 Exemption from tax

'CPF relief' is a relief to encourage individuals to save for their retirement. The amount of CPF Relief is capped to ensure that CPF is not used as a tax shelter.

### Employees Qualifying for CPF Relief

Employees who are Singapore Citizens or Singapore Permanent Residents may claim CPF Relief.

### Self-employed persons qualifying for CPF Relief

As a self-employed person, individuals will enjoy tax deductions on mandatory and voluntary CPF contributions. He can claim tax relief of up to 37% of yearly net trade income not exceeding the prevailing CPF Annual Limit of SGD 37,740. In addition, if Medisave balance is below the Medisave

Contribution Ceiling, individual can enjoy further tax relief by making voluntary contributions to Medisave Account provided the total contribution for the year does not exceed the CPF Annual Limit.

### Individuals who are employees and also self-employed

If the individual is also an employee and the combined mandatory CPF contributions as an employee and as a self-employed are less than SGD 37,740, the individual may claim tax relief for voluntary CPF contributions. However, the total claim for mandatory and voluntary CPF contributions must not be more than SGD 37,740.

## GST/VAT

### 5.1 Basis of tax

GST is a broad-based consumption tax levied on nearly all supplies of goods and services in Singapore, as well as the importation of goods into Singapore. GST is paid whenever customers buy taxable goods or services from GST-registered businesses. The suppliers effectively act as GST collection agents.

GST is charged on:

- Supply of goods and services in Singapore - GST is collected by the GST-registered supplier and paid to Comptroller of GST
- Importation of goods into Singapore - GST is collected by Singapore Customs at the point of importation

Except for exported goods, international services and exempt supplies.

To calculate the GST to be paid to or refunded from the Comptroller of GST:

*GST collected from customers (output tax) – GST paid on purchases and expenses for the business (input tax) = Net GST*

In certain circumstances, the customer is responsible for paying the output tax to IRAS instead (i.e. where 'Customer Accounting' applies). Hence no GST is charged or collected by the GST registered business that makes the sale.

Customer Accounting currently applies to the local sales of mobile phones, memory cards and off-the-shelf software ('prescribed goods') exceeding SGD 10,000 in value (a relevant supply) to a GST registered customer for his business purpose.

### 5.2 Rates of tax

9%

### 5.3 Registration

#### Mandatory Registration Threshold

Companies are required to register and collect GST when:

- The taxable turnover exceeds SGD 1 million at the end of the calendar year OR
- The company expects to exceed SGD 1 million in taxable turnover in the next 12 months.

Companies are expected to monitor their taxable turnover to determine if they need to register for GST.



Companies that have exceeded SGD 1 million in taxable turnover at the end of the calendar year are required to register for GST by 30 January. They will be registered for GST on 1 March.

Companies that expect to exceed SGD 1 million in taxable turnover during the next 12 months must register for GST within 30 days of such determination. They will be registered for GST on the 31st day.

#### Voluntary Registration

Companies with annual taxable turnover less than SGD 1 million are not required to register for GST. However, they can still register for GST voluntarily if they decide to do so.

#### Exemption from Registration

Certain companies that otherwise are subject to mandatory GST registration can apply with IRAS to receive a registration exemption if they satisfy the following criteria:

- At least 90% of the company's total revenue is from zero-rated supplies; and
- The net balance of GST collected for supplies vs GST paid for purchases is negative.

## 5.4 Filing requirements

GST registered businesses are required to file their GST returns through "myTaxPortal" based on the accounting cycle, normally on a quarterly basis. In the return, businesses will indicate the total value of local sales, exports and purchases from GST registered entities, the GST collected, and GST claimed for that accounting period. Businesses must pay the net GST to IRAS by due date.

Both GST returns and payment are due one month after the end of the accounting period covered by the return. If the businesses are on GIRO plan for GST payment, GIRO deductions are on the 15th day of the month after the payment due date.

GST refunds will usually be made within three months from the date the Comptroller receives your GST return.

Penalties will be imposed if businesses are late in making the GST payment.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

A DTR is the relief provided for under an Avoidance of Double Taxation Agreement (DTA) to reduce double taxation, in the form of a tax credit. It allows the Singapore tax residents to claim a credit for the amount of tax paid in the foreign jurisdiction against the Singapore tax that is payable on the same income. It will be granted if the foreign tax was paid in accordance with the DTA provisions and is capped at the lower of the foreign tax paid and the Singapore tax that would have been payable on the same income.

A Unilateral Tax Credit (UTC) will be granted on all foreign-sourced income received in Singapore by Singapore tax residents from jurisdictions that do not have DTAs with Singapore.

## 6.2 List of double tax treaties signed

### Singapore has signed Avoidance of Double Taxation Agreements

#### ("DTAs") with 96 Countries/regions

Albania	Hungary	Pakistan
Armenia	India	Panama
Australia	Indonesia	Papua New Guinea
Austria	Ireland	Philippines
Bahrain	Isle of Man	Poland
Bangladesh	Israel	Portugal
Barbados	Italy	Qatar
Belarus	Japan	Romania
Belgium	Jersey	Russian Federation
Brazil	Jordan	Rwanda
Brunei	Kazakhstan	San Marino
Bulgaria	Kenya	Saudi Arabia
Cabo Verde	Korea, Republic of	Serbia
Cambodia	Kuwait	Seychelles
Canada	Laos	Slovak Republic
China	Latvia	Slovenia
Cyprus	Libya	South Africa
Czech Republic	Liechtenstein	Spain
Denmark	Lithuania	Sri Lanka
Ecuador	Luxembourg	Sweden
Egypt	Malaysia	Switzerland
Estonia	Malta	Taiwan
Ethiopia	Mauritius	Thailand
Fiji	Mexico	Tunisia
Finland	Mongolia	Turkey
France	Morocco	Turkmenistan
Gabon	Myanmar	Ukraine
Georgia	Netherlands	United Arab Emirates
Germany	New Zealand	United Kingdom
Ghana	Nigeria	Uruguay
Greece	Norway	Uzbekistan
Guernsey	Oman	Vietnam

### Singapore has signed Avoidance of Limited Double Taxation Agreements ("Limited DTAs") with 8 Countries/regions

Bahrain	Hong Kong	Oman
Brazil	Chile	Saudi Arabia
United Arab Emirates	United States of America	

### Singapore has signed Avoidance of Exchange of Information (EOI) Agreements with 2 Countries/regions

Bermuda	United States of America
---------	--------------------------

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp Duty is a tax on documents relating to immovable properties, stocks or shares.

#### Lease / Tenancy Agreements

These are documents that are prepared and signed when renting a property. Stamp Duty is calculated on the actual rent or market rent whichever is higher. The person who leases or



rents the property (lessee or tenant) is responsible for paying Stamp Duty.

#### Acceptance to Option to Purchase / Sale & Purchase Agreements

These are documents that are prepared and signed when buying or selling property. Stamp Duty is payable on the actual price or market price whichever is higher. The buyer is responsible for paying Buyer's Stamp Duty. Where Seller's Stamp Duty is applicable, the seller is responsible for paying Seller's Stamp Duty.

#### Mortgages

These are documents that are prepared and signed when obtaining a loan from banks for property purchase. Stamp Duty is payable on the loan amount. The person who obtains the loan (mortgagor) is responsible for paying the Stamp Duty on the mortgage document.

#### Share Transfer Documents

These are documents that are prepared and signed when buying or selling shares. Stamp Duty is payable on the actual price or net asset value of the shares whichever is higher. The person who buys the shares (transferee) is responsible for paying Stamp Duty on the Share Transfer document.

## 7.2 Real property tax

Property tax is a wealth tax levied on property ownership. It is not a tax on rental income. It is thus levied on the ownership of properties, irrespective of whether the property is occupied or vacant.

Property tax rates on owner-occupied and non-owner-occupied residential properties are applied on progressive scale. All other properties continue to be taxed at 10% of the Annual Value ("AV").

The AV is the estimated annual rent of property if it were to be rented out, excluding the furniture, furnishings and maintenance fees. It is determined after analysing the rents of similar or comparable properties.

## 7.3 Estate duty

Estate duty has been removed for deaths on and after 15 February 2008.

## 7.4 Net wealth/net worth tax

N/A

## 7.5 Others

### **Business tax**

N/A

### **Consumption tax, etc.**

N/A

## POINT OF CONTACT

### **Name of contact:**

Vivienne Chiang

### **Telephone with country code:**

+65 6323 1613

### **Email address:**

vivienne@reanda-adept.com.sg



# TAJIKISTAN

## GENERAL INFORMATION

### 1.1 Country/Region

Republic of Tajikistan

### 1.2 Currency

Tajikistani Somoni (TJS)

### 1.3 Principal business entities

#### Individual Entrepreneur

In Tajikistan, an Individual Entrepreneur is an individual (sole proprietor) who is involved in business activities without forming a legal entity and operating at his/her own risk. Individual entrepreneurs can work under a business license or a certificate.

#### Legal Entity: Corporation

A corporation is a legal entity, meaning that the holder of rights and obligations is not the individual shareholder, but the company itself. The company itself concludes contracts, possesses assets and has to pay taxes. Liability is limited to the corporation's business assets, including the share capital. With reference to the Civil Code, the most common forms of corporations are:

- Limited Liability Company
- Company with Supplementary Liability
- Joint Stock Company

#### Partnerships

The main feature of a Partnership is the personal commitment of an interested party towards the partnership. Any partnership requires at least two partners. In Tajikistan, there are three major partnership mechanisms relevant for foreign investors:

- Full Partnership
- Limited Partnership
- Production Cooperatives

#### Branch or Representative office of a foreign company

The foreign company with its headquarters and business operations outside of Tajikistan may establish a Branch office or a Representative office in Tajikistan. The main difference between both offices lies in the status of its business activities and accounting regulations.

### 1.4 Foreign exchange control

National Bank of Tajikistan.

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Tajikistan is a mountainous country in Central Asia, which borders China, the Kyrgyz Republic, Afghanistan

and Uzbekistan. Tajikistan's economy is open for foreign investments in almost all business and industrial sectors. Foreign companies and their investments play a vital role for the economic development of Tajikistan. To date, investors from China, Canada, USA, UK, Korea, Germany, Switzerland, Italy, Hungary and Russia have interests in different sectors of the country.

With abundant hydropower resources, Tajikistan has the potential to become the largest electricity exporter in the Central Asian region. Due to its magnificent scenery, the country has also excellent potential for the development of its tourism sector. Over the past few years, the volume of investments and financing in Tajikistan from international banks and foreign companies has increased. Interstate agreements were also signed, as well as a cooperation agreement between companies from Tajikistan and other countries.

Tajikistan is working on modernizing its tax system, as well as improving tax administration. This is an important part of the country's development strategy. Tax reform is of strategic importance, as it should become an engine for the development of the private sector, stimulate economic growth and increase the competitiveness of the national economy. Among the key steps in preparing for tax reform is the simplification of tax reporting requirements and the harmonization of tax and financial accounting for selected taxes, which will reduce the administrative burden on businesses. The implementation of tax reform in Tajikistan is supported by international organizations and funded by the World Bank and other partners.

### 1.6 National tax authority

#### Name

Tax Committee under the Government of the Republic of Tajikistan.

#### Website

<https://andoz.tj/>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Domestic and foreign legal entities (Branches) are subjected to profit tax. A domestic company is a company established under the laws of Tajikistan. Domestic companies are taxed on their worldwide income. Foreign companies carrying on the business through a permanent establishment in Tajikistan are taxed on income derived through the permanent establishment, as is the case in most Commonwealth of Independent States (CIS) countries. The object of taxation of income tax is the taxpayer's taxable income for the reporting period, regardless of the place and method of payment.

## 2.2 Rates of tax

Corporate income tax rates:

- Taxable income of a legal entity for the production of goods – 13%;
- Taxable income of a legal entity for the activities of credit and financial organizations and mobile companies - 20%;
- Taxable income of a legal entity for the extraction and processing of natural resources, as well as for all other types of activities, with the exception of the first and second paragraphs of this part – 18%.

## 2.3 Year of assessment

January – December. Monthly advance payment is required.

## 2.4 Profits deemed to be taxable

The tax base for the income of a resident taxpayer for the reporting period is the difference between gross income and deductible expenses allowed in accordance with the Tax Code for such a period.

The basis of income tax for a non-resident taxpayer conducting business through a permanent establishment in the Republic of Tajikistan for the reporting period is the difference between gross income from sources in the Republic of Tajikistan related to a permanent establishment and deductible expenses authorized in accordance with the Tax Code for such a reporting period.

A permanent establishment of a foreign legal entity operating in the Republic of Tajikistan, in addition to income tax, is taxed on the net profit of this permanent establishment for the tax period at a rate of 15 percent.

## 2.5 Taxation of dividends

Dividends paid by resident enterprises are subject to taxation at the sources of payment at the rate of 12 percent.

## 2.6 Taxation of capital gains

N/A

## 2.7 Taxation of interest income

Interest paid by a resident or permanent establishment of a non-resident, or on behalf of such an institution, is taxed at the source of payment at the rate of 12 percent.

## 2.8 Utilization of tax losses

The excess of deductions allowed to the taxpayer on gross income (losses from entrepreneurial activity) for the reporting period is carried over to the next period of up to 3 years inclusive and is covered from income before taxation of the future period.

## 2.9 Key tax incentives

The following types of income of legal entities are not subject to taxation:

- institutions, religious associations, charitable, intergovernmental and interstate (international) non-profit organizations, with the exception of income they receive from entrepreneurial activities. Such institutions and organizations are required to keep separate records of their main activities (activities exempt from income tax) and entrepreneurial activities;

- gratuitous transfers received by non-profit organizations, gratuitous property and grants used for non-profit activities, as well as membership fees and donations received by them;
- income of the Deposit and Savings Insurance Fund of Tajikistan;
- dividends received by resident enterprises from resident enterprises;
- subsidies received by state institutions at the expense of budgetary funds to support their activities;
- income of new enterprises from the supply of manufactured goods, if their founders, within 12 calendar months from the date of primary state registration, contribute the following amounts of investment to the authorized capital of these enterprises for the following periods:
  - 2 years, if the volume of investments is over 200 thousand US dollars to 500 thousand US dollars;
  - 3 years if the volume of investments is over 500 thousand US dollars to 2 million US dollars;
  - 4 years if the volume of investments is over 2 million to 5 million US dollars;
  - 5 years if the volume of investments exceeds 5 million US dollars.
- income received from tourism activities within 5 years from the date of state registration, if there are licenses for conducting tourism activities;
- income of a non-resident from the operational leasing (lease) of aircraft (airplanes, helicopters), their engines, main units and spare parts, as well as for the maintenance and repair of aircraft (airplanes, helicopters), their engines, main units and spare parts in accordance with relevant agreements with domestic aviation companies.

Additionally, investment projects ratified by the Government of Tajikistan can be exempted if such exemptions are indicated in the agreements between Tajikistan and other parts.

## 2.10 Withholding tax

Income derived from sources within Tajikistan by a foreign company without a permanent establishment in Tajikistan is usually taxed at the time of earning at a rate that ranges from 5% to 15%, depending on the type of income. In such cases no deductions are allowed and the gross income is subjected to tax.

## 2.11 Transfer pricing

N/A

## 2.12 Filing requirements of tax return

The filing due date and payment day is 31 March, after the calendar year. Till the 15th of each month, the advance payment is required.

### Penalties

Interest is accrued for each day of delay in the amount of 0.04%

### Payment of profit tax and application of holdover

N/A

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, personal assessment)

All types of income and remuneration in monetary, tangible and intangible form paid in favour of the taxpayer, including other benefits received by the taxpayer, except for income exempt from income tax, are recognized as gross income of an individual.

Individual residents, those who have been present in Tajikistan for more than 6 months during the year, and citizens of the Republic of Tajikistan are subjected to individual income tax on their worldwide income. Individual non-residents, that is those who do not meet the residency criterion are subjected to individual income tax on their income from sources in Tajikistan.

### 3.2 Rates of tax

The taxable income of a resident individual at his main place of work in excess of the amount of the personal deduction is taxed at a rate of 12%.

The taxable income of a non-resident individual from employment received from sources in the Republic of Tajikistan is taxed at a rate of 20%.

The taxable income of individuals not specified in the above parts is taxed at a rate of 15%.

### 3.3 Year of assessment

Monthly calculation and submitting tax returns is required.

### 3.4 Allowances and deductions

Pension tax and minimum state indicator for the calculation can be deducted.

### 3.5 Taxation of dividends

N/A

### 3.6 Taxation of capital gain

N/A

### 3.7 Taxation of interest income

N/A

### 3.8 Personal assessment and utilization of losses

N/A

### 3.9 Withholding tax

N/A

### 3.10 Statutory obligation of employers

N/A

### 3.11 Filing requirement of tax return

#### Filing due dates

Till 15 after reporting month.

#### Penalties

Interest is accrued for each day of delay in the amount of 0.04%

#### Application of holdover

N/A

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Tax Committee and Social Security Agency of the Republic of Tajikistan

### 4.2 Basis of contribution

The social tax is levied on salaries and other benefits related to employment, including compensation that is not related to employment compensations but that is received on account of services provided. Companies and individual entrepreneurs employing or using the services for individuals are responsible for paying a social tax on paid salaries and compensations. In addition, employers must withhold a social tax (pension tax) from the salaries and compensations paid to employees/ individual service providers. Individuals registered with the tax authorities as individual entrepreneurs are responsible for paying their individual social taxes.

### 4.3 Contribution rate

The social tax rate for policyholders (legal entities) is set at:

- for budget institutions – 25%;
- for other organizations – 20%.

The social tax rate for insured persons (employees of legal entities) is set at:

- for budget institutions – 1%;
- for other organizations – 2%.

### 4.4 Exemption from tax

The following incomes are exempt from paying social tax:

- income of individuals-foreign citizens who perform work and (or) provide services in diplomatic and consular missions of the Republic of Tajikistan abroad;
- income of foreign citizens from employment within the framework of the implementation of state investment projects of the Government of the Republic of Tajikistan.

## GST/VAT

### 5.1 Basis of tax

VAT is an indirect tax and is paid at all stages of the turnover of goods, performance of works, and provision of services.

The objects of VAT are:

- supply of goods, performance of works and provision of services on the territory of the Republic of Tajikistan;
- performance of works and provision of services by non - residents in the territory of the Republic of Tajikistan;
- import of goods into the territory of the Republic of Tajikistan.

### 5.2 Rates of tax

The VAT rates for taxable transactions and taxable imports are as follows:

- The standard rate is 14%;
- Reduced rate, with the exception of taxable import and

subsequent delivery of imported goods in respect of construction works, hotel services and catering services – 7 percent and sales of agricultural products of domestic production, processing of agricultural products, training services and activities for the provision of medical services in sanatoriums and resorts without the right to offset VAT - 5 percent

## 5.3 Registration

Registration is required for companies having activity on the general taxation regime.

## 5.4 Filing requirements

The entities must submit the reports on a monthly basis. The reporting due date is 15 after the reporting month.

# DOUBLE TAX RELIEF

## 6.1 Foreign tax credit

The amounts of income tax paid by a resident outside the Republic of Tajikistan from foreign income for the tax period, upon presentation of evidence of payment of such taxes, in accordance with the procedure established by the Tax Code, shall be counted in the payment of taxes. The offset can be applied after approval from the Tax Committee and applying all supporting documents.

## 6.2 List of double tax treaties signed

Austria	Germany	Belarus
UAE	Poland	Pakistan
Saudi Arabia	Russia	Korea
Armenia	Thailand	Azerbaijan
Belgium	Turkmenistan	Romania
Great Britain	Finland	Turkey
Luxembourg	China	Ukraine
Indonesia	Czech	Bahrain
Switzerland	Iran	Kazakhstan
Kuwait	India	Kyrgyzstan
Latvia	Jordan	Uzbekistan
Moldova	Brunei	

# OTHER SIGNIFICANT TAXES

## 7.1 Stamp duty

N/A

## 7.2 Real property tax

Along with taxes that come from the Republic's budget, there are also taxes for local budgets. Local taxes include real estate taxes. Land tax is levied on land plots at established rates by local authorities, and on real estate from 3 to 25%, depending on the type of object, its area and location.

## 7.3 Estate duty

N/A

## 7.4 Net wealth/net worth tax

N/A

## 7.5 Others

### Tax regimes of the Republic of Tajikistan

In addition to the establishment of various types of taxes, there are various tax regimes: special and preferential tax regimes. In the first case, the legislation establishes a special procedure for calculating taxes for a certain category of taxpayers. For example, individuals engaged in entrepreneurial activities based on a patent pay a fixed amount of tax, regardless of what income was received in the tax period.

Other such regimes include a simplified regime for small businesses and agricultural producers (single tax), and a special taxation regime for gambling businesses.

The difference between preferential tax regimes consists mainly in the fact that in certain cases, for a certain period, persons conducting the specified activity are fully or partially exempt from paying any taxes. Benefits are provided for the construction of hydroelectric power plants, newly created enterprises that carry out a full cycle of processing cotton fibre into final products, poultry farming organizations for the production of combined feed for birds and animals, securities market participants, operations under production sharing agreements. It should be noted that it is in this area that the peculiarities of the tax legislation of Tajikistan are particularly pronounced in comparison with other countries (for example, Russia). Based on the benefits provided to these types of activities, it can be judged that their development is a priority in public policy, and this experience is unique.

### Special tax regimes

1) The special taxation regime includes:

- the taxation regime for the activities of free economic zones;
- the taxation regime of securities market entities;
- the taxation regime of individuals engaged in entrepreneurial activities
- activities based on a patent or certificate.

2) The simplified taxation regime includes:

- Simplified taxation regime for small businesses;
- Simplified taxation regime for agricultural producers (unified agricultural tax);
- Simplified taxation regime for gambling business entities;
- Simplified taxation regime for poultry farming, fish farming and the production of combined feed for birds and animals;
- Simplified taxation regime for innovative and technological activities

According to the tax legislation of the Republic of Tajikistan, a legal entity registered in Tajikistan operates under the "simplified taxation regime for small businesses". In the simplified taxation regime, income is accrued on a cash basis. The reporting period is a quarter, and tax reports are provided by the 10th day following the quarter.

When a taxpayer chooses the method of calculating tax according to the simplified system from gross income without deductions, the object of taxation is determined by



the cash accounting method and the tax rate is 6%. When a taxpayer chooses the method of calculating tax according to the simplified system from gross income minus expenses, the object of taxation of such a taxpayer is calculated by the accrual method, the tax rate is 18%.

## POINT OF CONTACT

### **Name of contact**

Rahim Kh.

### **Telephone with country code**

+992 944 944 944

### **Email address**

info@reanda.tj



# THAILAND

## GENERAL INFORMATION

### 1.1 Country/Region

Thailand

### 1.2 Currency

Thai Baht (THB)

### 1.3 Principal business entities

- Public limited company
- Private limited company
- Partnership
- Sole proprietorship
- Branch of a foreign corporation

### 1.4 Foreign exchange control

The legal basis for exchange control in Thailand is derived from the Exchange Control Act (B.E. 2485) and Ministerial Regulation No. 13 (B.E. 2497) issued under the Exchange Control Act. These laws set out the principles of controls under which Notifications of the Ministry of Finance and Notices of the Competent Officer are issued.

## I. EXCHANGE CONTROL REGULATIONS

### 1. Foreign Currency

Foreign currencies can be transferred or brought into Thailand without limit. Any person receiving foreign currencies from abroad in an amount equivalent to USD 1 million or above is required to repatriate such funds immediately and sell to an authorized bank or deposit them in a foreign currency account with an authorized bank within 360 days of receipt, except for foreigners temporarily staying in Thailand for not more than three months, foreign embassies, international organizations including their staff with diplomatic privileges and immunities, and Thai emigrants who are permanent residents abroad or working abroad.

Purchase of foreign currency from authorized banks is generally allowed upon submission of documents indicating international trade and investment. Companies in Thailand can engage in derivatives transactions with authorized banks to hedge against foreign exchange risk arising from foreign currency receipts or obligations.

### 2. Local Currency

There is no limit on the amount of Thai baht bank notes that may be brought into the country. A person traveling to Vietnam, the People's Republic of China (only Yunnan province) and Thailand's bordering countries is allowed to take out up to THB 2,000,000. A person traveling to other countries is allowed up to THB 50,000.

Any person bringing into or taking out of Thailand Thai baht bank notes, foreign currency bank notes or negotiable monetary instruments in an aggregate amount exceeding 450,000 Baht or USD 15,000 or its equivalent must make a declaration to a customs officer.

## II. BANK DEPOSITS

### a. Foreign Currency Account of Thai Residents

Thai residents are allowed to maintain foreign currency accounts (FCD) with authorized banks. Deposit and withdrawal of funds from such accounts are allowed under the following conditions:

#### 1. Deposit

Thai residents are allowed to deposit foreign currencies originating from abroad or foreign currencies purchased or borrowed from authorized banks without limit.

Deposit of foreign currency notes and coins is allowed 1) up to the amount brought into Thailand or obtained from commercial banks or non-bank FX licensees or 2) up to USD 15,000.

#### 2. Withdrawal

- (1) For payment of obligations to entities abroad.
- (2) For payment of obligations to commercial banks or non-bank FX licensees.
- (3) For deposit into other FCDs of the same account holder or other Thai residents.
- (4) For conversion into Thai Baht.

### b. Foreign Currency Account of Non-residents

Non-residents may maintain foreign currency accounts with authorized banks in Thailand without limit. The accounts can be freely deposited or withdrawn. However, deposit of foreign currency notes and coins is subject to the same regulation as mentioned above.

### c. Non-resident Baht Account

Non-residents may open Thai Baht accounts with authorized banks in Thailand as follows:

- (1) Non-resident Baht Account for Securities (NRBS): The account may be debited or credited for the purpose of investment in securities and other financial instruments such as equity instruments, debt instruments, unit trusts, derivatives transactions traded on the Thailand Futures Exchange
- (2) Non-resident Baht Account (NRBA): The account may be debited or credited for general purposes

(i.e. other than investment in securities) such as trade, services, foreign direct investment, investment in immovable assets, and loans.

The total daily outstanding balances for each type of account shall not exceed THB 200 million per non-resident. Transfers between different types of accounts are not allowed.

## 1.5 Current economy climate (Industry overview/ encouraged business development)

The Thai economy slowed down in March 2022. Domestic spending from private sector declined both in consumption and investment, while activities in the manufacturing sector also slowed down. Several factors accounted for such development: the Omicron variant outbreak, higher production costs, and rising living costs. Meanwhile, public spending declined from the same period last year both in current and capital expenditures of the central government. Nevertheless, merchandise exports value increased in line with trading partners' demand. Foreign tourist figures also continued to increase after the relaxation of international travel restrictions.

On the economic stability front, headline inflation increased from energy and prepared food prices. Labor market gradually improved but remained vulnerable. The current account became a surplus due to a larger surplus in trade balance, while the net service, income, and transfers registered a deficit close to the previous month.

## 1.6 National tax authority

### Name

Revenue Department

### Website

<https://www.rd.go.th/landing.html>

# CORPORATE INCOME TAX

## 2.1 Basis of taxation

Resident company is subject to corporate income tax on its worldwide income and gains. Non-resident companies are subject to corporate income tax on income and gain derived from Thailand

Companies incorporated in Thailand are resident companies; while companies incorporated outside Thailand are non-resident companies.

## 2.2 Rates of tax

The current corporate income tax rate is 20%.

## 2.3 Year of assessment

The basis period of tax computation is commencing on both 1 January and ending on 31 December and self-determined accounting period.

## 2.4 Profits deemed to be taxable

In the case of Corporate Income Tax, the taxable profit is calculated based on the income and taxable expenses which must be complied with Thai Revenue Code.

## 2.5 Taxation of dividends

A company listed on the Stock Exchange of Thailand (SET) is

exempt from tax on dividends received from a Thai company if it holds the shares for at least three months before and after receiving the dividend.

If an unlisted company owns at least 25% of a Thai company's voting shares (with no cross-shareholding) and holds them for three months before and after receiving a dividend, the dividend is fully tax-exempt. If only the holding period is met but not the other conditions, 50% of the dividend is tax-exempt.

Offshore dividend income is exempt from corporate income tax if a Thai company has held at least 25% voting shares in the foreign dividend-paying company for over six months, and the dividend comes from profits taxed at a minimum 15% rate abroad.

## 2.6 Taxation of capital gains

Capital gains are treated as normal assessable income.

## 2.7 Taxation of interest income

Interest income is treated as normal assessable income.

## 2.8 Utilization of tax losses

The net loss incurred in any year of operation can be deducted from the taxable profit of the one or more subsequent years but limited to a maximum of five years.

## 2.9 Key Tax incentives

Thailand government offer profit tax exemption for assessed profit and more privileges under Board of Investment Law.

## 2.10 Withholding tax

There are some categories that will be subjected to withholding income tax. For foreign entities or individuals, these major sample incomes are subject to withholding income tax

- Dividends 10%
- Royalties 3%
- Interest 1%

## 2.11 Transfer Pricing

On 21 November 2018, Thailand compiled specific transfer pricing provision into the income tax law and regulations effective for accounting periods starting on or after 1 January 2019.

## 2.12 Filing requirements of tax return

Filing due dates	All taxpayers are required to submit complementary tax returns in respect of the preceding fiscal year within prescribed periods. The juristic persons are subjected to submit the tax filing within 150 days after the end of accounting period each year.
Penalties	1. Absence of or inaccuracy in the declarations which the taxpayers are obliged to submit according to the terms of the regulation, as well as the verified omissions, will result in a fine of certain percentage up to double of tax under-declared. 2. The additional surcharge of 1.5% per month is calculated and pay together with its tax under-declared.
Payment of profit tax and application of holdover	N/A

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Resident individuals are subject to income tax on income derived from Thailand and overseas income remitted to Thailand. Non-resident individuals are subject to tax on income from sources in Thailand.

### 3.2 Rates of tax

Sliding scale tax rates is shown as follows:

From	To	Tax Rate
0.00	150,000.00	0%
150,000.01	300,000.00	5%
300,000.01	500,000.00	10%
500,000.01	750,000.00	15%
750,000.01	1,000,000.00	20%
1,000,000.01	2,000,000.00	25%
2,000,000.01	4,000,000.00	30%
Above 4,000,000.00		35%

The basis period of tax computation is commencing on 1 January and ending on 31 December.

### 3.4 Allowances and Deductions

Maximum 60% of the total gross amount of income can be allowed as deduction.

### 3.5 Taxation of dividends

Subject to the investment conditions and period.

### 3.6 Taxation of capital gain

Subject to the investment conditions and period.

### 3.7 Taxation of interest income

Subject to the investment conditions and period.

### 3.8 Personal assessment and utilization of losses

N/A

### 3.9 Withholding tax

Refer to 2.10 above.

### 3.10 Statutory obligation of employers

All employees shall be registered under Personal Income Tax by receiving Personal Tax I.D.

Personal Income Tax is collected on a Pay as You Earn ("PAYE") on cash basis where employers are required to deduct the tax from their payments to employees at source. Personal Income Tax collected is then payable to the tax authority by the employer on a monthly basis by every 7th date of the following month.

### 3.11 Filing requirement of tax return

<b>Filing due date</b>	End of March.
<b>Penalties</b>	1. The absence of or inaccuracy in the declaration of tax return, as well as omissions verified will result penalties up to double of tax under-declared. 2. Surcharge is calculated depending on type of incomes.
<b>Application of holdover</b>	N/A

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Social Security Act B.E. 2533 (1990)

### 4.2 Basis of contribution

After the working relation is established between employer and employee, the Social Security Fund System should also be mandated to register new staff within 30 days.

### 4.3 Contribution rate

5% not exceed Baht 750 and top up by employer with the same rate (as normal situation)

### 4.4 Exemption from tax

No exemption

## GST/VAT

### 5.1 Basis of tax

Value Added Tax (VAT) in Thailand Is levied on the sales of goods or the provision of services rendered.

### 5.2 Rates of tax

Exemption, 0% and 7%

### 5.3 Registration

The registration must be done when the income exceeds the threshold of at least Baht 1.8 million per annum.

### 5.4 Filing requirements

The VAT Filing must made within 15 days of the following month.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Double Tax Agreement Law with some countries were entered for tax relief.

### 6.2 List of double tax treaties signed

1. Armenia	22. Hungary	43. Poland
2. Australia	23. India	44. Romania
3. Austria	24. Indonesia	45. Russian
4. Bahrain	25. Ireland	46. Seychelles
5. Bangladesh	26. Israel	47. Singapore
6. Belarus	27. Italy	48. Slovenia
7. Belgium	28. Japan	49. South Africa
8. Canada	29. Korea	50. Spain
9. Cambodia	30. Kuwait	51. Sri Lanka
10. Canada	31. Laos	52. Sweden
11. Chile	32. Luxembourg	53. Switzerland
12. China	33. Malaysia	54. Chinese Taipei
13. Cyprus	34. Mauritius	55. Tajikistan
14. Czech Republic	35. Myanmar	56. Turkey
15. Denmark	36. Nepal	57. Ukraine
16. Estonia	37. Netherlands	58. UAE
17. Finland	38. New Zealand	59. USA
18. France	39. Norway	60. Uzbekistan
19. Germany	40. Oman	61. Vietnam
20. Great Britain and Northern Ireland	41. Pakistan	
21. Hong Kong	42. Philippines	

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Stamp duties are taxed on instruments and not on transactions or persons. For the purposes of stamp duty, an instrument is defined as any document chargeable with duty under the Revenue Code. There are 28 categories subjected to stamp duty with the variety of rate start from 0.001%

### 7.2 Real property tax

On December 13, 2021, the Royal Decree on the Stipulation of Land and Building Tax Rates B.E. 2564 (2021) was published in the Government Gazette. The royal decree, which was issued under the Land and Building Tax Act B.E. 2562 (2019) takes effect on January 1, 2022.

The rates are varied by appraisal value from 0.01% - 0.7% depending on the purpose of holding the properties.

### 7.3 Estate duty

The duty is based on the transfer of right of estate depending on the type of estates.

### 7.4 Net wealth/net worth tax

N/A

### 7.5 Others

#### **Business tax**

N/A

#### **Consumption tax, etc.**

N/A

## POINT OF CONTACT

#### **Name of contact:**

Surapon Thawanyavichajit

#### **Telephone with country code:**

+66 896659664

#### **Email address:**

surapon@reanda-th.com





# UAE

## GENERAL INFORMATION

### 1.1 Country/Region

United Arab Emirates (UAE)

### 1.2 Currency

AED - UAE Dirham

### 1.3 Principal business entities

There are variety of business entities in UAE. In the prevailing rules and regulations of the Department of Economic Development, Free Zone Authorities, and Offshore Authorities, all business entities are required to register with the respective Regulatory Authority and must have a license to operate in UAE.

Business entities are also required to register with Federal Tax Authority for Excise, VAT (Value Added Tax), Customs (if applicable), and Corporate Tax (introduced on 31st January 2022 for FY starting on or after 1st June 2023). The following forms of business enterprises can be incorporated in the UAE:

- Sole proprietorship
- Civil Company
- Limited Liability Company (LLC)
- Partnership
- Private Share Holding Company
- Public Share Holding Company
- Branch of Foreign Companies/Representative Office
- Branch of GCC companies
- Free Zone Company or Free Zone Establishment.

### 1.4 Foreign exchange control

The UAE does not have a foreign exchange control authority or impose foreign exchange control regulations. However, the Central Bank of UAE regularly intervenes in monitoring the foreign exchange market.

### 1.5 Current economy climate (Industry overview/ encouraged business development)

The UAE's economy is flourishing, driven by rising oil prices, tourism, and government initiatives focused on diversification. Innovation and technology are at the forefront, with opportunities in AI, blockchain, and fintech. Tourism and hospitality are booming thanks to Expo 2020's success, with ongoing investments to solidify the UAE as a global destination. Strategic location and infrastructure make the UAE a logistics and light manufacturing hub. Sustainability efforts are propelling investment in renewable energy. The government also aims to make the UAE a leader in creative industries like media, design, and fashion. While oil and gas remain important,

the focus is on efficiency and responsible production. Dubai's financial centre thrives, offering opportunities in Islamic finance and wealth management. The real estate market is expected to stabilize, attracting long-term investors. While the UAE implemented Corporate Tax on business profits in 2023, it still remains a highly attractive location for businesses. The country boasts a streamlined incorporation process, strong support for business growth, and a commitment to fostering a sustainable and thriving business environment. Overall, the UAE presents a positive outlook for many industries, with the government actively encouraging specific sectors for further development.

### 1.6 National tax authority

#### Name

Federal Tax Authority

#### Website

<https://tax.gov.ae/ar/default.aspx>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

On 31 January 2022, the Ministry of Finance (MOF) announced that the UAE will introduce Corporate Tax (CT) on business profits (net income) effective for the financial year starting on or after 1 June 2023. The proposed basis of taxation under the UAE CT regime:

1. Resident
  - a. Any company (legal person) that is incorporated in the UAE will automatically be considered a 'resident'
  - b. Foreign company may be treated as resident if it is effectively managed and controlled in the UAE.
2. Non-resident
  - a. Taxable income from their Permanent Establishment (PE) in the UAE. The activity threshold that will trigger a PE for a foreign company in the UAE will be determined by two tests:
    - i. Fixed place of business test
    - ii. Dependent agent test
  - b. Income which is sourced in the UAE.
3. Businesses established in free zones (including financial free zones) will be subject to CT, however the CT regime will continue to honour the CT incentives offered to free zone businesses that comply with all regulatory requirements and that do not conduct business with mainland UAE.
4. Banking operations, including those currently taxed at the Emirate level, will be subject to CT.

- Businesses engaged in the extraction of natural resources will remain subject to the current Emirate-level tax rules and will be outside the scope of CT.

## 2.2 Rates of tax

The CT rates are:

- 0% for taxable income up to AED 375,000
- 9% for taxable income above AED 375,000; and
- Global minimum tax of 15% for large multinational enterprises with annual global turnover above AED 3.15 Billion.

However, a Qualifying Free Zone Person does not have the threshold of AED 375,000/-. The taxable income which is "Qualifying Income" will be subject to 0% Corporate Rate and if the income is non-qualifying in nature, the income is subject to 9% Corporate Tax.

## 2.3 Year of assessment

The UAE CT regime will become effective for financial years starting on or after 1 June 2023.

- A business with financial year from 1 June 2023 to 30 May 2024 will become subject to UAE CT from 1 June 2023 (which is the beginning of the first financial year that starts on or after 1 June 2023).
- A business that has the calendar year as its financial year will become subject to UAE CT from 1 January 2024 (which is the beginning of the first financial year that starts on or after 1 June 2023).

## 2.4 Profits deemed to be taxable

CT will be payable on the profits of UAE businesses as reported in their financial statements prepared in accordance with internationally accepted accounting standards.

## 2.5 Taxation of dividends

Dividends earned by a UAE business from its qualifying shareholdings will be exempt from UAE CT.

## 2.6 Taxation of capital gains

Capital gains earned by a UAE business from its qualifying shareholdings will be exempt from UAE CT.

## 2.7 Taxation of interest income

Corporate Tax in UAE is not levied on a foreign investor's income from dividends, capital gains, interest, royalties, and other investment returns.

## 2.8 Utilization of tax losses

The UAE CT regime will allow a business to offset losses incurred (as from the UAE CT effective date) in one period against the taxable income of future periods, up to a maximum of 75% of the taxable income in each of those future periods.

## 2.9 Key Tax Incentives

- The UAE Corporate Tax regime will honour the tax incentives currently being offered to free zone businesses that comply with all regulatory requirements and that do not conduct business with mainland UAE.
- Dividends and capital gains earned by a UAE business from its qualifying shareholdings will be exempted from UAE CT.

## 2.10 Withholding tax

0% withholding tax will be applied on domestic and cross-border payments made by UAE businesses.

## 2.11 Transfer pricing

The UAE CT regime will have transfer pricing rules to ensure that the price of a transaction is not influenced by the relationship between the parties involved. The businesses in UAE will have to ensure the transactions with related parties are performed considering the arm's length principle. The UAE CT regime introduced TP rules and TP documentation in line with OCED TP Guidelines. The documentation includes the Master file, Local file, and Country by Country Report is applicable for Multinational entities or businesses with annual revenue more than AED 200 million.

## 2.12 Filing requirements of tax return

### Filing due dates

The Corporate Tax return filing is due for all business within nine months after the conclusion of its relevant tax period.

### Penalties

Similar to other taxes in the UAE (e.g., VAT), businesses will be subject to penalties for non-compliance with the CT regime. Further information on the UAE CT compliance obligations and applicable penalties is mentioned in Cabinet Decision No. (75) of 2023 on the Administrative Penalties for Violations Related to the Application of Federal Decree-Law No. (47) of 2022 on the Taxation of Corporations and Businesses.

### Payment of profit tax and application of holdover

UAE businesses will not be required to make advance UAE CT payments.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, personal assessment)

Not Applicable in UAE

### 3.2 Rates of tax

Not Applicable in UAE

### 3.3 Year of assessment

Not Applicable in UAE

### 3.4 Allowances and deductions

Not Applicable in UAE

### 3.5 Taxation of dividends

Not Applicable in UAE

### 3.6 Taxation of capital gain

Not Applicable in UAE

### 3.7 Taxation of interest income

Not Applicable in UAE

### 3.8 Personal assessment and utilization of losses

Not Applicable in UAE

### 3.9 Withholding tax

Not Applicable in UAE

### 3.10 Statutory obligation of employers

Gratuity-End of service benefits, Annual leave, Insurance

### 3.11 Filing requirement of tax return

Filing due dates - Not Applicable in UAE

Penalties - Not Applicable in UAE

Application of holdover - Not Applicable in UAE

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

Ministry of Labour, UAE

### 4.2 Basis of contribution

Basic Remuneration

### 4.3 Contribution rate

- 21 calendar days basic pay for every year of service up to five years of service
- 30 calendar days basic pay for every year of service over five years of service.
- Employee basic pay was calculated on the basis of calendar days and a maximum cap of two years of remuneration was applied.
- Employees with over one year's service continue to be entitled to end-of-service gratuity (ESG), calculated on the same basis as before.

### 4.4 Exemption from tax

Gratuity and other personal income will not be applicable to tax.

## GST/VAT

### 5.1 Basis of tax

Value-added tax is applicable to the taxable supply in the state.

### 5.2 Rates of tax

VAT is a transaction-based tax imposed on the import and supply of goods and services at each stage of production and distribution including deemed supply. UAE Federal Tax Authority and Ministry of Finance have implemented VAT from 1st January 2018 with an effective rate of 5% standard rate, zero rate, and with exemption to some specific supplies.

### 5.3 Registration

Residents in UAE, whose taxable turnover in the previous 12-month period or anticipated to make in the next 30 days exceeds the following VAT registration threshold need to get registered in UAE. No registration threshold applies to non-resident businesses. Such a person who is required to register for VAT must file a Tax Registration application to the Federal Tax Authority (FTA) within (30) days of being required to register. The VAT registration threshold mentioned as per UAE VAT Law is:

- Mandatory registration threshold if exceeds AED 375,000
- Voluntary registration threshold if exceeds AED 187,500

### 5.4 Filing requirements

Monthly or quarterly filing of VAT return within 28 days from the end of the tax period. The due VAT payment must also be paid within the stipulated filing deadlines.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

The foreign tax credit is available to companies fulfilling the requirements as per the corporate tax laws. Also, foreign tax credit (FTC) is available as per the DTAA signed with other countries.

### 6.2 List of double tax treaties signed

The Ministry of Finance (MOF) plays a significant role in strengthening the UAE's investments worldwide. This is achieved by providing real safeguard measures for the country's interests to promote growth & expansion and ensure protection against any non-commercial risks that may impact performance.

As in 2024, UAE has signed 143 double taxation avoidance agreements with various countries.

More detailed information can be found on the below ministry of finance website link: -

<https://mof.gov.ae/wp-content/uploads/2023/08/Avoidance-of-Double-Taxation-Agreements1.pdf>

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

Purchase and sale of residential and commercial properties are regulated by the Land Department and Real Estate Regulatory Authority (RERA). Dubai Land Department (DLD) has 4% stamp duty on the property sale value.

### 7.2 Real property tax

Not applicable in UAE.

### 7.3 Estate duty

Not applicable in UAE.

### 7.4 Net wealth/net worth tax

Not applicable in UAE.

### 7.5 Others

**Business tax** - Not applicable in UAE.

**Consumption tax, etc.**

Excise tax has been introduced and implemented from 1st October 2017. Excise tax covers import, production, and release of Excisable goods from the Designated zone. This applies to limited products like tobacco and energy drinks. The Excise tax rate is 100% on tobacco, tobacco products, and energy drinks whereas for carbonated drinks and sweetened drinks the rate of the Excise tax is 50%.

### 7.6 Compliances

**Economic Substance Regulation (ESR)**

The UAE joined the BEPS inclusive framework on 16th May 2018 to implement the four BEPS minimum standards as follows: -

- Harmful Tax Practices
- Prevention of Tax Treaty abuse
- Country by Country Reporting (CbCR)
- Mutual Agreement Procedure

The Regulations require UAE onshore and free zone companies that perform any of the defined “Relevant Activities” listed below to maintain and demonstrate an adequate “economic presence” in the country in relation to the activities they undertake (“Economic Substance Test”).

A Licensee carries out any of the following relevant activities that are covered under ESR and is responsible to meet the ESR regulations and requirements: -

- Banking Business
- Insurance Business
- Investment Fund Management Business
- Lease - Finance Business
- Headquarters Business
- Shipping Business
- Holding Company Business
- Intellectual Property Business (“IP”)
- Distribution and Service Centre Business.

Entities that are within the scope of the Regulations are required to submit an annual Notification form within 6 months from the end of the financial year, and complete and submit an Economic Substance Report within 12 months from the end of the financial year.

### **Country by Country Reporting (CbCR)**

On 4 June 2020, the Government of UAE amended the CbCR vide Cabinet Resolution No. 44 of 2020, thereby repealing Resolution No. 32 of 2019.

The obligation of filing the Country-by-Country Report (“CbC Report”) was effective 1 January 2019 and the need to file the CBC report within 12 months from the end of the financial year.

The Amended CbCr is effectively applicable to only UAE-headquartered multinational enterprise (“MNE”) group whose consolidated revenues exceed AED 3.15 billion in the fiscal year immediately preceding the reporting fiscal year.

### **Ultimate Beneficial Owner (UBO)**

By virtue of Cabinet Resolution No. (58) of 28-08-2020 regulating Beneficial Owner Procedures and replaced Cabinet Resolution No. 34 of 2020. The Resolution introduces new requirements for entities to disclose their ultimate beneficial owners. The main purpose is to enhance the transparency of entities registered in the UAE and to develop an effective beneficial owner data mechanism.

The Licensee in the UAE (unless exemptions apply) to prepare the following registers:

1. Ultimate beneficial owner (“UBO”) register
2. Nominee Director register (if applicable) and
3. Partners or shareholders register,

The Resolution applies to all entities licensed in the UAE, excluding the following:

- Entities in financial free zones (Abu Dhabi Global Markets and Dubai International Financial Centre); and
- Entities that are directly or indirectly wholly owned by the Federal or Emirate government.

## **POINT OF CONTACT**

### **Name of contact**

Amith R

### **Telephone with country code**

+971 542747017

### **Email address**

amith@sundubai.net



# UNITED KINGDOM

## GENERAL INFORMATION

### 1.1 Country/Region

United Kingdom

### 1.2 Currency

Pound Sterling

### 1.3 Principal business entities

- Public Limited Companies
- Private Limited Companies
- Sole Traders
- Partnerships
- Limited Liability Partnerships (LLPs)
- Charitable organisations

### 1.4 Foreign exchange control

No exchange control

### 1.5 Current economy climate (Industry overview/ encouraged business development)

Looking ahead to 2024, the UK economy is expected to make a modest recovery following a challenging period that included a technical recession in the latter half of 2023. The economic landscape is characterized by a gradual stabilization of inflation rates and a cautious optimism for growth, albeit at a slow pace.

The inflation rate, which reached a peak in previous years, is expected to come closer to the Bank of England's target of 2% by mid-2024, thanks to easing food and energy prices. However, there are still risks that could cause inflation rates to fluctuate, such as geopolitical tensions and market dynamics.

Economic growth is projected to remain subdued, with real GDP growth estimated to be around 0.3% for 2024, gradually strengthening to 0.9% by 2025. This growth is supported by improvements in household incomes and consumer spending, as well as a cautious increase in business investment due to easing credit conditions.

Despite these positive signs, the UK's recovery is expected to be slow due to ongoing challenges in the labour market and potential headwinds from external economic pressures. Unemployment rates are expected to rise modestly, and wage growth, although improving, is likely to lag behind inflation for some time. This highlights the need for business entities, including large corporations, small enterprises, and charitable organizations, to navigate cautiously and adapt to evolving economic conditions.

### 1.6 National tax authority

#### Name

His Majesty's Revenue and Customs (HMRC)

#### Website

<https://www.gov.uk/government/organisations/hm-revenue-customs>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

A business liable to corporation tax (CT) in the UK pays this at a pre-determined rate expressed as a percentage. Businesses liable to CT include limited companies, unlimited companies, and certain unincorporated entities such as members' clubs and political associations. Other types of organisations which pay CT in the UK are foreign-based companies with a permanent establishment (PE) or branch in the UK or if the central management and control is exercised in the UK.

#### UK resident companies

Companies which are resident in the UK are liable to tax on their worldwide income and gains subject to certain elections to exempt profits of an overseas PE.

#### Non-UK resident companies

Companies which are tax resident outside the UK but are trading through a PE in the UK are subject to CT on any trading profits, UK property income and chargeable gains arising from the PE in the UK.

Non-UK resident companies are subject to CT on the trading profits from dealing with or developing land, even if there is no PE.

### 2.2 Rates of tax

CT rates ending on 31 March	2020	2021	2022	2023	2024	2025
UK Resident companies	19%	19%	19%	19%	25%	25%
UK non-resident companies	19%	19%	19%	19%	25%	25%
Northern Ireland SMEs with trading activity	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Small profits rate (profits under £50,000)	—	—	—	19%	19%	19%
Marginal rate (profits Between 50,001-250,000)	—	—	—	—	26.5%	26.5%

Until 1 April 2023, the Corporation Tax main rate for non-ring-fenced profits was 19%. From 1 April 2023, the main rate increased to 25% for all companies with profits over £250,000. A Small profits rate (SPR) was introduced for companies with profits of £50,000 or less so that they will continue to pay Corporation Tax at 19%. Companies with profits between £50,000 and £250,000 pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective Corporation Tax rate.



## 2.3 Year of assessment

Companies pay CT based on the profits in a chargeable accounting period, and the accounting period cannot be longer than 12 months. If your accounting period is longer than 12 months, a corporation tax return will be due for the first 12 months and a second return due for the remaining period.

If an accounting period straddles the beginning of a financial year for which the rates differ from those of the preceding financial year, the two parts of the accounting period are treated as if they are separate accounting periods. The profits are apportioned between those parts on a time basis. Once the profits are apportioned, the appropriate corporation tax rate is applied to calculate the tax liability due.

## 2.4 Profits deemed to be taxable

Typical sources of taxable profits or income include: -

- Trading profits from each trade carried on in the UK
- Any profits from non-trading loan relations such as bank, building society or other interest
- Annual payments not otherwise charged to CT and from which IT has not been deducted or paid
- Non-exempt dividends or distributions from non-UK resident companies
- Income from which IT has been deducted
- Income from property business
- Income from overseas property business
- Non-trading gains on chargeable intangible fixed assets

## 2.5 Taxation of dividends

A dividend is a payment a company can make to shareholders if it has made a profit. We do not account for dividends as a business cost when calculating corporation tax. Since July 2009, dividends received by a UK resident company and a non-UK resident company trading through a PE are exempt unless the dividends are received from countries with a very low tax regime and with whom there is no Double Taxation Agreement in place, which contains a non-discrimination clause.

## 2.6 Taxation of capital gains

Capital gains on the disposal of an asset are calculated by reference to the sales proceeds, less the cost of acquiring and improving the asset, less an inflation linked indexation allowance. This allowance is available on the original cost and any capital improvements on the asset. The resulting net gain is charged to CT. The inflation indexation allowance is frozen from 1 January 2018, with relief due only with reference to the retail price index in December 2017.

## 2.7 Taxation of interest income

Taxed in a similar way to profits and at the same tax rates.

Non-trading loan relationship credits are chargeable to corporation tax at the applicable rate.

## 2.8 Utilization of tax losses

The UK CT treatment of losses depends on when the losses arise.

## Trading losses arising on or after 1 April 2017

Losses arising on or after 1 April 2017 can be used against the total profits of subsequent accounting periods.

Companies may also be able to claim or surrender losses as group relief for carried forward losses.

Losses carried forward are subject to a restriction if profits are in excess of £5 million. The maximum amount of brought forward trading losses is the lower of the amount not relieved and the deduction of £5 million per group or standalone company plus 50% of the company unrelieved profits above that amount.

Losses can also be offset against profits for the earlier 12-month period; you can only do this if the company or organization was carrying on the same trade at some point in the accounting period or periods that fall in the earlier 12-month period.

Losses below this amount will be given a greater degree of flexibility in terms of relieving provisions.

If an entity makes a loss from certain types of activity, such as non-trading loan relationship (NTLR), the loss can be set against total profits arising in the same accounting period. The loss can also be carried back or carried forward against total taxable profits (TTP). NTLR losses take priority over trading losses.

## Trading loss prior to 1 April 2017

Losses arising prior to 1 April 2017 not used in full can be carried forward automatically but only to be offset against trading profits from the same trade.

Losses that begin before and end after 1 April 2017 are apportioned accordingly.

## Groups and trading losses

A Group of companies is defined as one or more companies who are owned more than 75% by each other, or a parent company. Certain losses can be offset against trading profits of another member of the group, provided that there is a qualifying group relationship.

## Terminal losses

Loss relief is available when the business ceases trading. The relief allows you to carry back any trading losses that occur in the final 12 months of the trade and set off them off against profits made in any or all of the three years up to the period when you made the loss. The loss can only be set against profits of the same trade. From 1 April 2017, if your company or organisation stops trading, you may be able to claim terminal loss relief for carried forward losses of that trade. The relief is not subject to restrictions by the amounts available for relief and, therefore, provides more flexibility to companies to utilise losses in the final years of trading.

## 2.9 Key tax incentives

Capital allowances on assets used in the business such as equipment, machinery or cars, vans and lorries.

- Annual Investment Allowance (AIA), i.e. 100% allowance - All businesses, regardless of their size, can claim the first £1,000,000 of qualifying capital expenditure incurred between 1 January 2019 and 31 March 2023.

- First Year Allowance in addition to AIA for certain qualifying assets such as environmentally friendly assets – 100% of cost deducted in the first year.
- Written Down Allowance – 18% allowance on qualifying capital assets where the £1,000,000 allowance has been exceeded, or the capital assets do not qualify for AIA. The allowance is calculated by deducting a percentage of the value if an item in the “capital allowance main pool” annually on a reducing balance basis.
- Special rate pool allowance – 6% allowance for certain types of assets such as cars with high CO2 emissions and integral feature of a building where the AIA apart from cars has been utilised on a reducing balance basis.
- 130% Super deduction – For expenditure incurred from 1 April 2021 until the end of March 2023, companies within the charge to corporation tax were able to claim 130% of the cost of the main rate plant and machinery, except for cars, in the tax year in which the assets are bought.
- 50% Special rate allowance – The First Year Allowance was introduced on 1 April 2021 as a temporary measure but has since been extended until 31 March 2026. Companies within the charge to corporation tax can claim 50% of the cost of special rate plant and machinery, except for cars, in the tax year in which the assets are bought. The balance of the expenditure after the special rate allowance has been claimed can be added to the special rate pool in the following accounting period. Companies will be liable to a balancing charge if they sell an asset for which a 50% special rate allowance has been claimed.

Research & Development (R&D) relief is an enhanced tax deduction for qualifying expenditure available to companies engaging in “Qualifying Activity” for R&D

#### Definition for small and medium-sized companies for R&D purposes

- less than 500 employees and either
- turnover of less than €100 million euros (EUR) or a balance sheet total under €86 million euros (EUR)

SME R&D relief allows companies to:

- Deduct an extra 86% of their qualifying costs from their yearly profit, as well as the normal 100% deduction, to make a total 186% deduction
- Claim a tax credit if the company is loss making, worth up to 10% of the surrenderable loss

Large companies can claim a research and development expenditure credit (RDEC) for working on R&D projects. It can also be claimed by SMEs and large companies who have been subcontracted to do R&D work by a large company.

The RDEC is a tax credit is 13% from 1 April 2020 to 31 March 2023 and 20% on expenditure incurred from 1 April 2023.

The Patent Box enables companies to pay a lower 10% rate of CT in relation to qualifying patent income.

Similar reliefs are available for Creative Industries (Film/Animation/TV/Video Games/Theatre/Orchestra).

Enterprise Management Incentives (EMIs) – a tax efficient way of awarding shares to employees at discounted values and enabling the employee to benefit from a 10% rate of CGT when selling subject to certain qualifying criteria.

Enterprise Investment Scheme (EIS) or Seed Investment Scheme (SEIS) – offers generous income tax and capital gains tax reliefs to qualifying investors in certain companies. The tax relief can be up to 50% of the investment.

## 2.10 Withholding tax

Generally, there is no withholding tax with the exception of a 20% withholding on certain interest payments, patents and royalties.

## 2.11 Transfer Pricing

Applies to transactions between connected UK entities or a UK entity and a foreign entity, to increase taxable profit or reduce a tax loss, based on the internationally recognised ‘arm’s length principle’ i.e. profits that would have arisen had the parties were not connected.

An exemption is available to small and medium entities, provided that the qualifying criteria are met. The criteria are as follows:

- Small company is regarded as small if it has less than 50 employees and a turnover or balance sheet value of less than €10 million
- Medium size is if it has less than 250 employees and turnover of less than €50 million or balance sheet value of less than €43 million
- The overseas entity is not in a jurisdiction which has a low tax regime and the UK does not have a treaty agreement which includes a non-discrimination clause.

## 2.12 Filing requirements of tax return

<b>Penalties</b>	If the return is not submitted by the due date, there is an Initial flat rate penalty of £100. If the return is outstanding for three months after the deadline, there is another penalty of £100. Further penalty of 10% of the estimated (by HMRC) unpaid tax is levied if the return is outstanding for six months after the deadline. If the return is 12 months late, then further penalty of 10% of the unpaid tax is charged.  If the return is late three times in a row over three consecutive years, the £100 penalties are increased to £500 each.
<b>Payment of profit tax and application of holdover</b>	Corporation tax is due nine months and one day after the end of the accounting period for your previous financial year.  “Large” companies (usually with profits over £1.5 million but do not exceed £20 million) and “Very Large Companies” (with profits over £20 million) are required to pay CT in instalments starting in advance of the accounting year end.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, Personal assessment)

Most individuals in the UK are subject to tax on all of their income (subject to allowances and exemptions), which either arises in the UK or is available for their enjoyment or benefit here. Typically, these are individuals who are self-employed, directors, employees who receive taxable benefits and remuneration, rental income, pensions income which originates in the UK. The Scottish Parliament is responsible for setting tax rates and allowances in Scotland. If an individual is either not resident or non-domiciled in the UK, the tax treatment of overseas income varies, and a summary comparison is shown below: -

	Taxable?		
	UKR <sup>1</sup>	UKRND <sup>2</sup>	NUKR <sup>3</sup>
UK employment income	✓	✓	✓
UK self-employment income	✓	✓	N/A
UK dividends	✓	✓	X <sup>4</sup>
UK interest	✓	✓	X <sup>5</sup>
UK rental profits	✓	✓	✓
UK pension income	✓	✓	X <sup>6</sup> ✓
Overseas income generally	✓	✓	X <sup>7</sup>
1 UK Resident			
2 UK Resident but non-domiciled			
3 Non-UK Resident			
4 May be disregarded			
5 May be disregarded or exempt under the treaty			
6 May be exempt under the treaty and certain pensions may be disregarded			
7 May not be taxed under the remittance basis if income not brought to the UK			

The rules regarding statutory residency for tax purposes are complicated, but anyone who spends at least 183 days in the UK in a tax year would be considered to be a resident for that period.

Non-domiciled individuals can choose to be taxed on either the remittance or the arising basis. Under the arising basis, an individual is taxed on their worldwide income as it arises. However, if the individual is not UK domiciled, they can elect to be taxed on their foreign income only when it is remitted to the UK. A remittance basis charge (RBC) of £30,000 is payable if the taxpayer has been a tax resident in the UK for at least 7 out of the past nine tax years. The charge increases to £60,000 if the taxpayer has been a tax resident in the UK for at least 12 out of the past 14 tax years. With effect from 6 April 2017, certain returning former UK domiciled individuals and individuals who have been resident in the UK for 15 out of the last 20 years cannot elect to use the remittance basis of taxation and they are treated as UK domiciled for income, capital gains and inheritance tax purposes.

## 3.2 Rates of tax

Income Tax is charged at the basic rate of 20% on taxable income of up to £50,270 (basic rate threshold) for 2024/25. Taxable income from £50,271 to £125,140 falls into the higher rate tax band and is charged at a rate of 40%. Taxable income exceeding £125,140 is charged at the additional rate of tax at 45%.

	UK Taxpayer rates	
	Y/E 2023/24	Y/E 2024/25
£0 - £12,570*	0%	0%
£12,571 - £50,270	20%	20%
£50,271 - £125,140	40%	40%
Over £125,140	45%	45%

\*Assumes the person is in receipt of the Standard Personal Allowance

## 3.3 Year of assessment

A tax year runs from 6 April to 5 April of the following year.

## 3.4 Allowances and Deductions

Allowances

- Personal Allowance (PA) of £12,570 for 2024/25
- A PA is received if an individual holds a British passport, is a citizen of a European Economic Area (EEA) country, has worked for the UK government at any time during that tax year or is entitled to a PA under the DTA between the UK and the home country
- PA is withdrawn by £1 for every £2 of income over £100,000
- Savings Allowance of £1,000 (basic rate taxpayers), £500 (higher rate taxpayers)
- Starting rate for savings of £5,000 if your non-saving income is covered by PA, the first £5,000 of interest income will be taxed at £0.0 rate of tax
- Married Couple Allowance (MCA) for people born before 6 April 1935 is a flat rate tax deduction of 10%, reducing the liability by a maximum of £1,108 for 2024/25. There is a minimum tax relief of £427 in 2024/25.
- Marriage Allowance entitles married couples to transfer 10% of their PA from the spouse with the lower earnings to the spouse with higher earnings if they are both basic rate taxpayers. The lower earner must normally have an income below the PA, and the higher earner's income must be less than £50,270.
- Rent-a-room allowance of £7,500 for 2024/25, subject to qualifying conditions.
- Interest paid on certain qualifying loans can be deducted from taxable income
- Trading allowance of £1,000 for self-employed individuals
- Rental allowance of £1,000 for rental property income

Additional tax relief is available if individuals contribute to a pension scheme or make charitable gifts under the gift aid scheme.

## 3.5 Taxation of dividends

Dividend rates	2023/24	2024/25
First £500	0% on first £1,000*	0%
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%

\*Until the 2022/23 tax year, the tax-free dividend allowance was £2,000. The allowance was reduced to £1,000 for the 2023/24 tax year and reduced further to £500 for 2024/25.

## 3.6 Taxation of capital gain

You only pay Capital Gains Tax on your overall gains above the Annual Exempt Amount of £3,000 for the 2024/25 tax year. This is a reduction from the 2023/24 rate of £6,000.

The Business Asset Disposal Relief, formally known as “Entrepreneurs’ Relief” lifetime allowance is capped at £1 million.

Taxpayer	Rates of CGT tax	Residential Property	Other Gains	Entrepreneur's Relief
Basic	18%	√		
Higher	28%	√		
Basic	10%		√	
Higher	20%		√	
Flat rate	10%			√

### 3.7 Taxation of interest income

Taxed at 0% saving nil rate up to £5,000, The more you earn from other income (for example, your wages or pension), the less your starting rate for savings will be. 20% up to the basic rate limit of £37,700, thereafter 40% for a higher rate and 45% above £125,140.

### 3.8 Personal assessment and utilization of losses

Under Self-Assessment, certain individuals are required to self-assess by completing a personal tax return by 31 January following the end of the tax year, which runs from 6 April to 5 April. A return can be filed by paper up to 31 October following the end of the tax year.

By aggregating the non-saving and investment income and deducting allowable payments, reliefs and expenses, the net adjusted income and capital gains are taxed at the appropriate rates for the relevant tax year.

Income and Capital losses can be used in the following ways:

- Trading losses are set against income or capital gains of the same year
- Trading losses can be set against income and capital gains of the previous year or/and the excess carried forward against profits from the same trade
- Rental property losses are carried forward against future rental profits
- Capital losses are set against gains of the same year
- Capital losses brought forward are set against gains before the annual exemption
- Unused capital losses are carried forward automatically.

### 3.9 Withholding tax

If you pay an individual or a group of individuals who are making an appearance or performing in front of an audience and this individual or a group are non-UK residents or are both UK and non-UK residents, a Withholding Tax deduction must be made, provided the payment is in excess of the tax-free personal allowance or an amount specified in the Double Tax Agreement with the home country. Withholding tax may also be deducted depending on an individual's tax code.

### 3.10 Statutory obligation of employers

Employers report the payment made to employees monthly online in real time. The minimum hourly rate for wages must be at a rate equal to the National Minimum Wage rate.

Employers must provide a workplace pension to eligible employees. They also have an obligation to notify and enrol

these employees and pay a certain % of their wage to their pension pot.

Employers must submit an annual form reporting benefits provided to employees which are not included on the payroll, also called form P11D.

Irregular or small taxable benefits can be reported under a PAYE Settlement Agreement (PSA Agreement). This is an annual payment to cover the tax due on the benefits.

### 3.11 Filing requirement of tax return

Filing due date	<b>Employer's P11D form</b>	
	Due date	06-Jul
	<b>Employer's PSA Agreement</b>	
	Calculation submitted for approval	31-Jul
	Payment due date	31-Oct
	<b>Individual Tax Return</b>	
	Postal filing	31-Oct
	Electronic filing deadline	31-Jan
	Issue date	06-Apr
	An extension of three months is granted if the notice to file a tax return is issued past the normal submission deadline.	
Penalties	<b>Late filing penalties</b>	
	An initial penalty of £100 is charged for failure to submit a tax return. If the return is outstanding for three months, then a daily penalty of £10 per day is charged for up to 90 days, capped at £900. A further fine of £300 or 5% of tax owing whichever is greater is imposed if the tax return is outstanding for 6 months. Another penalty is levied of £300 or 5% of tax owing whichever is greater if the return is 12 months late.	
Application of holdover	<b>Late payment of tax owing</b>	
	Late payment penalty of 5% on the tax owing is charged if the payment is 30 days late and a further 5% if the payment is six months late and another 5% if the payment is 12 months late. In addition, late interest is charged at a rate charged by HMRC on the amount owing.	
Application of holdover	If assets are given away, it is considered a gift and disposal at arm's length for the purposes of CGT. The capital gain that arises can be deferred if a claim for Hold-over-Relief is made jointly by the transferor and transferee. The gain is rolled over against the base cost of the asset and the recipient will pay a higher capital gain tax when the asset is sold.	

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTION

### 4.1 Regulatory organization

The UK regulatory organisation is HMRC.

### 4.2 Basis of contribution

Employers and employees pay primary and secondary National Insurance (NI) on earnings.

Employers also pay NI on certain benefits provided to employees.

Self-employed people pay Class 2 NI where their profits exceed the Lower Profits Threshold of £6,725. In addition, they may be liable to pay a separate Class 4 profits related contribution.



Individuals may also pay Class 3 NI voluntarily to fill in gaps in their NI record to ensure that they qualify for state pension and bereavement benefits.

Employers with annual wage bills (on earnings liable to Class 1 NI) in excess of £3,000,000 also pay Apprenticeship Levy at 0.5% on the total bill, subject to a levy allowance of £15,000.

### 4.3 Contribution rate

Employees and employers are required to make NI contributions.

#### Class 1 Primary

Employees pay 10% on earnings above the primary threshold (PT) up to and including the upper earnings limit (UEL). The balance of the earnings above the UEL is chargeable at 2%.

#### Class 1 Secondary

Employers pay 13.8% on employee earnings above £175 per week for 2024/25.

#### Class 1A

Employers pay 13.8% on taxable benefits provided to employees.

#### Class 1B

Employers pay 13.8% on taxable benefits provided to employees but reported on the PSA agreement.

#### Class 2

If you are self-employed and earn less than £6,725 a year, you have the option to pay a fixed amount of £3.45 per week for the tax year 2024/25. In case your profits exceed £6,725 a year, Class 2 contributions are automatically considered as paid to safeguard your National Insurance record. Therefore, you do not need to pay Class 2 contributions in this scenario.

#### Class 4

Self-employed people pay 6% on profits between 12,570 and £50,270 and 2% on profits above £50,270 (2024/25).

#### Class 3 Voluntary

The rate for the 2022/23 tax year is £17.45 per week. There are special rates for certain industries, such as fishing, etc.

### 4.4 Exemption from tax

You do not pay national insurance after you reach state pension age unless you are self-employed and pay class 4 contributions. You stop paying Class 4 contributions at the end of the tax year, in, which you reach State Pension age.

Self-employed individuals may apply for exemption from paying Class 2 contributions if their annual profits are More than the level of the SPT, set at £6,725.

Self-employed individuals with profits of less than £6,725 a year or have a specific job (such as an examiner or business owner in property or land) do not pay Class 2 national insurance.

## GST/VAT

### 5.1 Basis of tax

Value Added Tax (VAT) is a tax payable on goods and services provided by businesses in the UK and European Economic

Area (EEA). Services and goods provided to countries outside the EU are out of the scope for VAT. VAT is collected on behalf of HMRC by businesses.

### 5.2 Rates of tax

VAT rates are as follows:

Standard 20%

Reduced 5%

Zero rated 0%

### 5.3 Registration

You can register for VAT as the following:

- Sole proprietor
- Corporate body
- Partnership
- Club or association

Two or more corporate bodies may apply to register as a group if they can meet certain conditions.

The VAT registration and deregistration thresholds are £90,000 and £88,000.

There are various VAT schemes available to small businesses to simplify the VAT administration.

### 5.4 Filing requirements

The VAT return is usually sent to HMRC every three months. The submission deadline is usually one month and seven days after the end of the accounting period. The VAT must be paid electronically to HMRC one month and seven days after the accounting period as well.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

Foreign Tax Credit relief is available

- If tax has been deducted in the UK and another country and there is a double taxation agreement (DTA) in place between the UK and that other country OR

If no DTA in place, unilateral relief limited to the UK tax due on the same income.

### 6.2 List of double tax treaties signed

Albania	Bolivia	Dominica
Algeria	Bosnia and Herzegovina	Egypt
Anguilla	Botswana	Estonia
Antigua and Barbuda	Brazil	Ethiopia
Argentina	British Virgin Islands	Falkland Islands
Aruba	Brunei	Fiji
Armenia	Bulgaria	Faroes
Australia	Burma (Myanmar)	France
Austria	Cameroon	Finland
Azerbaijan	Canada	Gambia
Bahrain	Cayman Islands	Gibraltar
Bahamas	Chile	Georgia
Bangladesh	China	Germany
Barbados	Colombia	Ghana
Belarus	Croatia	Greece
Belgium	Cyprus	Grenada
Belize	Czech Republic	Guernsey
Bermuda	Denmark	Guyana



Hong Kong	Mauritius	Slovenia
Hungary	Marshall Islands	Solomon Islands
Iceland	Mexico	South Africa
India	Moldova	South Korea
Indonesia	Monaco	Spain
Iran	Mongolia	St Lucia
Ireland	Montenegro	Sri Lanka
Israel	Morocco	Sudan
Italy	Montserrat	Swaziland
Isle of Man	Namibia	Sweden
Ivory Coast	Netherlands	Switzerland
Jamaica	New Zealand	Taiwan
Japan	Netherlands Antilles	Tajikistan
Jordan	Nigeria	Thailand
Jersey	Norway	Trinidad and Tobago
Kazakhstan	Oman	Tunisia
Kenya	Pakistan	Turkey
Kiribati	Panama	Turkmenistan
Kosovo	Papua New Guinea	Tuvalu
Kuwait	Philippines	Turks and Caicos
Kyrgyzstan	Poland	Uganda
Latvia	Portugal	Ukraine
Lebanon	Qatar	United Arab Emirates
Lesotho	Romania	Uruguay
Libya	Russia	Uzbekistan
Liberia	Saint Kitts and Nevis	USA
Liechtenstein	Saint Vincent and the Grenadines	USSR
Lithuania	Saudi Arabia	Venezuela
Luxembourg	San Marino	Vietnam
Macedonia	Senegal	Zaire
Macao	Serbia	Zambia
Malawi	Sierra Leone	Zimbabwe
Malaysia	Singapore	
Malta	Slovak Republic	

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

#### Acquisition tax

Stamp Duty Land Tax (SDLT) is due on the acquisition of a property or land over £250,000 for residential properties and £150,000 for non-residential properties and includes the following:

- Freehold property
- New or existing Leasehold
- Property through Shared ownership scheme
- Transfer of land or property in exchange for payment i.e., take out a new mortgage or buy share in a house

#### Rates of Tax 2024/25

	Residential property	Additional Residential Property
Up to £125,000	0%	3%
£125,001 - £250,000	0%	5%
£250,001 - £925,000	5%	8%
£925,001 - £1,500,000	10%	10%
over £1,500,000	12%	15%

If the property is an individual's first home, they do not pay any SDLT up to the value of £425,000. Between £425,001 and £625,000, 5% SDLT is payable.

If the purchase is to replace a main residence and the main home is not sold prior to the purchase of a new property, the additional tax of 3% is payable. Subsequently, if the main residence is sold within 36 months of the purchase of the new property, a refund can be claimed for the extra 3% within 12 months of the sale of the previous main residence or within 12 months of the filing date of the return, whichever comes later.

You must send the SDLT return to HMRC and pay the tax within 14 days of completion.

Scotland has a different tax system for taxing the acquisition of property – Land & Buildings Transaction Tax ("LBTT"). The rates for this differ from SDLT and care should be taken when transacting property in Scotland that the correct rates are used.

From April 2021, the chancellor announced an additional 2% SDLT surcharge on Non-UK Residents purchasing residential property in England and Northern Ireland.

#### Commercial and mixed use

	2023/24	2024/25
Up to £250,000	2%	2%
£250,001 - £925,000	7%	7%
£925,000 - £1,500,000	12%	12%
Over £1,500,000	14%	14%

When you buy commercial or mixed leasehold you pay SDLT on both the lease premium using the rates above and value of the annual rent over the life of the lease (net present value) using the rates below.

#### Commercial and mixed use – New leasehold sales and transfers

	2023/24	2024/25
Up to £150,000	0%	0%
£150,001 - £5,000,000	1%	1%
Above £5,000,000	2%	2%

An SDLT return is required for most transactions under £150,000. Certain SDLT reliefs are available for purchase of multiple dwellings and transfer of property between group companies, the relief is claimed on the SDLT return even if there is no tax to pay.

An individual is not required to file an SDLT return or pay SDLT tax for some property transactions as follows:

- Transactions where no money or other type of payment changes hands
- Freehold property purchase for less than £40,000
- Property left in a will
- Property transferred due to divorce or civil partner dissolution

#### Stamp Duty

When an individual buys shares, they normally pay Stamp Duty

of 0.5% on the transaction. If shares are brought electronically, it is known as Stamp Duty Reserve Tax (SDRT) and is payable at 0.5% of the transaction. If shares are brought through a 'Stock Transfer Form', the 0.5% rate would only apply if the transaction is over £1,000.

An individual is not required to pay Stamp Duty for the following share transactions:

- Given shares for nothing
- Subscribe to a new issue of shares in a company
- Buy shares in open ended investment companies from the fund manager
- Buy units in a unit trust from the fund manager

## 7.2 Real property tax

### Income Tax

Rental income from UK Real Estate is taxable at the normal IT rates after deduction of either allowable expenses or rental property allowance.

### Tax on disposal

UK tax residents and non-UK tax residents pay capital gains tax on the disposal of the UK Real Estate.

## 7.3 Estate duty

### Estate duty tax (Inheritance tax)

Inheritance Tax is tax on the estate which may include money, possessions, and property. Inheritance Tax is not due if the value of the estate is below than the current threshold of £325,000 and you leave everything above £325,000 to your spouse, civil partner, a charity, or a community amateur sports club.

If you're married or in a civil partnership and your estate is worth less than your threshold, any unused threshold can be added to your partner's threshold when you die. This means their threshold can be as much as £1 million.

If the estate contains your main residence, and is passed down to your children, grandchildren other lineal descendants, the threshold is increased by up to £175,000, provided your estate does not exceed £2 million.

### Rates of tax

The standard rate of tax charged on the value above the threshold is 40%. It is only charged on the part of your estate that's above the threshold.

The estate can pay Inheritance Tax at a reduced rate of 36% on some assets if you leave 10% or more of the 'net value' to charity in your will.

### Exemptions and reliefs

Gifts of £3,000 or less are covered by an annual exemption which is £3,000. Small gifts of up to £250 are also exempt. Gifts made out of normal income are also exempt.

Any gifts not covered by the annual exemption may be taxed depending on when the gift was given and may be subject to a reduced inheritance tax (IHT) under the taper relief rules.

Business Relief reduces the value of the business assets and therefore IHT due on the business or share of the business in the estate. Business Relief is given as either a 50% or 100%

reduction of tax on the business assets and it applies to business assets passed on during lifetime and/or as part of a will. To be able to claim this relief you will need to fill in both 'form IHT400' and 'Schedule IHT413'.

You can contact HMRC Inheritance tax and probate helpline about Agriculture Relief if your estate includes a farm or woodland.

Any non-chargeable gifts made more than seven years before the donor's death are exempt from tax on death.

Chargeable gifts such as gifts to trusts are charged at half the IHT rate (i.e. 20% if paid by the recipient of the gift or 25% if is paid by the donor) to the extent that they exceed the Nil Rate Band.

## 7.4 Net wealth/net worth tax

There is no wealth tax in the UK.

## 7.5 Others

### Business tax

Business rates are charged on non-domestic properties which pay business rates calculated by the local government.

### Some examples include:

- Shops
- Offices
- Pubs
- Warehouses
- Holiday rental homes or guest houses

### Business rates are calculated on the rateable value.

Some properties are eligible for discounts from the local council on this business rates.

Vacant buildings do not pay business rates for the first three months, but after that the full rate applies unless the building qualifies for further exemption.

Certain properties are exempt from paying business rates such as agricultural land and buildings.

### Consumption tax, etc.

In the UK this is covered by value added tax (VAT) – see above

## POINT OF CONTACT

### Name of contact

Peter McMahon

### Telephone with country code

+44 208 458 0083

### Email address

peterm@grunberg.co.uk



# ZIMBABWE

## GENERAL INFORMATION

### 1.1 Country/Region

Zimbabwe

### 1.2 Currency

Multicurrency – mainly United States Dollars (USD) and local currency. On 05 April 2024, Zimbabwe changed its local currency from Zimbabwe Dollars (ZWL) to Zimbabwe Gold (ZWG).

### 1.3 Principal business entities

- Public company
- Private Limited company
- Private Business Corporation
- Partnership both registered and unregistered
- Sole Trader

### 1.4 Foreign exchange control

The main legislation to make reference to is the Exchange Control Act Chapter (22:05) which is managed by the Reserve Bank of Zimbabwe. There are restrictions on transfers, cash and other forms of currency flows.

### 1.5 Current economy climate (Industry overview / encouraged business development)

The economy is expected to grow at 3.25% (IMF estimate) which is a lower than previously anticipated rate of around 7% due to the El Niño induced drought, lower commodity prices, currency instability and high inflation rates. As a result, there have been policy shifts and changes on the Fiscal and Monetary fronts in order to manage the negative impacts of the aforesaid. As at May 2024, 23 of the 97 legislative amendments that had been made to national laws related to Fiscal and Monetary laws. The amendments had the effect of:

- increasing taxes
- reducing or introducing new tax heads
- refining the Tax Authority's powers in order to be more effective in tax collection.

In order to widen the Tax base, new taxes have been introduced including Wealth Tax, Sugar Tax, and Capital Gains on sale of Mining Claims etc.

Despite the fiscal and monetary operating environment, Zimbabwe remains a highly viable market, and investment destination due to the availability of precious minerals, skills and a stable climate (both physical and political).

### 1.6 National tax authority

#### Name

Zimbabwe Revenue Authority (ZIMRA)

#### Website

<https://www.zimra.co.zw/>

There is also a self-service portal

<https://mytaxselfservice.zimra.co.zw>

## CORPORATE INCOME TAX

### 2.1 Basis of taxation

Taxation in Zimbabwe is typically source-based, with income generally taxed in the jurisdiction where it is earned rather than the taxpayer's country of residence. However, there are instances where income is "deemed" to be from a source in Zimbabwe in order to bring it to tax in Zimbabwe.

Individuals engaged in business activities (trade) in Zimbabwe are often taxed in the same manner as corporations e.g. lawyers, medical practitioners, accountants etc.

### 2.2 Rates of tax

The general Tax Rate is 25% plus 3% (of the 25%) Aids Levy. (Effectively 25.75%). Lower rates are available as part of fiscal incentives for Investors.

### 2.3 Year of assessment

In Zimbabwe, the standard tax assessment period aligns to the calendar year, running from January to December. However, corporate and business taxpayers have the option to apply for approval from the Commissioner of Taxes to file their returns based on the company's own financial year, rather than the calendar year. This alternative arrangement requires the mandatory approval of the Commissioner.

### 2.4 Profits deemed to be taxable

All income and deemed income as defined in Sections 8, 10 and 12 of the Income Tax Act Chapter (23:06) less allowable expenditure and exemptions is taxable. This includes income from trade in goods and services, interest income, rental income and investment income.

### 2.5 Taxation of dividends

Dividends from a source in Zimbabwe or deemed to be from a source within Zimbabwe are taxable. Usually, the paying company is required to Withhold 20% as a final tax before paying the shareholder.

### 2.6 Taxation of capital gains

**2.6.1** This is governed by the Capital Gains Tax Act (23:01). All immovable properties, marketable securities, and more recently, mining claim sales are subjected to Capital Gains Tax as guided by the act. Rates for immovable property are as follows:

- 5% on the Gross Capital Amount if the property was acquired before February 2009 and sold after.

- 20% on the Capital Gain if the property was acquired and sold between February 2009 and 22 February 2019.
- 5% on the Gross Capital Amount if the property was sold after February 22, 2019.

**2.6.2** Rates for marketable securities are as follows:

#### Listed Securities

- 1% on the Gross Capital Amount for listed securities.

#### Unlisted Securities

- 5% on the Gross Capital Amount if the Security was acquired before February 2009 and sold after.
- 20% on the Capital Gain if the Security was acquired and sold between February 2009 and 22 February 2019.
- 5% on the Gross Capital Amount if the Security was sold after February 22, 2019.

**2.6.3** Capital Gains Withholding Tax

Conveyancers and Stock Brokers who handle or receive Trust Funds in properties and securities that are subject to Capital Gains Tax are required to withhold a provision for tax as follows:

- 1% on the Gross Capital Amount for listed securities.
- 5% on the Gross Capital Amount for unlisted securities acquired before 22 February 2019, immovable property acquired before February 2009.
- 15% on the Gross Capital Amount for assets acquired after February 2009

**2.6.4** Special Capital Gains Tax on Mining Claims

Effective January 1, 2024, a special capital gains tax was introduced on mining titles acquired after 2014 – backdated.

## 2.7 Taxation of interest income

A 15% withholding tax is withheld by the financial institution or any Agent handling a transaction where interest is receivable. There are exemptions as listed in the 21st schedule of the Income Tax Act Chapter (23:06)

## 2.8 Utilization of tax losses

Losses can be utilized up to six years from the date incurred. However, there are guidelines, as this six-year carry-forward period is not applicable in all cases.

## 2.9 Key tax incentives

There are several tax incentives including tax holidays for specified investments, reduced income tax rates, tax credits for employing youth, the disabled etc. We also have Customs Duty waivers and rebates for certain imports, VAT deferments on Capital goods etc.

## 2.10 Withholding tax

Various withholding taxes exist, some of which are considered final taxes and cannot be claimed as tax credits. Examples of such final withholding taxes include the Shareholders Tax on Dividends and the Directors' Fees Tax

## 2.11 Transfer pricing

All entities with related party transactions are required to submit a Transfer Pricing document to the Zimbabwe Revenue Authority (ZIMRA) on an annual basis.

## 2.12 Filing requirements of tax return

### Filing due dates

An Income Tax estimate is prepaid via four payments known as Quarterly Payment Dates (QPDs). Due dates are as follows:

First QPD	10% due by 25 March
Second QPD	25% due by 25 June
Third QPD	30% due by 25 September
Fourth QPD	35% due by 20 December

A 10% margin of error is permitted when submitting the final income tax return the subsequent year, without incurring any penalties or interest charges. The due dates for filing the annual income tax return are announced annually by the Commissioner of Taxes via public notice, typically, by April 30.

### Penalties

Penalties apply if quarterly provisional tax (QPD) payments are underestimated by more than a 10% margin. Penalties are also applicable for not submitting tax returns at all. Additionally, interest is charged on late tax payments.

## PERSONAL TAX

### 3.1 Basis of taxation (Residence, personal assessment)

The basis for taxation of personal income is Source of Income. There are also cases where employment income is deemed to have accrued to a person and the income is brought to tax.

Pay As You Earn (PAYE) is the main personal tax on employment income. Income from trade and other business activities by individuals is taxed in the same manner as that for corporates.

The Final Deduction System (FDS) is the method of assessment, where employers are required to calculate and remit the Pay-As-You-Earn (PAYE) tax on behalf of their employees. If an employee has not been with the same employer for the full tax year, the employer must provide the employee with a Form P6 - a summary of the employee's earnings and deductions up to their last date of employment within that tax year period.

### 3.2 Rates of tax

Current monthly rates of ZiG PAYE are as follows:

#### Tax Band limits for employee taxable income

from	to	Tax rate
ZiG 0	ZiG 1,356.00	0%
ZiG 1,356.01	ZiG 4,068.00	20%
ZiG 4,068.01	ZiG 13,560.00	25%
ZiG 13,560.01	ZiG 27,120.00	30%
ZiG 27,120.01	ZiG 40,680.00	35%
+ ZiG 40,680.01		40%

Applicable for period from 5 April to 31 December 2024



Current monthly rates of USD PAYE are as follows:

#### Tax Band limits for employee taxable income

from	to	Tax rate
USD 0	USD 100.00	0%
USD 100.01	USD 300.00	20%
USD 300.01	USD 1,000.00	25%
USD 1,000.01	USD 2,000.00	30%
USD 2,000.01	USD 3,000.00	35%
+ USD 3,000.01		40%

#### Applicable for period from 5 April to 31 December 2024

If an employee earns income in more than one currency, when calculating their PAYE, the income in other currencies is first converted to US dollars, and then the USD tax tables are used to calculate the tax. The final tax amount is then converted back to the original currency for settlement.

### 3.3 Year of assessment

Typically, the tax year runs from January to December. However, due to high inflation rates, the tax year may sometimes be divided into two or more periods within the same year, each with different tax rates. As at the date of this report there are two distinct tax periods in 2024 - January 1 to April 5, and April 6 to December 31 – each with its own applicable tax rates.

### 3.4 Allowances and Deductions

Deductions are allowed from gross income, for example pension contributions. Tax Credits are also given for medical expenses, elderly, disabled people etc.

### 3.4 Taxation of dividends

Same as for Corporates

### 3.6 Taxation of capital gain

Same as for Corporates

### 3.7 Taxation of interest income

Same as for Corporates

### 3.8 Personal assessment and utilization of losses

Under the Final Deduction System, PAYE is calculated and remitted by the employer on behalf of the employee. No self-assessment is required unless the employee leaves employment before the end of the tax year. If the employee has overpaid tax, ZIMRA should process a refund upon submission of the completed P6 form.

Losses by a trading individual (not from employment income) are treated in the same manner as corporate losses.

### 3.9 Withholding tax

Same as for Corporates

### 3.10 Statutory obligation of employers

Employers must calculate the PAYE deductions for their employees. These PAYE deductions, along with the Tax Return, must be submitted to ZIMRA by the 10th of the subsequent month.

### 3.11 Filing requirement of tax return

#### Filing due dates

By the 10th day of the subsequent month.

#### Penalties

Employers face penalties for non-submission and late submission of Tax Return, no payments and late payments

#### Application of holdover

This is not applicable in Zimbabwe

## STATUTORY REQUIREMENTS ON SOCIAL SECURITY AND RETIREMENT CONTRIBUTIONS

### 4.1 Regulatory organization

National Social Security Authority (NSSA)

### 4.2 Basis of contribution

A percentage of the Gross Income of the employee is used for the pension contributions. Workman's Compensation Fund (WCIF) contributions are based on the Industry Sector of the employer.

### 4.3 Contribution rate

A total of 9% of gross income up to a maximum monthly income of ZIG5,010.83 for the period before 30 April 2024.

A total of 9% of gross income up to a maximum monthly income of USD700 for the period beginning 1 May 2024.

The Employer and Employee contribute 4.5% each.

With respect to WCIF various rates are applicable for example, 1.25% for service industries. Rates are higher for heavy duty industries where prevalence of work-related accidents are higher up to 4.5%. The employer contributes the whole amount.

### 4.4 Exemption from tax

Company Directors, Partners and owners of businesses can choose to contribute to NSSA or not to contribute.

## GST/VAT

### 5.1 Basis of tax

Value Added Tax is based on the Value Added Tax Act (23:12)

It is a consumption-based tax which is charged on supply of goods and services including imports and exports. It is collected by Registered Operators only.

### 5.2 Rates of tax

0% rate which usually applies to Exports and other specified goods/services 15% rate which is the general rate

Exempt rate – There are certain specified goods/services which are totally exempt from VAT.

### 5.3 Registration

To qualify as a registered operator a business has to show a turnover of USD25,000 per annum or potential to reach that threshold.



There is Compulsory Registration whereby if a trader has reached the USD25,000 revenue threshold they are required to register.

Voluntary Registration occurs where a Trader chooses to apply for registration where they have not yet met the threshold but can prove that they can meet the threshold within the twelve-month period.

## 5.4 Filing requirements

**There are three classes of Registered operators**

Class A	Tax Returns and payments are due in Even months, namely February, April, June, August, October, December
Class B	Tax Returns and payments are due in odd months, that is January, March, May, July, September, November
Class C	Tax Returns and payments are due monthly. This is where the majority of Operators are classified.
Class D	Tax returns and payments are due as approved by the Commissioner

All VAT returns are due on or before the 20th day of the subsequent relevant month of the registered operator.

## DOUBLE TAX RELIEF

### 6.1 Foreign tax credit

It is applicable where there are no double tax agreements between Zimbabwe and the other affected party. The taxpayer must prove their case. Approval by the Commissioner is necessary. The credit is limited as guided in the Double Tax legislation.

### 6.2 List of double tax treaties signed

Country	Dividends	Royalties	Technical fees
Bulgaria	10%	10%	10%
China*	2.5%	7.5%	15%
China**	7.5%	7.5%	15%
Canada	10%	10%	10%
France	10%	10%	10%
Germany	10%	7.5%	7.5%
Kuwait	5%	10%	10%
Malaysia	10%	10%	10%
Mauritius	10%	10%	n/a
The Netherlands	10%	10%	n/a
Norway	15%	10%	10%
Poland	15%	10%	10%
South Africa*	5%	10%	5%
South Africa**	10%	10%	5%
Sweden	15%	10%	10%
United States	5%	10%	10%

\* With respect to Dividends, the 2.5% limit shall only apply if the shareholder holds 25% or less in the entity.

\*\* With respect to Dividends, the 7.5% limit shall only apply if the shareholder holds more than 25% in the entity.

## OTHER SIGNIFICANT TAXES

### 7.1 Stamp duty

It is applicable on all property and securities sales. Rates range between 1% and 4% depending on the value of the property sold.

### 7.2 Real property tax

Various Taxes are collected by Local Authorities for example Land Tax in rural and farming areas.

### 7.3 Estate duty

Estate duties are payable, with exemptions based on Estate values. These are administered by the Master of High Court.

### 7.4 Net wealth/net worth tax

The tax is charged on residential properties with a value exceeding USD250 000.00. It is based on the excess of USD250,000 on the value of the property.

This tax was introduced with effect from 01 January 2024 and will be administered by the Local Authorities under which the immovable property is situated.

It is 1% of value as determined by the local authority and payable annually.

There are exemptions for main residences (Principal private residence) and for those above 70 years of age on main residences.

### 7.5 Business tax/Presumptive Tax

It is believed up to 90% of business is informal. Hence there is a raft of Presumptive taxes and Excise Duties/Taxes applicable to Vendors, Hairdressers, Bottle Stores, Lawyers, Small Scale Miners, Omnibus Operators, Cross Border Traders, and Driving Schools etc. A separate schedule can be provided for these on request.

### 7.6 Others

We have Carbon Tax, Licenses, and Customs Duties on Imports, Telecommunications licenses, Road Toll fees, Water consumption fees etc.

## POINT OF CONTACT

### Name of contact

Shingirai Chikonyora

Gertrude Mawire

### Telephone with country code

Landline: +263 8644299745

Cell phone: +263 7732 56162 (Shingie)

Cell phone: +263 71243 7256 (Gertrude)

### Email address

shingienc@reandazw.com

gertrudem@reandazw.com

# Reanda International

## Beijing headquarters

12/F, Building E, Sino-Ocean International (2nd Phase),  
No. 210, Ciyunsi Beili, Chaoyang District,  
Beijing, PRC, 100025  
Tel: +86 10 8588 6680  
Fax: +86 10 8588 6690

## Hong Kong administrative office

21/F Tai Yau Building 181 Johnston Road,  
Wanchai, Hong Kong  
Tel: +852 3101 4822  
Fax: +852 3101 4811

## DISCLAIMER

© 2025 Reanda International Network Limited. All rights reserved.

Reanda International Network Limited is a Hong Kong limited company wholly owned by Reanda International Investment (Beijing) Company Limited, a PRC limited company (collectively known as "Reanda International"). The network firms of Reanda International, including both member firms and correspondent firms, are affiliated with Reanda International, each of which is a separate legal entity and does not act as the agent of Reanda International or any other network firms. Reanda International and each network firm are liable only for their own acts or omissions and are not responsible for the activities or services of any other network firms. Reanda International provides no client services. All rights reserved.

This publication is written with care and contains general information for the broad guidance of its intended readers only. It is NOT intended to offer specific and universal advice or services in accounting, business, legal and tax fields. No one should use the information in this publication as a basis for acting or making decisions that may affect their finances or business. Advice from qualified professional advisors regarding a particular situation should be obtained before making any decisions or taking or not taking any actions. Please contact the network firms of Reanda International for professional advice that addresses your particular situation. Neither Reanda International nor its network firms nor their affiliates shall accept any responsibility, obligation or liability for any loss incurred directly or indirectly by actions taken or decisions made based on the information contained in this publication.

[www.reanda-international.com](http://www.reanda-international.com)