



Global vision, local insight

Global network news

September 2016



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President's welcome

Richard Kleiner, President of i2an ((rkleiner@geraldedelman.com))

At the time of preparing this article I am still reeling from the potential impact that the UK referendum of 23 June with regard to EU membership may have on the UK economy and indeed the other EU economies. Accordingly, I thought it appropriate to inform the members of i2AN with regard to my analysis of Brexit and for this reason I have prepared such an analysis which has been based on a recent article that appeared in the Financial Times (see page 4).

We recently had our i2AN board meeting in London at which the finishing touches were agreed on with regard to our forthcoming annual conference in Shanghai, China, which is being hosted by Azure Group, our Australian member who also has an office in Shanghai. I understand that many of us will be making the trip to Shanghai and I

look forward to having the opportunity to meeting with you all again and discussing the challenges that we all currently face.

As far as my own firm in the UK is concerned, Gerald Edelman, we have recently been putting together our 3-year plan which in headline terms has the vision of doubling in size. That would create a firm within excess of GBP£20m and with more than 25 partners. We have already started on the road to achieve this growth by firstly having organic growth in terms of our inherent clients of just under 5% in 2015/16 but, more significantly, in making our first acquisition of a 4 partner firm who merged with us at the end of March. The acquisition will add approximately 12% to our turnover and we are continually looking for other opportunities to bring in new talent and new clients including partners with

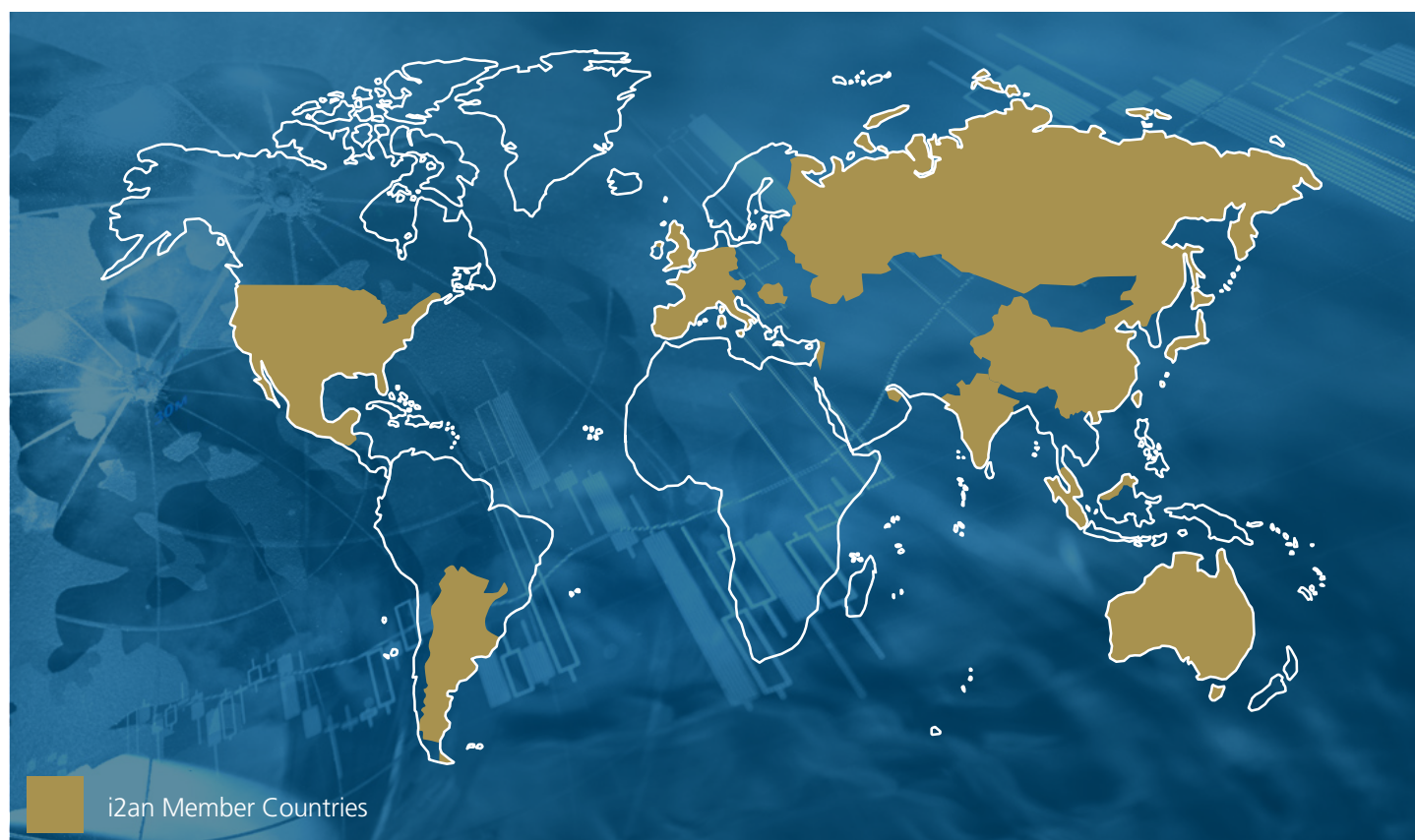
appropriate followings. I would be more than happy to give you an idea of the issues and obstacles we had to overcome in making the acquisition and the various processes that were undertaken. The story behind agreeing the transaction in the first place is quite amusing and is a good example of how being opportunistic can bring great results.

I will conclude once again look forward to seeing you in Shanghai on October 13th and 14th.

Best regards

Richard Kleiner

President of i2an





The 2017 tax filing deadlines will have a new logical order

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As we are preparing for the 2017 tax filing season, here is a summary of an interesting article I read in the Tax Adviser.

In one of the most significant pieces of tax legislation enacted in 2015, Congress included an update of the tax return due dates legislation. On July 31, 2015, President Barack Obama signed that legislation into law, making the new tax return due dates generally effective for tax years beginning after Dec. 31, 2015, therefore applicable to 2016 tax returns filed in 2017.

First, as a result of preliminary feedback from government officials that the individual tax return due date of April 15 and extension until Oct. 15 were "cut in stone," tax practitioners did not propose that individual tax return due dates change, and they did not change.

Second, the new federal due dates apply to 2016 tax returns and the 2017 filing season and beyond. However, it should be noted that the new rules apply to tax years beginning after Dec. 31, 2015, so they will

apply to shortyear returns beginning in 2016, before the general 2017 filing season.

Below is a list of the new federal due dates generally applicable for 2016 tax returns (2017 filing season) and beyond.

March 15 (extensions until Sept. 15)

- Form 1065, U.S. Return of Partnership Income; and
- Form 1120S, U.S. Income Tax Return for an S Corporation.

Note: This is the due date for the tax return and also for the Schedules K1 that the entity must provide to its owners.

April 15

- Form 1040, U.S. Individual Income Tax Return (extensions until Oct. 15);
- Form 1120, U.S. Corporation Income Tax Return (extensions until Sept. 15);
- FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR).

Although the legislation does not go into detail about due dates for various other forms, it should be noted that forms that are tied to the due dates of the above forms will be revised accordingly. Some of these forms are as follows:

- Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations;
- Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business;

Many states are likely to follow the above federal due date changes but may need to enact legislation to change their due dates to conform to the new federal dates.



BREXIT – the inside story

The Financial Times recently had an interesting article on the Brexit situation. As the result of the recent UK referendum on EU membership has wide ranging implications for many different states, I thought I would provide you with some extracts from the article.

Richard Kleiner, Partner, Gerald Edelman Chartered Accountants (rkleiner@GeraldEdelman.com)



Britain's vote to leave the EU has already been hailed as one of the most momentous events in Europe since the fall of the Berlin Wall in 1989. Exiting the EU is the central task that Theresa May, the country's new prime minister, has set herself — even though she herself voted to remain in the bloc.

But how and when the UK will break up with Brussels is far from clear. Much depends on an innovation in the EU treaty — Article 50 sets out how a member state can break up with the bloc.

The UK's future may rest on this text of fewer than 300 words, and how they are interpreted.

Why is Article 50 important?

In theory there are other means to leave the EU, but both the UK and the EU have agreed this would be the process for Brexit. To start the Article 50 process, the UK needs to make a formal decision to leave the EU and notify the EU Council of member states of this decision.

Why was the referendum not sufficient?

The referendum was not legally binding. Parliament could have chosen to make it legally binding but it did not. It was, in its legal effect, a consultation exercise.

Why has the Article 50 notification not been sent?

During the referendum campaign David Cameron, then prime minister, said that in the event of a Leave vote, people would expect the notification to be made straight away. When he announced his resignation, however, he said this would be a

matter for his successor.

What legally needs to happen before the Article 50 notification is sent?

The legal position is not clear. Some constitutional experts say triggering Article 50 needs a statute, while others say it can be done by the prime minister exercising the royal prerogative. It seems that the government may fudge this, and have a parliamentary vote on repealing the European Communities Act before any things are done by prerogative.

Some lawyers have filed a legal action to force the government to have a parliamentary vote but they are unlikely to succeed, as the courts may see this as a political and not a legal matter.

What else needs to be done before the Article 50 notification is sent?

Pretty much everything. There is no clear plan. David Davis, a veteran Eurosceptic, has been appointed to head a new Brexit department, as secretary of state for Exiting the EU. But he faces an immense and complex task.

Can the UK negotiate with the EU before sending the Article 50 notification?

The UK would like to do this, but the other

member states are not obliged to negotiate until the Article 50 notification has been sent. They are being firm on this, and this may convert into a stand-off. In the meantime, the UK remains a full member of the EU.

What happens once the Article 50 notification is made?

Once triggered, there will be a maximum two-year deadline for exit. At the end of two years, even if no agreement has been reached, the UK will cease to be an EU member state. The deadline can only be extended by unanimous consent. In theory, Britain could leave in less than two years if there is agreement.

Can the UK withdraw from the exit process once Article 50 notification is made?

Nobody knows, and Article 50 is silent. If there was unanimity, then there would not be a problem. But it would be a risky tactic, and may not work.

What would an exit agreement look like?

The exit agreement could be either narrow, dealing with just the terms of departure, or it could conceivably also address the UK's future relationship with the EU. It could be followed by a trade deal or series of trade deals.

Is Article 50 notification inevitable?

Mrs May has suggested that she will trigger the exit procedure around the end of the year or perhaps at the beginning of 2017. She has also said Britain will not start the process until it has thrashed out UK-wide objectives for the negotiations. Other defeated contenders for the leadership had called for earlier notification. But Mrs May dismisses the idea that delay increases the likelihood of Article 50 never being used. "Brexit means Brexit and we are going to make a success of it," she said recently.



Russian Migratory Policy in the Era of Western-Russian Tensions

Arthur Abouzov, Bellerage in Moscow, Partner (arthur.abouzov@bellerage.ru)

Current crisis has triggered a sharp deterioration in EU- and US-Russia relations with tensions having acquired economic and social as well as political dimensions. Foreign business society, especially businesses already operating or aiming to launch in this country, has become extremely concerned of the migratory environment in Russia.

However, despite many fears, legal consequences for foreign citizens working or having their business in Russia proved to be less dramatic as they might have been. On the contrary, against the negative background of sanctions and general deterioration of its relations with the West, Moscow is trying to soften the blow by attracting high-profile specialists and new investors. Let us look at some of the most popular issues.

Work Permit for Highly Qualified Foreign Specialists

One of the most efficient instruments of working in Russia is the work permit for a highly qualified foreign specialist. HQFS implies a number of tax (13% of income tax) and other benefits. Following the accession of Crimea to Russia foreigners working for the employers with domicile in the region (as well as in Sebastopol) and meeting all legal requirements, were allowed to obtain this status. What is more, the right to hire HQFS was granted to high-tech companies

engaged in scientific and innovative activities. Finally, there was a decrease in the amount of the minimal salary (fee) per month required to recognize a foreign citizen as HQFS, which is equal today to 2 200 euro.

Other Work Permits

Before 2014, foreign citizens were allowed to work only in the region where they obtained their work permit. However, with recent amendments having taken effect, this constraint was partially lifted, so that foreigners in a number of cases are allowed to get a job in a different region. However, given the complexity of Russian regulations in this sphere, foreign employees are strongly recommended to apply for details to their lawyers.

Russian Citizenship

In order to attract more investors, Russian government has simplified the admittance into Russian citizenship for three types of foreign citizens who are engaged in economic activities: individual entrepreneurs, foreign shareholders of Russian companies and natural persons working as qualified specialists in prescribed spheres. These categories of foreigners are entitled to apply for admittance to Russian citizenship without observing the condition concerning the time of residence.

Currency Transactions

Following the adoption of austerity policies, foreign citizens recognized as Russian residents were obliged to produce more data to competent governmental bodies. Specifically, they are held to file the reports on cash flows in foreign banks. Be aware that for a citizen of a foreign country to be recognized as Russian resident such person shall have a residence permit and annually produce the required data to the Federal Migration Service.

To conclude, Russia will obviously keep trying to prevent a large exodus of foreigners and attract more specialist to come to this country by creating favorable conditions. Despite popular rumors in business society, Moscow has generally sustained a friendly migratory policy to foreign citizens. Certain changes are likely to be linked to personal limitations and restrictions and can be explained by the current political situation worldwide. Russia holds to global trend in this issue, but this is another story.



BELLERAGE

We are very happy to inform you that in a recent survey Bellerage has now been ranked as one of the Top-10 accounting outsourcing providers in Russia. Company appreciates this as a direct result of clients and partners recognizing strategic approach to price and quality. Survey was performed by RA Expert based on revenues of participants in 2015. Please follow the link for details:

<http://raexpert.ru/rankingtable/outsourcing/2015/tab02/>

"We are really delighted, that our work and our commitment to the strategy of providing high quality services for reasonable price were converted into sustainable development, clients' loyalty and market recognition,"

– said Alexander Bykov, Bellerage Managing Partner.



Taxation of Private Real Estate Sales Income – “Immobilienenertragsteuer”

Robert Haunschmidt, Managing Partner of HAUNSCHMIDT & PARTNER

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Owning a property may soon lead to taxation issues. In 2012 the Austrian Income Taxation of property sale has changed completely. These are the key points:

Until 2012 there has been a 10 year speculative period that started with the purchase of the property. Capital gains of property sales were taxable within this period. Since April 1st 2012 the new tax rules apply and there is no more speculative period. Since then it must be distinguished between old properties (real estate that has been purchased before April 1st 2002) and new properties.

The income taxation on private property sales is now subject to a special tax act (“Property Income Tax”). A new calculation scheme allowing reduced expense categories has been established and there is a fixed tax rate of 30%. It is not applicable to corporations or real estate traders. This concept is now the standard case in a real estate sales of private properties. It is also the quickest way to do the entire sales procedure. The procedure is led by a representative of the parties, usually a lawyer or a public notary. This representative acts as trustee and governs the tax payments of real estate sales tax and the Property Income Tax. The effective tax payment has a final effect on the income taxation of the respective income; there is no need to include the profits from the sale in the income tax declaration.

Calculation of Property Sales Profit

The profit (surplus of sales minus purchase cost and certain expenses) needs to be filed in a self prepared tax declaration in the course of the sale transaction.

	Calculation of Property Sales Profit
+	Sales Price
-	Purchase Cost
-	Cost of (additional) Construction
-	Refurbishment Cost
-	Cost of tax declaration
+	Depreciation of eventual prior rent income
=	Profit

As shown above there are just pre-defined types of expenses. Other common expenses, like agency fees, interest, administration fees, etc. may not be considered.

Refurbishment costs may be taken into account as long as they exceed a certain extent of renovation and have a positive effect on the property’s value or lifetime. Common examples are renewal of windows and doors, repair or replacement of roof, covering of floors, heating plants, etc. Ordinary annual maintenance may not be considered.

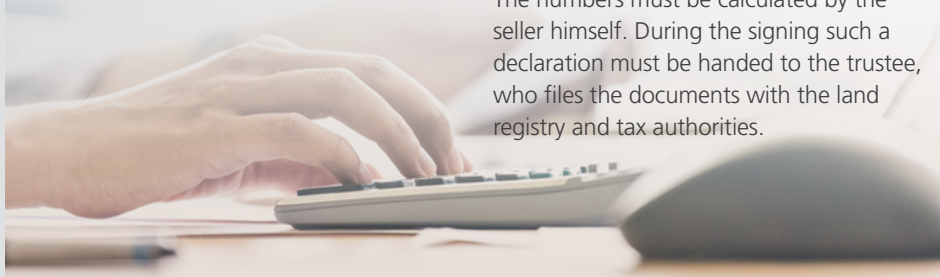
If the property has been rented with income tax, the accumulated depreciation must be corrected to avoid double counting. In this case the above categories (i) purchase cost or (ii) refurbishment cost are filled out with the original cost like said before. In a separate line the accumulated depreciation amount is filled in. This amount lowers the deductible purchase and refurbishment cost because it has already been depreciated in the income tax returns.

The numbers must be calculated by the seller himself. During the signing such a declaration must be handed to the trustee, who files the documents with the land registry and tax authorities.

The registration of ownership title in favor of the purchaser in the land register will only be done if the tax requirements are complied with in full. Usually the representative has also an escrow agreement with the parties and collects from the parties the sales price and assessed tax amounts on an escrow account. The new ownership is recorded in the land register and the tax is paid from the escrow account. The tax declarations are submitted to the tax authorities online. The calculation and numbers may be subject to review by tax authorities later on.

Reduced tax rate for Old Property

Old Property owners (purchase before April 1 2002, see above) have the choice to calculate the tax with a flat fee. This is done





by assuming the purchase cost with a rate of 86% of the sales price and the profit with a margin of 14% of the sales price. This comes to an effective tax rate of 4,2% of the sales price. In many cases this turns out as a benefit when the property acquisition originates from decades back and the real estate prices have significantly risen in the meantime and do not compare to the current level.

In case such a property has been subject to a reallocation (for example if the zoning of the piece of land changed from grassland to construction area) the assumed purchase cost are only 40%, this calculates to an effective tax amount of 18% of the sales price.

Exemptions Main Residence I

There is a complete tax exemption if the following points apply

- The owner moved in the residence immediately after purchase
- Permanent Main Residence for over 2 years
- Status as main residence is given up with sale

In the income tax guidelines the tax administration declines to apply this exemption to attached land over 1000m². Guidelines are not part of Tax Act but they are binding for the tax administration.

Main Residence II

- The owner moved in the residence immediately after purchase
- Main Residence for over 5 years during the last 10 years
- Status as main residence is given up with sale

Constructor Exemption

If a building is sold that was constructed by the owner, there is another exemption for the building profit. In this case the profit needs to be divided in profit for the land and the building respectively. The profit for the building is tax exempt. Any prior renting is inhibiting this exemption.





Welcome to the proposed new member firm in Germany

*Dr. Benjamin Cortez, LL.M. Certified Tax Advisor (Steuerberater) Schlecht und Partner,
Master of Laws in Corporate Restructuring. b.cortez@schlecht-partner.de / www.schlechtundpartner.de*

I am would like to introduce you to SCHLECHT UND PARTNER, a proposed new members whose membership application will be discussed during our Shanghai's seminar.

SCHLECHT UND PARTNER | SCHLECHT UND COLLEGEN are experienced Auditors, Accountants, Tax Advisors and Consultants. Our partnership relies on a long-term cooperation and a common understanding of the needs of a modern client service and project consulting.

We advise entrepreneurs, companies and individuals in all business and tax matters and conduct audits for medium-sized companies on a variety of occasions and issues. Based on our broad technical and industry expertise, we have a vast experience in SME consulting. Our international clients are from broad range of industries.

Our practice bundles different specializations and forms a powerful team in complex and international consulting engagements.

SCHLECHT UND PARTNER | SCHLECHT UND COLLEGEN combine expert and specialist knowledge. In addition to providing our clients with an extensive and full spectrum of services, we also provide our expert knowledge and expertise in ongoing client relations as well as in projects. We also have a vast experience of assisting our professional colleagues in other practices with our specialist and expert knowledge, based on a high-degree of confidentiality and discretion.

Our offices are located in Stuttgart and Munich. All of our partners and staff are proficient in English. In addition, we have partners and staff that are fluent in Italian and French.

Contact Person:

Dr. Benjamin Cortez, Partner

Dr. Benjamin S. Cortez is a Certified Tax Advisor and Partner at Schlecht und Partner in the Stuttgart office. His focus is in the fields of International Taxation, Consulting in relation to Restructuring, M&A and Transaction Tax as well as Company Succession and Restructuring. Benjamin assist foreign and domestic clients in all tax, accounting and finance related issues. He was a Research Assistant and Doctoral Student at the Chair for Audit and Taxation at the University of Stuttgart-Hohenheim. Following his studies, Benjamin worked for several years in the field of International Taxation and Transaction Tax at a Big Four Consultancy Firm in Stuttgart.

Sector Expertise

Automotive Supplier, Commercial SME, Trade, IT

Professional Career

-- seit 2016: Partner at Schlecht und Partner Wirtschaftsprüfer, Steuerberater in Stuttgart

-- 2014-2016: Certified Tax Advisor at Schlecht und Partner Wirtschaftsprüfer, Steuerberater in Stuttgart

-- 2008-2014: Big Four, International Tax Services und Transaction Tax, Stuttgart

-- 2008-2011: Research Assistant and Doctoral Student at the Chair for Taxation and Auditing, Prof. Dr. Holger Kahle, University Hohenheim, Stuttgart

Qualification

Certified Tax Advisor, Dr. oec. (Doctoral Degree in Economics, with a thesis on International Taxation), Master of Laws in Corporate Restructuring (LL.M. corp. restruc.), Diplom Ökonom (Dipl. Oec.. equivalent to a Master Degree in Economics)

Specialization

Comprehensive consultancy of medium-sized companies, International Taxation, Consulting on cross-border activities and investments, (Outbound and Inbound), Consultancy on Business Transaction and M&A, Tax Consultancy in relation to Corporate Restructuring

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Audit relief for foreign subsidiaries

Understanding when your Australian subsidiary's accounts do not need to be audited could save your business money and man hours.

Kelly Morgan, Lead Client Partner, Azure Group / kmorgan@azuregroup.com.au

An increasing number of companies are finding it easier to sell their ideas in markets far beyond their home countries. Some may find the Australian market lucrative enough to set up an office and employ locals to assist in servicing their clients.

Ordinarily the easiest way to go about this is to set up an Australian company that bears all of the burden for employing locals and invoicing in the country. With that comes a number of responsibilities, one of which may include the requirement to prepare an audited financial report each financial year.

Under the Corporations Act, any Australian company that is controlled by a foreign entity is required to prepare and lodge a financial report with Australian Securities and Investment Commission ("ASIC") at the end of every financial year. This requirement can often be the most expensive regulatory burden placed on a business. Audit and accounting fees are inevitably put towards an audit that may add very little value, if any, to a business with relatively uncomplicated affairs.

This is why it is important that businesses and their advisers setting up an outpost in Australia understand the audit relief available to them. Class Order 98/98 gives ASIC the authority to waive the ordinary requirement for small companies who are also not part of a larger group.

Are your clients eligible for the relief?

There are effectively two basic requirements you must meet in order to be eligible to apply for audit relief. If you can answer yes to both of the below questions, you may be able to apply for relief under CO98/98:

Question 1: Are you a "small proprietary company?"

To be a small proprietary company, you must satisfy at least two of the following requirements:

1. Revenue for the financial year under \$25 million
2. Gross assets less than \$12.5 million at the end of the financial year
3. Employs fewer than 50 staff

Question 2: Are you also part of a group that is small?

The group that you are part of will be the total of all other companies that share a common ultimate parent entity to yours. In order to be considered small, the group must satisfy at least two of the following requirements:

1. Combined revenue for the financial year of less than \$10 million
2. Combined gross assets of less than \$5 million at the end of the financial year
3. Employs less than 50 staff in total

Don't delay

It is important that you determine your eligibility to relief as soon as possible. The relief will not be available retrospectively if you don't meet the application deadlines. You only have a window of three months after financial year end of the Company's first year of incorporation.

This is an important discussion you should be having with your Australian adviser when setting up a company here. They need to more than merely mention the availability of the exemption, the set up documents should include a Form 384 and the relevant directors' resolution for you to sign that will be lodged with ASIC.

For any further questions regarding Audit Exemption in Australia please contact Lead Client Partner, Kelly Morgan on kmorgan@azuregroup.com.au or +612 9238 1188.





The new companies bill: easing doing business in Malaysia

Salihin Abang, Managing Partner, SALIHIN / info@salihin.com.my / www.salihin.com.my

Driven by the need to modernize the corporate legal framework in Malaysian and align it with current international standards while coping with current and future needs of the business environment, the Companies Commission of Malaysia (SSM) established Corporate Law Reform Committee (CLRC) on 17 December 2003 to undertake a fundamental review of the existing Companies Act 1965. Accordingly, the CLRC was expected to propose amendments that are necessary for corporate and business activities to function in a cost effective, consistent, transparent and competitive business environment in line with international standards of good corporate governance.

Based on the final report of the CLRC, SSM published a draft of the new Companies Bill 2015 ("Bill") for public consultation on 2 July 2013. The legal framework sets out in the Bill is to replace the current Malaysian Companies Act 1965 (CA 1965). On 4 April 2016, the 2015 Bill was passed by the Dewan Rakyat (House of Representatives). Apparently, the Bill aims to ease doing business and enhance transparency, among others.

The 2015 Bill has come with changes that will impact the business community and the accounting/auditing profession. Some of the key changes are the introduction of single member company, no requirement for memorandum and articles of association (M&A), abolishment of annual general meeting (AGM), audit exemption for small private companies, simplification of process and procedures, stiffer sanctions on directors, migration from par value to a no-par value regime and reduction of share capital.

Single member company:-

A company can be incorporated by one person and the only member of the company is allowed to sit as the only director of the board. It will be no longer a requirement for a company to be formed by at least two

persons. Thus, a private company could be incorporated and run by one person. This makes it easier for incorporation since one individual could be the single shareholder and single director. However, a single director company must have his/her principal or only place of residence within Malaysia. It is also an elevation of sole proprietorship to become a separate legal entity as the individual can have complete control of the company, and still enjoy the separate liability of the corporate entity.

No requirement for memorandum and articles of association (M&A):-

The Bill did not make any requirement for a company to have a constitution. However, it may choose to adopt a constitution by way of special resolution if it wishes to tailor provisions for itself and its members. Existing company with M&A will be deemed to have a constitution. Company constitution shall be lodged with the Registrar of Companies within thirty (30) days after the adoption of such constitution.

Abolishment of AGM:-

The mandatory requirement for private companies to hold AGM has been dispensed by the new Bill. Subject to the constitution of the company, members' meeting can be held at multiple locations and such venues need not necessarily be in Malaysia. However, the chairman is required to be at the main venue, which must be in Malaysia. With the move away from physical general meetings, it implies that audited accounts are no longer required to be put before the AGM. Rather, it will be circulated among the shareholders based on a specified timeline. More so, without AGM, the Bill has provided for the automatic reappointment of auditors, unless the shareholders decide otherwise. Finally, meeting resolutions of private companies are no longer required to be unanimous. It can be passed by majority as required at general meetings.



Audit exemption:-

The Bill has also retained mandatory audit for all companies, but has given power to the regulator to exempt small private companies from this requirement if certain conditions as determined by the Registrar are met. The SSM has suggested using the following three criteria to determine a small entity: total revenue of not more than RM10 million; total assets of not more than RM5 million; and not more than 50 employees. Meaning most SMEs in Malaysia would be exempted from the present mandatory audit. Nonetheless, the threshold is yet to be determined.

Simplification of process and procedures:-

Processes and procedures have been simplified under the Bill. With the introduction of 'Super Form', a single interface incorporation template, other statutory forms, including but not limited to, Form 6, Form 13A and Form 48A, will no longer be required. Similarly, since the Bill mandates electronic incorporation through MyCoID (Malaysia Corporate Identity Number), there will no longer be any over the counter transactions. MyCoID refers to the company incorporation number which

is used as a single source of reference for registration and transaction purposes with other relevant Government agencies. With the MyCoLD, the public can utilize a single series of number derived from the incorporation number assigned by the Companies Commission of Malaysia (SSM) for the registration, reference and transaction purposes with the Malaysian Inland Revenue Board (IRB), Employees Provident Fund (EPF), Human Resources Development Fund (HRDF), Social Security Organization (SOCSO) and Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia).

Stiffer Sanctions on Directors:-

The new Bill when enforced will impose a stricter jail terms, penalties and fines on directors for breaches of its provisions. A number of provisions have heavier fines and longer jail terms. More serious offences could result in a 5-year imprisonment and a RM5 million fine, or both, if there is a criminal conviction.

Migration from par value to a no-par value regime and Reduction of Share Capital:-

The Bill comes with a movement from issuing of shares at no-par value. Company shares will no longer have par or nominal value. As such, the concept of authorised share capital will no longer be there in the new regime. This will simplify the company's accounts in that the creation of share premium and reserve accounts is no longer applicable. Company shares will only be issued at a price, no longer at par or nominal value, neither at premium nor discount. Hence, the procedures in the issuance of new company shares will be abolished. On the reduction of share capital, whether a company is public or private, it can reduce its share capital by passing a special resolution to that effect if it satisfies the solvency test. There is no need for a court order. There are different varieties of 'solvency test' under the Bill. A company is solvent when the company declares dividends; undertakes capital reduction without a court order, financial assistance and redemption of preference shares; and share buyback.



How would it affect the auditing profession?

The above changes under the 2015 Bill will undoubtedly impact auditors. For instance, though the abolishment of AGM for private companies and the audit exemption for companies that meets the yet to be defined threshold will reduce compliance costs, SMP audit firms would witness a change in client base. The clients of most SMP audit firms are likely to be exempted leading to a reduction in the number of audit clients, hence, a decline in revenue. A higher threshold would mean more exemptions. This raises high the possibility of closing down of SMPs with traditional audit services. Also, introducing the audit exemption may reinforce the belief that only large businesses need to be audited.

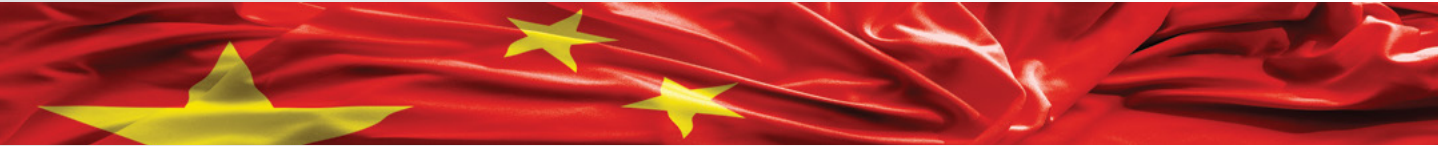
However, no longer mandatory requirement for audit is not the same as no need for an audit. Still audit exempt companies would be required by financial institutions/investors for loan applications and other purposes. This means that the audit exemption would give rise to a market for services (such as voluntary audit, assurance review and compilation engagements) necessary to add credibility to the financial statements of audit exempt companies.

Similarly, there is likely to be more incorporation of new private companies given the abolishment of the need for at least two directors and shareholders. All things being equal, the higher the number of incorporated businesses, the higher the number of audit clients for SMPs.

Accountants must always stay abreast with development in the business landscape and make hay while the sun shines. Regulatory changes are inevitable. We have no choice but to embrace them. We cannot change what is happening, but we can change from within to accommodate the change. Firstly, we need to relook at our business model and restructure. In Malaysian, about 80% of SMP audit firms' clients are likely to be audit exempt companies. This gives more compelling reason for diversification of services from traditional audit to high value non-audit services.

To diversify, we need to start building capacity to handle challenging consultancy services. Building technical competence is a matter of necessity. Also, merger, acquisition, leveraging on a network or affiliations allow the formation a formidable force to handle the change and expand into non-audit services. The size of SMPs individually does not warrant taking up bigger and complex projects. As such, this strategic approach is highly recommended for service/market expansion and edging competition.

Salihin Abang, Managing Partner, SALIHIN



2016 VAT reform in China

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Introduction

On 1 May 2016, China finally rolled out its VAT reform to all sectors. It was a historic moment for China as the business tax, a major source of Chinese tax revenue that has been collected for 66 years, is now finally eliminated. With the strong determination from the National People’s Congress, China has entered into a new era of indirect tax. This article summarises the latest reform changes from 2012 to 2016, discusses some remaining practical issues and also provides tips on how to manage the VAT in China.

Summary of latest changes

Prior to 2016’s reform, China operated its indirect tax system with a mix of business tax (BT) and value added tax (VAT). Under the previous system, BT taxpayers were unable

to claim input VAT credits on goods they purchased, and similarly VAT taxpayers were unable to claim credits for the BT incurred on the services they purchased. In order to overcome this problem, the Chinese government announced its ambitious goal in

its 12th five year plan to fully remove the old and inefficient BT system and allow all sectors to claim input tax credits on their purchases under the new VAT system. The table below summarizes the key changes from 2012 pilot reform to 2016 full reform.

Year	VAT rate	Industries
2012	17%	Tangible movable property leasing services
	11%	Transport services including land transport, waterway transport, air transport and pipeline transport
	6%	Modern services including R&D and technical services, consulting services, etc.
2013	6%	Television, radio and film broadcasting services
2014	6%	Postal services
	11%	Telecommunication services (basic services)
	6%	Telecommunication services (value-added services)
	11%	Railway Transport services
2016	11%	Construction services
	11%	Real estate
	6%	Financial and insurance
	6%	Consumer services

17%



11%



Practical issues remained after the reform

Despite the long-awaited VAT reform the level of practical complexity in China's VAT system is expected to remain the same. This is because China's VAT system is always considered as one of the most complicated systems in the world. For example, the multiple VAT rates vary from 3% to 17% and can influence business decision on acquisition as some purchases with higher VAT rates (i.e. 11% or 17%) can allow customers to claim higher credits. Another issue is that not all taxpayers are allowed to claim the input tax credits. Under the current system, small VAT payers enjoying lower VAT rate (3%) are not allowed to claim VAT credits. Moreover, small VAT payers cannot issue special VAT invoices, a type of VAT invoice consists of both the invoice copy and the tax credit claim copy. If the customers require such invoices, small VAT payers are required to prepay the VAT on sales to the tax office first and then apply to the tax office to issue the special VAT invoices on their behalf. This will create cash flow issues and procedure burden on small VAT payers.

Newly formed businesses also face challenges. For instance, new businesses are required to prove a good record of sales and compliance for several months before they can apply to issue larger value invoices. If they haven't got approved and have made big sales, they need to spend multiple hours or days to issue dozens of or even hundreds of small value invoices for their big sales.

Likewise, their customers also need to spend same amount of time to verify those invoices one by one. Apart from aforementioned, there are many other practical difficulties, we hope the government can address these issues and take measures to resolve in the short term.

How to manage your VAT in China?

The VAT reform presents both opportunities and challenges to businesses in China. We believe it is important for businesses to undertake the following activities to ensure a smooth transition from the old BT & VAT system to a single VAT system:

- 1) Re-evaluate your suppliers' pricing rules and understand whether they can issue VAT special invoices for you to claim input tax credits
- 2) Revise sales contract to make sure the VAT component is clearly defined to prevent any future confusion with your customers
- 3) Speak to your tax case officer to understand the best options during the transition period, i.e. some businesses are allowed to choose a simple collection method to avoid higher VAT rate
- 4) Upgrade your IT system to be compatible with the Golden Tax System requirements
- 5) Arrange professional VAT training for your accounting staff to ensure they are aware of the latest VAT rules and requirements

For more information regarding China's VAT reform and how this will affect your business, please contact Azure Group China, Stephanie Liu – Partner

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11%



VAT

6%



6%



Financial Technology Singapore as an Experimental Lab

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There is increasing acceptance that Financial Technology (“Fintech”) is likely to play an important role in future as technology creates new financial products and services and expands into areas traditionally served by Financial Institutions (“FI”).

“Regulatory Sandbox” for New Solutions

The Monetary Authority of Singapore (“MAS”) encourages Financial Institutions (“FI”) and non FI to test and develop new Fintech solutions.

Recognising that regulatory gaps may stifle innovation and result in missed opportunities, the MAS is proposing the introduction of a “Regulatory Sandbox” for FI and non FI to experiment and provide new Fintech products and services within defined space and time.

The MAS is well aware of risk of failure in such experiments.

To safeguard public interest, current proposals are for this “Regulatory Sandbox” to be limited to (i) a 6 month period; and (ii) a small customer group of 50. Following which, the new solutions will be assessed on extent of innovation, prospect of broad scale deployment and expected economic benefits.

While proponents claim the “Regulatory Sandbox” would afford a better chance of success to new solutions, others have remarked that the duration is too short and scope too narrow to derive meaningful insight on whether the new solutions are viable. Public feedback for the sandbox regime closed on 8 July 2016. Information on its scheduled implementation will be available soon.

Roll Out to Test Debt Based and Equity Based Crowdfunding

The MAS is proposing for lending based and

equity based crowd funding activities to be placed in the “Regulatory Sandbox” which would allow experimentation without having to comply with the Securities and Futures Act, Chapter 289 (“SFA”).

As in many parts of the world, crowdfunding has been gaining traction in recent years in Singapore. Crowdfunding generally refers to capital raising from a larger number of individuals. This may come in various forms including:

- (1) Donation based funding, where funds are raised for charitable causes;
- (2) Reward based funding, where funds are raised in exchange for rewards which are often in the form of products/ services;
- (3) Debt based funding, where borrowings are raised for commercial activities; and
- (4) Equity based funding, where equities are issued for commercial activities.

A significant proportion of crowdfunding is donation based and reward based. The MAS view these to fall outside securities regulation as they do not involve offers of securities or prospect of financial returns. However, debt based and equity based crowdfunding may involve issues of debentures and equities and are subject to regulation under the SFA.



A New Frontier

This is but one of many steps in the journey to unleash the creativity of the technology sector and harness its potential for the benefit of the wider economy. As limited and as imperfect the “Regulatory Sandbox” proposals may be, one thing is certain – Fintech is likely to create a host of new financial products and services, and usher many new ways of doing business.



UAE Tax free Economy Disappeared

Mashal Alzarooni is the founder and managing partner of MASHAL ALZAROOONI CHARTERED ACCOUNTANTS providing advice to foreign investors in Dubai (mashal.alzarooni@mazca.ae)

The Controversy and Impact of Corporate Tax in UAE/ Dubai

The UAE's financial model and tax free reputation would have a significant impact on emirates which have attracted individuals and businesses based on their low tax profile and tax free zones. If the UAE becomes more expensive for these businesses and individuals, it may cease to be competitive with other Gulf States, resulting in companies relocating and moving elsewhere.

Economic Benefits

Taxation will require proper corporate governance for all companies operating within the UAE. Requiring companies to file taxation returns will provide the UAE government with valuable knowledge and insight into the companies operating within the UAE.

It will also be detrimental to shell companies operating with ulterior motives so the government can remove them from the economy.

A number of expatriates contribute minimally to the UAE economy because they send the majority of their income to their home country and so introducing taxation will cause a portion of their income to remain in the UAE.

It will encourage investment in NGO's and charitable organizations because they will be tax deductible and the UAE community will benefit from a rise in non-profit fundraising for humanitarian, cultural, educational and athletic causes.

Increase the demand for local accountants and financial controllers and encourage people to study and develop their skills in these fields.

VAT & Personal Tax in UAE/ Dubai

Personal tax is not on the tax agenda of the

UAE at present and is unlikely to be on the horizon in the near future. Introduction of indirect taxes in the guise of VAT is a tax on consumers and ultimately individuals will bear VAT cost as opposed to most businesses that will be in a position to recover input VAT against VAT on sales and services charged to consumers.

GCC will adopt unified taxes, implementing from 1 January 2018, which proposed to be 5 per cent across the Gulf countries. Given the region's dependent on foreign labour, tax rates are likely to be set at the lowest level possible keeping the GCC competitive as possible.

VAT: What will be exempted

The agreements among GCC states ensure that certain social-economic distraction associated with VAT are minimized. In particular, removing VAT from food products, healthcare and education would appear to reflect a broad desire to ensure that these vital household expenditure items are not directly impacted by a VAT in the GCC states.

Current tax structure in UAE

UAE's/ Dubai tax structure implemented directly and indirectly to different sectors, and are stated as government fees in certain cases are as follows:

- A corporate income tax of 20 per cent is levied on foreign banks in Dubai;
- A local municipal property tax of 5 per cent of the rental value;
- A 10 per cent local hotel tax on hotel services;
- The GCC's common external tariff (a general rate of 5 per cent, 50 per cent on alcohol, and 100 per cent on tobacco) applied locally;
- Select fees on government services (applied by the federal and Dubai governments).

What Companies need to do?

- Companies will need to implement accurate accounting and auditing mechanisms. Many family run businesses do not yet have such practices and they are not standard across the UAE.
- Understanding the fiscal impact of these tax laws.
- Updating systems and technology to comply with the corporate tax and VAT regulations.
- Adding resources and tax functions to deal with enhanced compliance requirements.
- Reviewing supply chain and operating structures to mitigate the impact of the new taxes.
- Reviewing transfer pricing arrangements in dealings between UAE companies and group companies overseas.



ANNUAL SEMINAR

SHANGHAI 2016 OCTOBER 13 & 14

THURSDAY OCTOBER 13, 2016

Theme "Doing Business in China"

The Langham Shanghai Hotel, 99 Madang Road, Xintiandi,
Shanghai 200021, China

9.00-9.30	Conference Introduction and Overview of Day 1 Sessions
9.30	Session 1: Introduction to doing business in China
10.30	Morning Tea
10.50-11.50	Session 2: Trade & Investment in China
12.00-13.15	Lunch
13.30-15.00	Session 3: Connecting with your target market
15.00-17.00	Afternoon Tea & Networking

FRIDAY OCTOBER 14, 2016

Theme "Active Network"

CPA Shanghai Limited, Suite 4003 04, 40/F CITIC Square, 1168
Nanjing West Road, Shanghai 200041, China

9.00-9.15	Overview of Day 2 Sessions
9.15-10.45	Session 1: AGM
10.45-11.00	Morning Tea
11.00-12.30	Session 2: Breakout sessions on strategy & ideas
12.30-14.30	Chinese Lunch – Dumpling making & buffet lunch
14.30-15.00	Session 3: Introducing the International Tax Specialist team
15.00-16.30	Session 4: Wrap up of AGM and any other matters
16.30-18.00	Free Time
18.00-19.00	Bus transport to cruise port from the Langham Hotel
19.00-23.00	Gala Dinner: River cruise down the Huangpu River (along the Bund) with dinner and karaoke.

Hosted by our member firm **Azure Group**
(www.azuregroup.com.au)

All i2an members are invited to participate.
For more details contact mathilde.mouraud@i2an.com

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