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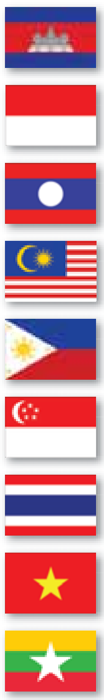
South East Asia
Investment Opportunities Tax & Other Incentives



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Preface

During my 30 years with PwC in New York, I was privileged to have served as the global tax partner on a number of large multinational clients, enabling me to travel to many parts of the world. Over the years my fascination with South East Asia grew to the point that I decided in 2009 to relocate and finish my career in the region. I had long thought SEA had tremendous potential. But after moving here, travelling extensively throughout the region and getting to know it first hand, my fascination has turned in to admiration. I am astounded by the dynamism of the region and by its people, their drive to achieve and improve. SEA is truly a remarkable place.

Thus, on behalf of the PwC member firm partners and staff of SEA, I hope that you will share my enthusiasm and hopefully this publication will help you to both know the region better and highlight the many opportunities in SEA.

Greg Lamont
Editor
PwC Thailand

September 2012

Note – The information on incentives and benefits is current as of September 2012. However, from time to time countries enact modifications so please check with the listed PwC country contacts for the latest information and to determine if there have been any changes (especially Myanmar which is currently in the process of revising its foreign investment law). Additionally, a number of countries offer other non- tax incentives for SMEs which have been left out of the discussion.

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Perspectives on South East Asia

Though in recent years much attention has been focused on the so-called BRIC countries, the 'Asian Tigers' are now once again demanding renewed attention. But the Asian Tigers currently roaring are not the same ones as in the 1990s when the term was coined. Many of the tiger cubs of the 1990s are now fully grown and new cubs are growling.

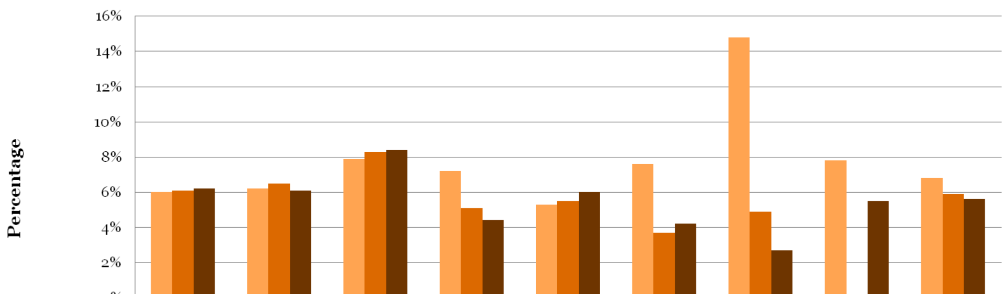
While most Multinational Corporations (MNCs) have for the past decade been focused on China and India, due to both their immense populations and low costs of production, a shift of focus back to South East Asia (SEA) is growing and gaining momentum. China's vast potential is seen as diminishing. Its wage scales have been rapidly increasing, making it no longer the centre of low-cost production that it was in the past. In addition, protectionist measures that have favoured domestic companies have further blunted China's advantages. Intellectual property protection is an ever increasing concern of MNCs in China. India too has not lived up to expectations. Its infrastructure continues to be a major challenge. In addition, its continuing and seemingly increasing bureaucratic restrictions on business and investment, as well as very uncertain tax policy, have continued to lessen its allure.

SEA continues to be a bright spot in an otherwise dim global economy. As the US continues to limp out of recession, and the EU continues to deteriorate, SEA is a rising star of the global economy. The ASEAN (Association of South East Asian Nations) countries merit both new and increased attention of MNCs.

Multi-faceted economies, culturally diverse and highly populated with vast potential — that is SEA. The region's potential is hard to ignore — strategically located at the centre of Asia Pacific, these countries' economies are driven by the growth of China and India, but also more and more by the phenomenal and dynamic demands of the region's own large populace.

The region has experienced growth rates in recent years that are the envy of the West.

GDP Growth

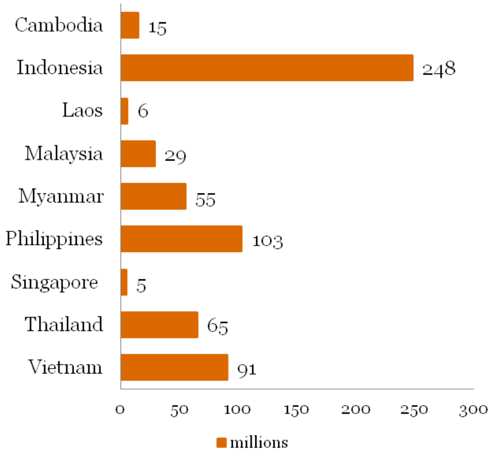


	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
2010	6%	6.2%	7.9%	7.2%	5.3%	7.6%	14.8%	7.8%	6.8%
2011	6.1%	6.5%	8.3%	5.1%	5.5%	3.7%	4.9%	0.1%	5.9%
Projected 2012	6.2%	6.1%	8.4%	4.4%	6%	4.2%	2.7%	5.5%	5.6%

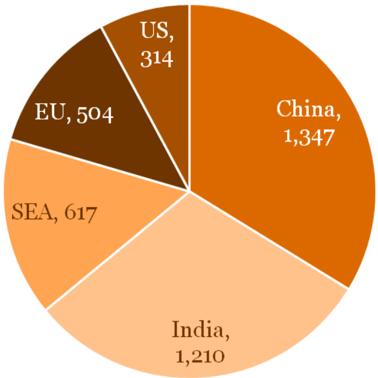
Demographics

SEA is home to nearly 9% of the global population. With a combined population of over 600 million people, it is not as large as China and India, but easily dwarfs the US and Europe.

Population



Population in millions



Certainly population size alone is not the whole story, but merely one element in a larger picture. Attractive labour costs are perhaps the most obvious draw. But as SEA continues to emerge and evolve, further scrutiny reveals another significant factor for growth. While many of the countries in SEA have long been viewed as low-cost production centres, an important shift has been under way for a number of years. That shift, from commodity- and manufacturing for export-driven economies, to consumer economies continues to accelerate. Many SEA countries have been extremely successful in reducing poverty, enabling more people to consume goods and services that transcend basic needs. There is significant upward mobility of the population, a burgeoning middle class that is gaining in size and wealth, stoking demand for consumption of goods and services.

Disposable income continues to rise across all segments of the population in each country. This trend is poised to continue across SEA. Ever greater spending power will support demand for services and higher value-added products. Clearly this creates a dual advantage for SEA, continuing to be a low-cost production centre, but also a bloc of over 600 million consumers eager to spend.

Consumers across SEA are becoming more sophisticated and embracing technology. This is evidenced by the increasing use of mobile devices and the Internet.

Mobile Phones

	Subscribers in Millions	Penetration %
Cambodia	8.1	130
Indonesia	309.2	126
Laos	3.2	N/A
Malaysia	38.9	132
Myanmar	N/A	N/A
Philippines	102.3	106
Singapore	8.2	154
Thailand	77.4	105
Vietnam	122.3	136

Internet usage is growing rapidly, especially mobile Internet, as more and more of the population can afford so-called smart phones. iPhone, Galaxy, and Blackberry make up the vast majority of new phone purchases in most of SEA.

Internet (in thousands)

	Internet Users	Facebook Users
Cambodia	615	572
Indonesia	55,000	43,976
Laos	527	195
Malaysia	17,723	12,462
Myanmar	110	N/A
Philippines	33,600	28,547
Singapore	3,658	2,610
Thailand	18,310	15,501
Vietnam	30,859	6,032

While e-commerce is still in its infancy in most of SEA compared with North America and Europe, it is increasing rapidly and has the potential for explosive growth, marrying Asians' dual loves: technology and shopping.

Though it would be naive to think that SEA can be immune to the financial and economic crises of the EU and the anaemic North American economy, the rise in consumerism in the region clearly provides a new degree of insulation.

Low Costs are Still a Main Attraction

Despite the rise in consumerism, the principal attraction of the ASEAN countries has historically been, and continues to be, their low costs of labour. The impressive economic growth of the SEA nations over the past three decades has been catalysed by local companies and MNCs capitalising on this low-cost labour. SEA will continue to reap the benefits of its competitively priced labour pool, which is expected to endure as the region's greatest asset for the foreseeable future.

Average Manufacturing Wages

	Monthly in USD
Cambodia	101
Indonesia	182
Laos	45
Malaysia	666
Myanmar	N/A
Philippines	212
Singapore	1,639
Thailand	263
Vietnam	107

Minimum Wage

	Monthly in USD
Cambodia	43
Indonesia	132
Laos	64
Malaysia	N/A
Myanmar	17
Philippines	181
Singapore	N/A
Thailand	79
Vietnam	49

Wage rates, however, are just one factor in the total cost of employment. In Western countries, social taxes and mandated fringe benefits add considerably to overall employment costs. The SEA countries are also remarkable for their low levels of social taxes, adding considerably to their cost competiveness. In most ASEAN countries the social tax percentage is less than 5% and the maximum caps are set quite low. For instance, in Thailand the maximum employer's social security contribution is about USD15 per month and that is on a relatively high wage base.

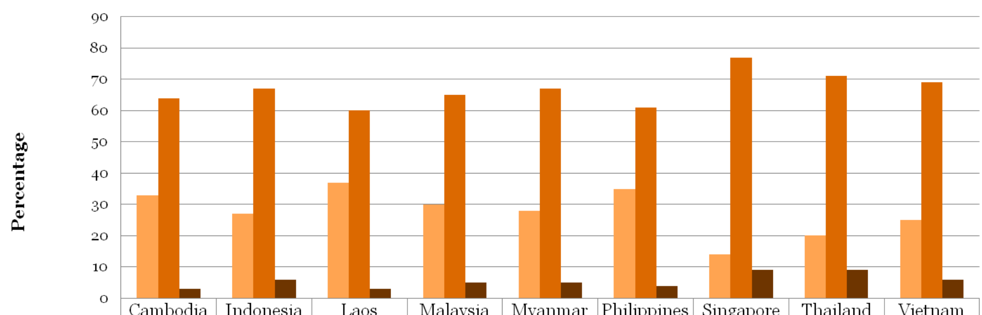
The SEA nations enjoy low unemployment rates, especially in comparison to the EU and the US.

Unemployment Rate

	2011	Projected 2012
Cambodia	N/A	N/A
Indonesia	6.6%	6.4%
Laos	N/A	N/A
Malaysia	3.2%	3.1%
Myanmar	5.5%	4.02%
Philippines	7.0%	7.0%
Singapore	2.0%	2.1%
Thailand	0.7%	0.7%
Vietnam	2.3%	4.5%

However, even with these low unemployment rates, the region enjoys the advantages of a large and growing labour pool, high birth rates, and a relatively young population, ensuring ample new workers joining the work force each year.

Age Structure



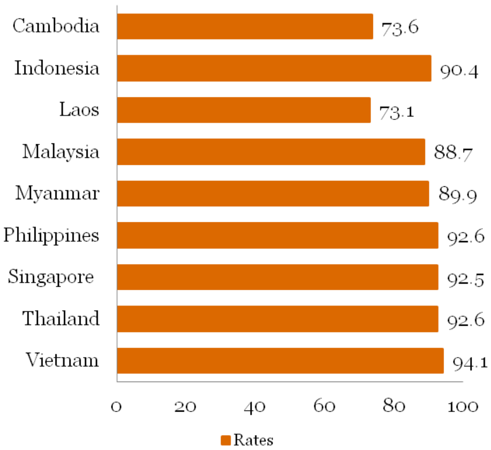
	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Under 15	33	27	37	30	28	35	14	20	25
15-64	64	67	60	65	67	61	77	71	69
65 and Over	3	6	3	5	5	4	9	9	6

Median Age

Cambodia	23
Indonesia	28
Laos	21
Malaysia	26
Myanmar	26
Philippines	23
Singapore	40
Thailand	34
Vietnam	28

Another compelling factor is the region's highly skilled labour force. Countries in SEA have experienced steady increases in adult literacy rates over the past three decades. All of the governments in the region are committed to further increasing budgets and spending on education, knowing that an educated work force is one of the key elements for sustaining economic growth and stability.

Literacy Rates (age 15 and over who can read and write)



Labour costs are not the only cost advantage of the region. The costs of business operations overall are significantly lower; substantially lower than in the West, as well as in comparison with other Asian locations such as China, Hong Kong, Japan and others. Housing, transportation and living costs for expatriates are, with the exception of Singapore, extremely reasonable. In addition, so are rental rates for offices and facilities.

Average Prime Office Rents per square metre

	USD
Indonesia	27
Malaysia	47
Philippines	21
Singapore	75
Thailand	32
Vietnam	48

Open for Business

Also stoking SEA's continuing emergence as a legitimate market opportunity have been the actions of the various nations to open the door to investment. SEA countries are sending the message that they are open for business. Each country continues to make progress in deregulation, liberalisation and reducing impediments to business operation. Reforms include making it easier to start a business through simplifying business application processes; reducing paperwork and establishing one-stop service centres; streamlining and accelerating processes for general trading licences and business registrations. Improvements in legal protections, contract enforcement and intellectual property protection are continuing.

Foreign Direct Investment (FDI) has long been the driver of growth for SEA. FDI inflows are influenced by government initiatives designed to attract inbound investment. Governmental policies in each of the counties have long been tailored to attracting FDI with numerous incentives.

FDI in USD billions

	2010	2011
Cambodia	0.8	0.9
Indonesia	13.8	18.2
Laos	0.3	0.5
Malaysia	9.2	12
Myanmar	0.5	0.9
Philippines	1.3	1.3
Singapore	38.6	64
Thailand	9.7	9.6
Vietnam	8	14.7

SEA is setting its sights not only on becoming a low-cost manufacturing base, but also on becoming a producer of more sophisticated goods and on moving up the value chain. While Singapore has already done so, Thailand, Malaysia and Indonesia are seeking to become more knowledge-based economies, encouraging investments based on innovation, R&D, technical capabilities and know-how.

In addition to manufacturing and production, SEA's large pool of low-cost yet skilled labour has also created opportunities for the offshoring and outsourcing of services. Especially in Malaysia and the Philippines, with their highly literate and largely English-speaking work forces. These service-sector growth opportunities have also created complementary growth opportunities in other enabling industries.

Financial Sector

George Santayana, in his *Reason in Common Sense*, wrote: "Those who forget history are doomed to repeat it." Probably one of the most impressive aspects of the ASEAN countries is that they have learned from the past. Having undergone the Asian financial crisis of 1997/98, instigated by booming property markets, asset bubbles, lax financial regulation, large current account deficits, and high foreign debt-to-GDP ratios, ASEAN nations (with the exception of Vietnam) have avoided the financial crisis that began in the US and spread and intensified in the EU.

In fact, financial institutions in SEA are, by and large, seen as some of the strongest in the global financial sector today. Central banks and other regulators in SEA have managed to reign in the worst tendencies of banks, while at the same time not constraining lending and economic growth. Ample credit is available to finance business investment.

Average Tier 1 Capital Ratios of Banks

	Ratio
Indonesia	11.4
Malaysia	8.9
Philippines	11.7
Singapore	9.6
Thailand	10.5

Government finances are also by and large quite sound. Budget deficits are manageable percentages of GDP. Public debt as a percentage of GDP in most countries is also relatively low, providing ample flexibility for economic stimulus should the need arise, as well as the ability to continue to fund infrastructure investments.

The Way Forward

Today's confluence of factors, three decades in the making, has tipped the scales towards SEA again emerging as the next global business frontier. The first wave of foreign and domestic investment during those decades served as groundbreakers to develop human and production capital. Infrastructure development and improvement began and are continuing to mature, allowing for the stable movement of goods, materials and information. Political, financial and government reforms have been reducing barriers and further easing the way for foreign investors eager to do business in the region.

To conclude, a marked feature of SEA is that it is culturally and geographically diverse, encompassing a multitude of terrains, languages, governments, histories and traditions. Addressing these variations from country to country requires a keen eye and deep cultural awareness. Therefore it is imperative to understand the array of social, political and economic issues that may influence business operations and relationships that will be central to successfully investing in the region.

The PwC member firms across SEA have long been assisting investors in navigating the local and regional challenges, as well as maximising their investment opportunities.

ASEAN and AEC 2015

ASEAN and AEC 2015

ASEAN, The Association of Southeast Asian Nations, is a geopolitical and economic organisation of the SEA nations that was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. It presently includes all ten (including Brunei) of the SEA countries. Its aims include accelerating economic growth, social progress and cultural development among its members, as well as the protection of regional peace and stability.

In 1992, the Common Effective Preferential Tariff (CEPT) scheme was signed as a schedule for phasing out tariffs for ASEAN-origin goods with the goal of increasing the region's competitive advantage as a production base geared for the world market.

In 2007, the nations signed and agreed to the AEC (ASEAN Economic Community) Blueprint, commonly referred to as 'AEC 2015'. AEC 2015 marks the realisation of the ultimate goal on economic integration across ASEAN—to establish ASEAN as both a single market and a production base, with free movement of goods, services, investment, capital and labour. Although the AEC single market will not follow the same model as in the European Union (EU), where goods can move freely without proof of origin, the CEPT has reduced or eliminated tariff barriers for ASEAN-origin goods and under the AEC will also seek to eliminate non-tariff and other barriers to trade.

The AEC, while attempting to mirror some of the positive aspects of the EU, clearly is not adopting those measures of the EU that are now seen as so problematic. The AEC does not champion a common currency like the Euro. It does not envision central bureaucracies like the EU Commission, EU Central Bank or an EU-style constitution. The AEC is more focused on removing trade and other business barriers between member nations, while leaving each country the freedom to manage both its own economy and currency. Also, unlike the EU, there is no concept of 'harmful tax competition'. Each nation is free to devise its own tax, business and other incentives to attract and retain business and investors. The AEC can perhaps be best described as borrowing the best from the EU, while leaving the undesirable and problematic behind.

Areas of cooperation include human resources development, recognition of professional qualifications, closer consultation on macroeconomic and financial policies, trade financing measures, and enhanced infrastructure and communication connectivity.

Some key features of AEC 2015 include:

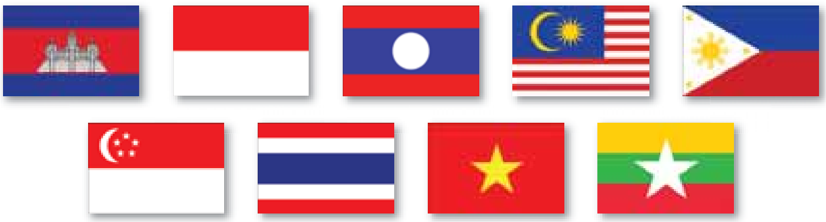
- elimination of any remaining tariffs on ASEAN originating goods,
- substantial removal of restrictions on trade in services,
- allowance for higher foreign (ASEAN) equity participation in various business sectors,
- liberalisation of the financial services sector, and

- all industries in the manufacturing, agricultural, forestry, mining and services sectors are to be open, with national treatment granted to ASEAN investors .

AEC 2015 can be summed up by its motto – 'One Vision, One Identity, One Community'.

Realisation of AEC 2015 requires the amendment of many domestic laws and regulations in each member state. Detailed timelines and action plans have been set, but it remains to be seen if each of the countries will have the political will to take all of the necessary actions by 2015. However, what is certain is that in one form or another, AEC 2015 will change the landscape within ASEAN for the better, resulting in more opportunities for both foreign and ASEAN domestic investors.

ASEAN and Free Trade Agreements



ASEAN and Free Trade Agreements

Free Trade Agreements (FTAs) have been a hot topic in the world economy, and are considered by many to be one of the most effective tools to promote and enhance cross-border trade between countries. Especially in recent years, FTAs have taken a central role in the development and management of trade, as measures implemented by the World Trade Organization to further promote trade liberalisation have slowed over time.

Benefits of FTAs

The benefits offered under an FTA can often be significant and help to generate a competitive advantage, resulting in increased profitability and market share. Traditionally, FTAs were designed with a specific focus on financial benefits, through the elimination of duties, either immediately or over time. More recently however, FTAs have been developed to include more general trade facilitative coverage that goes beyond the 'direct' financial impact, to include aspects such as services, investments, market access measures, labour movement and government procurement, all of which help to facilitate cross-border business interaction. Measures facilitating market access can aid in the abolition of non-tariff barriers which have become more and more common. FTAs also often allow for national treatment of imported products. This can include access to customs procedures such as inward/outward processing, temporary importation schemes, warehousing, and free trade zones, to mention a few examples.

An FTA can also help to provide more certainty and predictability for companies; for example, through more consistent customs treatment, protection of intellectual property, enhanced competition policy protection and mutual recognition of standards. Mutual recognition of standards has the potential to be particularly beneficial because, for many companies, obtaining relevant health and safety and other licences in multiple countries is a major drain on resources and increases costs.

Also, an FTA can help to better utilise resources through, for example, expansion of the eligible manufacturing territory, deployment of preferred human and monetary resources, access to preferred service providers and professional resources such as the facilitation of electronic commerce.

ASEAN FTA

ASEAN has been particularly active in negotiating and entering into FTAs. The ASEAN Free Trade Agreement was established about 20 years ago, and has steadily developed into an increasingly integrated Free Trade Area. Currently under the ASEAN Trade in Goods Agreement (ATIGA), duty rates between ASEAN member states for most products have been eliminated or reduced to 5%. By 2015 all rates should go down to zero, with the exceptions of Cambodia, Laos, Myanmar and Vietnam, where the effective date will be 2018. Thus, AEC 2015 will not have a major impact on duty rates, but will in other non-tariff areas.

One of the key objectives of AEC 2015 is to create a single market within ASEAN to promote the free flow of goods, services, investments, skilled labour and freer flow of capital. In terms of the free flow of goods under the AEC 'single market' model, it is important to note that the duty removals would only apply to ASEAN-origin goods and these goods would still require a proof of origin to enjoy the lower or exempted duty rates in other ASEAN countries.

Under AEC 2015, non-tariff barriers (e.g., import/export licences) should also be eliminated by 2015, with flexibility to 2018 for Cambodia, Laos, Myanmar and Vietnam (CLMV countries).

Benefitting from lower or no import duties within ASEAN should also become easier. Traditionally, to prove that goods originate from ASEAN countries, and in order to claim the lower or exempted duty rates, a Certificate of Origin Form D (Form D) was required. Exporters were required to apply for the Form D from the issuing authorities in their country and importers were required to submit these Form Ds to customs in the importing country. Under the self-certification scheme, it will be possible for exporters in ASEAN countries to self-certify the country of origin of their goods on commercial documents (e.g., invoices/bills of lading/packing lists) by themselves rather than the issuing authorities in the exporting country. This would allow importers to use these invoice declarations rather than the traditional Form Ds to claim the lower or exempted duty rates.

Currently, Singapore, Brunei, Malaysia and Thailand have rolled out the Self-Certification Pilot Programme and it is expected that once AEC 2015 enters into full force, the programme will be rolled out and implemented by most, if not all, ASEAN member countries.

Also, there is a continuous effort by the ASEAN Secretariat and the ASEAN countries to revise and simplify the ASEAN Rules of Origin (ROO). The ROO sets out the conditions for goods manufactured in ASEAN member states in order to enjoy preferential duty rates. One initiative relates to exploring the possibility of expanding the concept of 'cumulation' for ASEAN-plus FTAs. Cumulation refers to the principle where a manufacturer in, for example, Malaysia, can use raw materials from Indonesia or any other ASEAN country and include these raw materials in the Regional Value Content (RVC) of their manufactured products. This principle makes it easier for companies to meet the required 40% RVC rule (which is still the most common applicable ROO for products under the ASEAN FTA) as they can source materials from different suppliers within ASEAN without jeopardising their right to benefit from preferential duties within ASEAN. Currently, the ASEAN members are reviewing the possibilities of integrating and harmonising the different existing cumulation principles under the various ASEAN-plus agreements. Once implemented, this should give companies who set up their manufacturing operations in ASEAN nations more options in terms of suppliers and sourcing strategies and a further expansion of the eligible manufacturing territory.

Moreover, an ASEAN Single Window (ASW) will be introduced, which will enable communication and sharing of data and information between the various National Single Windows (NSW) of each ASEAN member state. Although there will not be a single submission system, the ASW will expedite customs clearance and reduce transaction time and costs for intra-ASEAN trade in goods.

Currently, the ASEAN member states are in different phases of implementing their own NSWs with an aim to integrate the ten NSWs into the ASW when the AEC comes into effect in 2015.

ASEAN-plus FTAs

In the past decade, ASEAN has also established a number of FTAs with external trading partners to boost trade integration and economic growth. In addition to its intra-ASEAN Free Trade Area, ASEAN has, to date, FTAs in force with the following countries:

1. China (ASEAN-China FTA)
2. India (ASEAN-India FTA)
3. Japan (ASEAN-Japan Economic Partnership Agreement)
4. Korea (ASEAN-Korea FTA); and
5. Australia and New Zealand (ASEAN-Australia/New Zealand FTA).

In addition to these FTAs, there are also ongoing discussions for FTAs, on either a bloc basis (e.g., between ASEAN and the EU, Russia, MERCOSUR (Argentina, Paraguay, Brazil, Uruguay, Venezuela), or on a bilateral basis.

Also, a number of ASEAN member states are currently involved in participating in the Trans-Pacific Partnership Agreement (TPP). Currently, the TPP includes Singapore, Brunei, Chile and New Zealand, and negotiations are taking place to include Australia, Malaysia, Peru, US, Vietnam and, possibly, Thailand.

Below is a list of countries with which ASEAN member states have concluded FTAs outside the ASEAN framework (either bilateral or multilateral).

ASEAN Member	FTAs Outside ASEAN
Indonesia	Japan
Thailand	Australia New Zealand Peru India Japan
Vietnam	Japan
Singapore	Australia China Jordan India Japan Korea New Zealand

ASEAN Member	FTAs Outside ASEAN
	Panama Peru EFTA (Switzerland, Norway, Liechtenstein and Iceland) Trans-Pacific Partnership (Brunei, Chile and New Zealand) US
Philippines	Japan
Malaysia	Japan Pakistan New Zealand India Chile Australia (likely to come into force on 1 January 2013)

It is clear that the existing ATIGA and ASEAN-plus FTAs currently offer companies financial benefits and market access possibilities within the ASEAN member countries as well as other major countries in Asia Pacific. Although the AEC 2015 will not have a substantial impact in terms of the trade in goods, it will introduce certain initiatives that would facilitate the use of the FTAs or customs clearance processes within ASEAN.

Also, existing FTAs between ASEAN (either as a bloc or on a bilateral basis) and other countries or trading blocs as well as future FTAs will provide additional attractive opportunities and benefits to companies investing in ASEAN.

PwC Worldtrade Management Services (WMS)

WMS in ASEAN is a single integrated organisation, operating across the ASEAN region, providing seamless customs and trade advice to importers and exporters. Please visit our website at:

http://www.pwccustoms.com/home/eng/wms

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Lift

Cambodia

At a Glance -- Cambodia	
Population	14.9 million
GDP 2011 Official Exchange rate	$13 billion
GDP 2011 PPP	$34 billion
FDI 2011	$0.6 billion
Inflation 2012	5.10%
Unemployment Rate 2012	N/A
Minimum Wage -- monthly	$43
Average monthly manufacturing wage	$101
Corporate tax rate	20%
VAT rate	10%
Budget Surplus (Deficit) as % of GDP 2011	-5.10%
Public Debt as % of GDP 2011	N/A
Exports 2011	$5.4 billion
Imports 2011	$6.9 billion

Amounts are in U.S. Dollars

Cambodia

The Kingdom of Cambodia, as it is officially named, was part of French Indochina until it gained its independence in 1953. The 1970s to early 1990s was a traumatic period in Cambodia's history, beginning with the Khmer Rouge regime, followed by Vietnamese occupation and almost 13 years of civil war. 1993 marked a turning point, with the first free elections, and since then Cambodia has moved to what is today a nominally free and functioning country.

Government and Politics

The Kingdom of Cambodia is a multi-party constitutional monarchy under which the King is the head of state and the prime minister is the head of government. The prime minister is appointed by the King, on the advice and with the approval of the National Assembly. The governance of the Kingdom formally takes place according to the nation's constitution (enacted in 1993) in a framework of a parliamentary, representative democracy. Executive power is exercised by the government. Legislative power is vested in the two chambers of parliament, the National Assembly (lower house) and the Senate (upper house).

Business Environment

The long-term development of the Cambodian economy continues to present a daunting challenge after decades of war. The county suffers from an almost total lack of basic infrastructure in the countryside. The government is working with bilateral and multinational donors, including the World Bank and IMF, to address the country's many pressing needs. Recently, the government has committed to increasing infrastructure development, including road expansion, road maintenance and bridge construction, in order to facilitate transportation in the country.

The major economic challenge for Cambodia over the next decade will be fashioning an economic environment in which the private sector can create enough jobs to handle Cambodia's demographic imbalance. More that 50% of the population is under the age of 25. The population lacks education and productive skills, especially in the poverty-ridden countryside.

Cambodia considers the private sector to be a significant engine to generate economic growth. The royal government is making an effort to provide a favourable environment for the private sector. In particular, it is trying to reduce the cost of doing business by combating corruption and mobilising resources in order to enhance the development of socio-economic and physical infrastructure.

The Economy

Cambodia's economy is driven largely by the garment and footwear manufacturing, agriculture and tourism industries. The global financial crisis weakened demand for many Cambodian exports. However, in 2010, driven by exports, the Cambodian economy achieved a strong recovery. Cambodia depends on exports of garments to the United States and the European Union, its main export markets. In addition, the recent discovery of offshore oil and gas should mean this will become an evolving sector.

INVESTMENT PROMOTION AND TAX INCENTIVES

To attract and encourage foreign investment in Cambodia, Cambodia has adopted a variety of legislations. The Law on Investment (LoI), promulgated in 2003, governs all investment projects made by investors who are Cambodian citizens and/or foreigners within the Kingdom of Cambodia. Cambodia provides same treatment to foreign and domestic investors alike, with the exception of land ownership.

Moreover, the government provides investors with a guarantee neither to nationalize foreign-owned assets nor to establish price controls on goods produced and services rendered by investors. The Cambodian government also grants the right to freely repatriate capital, interest and dividends.

The government of Cambodia actively encourages both domestic and foreign investments, particularly those activities which involve production and services for export, Qualified Investment Project (QIP), and industries which are established in Special Economic Zone (SEZ).

To support and encourage investment, the government offers incentives in various forms including taxes and customs and duties exemption.

QIP

Most investments will require registration with the Ministry of Commerce (MoC) and other relevant ministries. The Council Development of Cambodia (CDC) may also be approached for the purposes of seeking investment incentives.

Entities with projects that do not fall within the Negative List are eligible to apply for QIP and approved by CDC. Some projects in the Negative List are:

- All kinds of commercial activities, import and export, any transportation services (except the railway sector)
- Tourism service
- Casino and gambling business
- Currency and financial services
- Activities that relate to newspapers and media
- Professional services
- Production of tobacco products
- Hotel below 3-star grade
- Provision of value added services of all kinds of telecommunication services
- Real estate development

A QIP is entitled to the following tax incentives:

- Exemption from Minimum Tax, which is otherwise payable at a rate of 1% of annual turnover.
- Tax holiday (i.e. ToP rate at 0%) for a maximum of up to six years. The tax exemption period consists of a trigger period + 3 years tax holiday + the priority period (maximum of 3 years). All QIP projects are entitled to a minimum of 3 years tax holiday period.
  * The trigger period starts on the date of issuance of the Final Registration Certificate by the CDC and ends on the earlier of the first year of taxable profit, or three years after deriving the first business revenue, whichever is sooner.

- Special depreciation rate – accelerated depreciation

  Under the LoI, a QIP is entitled to utilise a 40% special tax depreciation rate for the first year of use of the asset in addition to the normal tax depreciation charge. For ToP purposes, the remaining costs will be depreciated in accordance with the tax regulations.

  The special depreciation rate applies to used and new property used in "Manufacturing and Processing." The term "Manufacturing and Processing" is not defined in regulations.

  However, if a QIP elects to use the special depreciation rate, the QIP is not entitled to the ToP holiday as mentioned in point 2 above. It is not permitted to make use of both incentives.

- Import duty exemption for construction equipment, construction materials, etc. All equipment and materials should be included in the Master List, submitted to the CDC for approval.

SEZ

In 2005, the Cambodian Government has established the Cambodian Special Economic Zone Board (CSEZB) under the CDC to promote the SEZ scheme in Cambodia. The CSEZB administers SEZ and provides one-stop service to zone investors from the registration of investment projects to routine export-import approvals.

A SEZ can be established in Cambodia at appropriate and strategic areas in accordance with the decision of the Cambodian government. The conditions for establishment of the SEZ are as follows:

- Having land of more than 50 hectares with precise location and geographic boundaries;
- Having a surrounding fence (for Export Processing Zone, the Free Trade Area and for the premises for each investor in each zone);
- Having management office buildings, zone administration offices, large road system, clean water network, electricity network, telecommunication and post network, and fire protection security system. Based on each

situation, the zone may have land reserved for residential area for workers, employers, public parks, infirmary, vocational training school, petroleum station, restaurant, car parking, shopping centre or market, etc.;
- Having water sewage network, waste water treatment network, location for storage and management of solid wastes, environment protection measures and other related infrastructures as deemed necessary;
- Technical requirements, regulation and basic rules dealing with construction, environment and other obligations in order to develop the SEZ above shall be defined by relevant ministries/institutions through a set of instructions in compliance with the law and national and international standards accordingly to the geography and specific size of each zone.

The CDC has approved 21 SEZs across the country, with total investment capital in excess of $1 billion. Seven of these have occupants – Sihanoukville SEZ 1, Phnom Penh SEZ, Manhattan (Svay Reing) SEZ, Tai Seng Bavet SEZ, Poipet O'Neang SEZ, Goldfame Pak Shun SEZ, and Neang Koh Kong SEZ. Meanwhile, Sihanoukville Port SEZ is under construction, others are at various stages of development, and some remain undeveloped. Please see below for all SEZs in Cambodia.

• Neang Kok Koh Kong SEZ	• Doung Chhiv Phnom Den SEZ	• Thary Kampong Cham SEZ
• Suoy Chheng SEZ	• Phnom Penh SEZ	• Sihanoukville 1 SEZ
• S.N.C SEZ	• Kampot SEZ	• Sihanoukville 2 SEZ
• Stung Hav SEZ	• D&M Bavet SEZ	• Sihanoukville Port SEZ
• N.L.C SEZ	• Tai Seng Bavet SEZ	• Kiri Sakor Koh Kong SEZ
• Manhattan (Svay Reing) SEZ	• Oknha Mong SEZ	• Kompong Saom SEZ
• Poipet O'Neang SEZ	• Goldfame Pak Shun SEZ	• Pacific SEZ

A QIP which is located in SEZ shall be entitled to same incentives and privileges as other QIPs. Please refer to the above section on the incentives of the QIP.

Further to the tax and investment incentives provided to QIPs, zone investors also receive additional incentives for investment activities including VAT at the rate of 0% for every import for zone investors of the garment and footwear manufacturers, their supporting industries, and contractors.

Zone developers receive the following additional incentives for investment activities:

- VAT at the rate of 0% for every import;
- Custom duty exemption on the import of machineries, equipments for the construction of the road connecting the town to the zone, and other public services infrastructures for the public interests as well as for the interest of the zone; and

- The zone developer may request, under the form of a temporary admission, the import of means of transport and machineries used for the construction of the infrastructures in accordance with the laws and regulations in force.

Promotion of land development

Under the Cambodian Constitution and LoI, land ownership is restricted to Cambodian nationals and companies with at least 51% Cambodia equity participation (Khmer nationality).

Under the LoCE, a company is deemed to be of Khmer nationality only if:
- The company has a place of business and a registered office located in Cambodia; and
- More than 51% of the voting shares of the company are held by natural or legal persons of Khmer nationality.

Although foreign person/entities are not allowed to own land, the foreign person/entities can enjoy long-term leases up to 99 years.

Application procedures

Legal Entities

All legal entities are required to be registered with the MoC, General Department of Taxation, Ministry of Labour and relevant ministries in Cambodia.

QIP

A QIP must submit monthly and annual tax returns and must pay all taxes as imposed by taxation regulations to the tax authority, along with an annual Certificate of Compliance (CoC).

In each taxation year, a QIP may not be entitled to, any of the investment incentives unless a QIP is issued with a CoC from the CDC. The CDC will review the QIP to determine whether the QIP has provided all information required as below:

1. An annual financial statement, consisting of a balance sheet, a profit and loss account, cash flow statement and remark no later than the 31 March of the following year;
2. A Certificate of Tax Obligation Satisfaction from the tax authority certifying that the Investor has:
   - properly complied with and filled the monthly tax returns on time; and
   - paid all taxes, levies, interest and surcharges determined for the period of taxation audited by the tax authority.
3. Quarterly report on the effective import of Production Equipment and Production Inputs for the production, and quarterly report on the effective export of the QIP’s finished products and annual inventory list of immovable properties if applicable; and
4. Investment information sheet.

SEZ

All zone developers who intend to invest in SEZ development in any place shall submit a request for approval for the development of the zone to the CSEZB and be a registered QIP. Any project with a capital investment of more than USD50 million is referred to the Council of Ministers for final approval.

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PwC Cambodia Pocket Tax Booklet 2012

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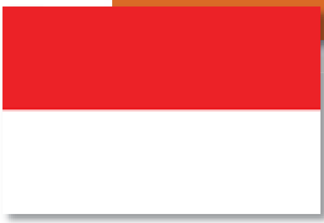
Indonesia



At a Glance – Indonesia	
Population	248.2 million
GDP 2011 Official Exchange rate	$846 billion
GDP 2011 PPP	$1139 billion
FDI 2011	$18.2 billion
Inflation 2012	4.56%
Unemployment Rate 2012	6.4%
Minimum Wage -- daily	$4.42
Average monthly manufacturing wage	$182
Corporate tax rate	25%
VAT rate	10%
Budget Surplus (Deficit) as % of GDP 2011	-1.20%
Public Debt as % of GDP 2011	24.50%
Exports 2011	$208.9 billion
Imports 2011	$172.1 billion

Amounts are in U.S. Dollars

Indonesia

Indonesia, a former Dutch colony, gained its independence in 1945. Indonesia is the world's third most populous democracy, the world's largest archipelagic state (comprising over 17,000 islands) and home to the world's largest Muslim population.

Government and Politics

The philosophy of the state is Pancasila: the five principles of Belief in One Supreme God; Humanity; Unity; Democracy; and Social Justice. The 1945 Constitution provides for the sharing of powers among the executive, the legislature and the judiciary.

The Republic of Indonesia is a constitutional democracy with an executive presidency. Following the resignation of President Suharto in 1998, Indonesian political and government structures have undergone major reforms. Amendments to the constitution have revamped the executive, legislative and judicial branches. The People's Consultative Assembly (or MPR) consists of a two-chamber legislature comprising the People's Representative Council (DPR) and the Regional Representative Council (DPD). The MPR is responsible for issuing legislation, regulations and treaties. The judiciary is led by the Supreme Court, candidates for which are appointed jointly by the President and the DPR.

The government is progressing with a manifesto of moderate but steady economic growth, bureaucratic reform (particularly around corruption) and sound economic management.

Business Environment

Indonesia has withstood the global financial turmoil partly on the back of its exposure to strong commodity prices but also an advantageous demographic (a large and young population with a fast-growing middle class), macroeconomic stability, a relatively open investment environment and generally low cost structures.

The government has promoted fiscally conservative policies, resulting in a low debt-to-GDP ratio and fiscal deficit and a manageable rate of inflation. As a result of this, Indonesia regained its 'Invest' grade rating in 2011. As a founding member of the organisation, Indonesia is committed to ASEAN's goal of liberalising trade and investment. The government has set out a Master Plan for the Acceleration and Expansion of Indonesian Economic Development until 2025, looking to stimulate investment in Indonesia's six economic corridors (Sumatra, Java, Kalimantan, Sulawesi, Bali-Nusa Tenggara and Papua-Maluku) and in eight growth industries (mining, energy, agriculture, industry, marine, tourism, telecoms and other 'strategic areas').

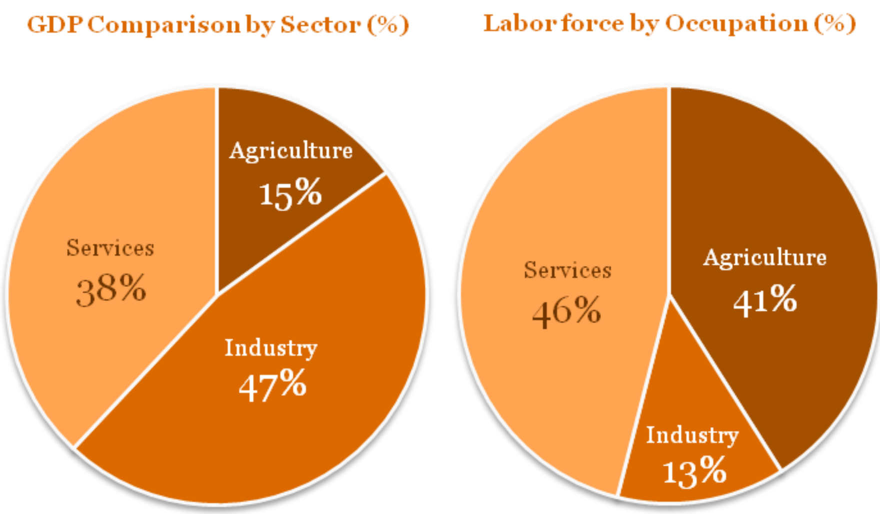
The government has, however, acknowledged its under-spending on capital investment in prior years and recognises that significant investment in infrastructure, such as energy facilities, seaports, railways and roads, is now required. This has led to various regulatory enhancements including, most recently, in regard to Public-Private Partnerships. BAPPENAS, the agency responsible for national development planning, has set up the Government and Private Sector Cooperation Centre to facilitate cooperation in infrastructure projects between the Government and private sectors.

However, the investment regulations in Indonesia continue to be complex and bureaucratic. A number of significant recent regulations have been imposed with little or no warning (including in the mining sector), causing some degree of unease among investors.

The Economy

Indonesia has a well diversified and mixed economy in which both the private sector and Government play significant roles. The country is the largest economy in SEA and is the only ASEAN member of the G-20. The Indonesian growth rate, which has remained at between 5% and 7% for the majority of the last ten years, combined with the opportunities for investment (particularly in the consumer, resources and infrastructure sectors) has seen Indonesia become increasingly attractive to foreign and domestic investment.

Indonesia is rich in natural resources including oil, natural gas, coal, tin, and copper. The energy development and mining sectors have been significant drivers of growth and employment. Like most of its fellow ASEAN members, Indonesia has been experiencing a shift from the historically dominant agricultural sector to industry and services.



The resilience in Indonesia's growth is partly attributable to its relatively stable financial sector and the high sensitivity of its key exports to growth countries such as China and India. Having said that, exports currently make up only about one-quarter of the country's GDP with strong domestic growth being experienced in a wide range of other sectors.

However, this growth has not necessarily been shared, as Indonesia still has a high incidence of poverty, at about 12% (although this is falling). But like many of its ASEAN peers there is a growing middle class eager to spend and enjoy the fruits of economic prosperity.

Inflation has remained under control with the government meeting its recent targets of 4 – 6%. However, Indonesia has recently come under pressure from food and energy price inflation.

INVESTMENT PROMOTION AND TAX INCENTIVES

Setting up business

Most income generating investments will require the incorporation of an Indonesian limited liability company or Perseroan Terbatas ("PT"). Investment via a PT Company must be in accordance with investment regulations administrated by the Central Government and the Investment Coordinating Board ("BKPM"). These regulations include restrictions around investments with foreign shareholders including the percentage of holdings in PT companies that can be held by foreigners. A "Negative Investment List" setting out excluded or restricted investment areas has been prepared by BKPM and is updated periodically.

Business Opportunities

Overall, the government of Indonesia, through BKPM is very encouraging of foreign investment particularly in relation to infrastructure, agriculture, manufacturing and energy.

In respect of infrastructure, Indonesian is looking to develop 20,000 km of roads, 15,000 MW of power plants, as well as a number of ports and oil refineries over the next 5 years. Roughly two thirds of the expected $160 billion of capital required for these projects is expected to come from private sources – largely foreign.

Incentives of BKPM

Investment Law No.25/20o7 was a landmark regulation designed to re-set the general terms of investment in Indonesia (the earlier version was over 30 years old). The basic investment policy is equality of treatment for foreign and domestic investors, and that the Government should provide investors with *"legal certainty, business certainty, and business security to any investors from the licensing process up to then end of the investment activity".*

The Government also provides protection from nationalisation (unless required by law, when the Central Government will provide compensation). Investors are also given the right to freely transfer and repatriate foreign currency in the form of, amongst others, royalties, dividends, loan repayments, sale of investments and management and technical service fees.

The Investment Law also introduced a number of investment "facilities" (or incentives) for qualifying investors. These facilities are captured under the separate regulations and are discussed below.

Tax Holidays

Pursuant to MoF Regulation No.130/PMK.011/2011 the Government may grant Corporate Income Tax ("CIT") holidays or reductions to companies investing in "pioneer industries". Pioneer industries have been defined as *"industries that have extensive links, give additional value and high externality, introduce new technologies, and have strategic value for the country's economy."*

The facilities which may be provided are:

a) a CIT exemption for a period of five to ten years from the start of commercial production; and
b) a 50% reduction in the CIT due for the period of two years after the end of the CIT exemption period.

Currently, eligible investors are limited to those that fall within the following sectors:

a) base metals;
b) oil refineries and/or base organic chemicals sourced from oil & gas;
c) machinery;
d) renewable energy; and
e) telecommunications equipment;

While there are no implementing regulations yet issued which define what is included in "machinery", the Ministry of Industry maintains an unpublished list of qualifying activities and will generally confirm classifications on request.

Other sectors may be added to the list based on the Government's assessment of the competitiveness of national industries and the strategic value of the business.

The investor must have a legalised new capital investment plan of a minimum of Rp 1 trillion (approximately USD 120 million) and deposit 10% of their planned investment in a bank in Indonesia not to be withdrawn prior to the realisation of the investment pan. The investor also must be an Indonesian legal entity not established before 15 August 2010.

In order to obtain the facility an investor should submit an application to the Minister of Industry ("MOI") or Head of the BKPM. The MoI or BKPM will then make a proposal to the Ministry of Finance ("MoF") after having carried out research on the applicant.

The MoF is authorised to issue a decision on the tax facility and will form a committee to research and provide recommendations to the MoF. The MoF will consult with the President prior to the finalisation of the decision.

The MoF will issue a Decree where the application is approved or provide a written notification if the application is rejected. If the application is granted, the tax office will monitor the taxpayer's business activities through periodic reports including the realisation of its investment plan. Failure to maintain the required criteria could result in a termination of the tax facilities.

Investment Incentives

1. Import Duties

All investments approved by BKPM should attract the following facilities:

a) a reduction from import duty rates to 0 % on:
   i) the importation of capital goods (machinery, equipment, spare parts, auxiliary equipment etc) for an import period of two years;
   ii) the importation of goods, materials or raw materials used to produce finished goods or to produce services for two years of production.

However, the decree does not generally apply to the assembly of cars and motor bikes; and

b) an exemption from the Transfer of the Ownership Fee for ship registration deeds or certificates made for the first time in Indonesia.

2. Corporate income tax facilities

Government Regulation No.1/2007 ("GR No.1") as expanded by Government Regulation No. 62/2008 and Government Regulation No. 52/2011, allows BKPM to provide the following CIT facilities for investment in specific sectors and/or regions:

a) a reduction in net taxable income of up to 30% of the qualifying investment (applied over six years);
b) accelerated tax depreciation (at double the normal rates);
c) an extended tax loss carry forward limit of up to 10 years; and
d) a reduction in withholding tax due on dividends paid to non-residents from 20% to 10%.

GR-52 covers 129 eligible investments (based on business classification), being 52 types of investment in particular sectors, and 77 types of investment in particular sectors and also in particular regions. Many common manufacturing, service and mining activities are included as eligible activities in GR-52.

The net taxable income reduction operates as follows. Total qualified investment multiplied by 30%and then divided by 6. The resulting amount is treated as a deduction from taxable income in each of the six years. Any loss created by this deduction may be carried forward.

3. Bonded Zones

Companies located in bonded areas are provided with:-

a) an exemption from import duty, VAT and Article 22 withholding tax on the importation of capital goods and equipment including raw materials required for a production process;
b) an entitlement to divert up to 25% of exports (in term of value) into the Indonesian customs area;
c) an entitlement to sell scrap or waste into the Indonesian custom's area in certain cases;
d) an entitlement to transfer machinery and equipment to subcontractors located outside bonded zones for no longer than 2 (two) years in order to re-process their products; and
e) an exemption from VAT on the delivery of products for further processing from bonded zones to subcontractors outside the bonded zones (or vice versa) or to other companies in these areas.

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Additional information on Indonesia that can be found on our website

- Indonesian Pocket Tax Book
- Investment and taxation Guide 2012 – Mining in Indonesia
- Investment and taxation Guide 2012 – Oil & Gas in Indonesia
- Electricity in Indonesia - Investment and Taxation Guide

Indonesia

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Laos PDR

At a Glance – Laos PDR	
Population	6.6 million
GDP 2011 Official Exchange rate	$8 billion
GDP 2011 PPP	$18 billion
FDI 2011	$0.5 billion
Inflation 2012	5.24%
Unemployment Rate 2012	N/A
Minimum Wage -- daily	$2.12
Average monthly manufacturing wage	$45
Corporate tax rate	28%
VAT rate	10%
Budget Surplus (Deficit) as % of GDP 2011	-2.50%
Public Debt as % of GDP 2011	54.4%
Exports 2011	$1.8 billion
Imports 2011	$2.4 billion

Amounts are in U.S. Dollars

Laos PDR

Laos was part of French Indochina until gaining independence in 1953.

Government and Politics

The Laos People's Democratic Republic, as it is officially named, is a one-party communist state. The government maintains close ties with Vietnam, which is also its principal trading partner.

Business Environment

In 1986 the government began to decentralise control, encourage private enterprise and move to a market-based economy. The results, starting from a very low base, have been quite remarkable, as growth averaged 8% per year from 1986 to 2008. However, it remains one of the poorest countries in SEA. A landlocked county, it has inadequate infrastructure, particularly in rural areas, and a largely unskilled labour force.

The government is committed to increasing the country's profile among investors, which has included opening its first stock exchange in 2011. Reforms are increasing to liberalise the economy. The World Bank has stated that Laos' goal of graduating from the UN Development Programme's list of least developed nations by 2020 is achievable.

The Economy

Laos remains primarily an agricultural economy, but a significant shift has been under way for a number of years. Hydroelectric power and mining are significant growing aspects of the economy. Laos PDR has become a rising regional player in its role as hydroelectricity supplier to its neighbours Thailand, China and Vietnam. Laos is ranked as one of the most resource-rich countries in Asia. Significant mineral deposits include gold, copper, zinc and lead. Since the early 2000s there has been substantial foreign investment in the mining sector, which is continuing.

The manufacturing sector remains primarily focused on textiles and garments. However, an announced venture with China to build a high-speed rail line linking China, Laos and Thailand should vastly improve the ability to bring manufactured goods to export markets and, hopefully, diversify the sector.

Consumer consumption, although in no way on par with many of the other SEA countries, is gradually increasing in the capital, Vientiane, and surrounding areas. Recently the first modern shopping mall opened in Vientiane and a number of Thai super-store operators are planning stores in Laos.

INVESTMENT PROMOTION AND TAX INCENTIVES

Law on Investment Promotion (2009)

Adoption

The Law on Investment Promotion 2009 was adopted by the National Assembly on 8 July 2009 and was promulgated by the President of the Laos PDR on 20 July 2009. In theory, this law became effective sixty (60) days from the date of promulgation. However, in practice, this law was not implemented until 2011, after the Prime Minister's Decree on Implementation of Law on Investment Promotion No. 119 was issued.

Law on Investment Promotion 2009 supersedes (1) Law on Promotion of Domestic Investment 2004 and (ii) Law on Promotion of Foreign Investment 2004.

Purpose of Law on Investment Promotion

The Law on Investment Promotion sets out the principles, regulations and measures relating to the promotion and management of both foreign and domestic investments in the Laos PDR, with purpose to facilitate the investments making the investment consideration and approval procedure more rapid, accurate, to protect the rights and benefits of the investors, the State and the public with an aim to increase the values and roles of the investments in the nation's socio – economy development, to promote economic growth in a continuous and sustainable ways, contributing to the strong protection and development of the Nation.

Features of Law on Investment Promotion 2009

- Combined the domestic investment law and foreign investment law into one to create a new "level playing field" for both domestic and foreign investors;
- Shorten procedures to open new businesses;
- No term of investment for promoted activities and general investment activities unless it is provided in specific laws or regulations of the relevant sectors;
- Extended investment incentives: education and healthcare sectors are top priorities
- Foreign investors can have access to local financial sources;
- Foreign investors can own land for residency or office purposes (with certain size and conditions);
- Foreign investors can invest in real estate sector;
- Promotion of the development of Special Economic Zone (SEZ) and Industrial Parks.

Term of Investment

- Unlike the old law, there is no term of investment of general business activities.

- A term of investment under concession is up to ninety (99) years.

Incentives on Corporate Profit Tax

The Investment Law 2009 divides investment areas into three (3) zones, namely Zone 1, Zone 2, and Zone 3, and divides the investment activities into three different levels of promoted activities, namely Promoted Activity 1, Promoted Activity 2, and Promoted Activity 3. Investors investing in these zones and business activities are entitled to Corporate Profit Tax exemptions.

The investment zones and investment activities

Zone	Areas	Promoted Activity 1	Promoted Activity 2	Promoted Activity 3
Zone 1:	Mountainous, plain and plateau zones with no economic infrastructure to facilitate investments.	10 years PT exemption	6 years PT exemption	4 years PT exemption
Zone 2:	Mountainous, plain and plateau zones with a moderate level of economic infrastructure suitable to accommodate investments to some extent.	6 years PT exemption	4 years PT exemption	2 years PT exemption
Zone 3:	Mountainous, plain and plateau zones with good infrastructure to support investments.	4 years PT exemption	2 years PT exemption	1 year PT exemption

Incentives on Import Duty

Under the new law, both Laos and foreign investors are also granted import duty exemptions on imports of raw materials, equipment, and vehicles for direct use in production or in business operation. But, there is no VAT exemption provided in the law.

Access to credit

Both foreign and domestic investors can access credit at any commercial banks and financial institutions properly operating in the Laos PDR and abroad at their convenience.

Rights to use land for residential purpose

Under this law, foreign investors who meet the following conditions will be granted the rights to purchase land-use rights for residential purpose:

- Having imported the registered capital (in cash) at least USD 500,000 (five hundred thousand US dollars);
- The land must be owned by the Government and designated by local authorities;
- The land area must not exceed 800 square metres;
- The land must be used for the purpose of residency or building of office of the enterprise only;
- The term of land use is equal to the term of investment.

Special Economic Zones

Under the new law, foreign and domestic investors may invest in a special economic zone or a specific economic zone. In a special economic zone, there may be many specific economic zones namely Export Processing Zones, Industrial Parks, Tourism Towns, Duty Free Zones, ICT Development Zones, and Other Zones.

The investors who invest in these economic zones may be granted tax and import duty incentives. The incentives are varied from zone to zone.

Approval procedures for domestic and foreign investments in general/opened business activities under the Law on Investment Promotion 2009

There is no need for foreign investors to go through the Ministry of Planning and Investment for their Foreign Investment Licences as in the Law on Promotion of Foreign Investment 2004. Now, foreign investors who wish to invest in general business activities can make an application and submit it directly to the Enterprise Registry Office (ERC), Ministry of Industry and Commerce.

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Malaysia

At a Glance – Malaysia	
Population	29 million
GDP 2011 Official Exchange rate	$279 billion
GDP 2011 PPP	$453 billion
FDI 2011	$12 billion
Inflation 2012	1.60%
Unemployment Rate 2012	3.1%
Minimum Wage -- monthly beginning in 2013	$258-290
Average monthly manufacturing wage	$666
Corporate tax rate	25%
VAT rate	Sales / Service Tax: 5-10%
Budget Surplus (Deficit) as % of GDP 2011	-5.00%
Public Debt as % of GDP 2011	53.5%
Exports 2011	$212.7 billion
Imports 2011	$168 billion

Amounts are in U.S. Dollars

Malaysia

Malaysia, a former British colony, gained its independence in 1957. Malaysia is separated by the South China Sea into two non-contiguous regions: the Peninsular Malaysia region bordering Thailand (i.e., West Malaysia) and the Malaysia-Borneo region bordering Indonesia and Brunei (i.e., East Malaysia).

Government and Politics

Malaysia is a federal constitutional monarchy, consisting of thirteen states and three federal territories. The head of state is the Yang di-Pertuan Agong and the head of government is the Prime Minister. The Malaysian monarchy is unique, due to the fact it is an elective monarchy where the Yang di-Pertuan Agong is elected to a five-year term by and from among the nine Rulers of the Malay states, who form the Conference of Rulers.

Business Environment

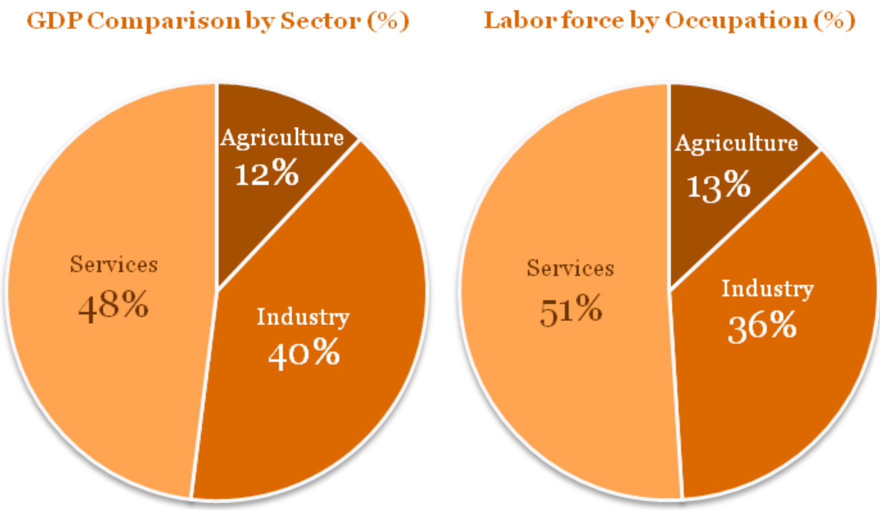
Malaysia is an open and industrialised market economy. The state plays a significant but declining role in guiding economic activity through macroeconomic plans. The government has set out a number of reforms with the aim of continuing the liberalisation of the economy, especially in the services sector. Malaysia was one of the founding members of the WTO and is actively involved in both multilateral liberalisation and regional and bilateral cooperation.

Malaysia boasts one of the most developed infrastructures in SEA. Within the region, Malaysia's telecommunications system is second only to Singapore, with 4.7 million fixed-line subscribers and more than 30 million cellular subscribers. The country has seven international ports and 200 industrial parks, including specialised parks such as Technology Park Malaysia and Kulim Hi-Tech Park. Development has traditionally been concentrated in economically powerful cities. Hence, while rural areas have recently been the focus of development, they still lag behind the major cities.

Economy

With a wealth of natural resources Malaysia had long been dependent on agriculture and primary commodities. Over the last 20 years, however, Malaysia has progressed from being a commodities exporter to a multi-sector and manufacturing-based, export-driven economy anchored in high-technology, knowledge-based and capital-intensive industries. As an oil and gas exporter, Malaysia has profited from higher world energy prices, but the government recognises the need to reduce the country's dependence on petroleum as the main source of revenue.

In the last decade, Malaysia has moved up the industrial value chain by attracting investments in high-tech, biotechnology and services. The country has emerged as an attractive regional hub for services, including financial services, information and communications technology (ICT), and logistics sectors. Thanks to its highly educated workforce and widespread proficiency in English, Malaysia has become a significant player in the outsourcing and 'back-office' sector. Malaysia is also increasingly being recognised as an innovative international Islamic financial centre. It is also emerging as a springboard or centre for regional expansion into SEA in view of its strategic central location and multilingual 'Truly Asia' mix of Malay, Chinese, and Indian populace.



Malaysia is considered a high middle-income economy with a significant middle class of consumers. As with other SEA economies, these consumers are spending on higher-end products and services and domestic consumption is becoming an ever increasing driver of the economy.

INVESTMENT PROMOTION AND TAX INCENTIVES

Pioneer Status (PS) and Investment Tax Allowance (ITA)

Companies in the manufacturing, agricultural, hotel, and tourism sectors, or any other industrial or commercial sector that participate in a promoted activity or produce a promoted product may be eligible for either PS or ITA.

PS is given by way of exemption from CIT on 70% of the statutory income for five years and the remaining 30% is taxed at the prevailing CIT rate. ITA is granted on 60% qualifying capital expenditure incurred for a period of five years to be utilized against 70% of the statutory income, while the balance 30% is taxed at the prevailing CIT rate.

A company which intends to undertake reinvestment before expiration of its PS or ITA status may opt for reinvestment allowance provided it surrenders its PS or ITA status.

The PS and ITA incentives are enhanced for the following types of projects:

Qualifying industry	Pioneer status		Investment tax allowance	
	Incentive	TRP (1)	Incentive	TRP (1)
Projects of national and strategic importance involving heavy capital investment and high technology.	100% of SI (2)	5 + 5	100% QCE (3) against 100% SI	5
High-technology companies engaged in areas of new and emerging technologies.	100% of SI	5	60% QCE against 100% SI	5
Companies participating in an industrial linkage program.	100% of SI	5	60% QCE against 100% SI	5
Companies manufacturing specialized machinery and equipment.	100% of SI	10	100% QCE against 100% SI	5
Existing locally owned companies reinvesting in production of heavy machinery, specialized machinery, and equipment.	70% of increased SI	5	60% new QCE against 70% SI	5
Companies providing technical and vocational training, and private higher education institution providing qualifying science courses.	-	-	100% QCE against 70% SI	10
New companies investing and existing companies reinvesting in utilizing oil palm biomass to produce value-added products.	100% of SI	10	100% QCE against 100% SI	5
Small scale companies (defined) that meet with specified conditions.	100% of SI	5	60% QCE against 100% SI	5
Companies investing in new laboratories for testing medical devices (applications from 8 September 2007 to 31	100% of SI	5	60% QCE against 100% SI	5

Qualifying industry	Pioneer status		Investment tax allowance	
	Incentive	TRP (1)	Incentive	TRP (1)
December 2012).				
Companies upgrading existing laboratories for testing medical devices (applications from 8 September 2007 to 31 December 2012).	-	-	60% QCE against 100% SI	5
Hotel operators undertaking new investments in 4 and 5 star hotels in Sabah/Sarawak (applications from 30 August 2008 to 31 December 2013).	100% of SI	5	100% QCE against 100% SI	5
Hotel operators undertaking new investments in 4 and 5 star hotels in Peninsular Malaysia (applications from 8 October 2011 to 31 December 2013).	70% of SI	5	60% QCE against 70% SI	5
Providers of industrial design services (applications received from 8 October 2011 until 31 December 2016).	70% of SI	5	-	-

Notes
1. Tax relief period (in terms of years)
2. Statutory income
3. Qualifying capital expenditure

Special Incentive Scheme

Reinvestment Allowance

A resident company in operation for not less than 36 months that incurs capital expenditure to expand, modernise, automate, or diversify its existing manufacturing business or approved agricultural project is entitled to reinvestment allowance as follows:

- An allowance of 60% of qualifying capital expenditure (“QCE”) incurred to be utilised against 70% of statutory income. The remaining 30% is taxed as the prevailing corporate income tax (“CIT”) rate.
- The 70% restriction does not apply to projects located in the eastern corridor states of Peninsular Malaysia, Sabah, Sarawak, Labuan, the state of Perlis, and

Mersing district in Johor (up to year of assessment 2011) or to projects that achieved the level of productivity as prescribed by the Minister of Finance.
- The allowance is given for 15 years from the first year of claim and will be withdrawn if the asset for which the allowance is granted is disposed of within five years.

Approved Service Projects

A resident company undertaking a project approved by the Minister of Finance in the transportation, communications, utilities, and services subsectors may enjoy the following incentives:

- Investment allowance of 60% of QCE incurred within five years to be utilised against 70% statutory income.
- Alternatively, income tax exemption of 70% of statutory income for a period of five years.
- Buildings used solely for the purpose of such projects qualify for an industrial building allowance.

Export Incentives

A resident company engaged in manufacturing or agriculture that exports manufactured products, agricultural produce, or services is entitled for allowances between 10% to 100% of increased exports (subject to satisfying prescribed conditions), which is deductible up to 70% of statutory income.

Regional Operations

Operational Headquarters Company (OHQ)

A Malaysian incorporated company that provides qualifying services to its offices and related companies, within or outside Malaysia, may enjoy CIT exemption for a period of ten years. Income exempted includes business income, interest, royalties, and income from services (not exceeding 20% of total income of qualifying services) provided to related companies in Malaysia.

Expatriates working in an OHQ are taxed only on the portion of chargeable income attributable to the number of days they are in Malaysia. An OHQ is also granted special facilities (subject to minimal conditions) including:

- Approvals for expatriate posts.
- Ability to obtain credit facilities in foreign currency from licensed banks in Malaysia, without approval of the Central Bank of Malaysia.
- Invest freely in foreign securities and lend to related companies outside Malaysia.
- Ability to open foreign currency accounts with licensed banks in Malaysia or banks in Labuan.

International Procurement Centre (IPC) and Regional Distribution Centre (RDC)

An IPC engaged in the procurement and sale of raw materials, components, and finished products to its related or unrelated companies within or outside Malaysia may, subject to conditions, enjoy income tax exemption for ten years on income from qualifying activities in respect of export sales.

An RDC operates similarly to an IPC, except an RDC is only allowed to deal with its own brand of goods. The RDC enjoys the same incentives as an IPC.

Other available non-fiscal incentives available to IPC/RDC include:

- Approval for expatriate posts.
- One or more foreign currency accounts for the retention of export proceeds with any licensed commercial bank, without any limit on account balances.
- Ability to enter into foreign exchange forward contracts with a licensed commercial bank to sell forward export proceeds based on projected export.
- Exemption from foreign equity ownership restrictions.

International Trading Company

International trading companies are exempt for five years on income equivalent to 20% of increased export value, up to a maximum of 70% of statutory income. To qualify for the incentive, the company must meet the following three conditions:

- Be incorporated in Malaysia, with 60% Malaysian ownership.
- Achieve minimum annual sales of MYR10 million, not more than 20% of which may be derived from the trading of commodities.
- Use local services (banking, finance and insurance) and infrastructure (local ports and airports) in its operations.

Treasury Management Centre (TMC)

It is proposed that locally incorporated companies establishing their TMC (a centre that provides financial and fund management services to a group of related companies within or outside the country) in Malaysia will enjoy the following incentives (applications to be received from 8 October 2011 until 31 December 2016):

- Income tax exemption of 70% of statutory income from qualifying treasury services rendered to related companies for five years.
- WHT exemption on interest payments on overseas borrowings from overseas used for qualifying activities.
- Stamp duty exemption on loan and service agreements for qualifying activities.
- Expatriates working in the TMC are taxed only on the portion of their chargeable income attributable to the number of days they are in Malaysia.

Kuala Lumpur International Financial District (KLIFD)

The KLIFD is a joint property development comprising office towers for finance and banking, residences, and retail spaces in Kuala Lumpur. To accelerate the development of the KLIFD, the following incentives are proposed:

- Full income tax exemption for ten years and stamp duty exemption on loan and service agreements for KLIFD status companies.
- Industrial building allowance for capital allowance for KLIFD Marquee Status Companies.
- Income tax exemption of 70% of statutory income for five years for property developers in KLIFD.

Special Economic Regions

The following special economic regions were launched as part of the Malaysian government's plan for regional growth and development:

Economic region	Location	Year of launch
Iskandar Malaysia (formerly known as Iskandar Development Region [IDR])	Southern Johor	2006
Northern Corridor Economic Region	States of Perlis, Kedah, Penang, and northern Perak	2007
East Coast Economic Region	States of Kelantan, Terengganu, Pahang, and district of Mersing in Johor	2007
Sabah Development Corridor	Western, central, and eastern regions of Sabah	2008
Sarawak Corridor of Renewable Energy	Central Sarawak	2008

Special incentives, on top of the existing incentives given by the Malaysian government, will be customised for the purpose of each economic region. At present, special legislation has been enacted in respect of Iskandar Malaysia (IM) to grant the following exemptions/incentives:

Entity	Incentive
IDR status company	10 years income tax exemption on statutory income from the provision of qualifying services to a person situated within designated nodes in the IDR or outside Malaysia. Operations to commence before 31 December 2015.

Entity	Incentive
Developer	Income tax exemption on statutory income from the disposal of rights over land in designated nodes (until year of assessment 2015).
	Income tax exemption on rental or disposal of buildings in designated nodes (until year of assessment 2020).
Development manager	Income tax exemption on statutory income from the provision of management, supervisory, and marketing services to an approved developer (until year of assessment 2020).
Non-resident service provider	Income tax and WHT exemptions on income from technical fees, interest, or royalties received from approved developers in IDR designated nodes or IDR status companies.
Individuals working in IDR	A qualified knowledge worker is taxed at the rate of 15% on chargeable income from employment with a designated company engaged in a qualified activity (e.g. green technology, educational services, healthcare services, creative industries, financial advisory and consulting services, logistics services, tourism). Employment must commence between 24 October 2009 and 31 December 2015.

Information and Communication Technology

MSC Malaysia

MSC Malaysia is Malaysia's initiative for the global information technology (IT) industry and is designed to be the research and development (R&D) centre for industries based on IT. It is an information communication technology hub equipped with high-capacity global telecommunications and logistics networks. MSC Malaysia is also supported by secure cyber laws, strategic policies, and a range of financial and non-financial incentives for investors. It is managed by the Multimedia Development Corporation (MDeC), a 'one-stop shop' that acts as the approving authority for companies applying for MSC Malaysia status.

MSC Malaysia status is awarded to both local and foreign companies that develop or use multimedia technologies to produce or enhance their products and services as well as for process development. MSC Malaysia companies are eligible for incentives, which include the following:

- PS (five + extendable by five years) of 100% statutory income or ITA of 100% for five years for a new company or existing company on its additional income.
- Eligibility for R&D grants (for majority Malaysian-owned MSC Malaysia company).
- Exemption from indirect taxes on multimedia equipment.
- Unrestricted employment of local and foreign knowledge workers.
- Freedom to source funds globally for investments.
- Protection of intellectual property and cyber laws.
- No censorship of the internet.

- Globally competitive telecommunications tariffs and services guarantees, world-class physical and IT infrastructure and excellent R&D facilities.

Offshore Trading Through Websites in Malaysia

Income received by companies undertaking offshore trading (buying and selling of foreign goods to non-residents) via websites in Malaysia is taxed at a reduced rate of 10% for a period of five years. The approval of the Minister of Finance must be obtained.

Green Incentives

Green Building Index (GBI) Certification

A resident in Malaysia awarded a GBI certificate by the Board of Architects Malaysia from 24 October 2009 until 31 December 2014 is granted 100% allowance on qualifying expenditure incurred for the purpose of obtaining the GBI certificate, to be utilised against 100% of statutory income.

Renewable Energy Source

Companies engaged in generating energy from renewable sources (biomass, hydropower, or solar power) can enjoy the following incentives for applications received before 31 December 2015:

- Full income tax exemption on statutory income for ten years, or
- ITA of 100% QCE against 100% statutory income for five years.

Energy Conservation

Companies undertaking contracting service activities to conserve usage of energy can enjoy the following incentives for applications received before 31 December 2015:

- Full income tax exemption on statutory income for ten years, or
- ITA of 100% QCE against 100% statutory income for five years.

Biotechnology Industry

Companies undertaking biotechnology activity with approved bionexus status from Malaysian Biotechnology Corporation Sdn Bhd will be eligible for the following incentives:

- Full income tax exemption for ten years from the first year in which the company derives statutory income of ITA of 100% on QCE incurred for a period of five years.
- Concessionary tax rate of 20% on statutory income from qualifying activities for ten years upon expiry of the tax exempt period.
- Accelerated industrial building allowance (over ten years) for buildings used solely purpose of its new business or expansion project.

- Exemption of import duty and sales tax on import of raw materials and machinery.

Research and Development (R&D)

Contract R&D Company

Companies that provide R&D services to third parties are eligible for:

- Full exemption of their statutory income for a period of five years (extendable by five years), or
- ITA of 100% of QCE incurred within a period of ten (extendable by ten years) to be utilised against 70% of statutory income.

R&D Company

The ITA incentive is also available to companies undertaking R&D services for their group and third parties.

In-house R&D

Companies undertaking in-house R&D projects are eligible for ITA at the rate of 50% of QCE incurred within a period of ten years.

Commercialisation of Resource-based R&D Findings

A company that invest for the sole purpose of financing a project on commercialisation of resource-based R&D findings (which is wholly owned by a public research institute or public institute of higher learning in Malaysia) is given a deduction equivalent to the value of that investment.

The subsidiary undertaking the commercialisation of R&D findings is granted 100% tax exemption on statutory income for ten years.

Other Incentives

Shipping

A tax-resident person (including a partnership) carrying on shipping business using Malaysian ships is exempt from tax on income. Effective from year of assessment 2012, this exemption is reduced from 100% to 70% of statutory income and determined on a per ship basis. The balance of 30% of statutory income is deemed to be total income chargeable to tax.

Healthcare Service Providers

A healthcare service provider providing healthcare services to foreign clients (foreign companies, partnership, and citizens) are given income tax exemption equivalent to 100% of the value of increased services to be utilised against 70% of statutory income (year of assessment 2010 to 2014).

Healthcare Facilities

Qualifying private healthcare facilities are eligible for 100% tax exemption on statutory income for five years in respect of the construction of hospitals and expansion and refurbishment of existing ones (applications to be made between 1 January 2010 to 31 December 2014).

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Philippines

At a Glance -- Philippines	
Population	103 million
GDP 2011 Official Exchange rate	$213 billion
GDP 2011 PPP	$395 billion
FDI 2011	$1.3 billion
Inflation 2012	3.20%
Unemployment Rate 2012	7%
Minimum Wage -- monthly	$181
Average monthly manufacturing wage	$212
Corporate tax rate	30%
VAT rate	12%
Budget Surplus (Deficit) as % of GDP 2011	-2.10%
Public Debt as % of GDP 2011	49.4%
Exports 2011	$54.2 billion
Imports 2011	$68.8 billion

Amounts are in U.S. Dollars

Philippines

The Philippines is an archipelago comprising 7,107 islands, situated off the southeastern coast of mainland Asia. It was under Spanish colonial rule for over 300 years until it was ceded to the United States in 1898. The Philippines attained independence from the United States in 1946.

Government and Politics

The Philippines is a democratic republic, adopting a presidential form of Government modelled after that of the United States. National and local elections are regularly held and are generally free and fair. The government has three branches, namely, the Executive, Legislative, and Judicial branches. The president heads the Executive branch. A bicameral Congress comprises the Legislative branch — the Senate (upper house) and the House of Representatives (lower house). The members of the House of Representatives are elected by district and Senators are elected at large. The Judiciary consists of a system of courts headed by the Chief Justice with 14 Associate Justices.

Business Environment

The economic system is open and market-oriented, although pricing mechanisms remain regulated in a few sectors to protect consumers. The Philippines has undergone significant structural reforms in the past decade. Market competitiveness has been enhanced through the dismantling of protectionism and opening to global competition.

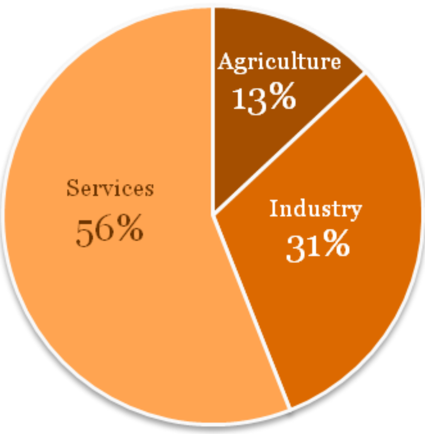
Infrastructure is underdeveloped in many parts of the country, but considered adequate in major metropolitan areas. The government is committed to increasing infrastructure investments.

The Economy

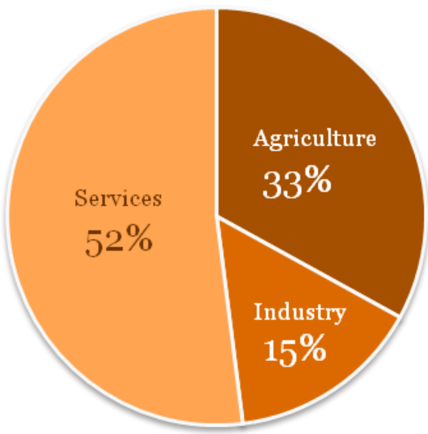
As a newly industrialised country, the Philippine economy has been in transition from one based on agriculture to one based more on services and manufacturing. The Philippines is still an economy with a large agricultural sector; however, services have come to dominate the economy. Much of the industrial sector is based on processing and assembly operations in the manufacturing of electronics and other high-tech components, usually from foreign multinational corporations.

A unique feature of the Philippines compared with its ASEAN counterparts is the nature of its service industry. According to an IBM Global Location Trends Annual Report, as of December 2010 the Philippines has overtaken India as the world leader in business support functions such as shared services and business process outsourcing (BPO). The majority of the top ten BPO firms of the United States operate in the Philippines; BPO sector employment has ballooned to over 700,000 people and is contributing to the growth of the middle class.

GDP Comparison by Sector (%)



Labor force by Occupation (%)



Industrialisation is one of the country's major long-term objectives. A major priority in the country's development plan is to facilitate the development of information and communication technology with a view to establishing the Philippines as a knowledge and software development centre and an e-service hub for Asia.

The workforce is skilled and well educated. English is the official business language and is widely spoken even in the most remote areas of the country.

The country is rich with mineral and geothermal energy resources.

INVESTMENT PROMOTION AND TAX INCENTIVES

Business opportunities

Foreign investors desiring to establish their presence and do business in the Philippines have the option to either put up a wholly-owned subsidiary, a Philippine branch office or a Regional Operating Headquarters (ROHQ). On the other hand, those intending to establish minimal presence in the Philippines may establish either a representative office or a Regional Headquarters (RHQ).

Tax and Other Incentives

The Philippines has various investment laws that provide both fiscal and non-fiscal incentives. Implementing these investment laws are the various incentive-giving agencies such as the Board of Investments, which primarily grants incentives to export enterprises and those engaged in preferred areas of investments. Incentives may likewise be availed by entities operating within special economic zone and free-port zones.

BOARD OF INVESTMENTS (BOI)

The BOI is an agency attached to the Department of Trade and Industry. It is primarily tasked to implement the provisions under the Omnibus Investments Code (Executive Order 226). It is also responsible for the annual preparation of the Investments Priorities Plan (IPP) which identifies the preferred areas of investment.

In the 2012 IPP, the preferred sectors are as follows:

1. Agriculture/Agribusiness and Fishery
2. Creative Industries/Knowledge-Based Services
3. Shipbuilding
4. Mass Housing
5. Iron and Steel
6. Energy
7. Infrastructure
8. Research and Development
9. Green Projects
10. Motor Vehicles
11. Strategic Projects
12. Hospital/Medical Services
13. Disaster Prevention, Mitigation and Recovery Projects.

I. Eligibility

Only Philippine citizens and corporations are allowed to apply for BOI incentives. For a corporation to be qualified as a Philippine National, its outstanding capital stock entitled to vote must be at least sixty-percent owned by Filipinos.

Corporations which are one hundred percent foreign owned are however allowed to qualify for BOI incentives, provided either of the following requisites is met:

1. It will engage in pioneer projects;
2. It will export at least seventy percent of its total production; or
3. It will undertake projects in areas identified by BOI as less-developed areas in the country.

A pioneer project could either be:

1. Engaged in the manufacture, processing or production, and not merely in the assembly or packaging of goods, products, commodities or raw materials that have not been or are not being produced in the Philippines in a commercial sale;
2. Using a design, formula, scheme, method, process or system of production or transformation of any element, substance or raw materials into another raw material or finished goods which is new and untried in the Philippines;
3. Engaged in the pursuit of agricultural, forestry and mining activities and/or services including the industrial aspects of food processing whenever appropriate, pre-determined by the BOI, in consultation with

the appropriate department, to be feasible and highly essential to the attainment of the national goal in relation to a declared specific national food and agricultural program for self-sufficiency and other social benefits of the project;

4. Producing non-conventional fuels or manufacturers of equipment which utilize non-conventional sources of energy or uses or converts to coal or other non-conventional fuels of sources of energy in its production, manufacturing or processing operations.

The final product of any of the foregoing instances must involve substantial use and processing of domestic raw materials, whenever applicable, taking into account the risks and magnitude of investment.

II. Incentives

A. Fiscal Incentives

1. Income Tax Holiday (ITH)

Pioneer enterprises are given six years ITH, extendible to another two years if certain conditions are met. Non-pioneer enterprises are given four years of ITH, extendible to three years if certain conditions are met.

2. Additional Deductions for Labor Expense

For the first five years from registration, a BOI-registered enterprise is allowed an additional deduction for taxable income equivalent to fifty percent of the wages of additional skilled and unskilled workers in the direct labor force, subject to meeting a prescribed labor to capital ratio.

3. Tax and Duty Free Importation

Importations of machinery and equipment and accompanying spare parts of the new and expanding registered enterprises are exempt from tax and custom duties, provided that certain conditions are satisfied such as they are not locally manufactured in the same quality and they will be used exclusively for the registered activity.

Subject to certain conditions, importation of spare parts by export producers operating a customs bonded warehouse and exporting at least seventy percent of their production will be exempt from taxes and duties.

Importation of breeding stocks and genetic materials will be exempt from taxes and duties for the first ten years of operations, provided, that conditions imposed are complied with. If the breeding stocks and genetic materials are locally sourced, they may be entitled to tax credit for the amount of taxes and duties that would have been waived had they been imported.

4. Incentives to Less-Developed Area Registered Enterprise.

Enterprises in less-developed areas may deduct from their taxable income the cost of constructing necessary and major infrastructure and public facilities. Any amount that cannot be deducted fully in the year incurred may be carried forward and offset in a future year up to the tenth year of operations. Title to the infrastructure works, will however, be transferred to Philippine government upon completion.

5. Exemption from Local Business Tax (LBT)

Under the Local Government Code, BOI-registered enterprises are exempt from paying LBT while they are under ITH.

B. Non-Fiscal Incentives

1. Access to the bonded manufacturing/trading warehouse system of registered export-oriented enterprises, which can result in the deferral or elimination of taxes and custom duties.
2. Simplified customs procedures for imports and exports.
3. The generally unrestricted use of consigned equipment.
4. Foreign nationals may generally be employed in supervisory, technical or advisory positions for five years from registration.

SPECIAL ECONOMIC ZONES

The Philippine Economic Zone Authority (PEZA) was created through Special Economic Zone Act of 1995 (Republic Act 7916).

I. Eligibility

A hundred percent foreign-owned subsidiary or a Philippine branch office may be duly registered with PEZA provided the following criteria are satisfied:

1. *The applicant must be engaged in manufacturing, assembly or processing activity or its activity is listed in the IPP.*

The Rules and Regulations implementing the PEZA law (PEZA IRR) have provided definition of what activities manufacturing, assembly or processing activity consist of:

Manufacturing/Processing/Manipulation shall mean the process by which raw or semi-finished materials are converted into a new product through change in their physical, mechanical or electro-magnetic characteristic and/or chemical properties.

Assembly, on the other hand, shall mean the process by which semi-finished parts of materials are put together or combined to form a distinct product without substantially changing its physical or mechanical characteristics or electro-magnetic and/or chemical properties.

Assembly as an activity is subject to evaluation from PEZA's Enterprise Regulations Department. Thus, the registrability of assembly as an activity will vary on a case-to-case basis. However, it has been established that mere assembly or putting together parts is not registrable. There must be at the very least some significant process using machineries and equipment that will be performed in order for an entity to qualify for PEZA registration.

2. *At least seventy percent of its total output will be exported.*

Export has been defined under the PEZA IRR to mean the Philippine port F.O.B value, determined from invoices, bills of lading, inward letters of credit, landing certificates and other commercial documents of export products exported directly by an Ecozone Export or Free Trade Enterprise or the net selling price of the export products sold by an Ecozone Export or Free Trade Enterprise to another export producer or to an export trader that subsequently exports the same; Provided, that sales of export products to another producer or to an export trader shall only be deemed export sales when actually exported by the latter, as evidenced by the landing certificate or similar commercial documents.

Further, without actual exportation, the following shall be considered as constructively exported:

1) Sales to the bonded manufacturing warehouses of export-oriented manufacturers;
2) Sales to registered Ecozone Export or Free Trade Enterprises;
3) Sales to registered export traders operating bonded trading warehouses supplying raw materials used in the manufacture of export products; and
4) Sales to diplomatic missions and other agencies and/or instrumentalities granted tax immunities of locally manufactured, assembled, or repacked products, whether paid for in foreign currency or not.

In sum, an export sale may either be a sale by an Ecozone enterprise to a non-resident foreign customer, or another exporter, provided, the sale will only be deemed as export sale upon actual exportation. On the other hand, to qualify for constructive export, it should either fall under the four scenarios enumerated above.

3. *The business enterprise must operate <u>within</u> an Economic Zone.*

II. Incentives

A. Fiscal Incentives

1. ITH

a. For Pioneer Firms – six years from start of commercial operations.
b. For New registered non-pioneer firms – four years from commercial operations.

c. For Expanding Firms – three years from commercial operation of the expansion.

2. Gross Income Tax (GIT) of five percent

A PEZA-registered entity may be entitled to the five percent GIT in any of the following instances:

1. After the expiration of the ITH;
2. A registered entity is not a newly established enterprise;
3. When provided under PEZA Rules and Regulations and guidelines such as when the firm assumes or continues by transfer or assignment the operations of an existing PEZA registered enterprise.

For purposes of computing the GIT, the PEZA Law provides that direct costs are allowed as deductions from the Gross Income. The following are the allowable deductions from gross income:

a. Direct salaries, wages or labor expenses
b. Production supervision salaries
c. Raw materials used in the manufacture of products
d. Good in process (intermediate goods)
e. Finished goods
f. Supplies and fuels used in production
g. Depreciation of machinery and equipment used in production and buildings owned or constructed by an Ecozone Enterprise
h. Rent and utility charges associated with building, equipment and warehouses, or handling of goods
i. Financing charges associated with fixed assets.

3. Sales to a PEZA-registered enterprise by a Value Added Tax (VAT)-registered enterprise are subject to a zero percent rate of VAT.

4. Exemption from LBT

PEZA-registered entities are exempt from LBT. Please note, however, that there are some Local Government Units (LGU) which impose regulatory fees notwithstanding that the corporation is PEZA-registered. Such fees must be limited to nominal fees which are regulatory in character such as sanitary, garbage, fire, electrical etc. and should not include Local Business Taxes.

5. Exemption from Branch Profit Remittance Tax (BPRT)

PEZA registered entities are expressly exempt from the payment of the BPRT when it remits profits to its head office.

6. Additional Deduction for Training Expenses.

An amount equivalent to one half of the value of training expenses incurred in developing skilled or unskilled labor or for managerial or other management development programs incurred by a PEZA enterprise can be deducted from the national government's share of the three percent (out of the five percent) final tax.

7. Exemption from Duties and Taxes on Merchandise.

Merchandise, raw materials, supplies, articles, equipment, machineries, spare parts and wares of every description brought into the Ecozone are exempt from customs and internal revenue rules and regulations nor to local ordinances subject to the conditions imposed.

B. Non-fiscal incentives

1. Employment of Foreign Nationals.

Foreign nationals may be employed in executive, supervisory, technical and advisory position, provided that the number of foreign nationals shall not exceed five percent of the workforce, except if authorized by DOLE.

2. Repatriation of Investments.
3. Remittance of Earnings.
4. Foreign Loans and Contracts.
5. Freedom from Expropriation.

REGIONAL OPERATING HEADQUARTERS (ROHQ)

I. Qualification

Any foreign business entity, formed, organized and existing under any laws other than those of the Philippines, is allowed to derive income in the Philippines through the establishment of an ROHQ. The ROHQ will perform qualifying services to affiliates, subsidiaries or branches of its head office in the Philippines, in the Asia-Pacific Region and other foreign markets.

The qualifying services an ROHQ is permitted to undertake have been enumerated as follows:

- General administration and planning;
- Business planning and coordination;
- Sourcing/procurement of raw materials and components;
- Corporate finance advisory services;
- Marketing control and sales promotion;
- Training and personnel management;
- Logistics services;
- Research and development services, and product development;
- Technical support and maintenance;
- Data processing and communication; and
- Business Development

ROHQs are allowed to render the above-enumerated qualifying services only to the affiliates, branches, or subsidiaries of its head office, as declared in its registration documents. ROHQs are also not allowed to directly and indirectly solicit or market goods and services whether on behalf of its head office, or branches, affiliates and subsidiaries of its head office or any other company.

I. Incentives

A. Fiscal Incentives

1. Preferential income tax rate of ten percent.

Any income derived by the ROHQ from Philippine sources, however, when remitted to the foreign head office shall be subject to the fifteen percent BPRT.

2. Exemption from all kinds of local taxes, fees, or charges imposed by a LGU, except real property tax on land improvements and equipment.

However, some LGUs continue to insist in collecting nominal administrative fees to defray inspection and certification costs.

3. Tax and duty-free importation of equipment and materials for training and conferences which are needed and used solely for their functions as ROHQ and which are not locally available subject to the prior approval of the Philippine Board of Investments (BOI). Importations of new motor vehicles are subject to the payment of corresponding duties and taxes.

4. Expatriates and certain personnel of ROHQs are entitled to the preferential withholding tax of fifteen percent on compensation.

B. Non-fiscal incentives

1. Issuance of the multiple entity special visa to foreign personnel of ROHQs, their respective spouses and unmarried children under twenty-one years of age, if accompanying them after their admission into the Philippines as non-immigrants within seventy-two hours upon submission of all required documents.
2. Tax and duty free importation of personal and household effects and travel tax exemption of the expatriate and certain personnel of ROHQs.

Registration and reporting requirements

The following are the general registration and reporting requirements in the Philippines:

1. Audited Financial Statements
2. General Information Sheet

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Additional information on Philippines that can be found on our website pwc.com.ph

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Singapore

At a Glance – Singapore	
Population	5.4 million
GDP 2011 Official Exchange rate	$259 billion
GDP 2011 PPP	$319 billion
FDI 2011	$64 billion
Inflation 2012	5.30%
Unemployment Rate 2012	2.1%
Minimum Wage	None
Average monthly manufacturing wage	$1639
Corporate tax rate	17%
VAT rate	GST: 7%
Budget Surplus (Deficit) as % of GDP 2011	-1.20%
Public Debt as % of GDP 2011	118.2%
Exports 2011	$409.2 billion
Imports 2011	$310.1 billion

Amounts are in U.S. Dollars

Singapore

Singapore has a land area of about 710 square kilometres, making it one of the smallest countries in the world and the smallest in SEA. It is often referred to as a 'city-state'. Although small in size, Singapore commands an enormous presence in the world today with its free-trade economy and highly educated workforce.

Singapore is in a league of its own when compared to its fellow ASEAN nations. While the other ASEAN countries can be described as either underdeveloped, recently developed or developing, Singapore has long been a leading global economic powerhouse.

Government and Politics

Officially named the Republic of Singapore, the country has exhibited rapid growth due to a stable and competent ruling government. Singapore is a republic, with a parliamentary system of government and an elected President as the Head of State. The political system is centred on democracy. The Singapore Parliament has a single house, the members of which are elected by general election every five years. The People's Action Party (PAP) dominates Singapore's political scene and has held power since 1959, winning 13 successive general elections.

Singapore is ranked first in Asia for having the least corruption in its economy and also as the most transparent country in Asia.

Business Environment

Singapore offers a globally connected and pro-business environment with a strong and stable infrastructure to boost and sustain growth and success in many industries. In addition, the comprehensive suite of world-class services, capabilities and talent help businesses thrive in today's competitive market.

The World Bank ranks Singapore as the world's easiest place to do business. Singapore is also ranked as having the best business environment in Asia Pacific and worldwide.

The multicultural Singaporean workforce is highly educated, motivated and efficient. It is also proficient in English. To enhance Singapore's talent pool, the government has adopted an open immigration policy.

Singapore has a well-established and robust legal system. Companies can rely on protection of their ideas and innovations through Singapore's rigorous enforcement of its strong intellectual property laws.

Singapore has built on its advantageous geographical location to become one of the world's top transportation hubs for sea and air cargo. Singapore's container ports are the busiest in the world. They offer a choice of 200 shipping lines with links to some 600 ports in 123 countries. Changi International Airport is linked to some 200 cities in 60 countries, with about 5,400 weekly flights, providing convenience and effective connectivity for passengers and cargo.

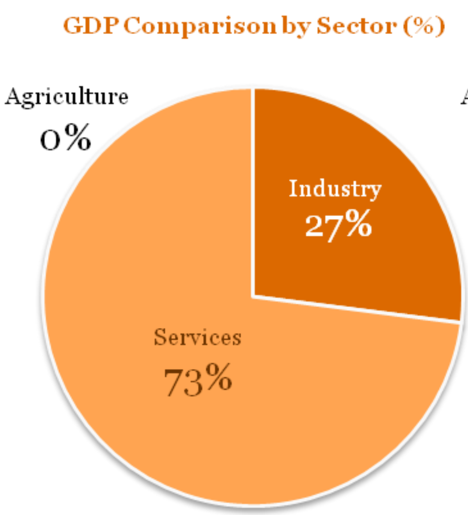
Singapore is a leading provider of services such as international banking, trade and maritime finance, international logistics, insurance, treasury management, professional services, and asset and wealth management within the region. Companies based in Singapore can tap the diverse capital markets and cutting-edge financial services from more than 500 local and foreign financial institutions.

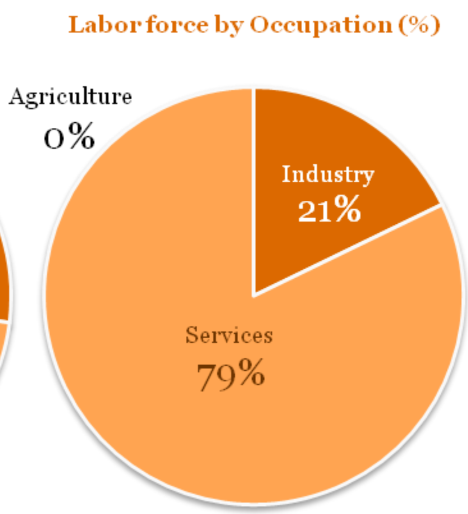
A possible downside to Singapore's highly developed business climate and world-class infrastructure is that its wage scales, cost of living and cost of doing business are considerably higher than those of its ASEAN counterparts.

The Economy

Singapore's dependence on external markets and suppliers has pushed it towards economic openness, free trade and free markets. The economy depends heavily on exports, particularly in consumer electronics, information technology products, pharmaceuticals, and on a growing financial services sector.

Singapore has traditionally had an economy with strong service and manufacturing sectors. The manufacturing sector contributes approximately 25% to Singapore's GDP annually. The major industries include electronics, pharmaceuticals, chemicals, construction, and ship-building. The services sector accounts for the balance, with key industries being wholesale and retail, financial and business services. Other emerging industries that are making significant contributions to Singapore's economy include casinos, health care, education, communications and media. In recent years, the government has focused on developing the services sector, raising productivity and encouraging research and development activities.





Singapore is an important hub for the South East Asian region. Over one- third of all Fortune 500 corporations have substantial headquarters activities in Singapore. Emerging Asian MNCs are also starting to use Singapore as a base for their global expansion.

INVESTMENT PROMOTION AND TAX INCENTIVES

Singapore has a fairly comprehensive incentive regime.

Incentives are designed to encourage foreign companies to undertake various activities such as high value manufacturing, research and development, global trading, finance and treasury management in Singapore.

All incentives listed are currently available; however the government has a specified timeframe for review of each incentive. Companies interested in any of these incentives can approach the contact persons listed at the end of this chapter to confirm that they are still available.

Tax Incentives

Type of incentive	Benefits	Requirements
Concessionary tax rates		
Pioneer incentive (manufacturing or services)	Tax exemption for qualifying income for up to 15 years.	Manufacturing - Targeted at manufacturing activities for global markets. Services - Targeted at companies which do not conduct manufacturing activities. Requires creation of new industries or strategic expansion of identified industries in Singapore. This is a customized incentive, whose duration is commensurate with the Company's commitment levels (e.g. local business spending, investments, employment, value-added functions).
Development and Expansion Incentive (DEI)	5% to 15% on incremental qualifying income for up to 10 years (renewable up to a maximum total period of 20 years)	Targeted at companies which generate significant economic spin-offs for Singapore. This is a customized incentive based on the Company's commitment levels (e.g. local business spending, investments, employment, value-added functions).

Type of incentive	Benefits	Requirements
Headquarters Programme		Targeted at companies which conduct headquarter(HQ)-type functions in Singapore General requirements: - Well-established in the industry, attained critical size (equity, assets, employees, business share, etc). - Nerve centre of organisation reporting structure at senior management levels. - Clear-cut management and control over its principal activities. - Substantial level of HQ activities in Singapore. - Personnel for HQ operations are based in Singapore.
- Regional Headquarters Award (RHQ)	15% tax on incremental qualifying income for 3 years with provision for extension for an additional 2 years.	Minimum requirements of the Company: - Increase its paid-up capital to at least S$0.2 million and S$0.5 million at the end of year 1 and year 3 of the incentive period respectively; - Perform a minimum of 3 qualifying headquarters services to network entities in 3 countries outside Singapore by the end of year 1 of the incentive period; - Employ at least 75% skilled staff throughout the incentive period; - Employ at least 10 additional professionals based in Singapore by the end of year 3 of the incentive period; - Incur an average remuneration per worker of $100,000 per annum for the top 5 executive designations by the end of year 3 of the incentive period; - Incur at least an additional S$2 million in annual business spending in Singapore by the end of year 3 of the incentive period; and - Incur at least an additional S$3 million in business spending cumulatively for the entire incentive period.

Type of incentive	Benefits	Requirements
- International Headquarters Award (IHQ)	5% to 15% on incremental qualifying income for up to 10 years (renewable up to a maximum total period of 20 years)	This is a customized incentive based on the Company's commitment levels (e.g. local business spending, investments, employment, value-added functions). Companies are expected to substantially exceed the minimum criteria for the RHQ Award.
Global Trader Programme (GTP)	Tax rates of 5% or 10% on qualifying income for a period of 3 or 5 years (renewable)	Targeted at companies carrying on the business of international trading of qualifying commodities and products. To qualify, the applicant must: - use Singapore as nerve centre for principal offshore trading activities in the region and for business activities and support functions; - be established with worldwide networks and good track records; conduct substantial offshore physical trading on a principal basis - incur significant amounts of business spending in Singapore; - employ a number of experienced trading professionals in Singapore; - contribute to manpower training and development of trading expertise in Singapore - make significant use of Singapore's banking, financial and other business services; and - support and make use of Singapore's trade infrastructure.
MSI-Shipping Enterprise (Singapore Registry of Ships) (MSI-SRS)	• Tax exemption for qualifying income from the following activities: - International operation and chartering of ships / rigs - Provision of qualifying in-house ship management services to related qualifying special purpose vehicles (SPVs)	Company must be an owner or operator of ships / rigs registered with the Singapore Registry of Ships.

Type of incentive	Benefits	Requirements
	- Foreign exchange and risk management - activities incidental to the operation of ships / rigs • Withholding tax exemption for qualifying payments made in respect of qualifying foreign loans to lenders outside Singapore. • The tax benefits are available as long as the ship/rig remains Singapore-flagged.	
Foreign-flagged ships	Tax exemption on freight uplift from Singapore.	
Maritime Sector Incentive - Approved International Shipping Enterprise (MSI-AIS)	• Tax exemption for 5 or 10 years (with further extension up to a total period of 30 years) on qualifying income from the following activities: - International operation and chartering of foreign ships / rigs - Provision of qualifying in-house ship management services to related qualifying special purpose vehicles (SPVs) - Foreign exchange and risk management activities incidental to the operation of ships / rigs • Withholding tax exemption for qualifying payments made in respect of qualifying foreign loans to lenders outside Singapore	Targeted at Singapore-resident companies which own or operate foreign ships/rigs and carry on their shipping business from a base in Singapore. To qualify, the applicant must: - be a substantial operator of a fleet of ships or rigs - have worldwide networks and good track records - control its shipping operations from Singapore. - incur significant local - business spending - employ a team of professionals to control and manage the fleet of ships or rigs An incentive providing tax benefits similar to the above MSI-AIS scheme may also be granted to qualifying new entry players to the maritime industry, subject to approval. This award is targeted at new entry players who do not currently qualify for the MSI-AIS scheme due to the size of their operations.

Type of incentive	Benefits	Requirements
Maritime Sector Incentive – Maritime Leasing (Ship) Award [MSI-ML(Ship)]	• Tax exemption for qualifying income of the Approved Shipping Investment Enterprises (ASIEs), which includes the following: - Ship leasing income - Foreign dividend income or share of profits from approved special purpose vehicles (ASPVs) that are distributed from qualifying leasing activities • Disposal of vessels on condition that companies deriving the sale must be in the ship operating business • 10% tax on the qualifying fee income (from controlling and managing vessels in Singapore) for an Approved Ship Investment Manager (ASIM) • Withholding tax exemption for qualifying payments made in respect of qualifying foreign loans to lenders outside Singapore • Approved applicants will enjoy the above tax benefits for 5 years	Targeted at ASIEs, which are Singapore incorporated/registered ship leasing companies, shipping funds, shipping business trusts or partnerships that source for public or private funding to provide financing for ships and rigs. The group must incur substantial local business spending and employ a team of professionals.
Maritime Sector Incentive – Maritime Leasing (Container) Award [MSI-ML(Container)]	• 5% or 10% tax on qualifying income of the Approved Container Investment Enterprises (ACIEs), which includes the following: - Income from leasing sea containers to onshore and offshore lessees - Dividend income or share of profits from foreign MSI-ASPVs that are distributed out of	Targeted at ACIEs, which are Singapore incorporated/registered container leasing companies, business trusts or partnerships The group must incur substantial local business spending and employ a team of professionals.

Type of incentive	Benefits	Requirements
	- qualifying container leasing activities • 10% tax on qualifying fee income of the Approved Container Investment Manager (ACIM) from management of and services provided to ACIEs Approved applicants will enjoy the above tax benefits for 5 years	
Maritime Sector Incentive – Supporting Shipping Services (MSI-SSS) Scheme	Tax rate of 10% for 5 years on the incremental income derived from the provision of the following qualifying approved shipping-related support services: - Ship broking - Freight Forward Agreement(FFA) Trading - Ship management - Ship agency - Freight forwarding and logistics - Corporate services rendered to qualifying approved related parties who carry on the business of shipping-related activities	Targeted at supporting shipping service providers. The Company must demonstrate that it has a concrete business plan which commits to embark on an expansionary programme from Singapore. The Company should generate incremental business spending in Singapore.
Finance and Treasury Centre (FTC) incentive	• Tax rate of 5% or 10% for 5 or 10 years (with possible extension) on qualifying income. Qualifying income includes: - fee income received from related companies, offices and associates outside Singapore (approved network companies) for the provision of qualifying services. - Interest, dividends and gains earned from qualifying activities.	Targeted at companies which use Singapore as a base for conducting treasury management activities for related companies in the region. To qualify, the applicant must: - incur significant local business spending - employ a team of professional staff. The Central Treasury should have its own management staff and skilled personnel in Singapore to provide such services; - provide qualifying FTC services to approved network companies.

Type of incentive	Benefits	Requirements
	• Withholding tax exemption on interest payments on qualifying borrowings from overseas financial institutions and approved network companies.	
Financial Sector Incentive (FSI) Scheme - Standard-tier Awards (FSI-ST)	12% tax for 5 years (can be up to 10 years depending on the size and activities) on income derived from qualifying activities such as the following: - Lending and related activities - Debt capital markets - Equity capital markets - Treasury - Fund management, trust administration custodian and other advisory activities - Headquarter services	The applicant must employ a specified number of team of professional staff to perform the relevant qualifying activities in Singapore.
- Enhanced-tier Awards i) Debt Capital Market (FSI-DCM) ii) Derivatives Market (FSI-DM) iii) Equity Market (FSI-EM)	5% tax for 5 to 10 years on income derived from qualifying activities.	
iv) Islamic Finance (FSI-IF)	- 5% tax on qualifying income for 5 years.	

Type of incentive	Benefits	Requirements
Funds managed by a fund manager in Singapore	• Tax exemption on qualifying income derived by: - a trust fund administered by a Singapore-resident trustee and substantially owned by foreign investors - investors in a qualifying fund who are individuals, non-resident non-individual investors with no permanent establishment in Singapore or any investor that beneficially owns not more than a specified percentage of the value of the fund - a Singapore incorporated and resident company and investors in that fund who are individuals, non-resident non-individual investors with no permanent establishment in Singapore or any investor that beneficially owns not more than a specified percentage of the value of the fund - a fund that is a company, trust or limited partnership • Withholding tax exemption/remission on interest payments to non-resident counterparties.	Funds must be managed by a licensed fund manager in Singapore The fund must be an account of an individual who is not a citizen or resident of Singapore, or a non-resident company/trust not wholly owned by investors in Singapore and which does not have a permanent establishment or carry on business in Singapore. The fund must incur expenses of at least $200,000 in each financial year, employ a specified number of qualified professionals and use a Singapore-based fund administrator if it is a Singapore company. The fund must have a minimum fund size of S$50 million at the time of application.
Approved Royalty Incentive (ARI)	Exemption or reduction of withholding tax on royalties or technical assistance fees payable to non-residents	Technology or know-how transferred must be more advanced than the prevailing industry average.
Approved Foreign Loan Incentive (AFL)	Exemption or reduction of withholding tax on interest payable to non-residents	Loan must be obtained for the purchase of productive equipment

Type of incentive	Benefits	Requirements
Offshore Leasing	10% tax on qualifying leasing income	Targeted at companies which engage in offshore leasing of machinery or plant
Aircraft Leasing Scheme (ALS)	• 5% or 10% tax for 5 years on income from: - onshore or offshore leasing of aircraft and aircraft engines - income from prescribed ancillary activities • Withholding tax exemption on interest and qualifying payments for foreign loans obtained to finance the purchase of aircraft or aircraft engines may be available. • Option to depreciate the aircraft over any number of years from 5 to 20 years.	Registered business trust or approved aircraft leasing company that is a bona fide player with a regional or worldwide network that uses Singapore as an operations base for leasing and lease management activities. Applicant must incur significant local business spending and employ a number of professionals.
Deductions		
Land Intensification Allowance (LIA) incentive	Deduction over 15 years on qualifying capital expenditure incurred on the construction of qualifying building structures in specified zones.	Targeted at intensifying land use by identified industry sectors which have large land takes and low Gross Plot Ratios
Investment allowance	Further deduction for an approved percentage not exceeding 100% of capital expenditure incurred on qualifying assets.	Targeted at companies engaged in qualifying activities where the asset contributes to greater efficiency or introduces new technology to the industry.
Writing down allowances on acquisition of IP	Qualifying capital expenditure may be written down over 5 years	Writing down allowances are automatically granted if the Company has both legal and economic ownership of the intellectual property acquired (application and approval is needed if the Company has only economic ownership of IP)

Type of incentive	Benefits	Requirements
Productivity and Innovation Credit (PIC) scheme	400% deduction for the first S$400,000 of qualifying expenditure on each of the 6 qualifying activities for each year of assessment.	The PIC scheme covers the following 6 activities: - Acquisition or leasing of PIC automation equipment - External training and certain accredited in-house training of employees - Acquisition of Intellectual Property Rights (IPRs) - Registration of patents, trademarks, designs and plant varieties - Qualifying R&D activities - Investment in approved design projects
Deduction for expenditure on research and development	Provides a deduction for research and development expenditure incurred by a qualifying company. This research activity may be undertaken by the company or, by a research and development organisation on its behalf. In addition to the 400% deduction for the first S$400,000 of qualifying expenditure under the PIC scheme (above), 150% deduction for the excess qualifying R&D expenditure for R&D done in Singapore. 100% deduction for all other qualifying R&D expenses. Further deduction of up to 100% of qualifying expenditure may be available for approved projects, subject to application and approval.	Where the research activity is undertaken by a research and development organisation on behalf of the company, the company can claim a deduction provided that any benefit which may arise from the research and development activity shall accrue to the company.
Relocation/ recruitment of overseas talent expenses	Further deduction of 100% of specified recruitment and relocation costs, subject to a cap	

Type of incentive	Benefits	Requirements
Expenses relating to approved trade fairs, exhibitions, trade missions, marketing projects or maintenance of overseas trade office	Further deduction of 100% of qualifying expenses, subject to a cap	The company undertakes qualifying activities such as: - Overseas business development trips/missions - Overseas investment study trips/missions - Overseas trade fairs - Approved local trade fairs

Other incentives

Tax incentives are also available for debt securities, offshore insurance and reinsurance, trusts, Islamic financing arrangements, sovereign wealth funds, infrastructure project finance, not-for-profit organisations, international arbitration, cyber traders, and international legal services.

Non-tax incentives

Type of incentive	Benefits	Requirements
Initiatives in New Technology (INTECH)	Co-funding to support the manpower development in the application of new technologies, industrial R&D and professional know-how	Singapore-registered business entities introducing or developing new capabilities
Research Incentive Scheme for Companies (RISC)	Co-funding to support the set-up of R&D centres, and/or the development of in-house R&D capabilities in strategic areas of technology. Supportable project costs include expenditure in the following: - Manpower - Equipment and Materials - Professional Services - IPRs	Singapore-registered business entities undertaking R&D activities

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Thailand

At a Glance -- Thailand	
Population	64.6 million
GDP 2011 Official Exchange rate	$346 billion
GDP 2011 PPP	$610 billion
FDI 2011	$9.6 billion
Inflation 2012	2.70%
Unemployment Rate 2012	0.70%
Minimum Wage -- daily	$9.52
Average monthly manufacturing wage	$263
Corporate tax rate	23% (20% 2013)
VAT rate	7%
Budget Surplus (Deficit) as % of GDP 2011	-1.20%
Public Debt as % of GDP 2011	40.50%
Exports 2011	$244.4 billion
Imports 2011	$214.6 billion

Amounts are in U.S. Dollars

Thailand

Thailand, known as the ‘Land of Smiles’, has not had a lot to smile about in the past few years. In 2011 there was the ‘Hundred Year Flood’ that devastated much of the country. In 2010 it was the violent political protests in Bangkok. Yet through it all, the resiliency of the Thai people and the economy has persisted.

Thailand is the only country in SEA that was never colonised or ruled by a European or other foreign power. Thais take great pride in this fact and it tells a great deal about their views and attitude.

Government and Politics

The Kingdom Thailand, as it is officially named, is a constitutional monarchy under which the King is the head of state and an elected prime minister is the head of government. King Bhumibol (Rama IX) is the longest reigning monarch in the world, having ruled since 1946. What sets Thailand apart from other countries with a monarchy is that the King is not merely a figurehead. King Bhumibol has significant powers over the legislative process and laws. But, more important, the King is revered and held in the highest possible esteem by all Thais, regardless of their political affiliation.

Thailand’s civil politics have long been volatile, with over a dozen coups in the last 80 years. Unprecedented was the occupation of a section of central Bangkok by the ‘Red Shirts’ in the spring of 2010 and the bloody aftermath of their dispersal by the government. Two years previously their rivals, the ‘Yellow Shirts’ closed both of Bangkok’s international airports for a week in a mainly non-violent protest. There is now an uneasy truce between the two political factions, as both sides realize that their past actions were detrimental to Thailand’s image.

An important point to note is that, despite the political differences, both sides have always agreed on the importance of continuing economic growth and attracting foreign investment.

Business Environment

Thailand’s infrastructure is considered one of the best in SEA after Singapore and Malaysia. Thailand has a well developed highway network, a number of state-of-the-art seaports and an efficient modern telecommunications and Internet system. The new international airport in Bangkok (Suvarnabhumi) is only six years old. The government is committed to increasing infrastructure development and a five-year spending plan on infrastructure of over USD700 million has been approved. The projects include new inter-city road links, urban mass transit systems, port expansion, a new high-speed rail network (running between Thailand and China) and expansion of Suvarnabhumi airport.

The floods of late 2011 had a dramatic effect on the Thai economy, closing down hundreds of plants. The human cost was equally catastrophic, with over 1 million Thais having their homes destroyed by the floods. Though it is acknowledged that this was truly a ‘hundred year’ flood, the government is committed to significant flood prevention measures both short- and long-term. In the short term, all major industrial estates will have new and higher flood walls surrounding them. In the longer term, new dams, reservoirs and drainage canals will be built.

In order to increase the competitiveness of Thailand, the government has reduced the corporate income tax rate from the historical 30% to 23% in 2012 and 20% in 2014/15 (it is expected that the 20% rate will be made permanent thereafter, but this has not yet been enacted). Thus, Thailand has the second lowest corporate tax rate in ASAEN, just slightly above Singapore's.

The Economy

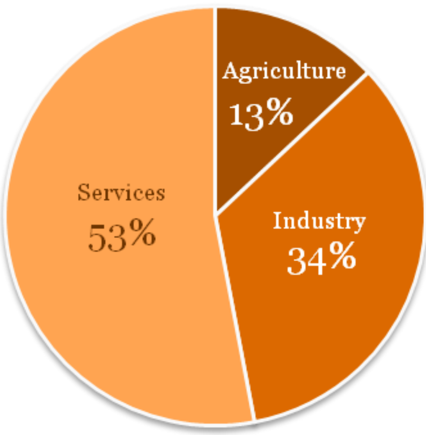
Thailand has long been a manufacturing and export hub. Exports have historically been the most significant driver of GDP. Major manufacturing industries are automobile (Thailand has been called the 'Detroit of the East'), related auto components, electronics, and textiles. Other major exports are agricultural commodities and seafood. Tourism and related services are also significant components of the economy.

Though manufacturing for export will remain as the largest component of the economy for the immediate future, the shift to a more consumer-driven economy has been under way for a number of years and is accelerating. An ever growing middle class is helping drive the economy. Recent populist measures by the government—such as a first-time home-buyer scheme, a first-time car-buyer scheme, a raise in the minimum wage, and increases in government salaries for all existing government workers with university degrees—have helped fuel the consumerism of the middle class. The two favourite pastimes of Thais are: first, eating, and second, shopping. Thai people love anything Western, from fast food to clothing and luxury products. Expanded consumer credit via credit cards and personal loans are increasing Thais' purchasing power. The retail sector is growing significantly with a new high-end mall seemingly opening every six months in Bangkok.

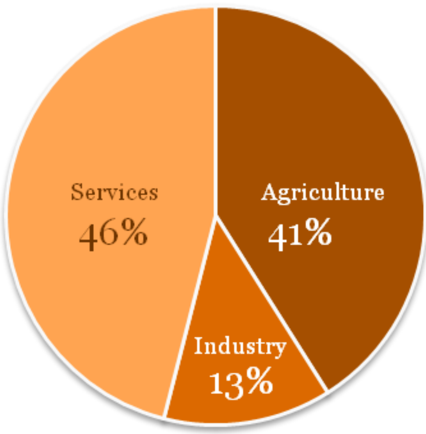
The most prized possession of most Thai teens and young adults is their smart phone. (Bangkok is reported to have the most facebook account holders of any metropolitan area worldwide.) These consumers of the future are increasingly sophisticated and are embracing e-commerce.

Though still significant, the agricultural sector has been a shrinking portion of the overall economy, with more modern farming techniques freeing many young Thais to seek higher wages in the industrial and service sectors. Although the unemployment rate has been very low for a number of years, new factories have been able to lure workers from the agricultural sector. This trend is expected to continue.

GDP Comparison by Sector (%)



Labor force by Occupation (%)



INVESTMENT PROMOTION AND TAX INCENTIVES

Business opportunities

The government of Thailand actively encourages both domestic and foreign investments, which are considered important and beneficial to the economic and social development of the country; particularly those activities that involve production for export, or strengthen the country's industrial and technological capability. Particular emphasis is placed on 'green'/environmental activities, R&D and new technologies. Merely increasing employment is no longer a critical factor because of Thailand's low unemployment rate.

To support and encourage investment, the government offers investors privileges in various forms including exemptions from or reductions in taxes and duties, permissions, guarantees and protection measures. The main laws governing the promotion of investment are the Investment Promotion Act of 1977 and the Industrial Estates Authority of Thailand Act of 1979. The government agencies responsible for administering these laws are the Board of Investment (BOI) and the Industrial Estates Authority of Thailand (IEAT) respectively.

Incentives of the BOI

Under the Investment Promotion Act, the BOI is empowered to designate business activities eligible for promotion and to grant incentives to qualified investments.

Promoted investors

To be entitled to investment incentives from the BOI, the investor must be a limited company, foundation or cooperative organised under Thai law.

The investment incentives are available to a joint venture company established under Thai law, partly or wholly owned by foreign investors. In determining the level of incentives to be granted to a joint venture company, the BOI will consider the following criteria:

(a) For investment projects in agriculture, animal husbandry, fishery, mineral exploration and mining, and certain types of service that are listed under the Annex 1 attached to the Foreign Business Act 1999, foreign investors are entitled to own not more than 49% of the registered capital.

(b) For manufacturing projects, foreign investors are allowed to hold a majority or the whole of the shares of promoted entities.

(c) The BOI is empowered to specify the shareholding of foreign investors in certain promoted activities if it is deemed appropriate.

Business activities eligible for investment promotion

(a) Agriculture and agricultural products
(b) Minerals, ceramics and basic metals
(c) Light industry
(d) Metal products, machinery and transport equipment
(e) Electronics industry and electrical appliances
(f) Chemical products, paper and plastics
(g) Services and public utilities

Priority activities

The BOI has designated projects in five major areas to be priority activities for promotion, including agriculture and agricultural products; direct involvement in technological and human resource development; public utilities and infrastructure; environmental protection and conservation; and targeted industries. Specific areas currently deemed to be activities of special importance and benefit to the country include the manufacturing of alcohol or fuel from agricultural products; pharmaceutical or medical devices; energy-saving machinery or equipment; solar cells; primary and secondary metal industries; the manufacture or repair of aircraft; electronic design; software; electricity production or steam energy; research and development; design centres; scientific laboratories; calibration services; human resource development; energy service companies etc.

These types of projects will be entitled to the following privileges:

(a) corporate income tax exemption for eight years
(b) exemption from import duty on machinery regardless of location
(c) other privileges according to the project location

Incentives

BOI promotional status carries various incentives and privileges, which vary with project location and priority activities. There are both tax and non-tax incentives as well as various guarantees and protection measures.

Tax incentives

In general, the tax incentives that the BOI can grant to promoted investments are as follows:

(a) exemption from or reduction of import duty on imported machinery

(b) exemption from import duty on imported raw and essential materials used in the manufacturing of products for export

(c) exemption from corporate income tax for a period from three to eight years, with permission to carry forward net losses and deduct them as expenses for up to five years after the expiry of the exemption period. However, except for activities of special importance and benefit to the country, the amount of corporate income tax to be exempted may not be higher than the total cost of investment, excluding the cost of land and working capital

(d) to exclude dividends derived from promoted enterprises from taxable income during the period of exemption from corporate income tax

(e) reduction of 50% of corporate income tax for five years after the tax holiday period, and

(f) special deductions for certain expenses, e.g., double deduction for transportation, electricity and water costs and an additional 25% deduction for the cost of infrastructure installation or construction.

Please see the details of tax incentives granted to each zone in the table below.

Non-tax incentives

The following incentives are provided for promoted investments regardless of location:

(a) permission to bring in foreign nationals to undertake investment feasibility studies

(b) permission to bring in foreign technicians and experts to work on promoted projects

(c) permission to own land to carry out promoted activities, and

(d) permission to take out or remit foreign currency abroad.

Guarantees

(a) Against nationalisation.

(b) Against competition from new state enterprises.

(c) Against state monopolization of the sale of products similar to those produced by the promoted project

(d) Against price controls.

(e) Against duty exemption imports by government agencies or state enterprises.

(f) For permission to export goods or commodities under the promoted activities.

Protection measures

(a) Imposition of a surcharge on imports at a rate not exceeding 50% of the CIF value for a period not more than one year at a time.

(b) Import ban on competitive products.

(c) Authority of the Chairman of the BOI to order helpful actions or tax relief measures for the benefit of promoted projects.

Promotion zones

The investment promotion areas are divided into three zones, as follows:

Zone 1: covers Bangkok, Samut Prakan, Samut Sakhon, Pathum Thani, Nontaburi and Nakhon Pathom.

Zone 2: covers Samut Songkhram, Ratchaburi, Kanchanaburi, Suphanburi, Angthong, Ayutthaya, Saraburi, Nakhon Nayok, Chachoengsao, Chonburi, Rayong and Phuket.

Zone 3: covers the remaining provinces which are designated as Investment Promotion Zones, as follows:

Area 1: Chainat, Chantaburi, Chiang Mai, Chiang Rai, Chumphon, Kamphaeng Phet, Khon Kaen, Krabi, Lamphang, Lamphun, Loei, Lop Buri, Mae Hong Son, Mukdahan, Nakhon Ratchasima, Nakhon Sawan, Nakhon Si Thammarat, Phang-nga, Phattalung, Phetchabun, Phetchaburi, Phitsanulok, Pichit, Prachin Buri, Prachuab Khirikhan, Ranong, Sakaew, Sing Buri, Songkhla, Sukhothai, Surat Thani, Tak, Trang, Trat, Uthai Thani and Uttaradit.

Area 2: Amnatcharoen, Bung Kan, Buri Ram, Chaiyaphum, Kalasin, Maha Sarakam, Nakhon Phanom, Nan, Narathiwas, Nong Bua Lamphu, Nong Khai, Pattani, Phayao, Phrae, Roi Et, Sakhon Nakhon, Satun, Sri Sa Ket, Ubon Ratchatani, Udon Thani, Surin, Yasothon and Yala

Application procedures

An investor must submit an application for promotion to the BOI, who will then consider and determine whether to approve the proposed project. After the project has been approved, the BOI will issue a promotion certificate to the promoted investor who must comply with the conditions laid down in the certificate. Generally, it should take from 40 to 90 working days from submission of the application to receive the promotion certificate from the BOI.

It is possible for a new investor to submit the application before establishing an entity under Thai law. After the proposed project has been approved, the new investor has a period of six months in which to incorporate the entity and obtain the promotion certificate.

Summary of incentives for each zone

Zone 1	Zone 2	Zone 3
1. Fifty percent import duty reduction on machinery that is subject to import duty greater than or equal to 10%.	1. For projects located in industrial estates or promoted industrial zones, exemption from import duty on machinery. For projects outside industrial estates or promoted industrial zones, 50% import duty reduction on machinery that is subject to import duty greater than or equal to 10%.	1. Exemption from import duty on machinery.
2. Corporate income tax exemption for three years for projects that locate their factories in industrial estates or promoted industrial zones.	2. Corporate income tax exemption for three years, extendible up to seven years, for projects that locate their factories in industrial estates or promoted industrial zones.	2. Corporate income tax exemption for eight years. If a project has a capital investment of Baht 10 million or more (excluding cost of land and working capital), a promoted person must obtain ISO 9000 or similar international standard certification within two years from its start-up date, otherwise the corporate income tax exemption will be reduced by one year.
3. Exemption from import duty on raw or essential materials used in the manufacture of products for export for a period of one year.	3. Exemption from import duty on raw or essential materials used in the manufacture of products for export for a period of one year.	3. Exemption from import duty on raw or essential materials used in the manufacture of products for export for a period of five years.

Zone 1	Zone 2	Zone 3
		4. Special privileges may be granted as follows: **Area 1** Projects in industrial estates: Reduction of corporate income tax by 50 percent for five years after the exemption period. (i) Double deduction of water, electricity and transport costs for ten years from the date on which income is first derived. (i) Deduction of the costs of installation or construction of the project's infrastructure facilities. Projects outside industrial estates Deduction of the costs of installation or construction of the project's infrastructure facilities. **Area 2** (i) Reduction of corporate income tax by 50 percent for five years after the exemption period;

Zone 1	Zone 2	Zone 3
		(ii) Double deduction of water, electricity and transport costs for ten years from the date on which income is first derived; (iii) Deduction of the costs of installation or construction of the project's infrastructure facilities.

Projects located in the Laem Chabang Industrial Estate or in industrial estates or promoted industrial zones in Rayong Province will be granted privileges under the criteria of Zone 3. Currently, industrial estates and promoted industrial zones in Rayong Province and Laem Chabang Industrial Estate are designated as an Investment Promotion Zone until 31 December 2014.

BOI incentives for supporting activities

Trade and Investment Support Office (TISO)

A promoted person under this activity will be granted only non-tax incentives. In order to obtain the investment promotion, the following conditions must be met:

(a) An investment and trade office must have received permission to operate the business from the relevant government authority.
(b) The annual operating expenses of the proposed project must not be less than Baht 10 million.
(c) The scope of the business must include (i) monitoring and/or servicing of affiliated companies, (ii) giving advice on business operations, (iii) provision of information on the purchase or supply of goods (which is not regarded as an agency business), (iv) engineering and technical services, except those related to architecture and civil engineering, (v) testing and certifying standards of products, production and services that do not otherwise qualify for investment promotion, (vi) export trading, (vii) business activities related to machinery, engines, tools, equipment (i.e. import for wholesaling, training services, installation, maintenance, repair and calibration which do not qualify for investment promotion), (viii) software design and development that does not qualify for investment promotion and (ix) wholesale of products manufactured in the country.

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IEAT

Investors may receive incentives from IEAT if the investment projects are located in certain industrial estates. The IEAT is a government agency responsible for the planning, development, and management of industrial estates throughout the country in accordance with the Industrial Estate Authority of Thailand Act.

Industrial estates can be classified into three categories:

(a) Industrial estates solely owned and managed by IEAT;
(b) Industrial estates jointly managed between IEAT and private developers; and
(c) Industrial estates wholly owned and managed by private developers.

Only industrial projects located categories (a) and (b) are eligible for IEAT incentives.

Industrial estates are divided into the following zones:

(a) General Industrial Zone (GIZ)

This area is designated for the location of both light and heavy industries where infrastructure facilities are available.

(b) IEAT Free Zone

This area is designated for the operation of industrial and commercial activities, or other businesses relating thereto, for the purpose of economics, national security, public well-being, environmental management or other necessities as prescribed by the Board, whereby the goods taken into the area are entitled to additional rights and privileges of tax and duty.

Incentives

Non-tax incentives

The incentives are basically provided to industries situated in both the general industrial and IEAT Free Zone including:

(i) Permission to own land to carry on business in IEAT area.
(ii) Permission to bring in foreign technicians, skilled workers and experts and their dependents.
(iii) Permission to take out or remit foreign currency abroad.

Tax incentives

The tax incentives are additional privileges given to those industries located in the IEAT Free Zone and include:

(i) Exemption from import duty, excise tax and VAT on machinery and raw materials.
(ii) Exemption from or refund of duty from the import of local goods into the IEAT Free Zone for the production of goods for export.
(iii) Exemption from export duty, excise tax and VAT on exported goods.

In addition to the IEAT incentives, investors are also eligible for BOI promotion. Where projects are awarded incentives from both BOI and IEAT, there will usually be some duplication thereof. In such circumstances, investors should exercise their rights under IEAT in the initial stages of plant construction since IEAT can act as a one-stop service centre. All necessary permits, such as those for the use of the land, construction or factory operation, can be obtained directly from IEAT. Investors may commence utilizing the BOI incentives at a later stage, particularly the tax incentives.

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Regional Operating Headquarters

Regional operating headquarters ("ROH") means a juristic company organized under Thai law providing services to its domestic or overseas affiliated companies and/or branches. Such services comprise administrative, technical, management and other supporting services such as research and development and training.

Thailand has had for many years a ROH regime whereby tax privileges were granted to attract multinational companies (domestic and foreign) to set up regional headquarters operations in Thailand. The regime in Thailand presents opportunities for establishing an ROH to act as a holding, services, financing and licensing company.

On 6 November 2010, a new ROH model came into existence modifying some of the criteria and benefits. An existing ROH will be able to elect to keep the old existing regime or move to the new model and a new ROH can choose either.

Old ROH Regime

The criteria for a ROH are:

- Company formed under Thai law with minimum paid up capital of Baht 10 million
- Provide qualified services to qualified affiliates (companies with at least 25 percent common group ownership) in at least three countries other than Thailand
- Income from services provided to, or royalties received from, overseas affiliates must be at least 50 percent of the total income of the ROH company (reduced to one-third for the first three years).

The tax concessions are:

- Corporate income tax of 10 percent on the net profit of ROH services provided to foreign and domestic affiliates
- 10 percent corporate income tax on net profit from qualified royalties and interest income from lending borrowed funds to domestic and foreign affiliates
- Corporate income tax and domestic withholding tax exemptions for dividends received from affiliates
- Withholding tax exemption for dividends paid to foreign shareholders
- Expatriates employed by the ROH can choose to be taxed at a flat rate of 15 percent for four consecutive years

New ROH Regime

Modifications and additional criteria to those above:

- The number of foreign affiliates that services must be provided to is modified
    - at least one foreign country in the first two years
    - at least two foreign countries in the third and fourth years
    - at least three foreign countries in the fifth year and onward
- "Operating expenses" related to ROH activities of at least Baht 15 million per year or investment spending in Thailand of Baht 30 million per year
- Maintain "skilled staff" of at least 75 percent of total employees by the end of the third year (staff who graduated from at least secondary school or primary vocational institute or equivalent)
- Average compensation of Baht 2.5 million per person per annum for at least five employees by the end of the third year
- The foreign affiliate must have actual business operations.

Modifications to the tax concessions listed above:

- Full exemption from corporate income tax on net profit from ROH services provided to foreign affiliates for 10 years. (This can be extended to 15 years if cumulative "operating expenses" for 10 fiscal periods exceed Baht 150 million at the end of the 10th fiscal year.)
- Corporate income tax at the rate of 10 percent for 10 years on the net profit from ROH services provided to domestic affiliates including qualified royalties and qualified interest income (with extension to 15 years on the same conditions noted above)
- The exemption from corporate income tax and domestic withholding tax for dividends received from affiliates is also limited to 10 years (with extension to 15 years on the same conditions noted above)
- Withholding tax exemption on dividends paid to foreign shareholders
- The expatriate flat rate of 15 percent is for eight consecutive years.

In addition, an ROH that meets all the criteria except the test of 50 percent or more of its income coming from ROH services and royalties from overseas affiliates will be entitled only to the corporate income tax exemption for foreign profit and the 10 percent rate for domestic profit and none of the other concessions.

Registration and reporting requirements

In order to register as a ROH, a company must register with the Large Business Tax Administration Office at the Revenue Department or at an Area Revenue Office or Provincial Revenue Office where the ROH will be located. Under the new tax package, the registration must be made within five years from 15 November 2010. The registration requires the ROH to disclose the identities and locations of the affiliated enterprises to which the ROH will provide qualifying services.

A company operating both as an ROH and conducting other business is required to calculate the profit or loss of each business separately and to submit a separate tax return for each business. In calculating the profit or loss of each business, expenses must be allocated directly with common expenses allocated pro rata to the income generated by each business.

Any loss generated by an ROH must be maintained within the ROH. It cannot be offset against the profit of any other business. Furthermore, any loss generated by the ROH business which is subject to exemption cannot be offset against the portion subject to the reduced tax rate.

Qualifying services

Income from the following categories of services is entitled to the tax incentives available to the ROH:

- Procurement of raw materials and parts
- Technical assistance
- Research and development
- Marketing and sales promotion
- Financial advisory services
- Human resource management and training
- General administration, business planning and co-ordination
- Credit management and control
- Analyzing and researching economics and investment
- Other services as prescribed by the Director-General of the Revenue Department

Affiliated enterprise

An affiliated enterprise is defined as a juristic company or partnership related to the ROH in one of the following ways:

1. The company or partnership holds more than 25 percent of the shares of the ROH.
2. The ROH holds more than 25 percent of the shares in the company or partnership.

3. A company or partnership in which the company or partnership under (1) holds more than 25 percent of the shares.
4. A company or partnership with power to control, supervise and manage the ROH.
5. A company or partnership managed, supervised and controlled by the ROH.
6. A company or partnership which is controlled supervised and managed by a company or partnership under (4).

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International Procurement Centre

International Procurement Centre ("IPC") means a company established under Thai law carrying on the business of procuring and selling goods, raw materials and parts to affiliated companies.

"Affiliated companies" mean companies or juristic partnerships which have a relationship with the IPC under either one of the following characteristics:

Holding 25 percent of capital

(1) A juristic company or partnership holding not less than 25 percent of the total capital of the IPC,
(2) The IPC holding not less than 25 percent of the total capital of a juristic company or partnership,
(3) A juristic company or partnership under (1) holding not less than 25 percent of the total capital in another juristic company or partnership,

Controlling or supervising

(1) A juristic company or partnership with the power to control or supervise the operation and management of the IPC,
(2) The IPC with the power to control or supervise the operation and management of a juristic company or partnership,
(3) A juristic company or partnership in (1) with the power to control or supervise the operation and management of another juristic company or partnership.

Tax privileges

Corporate tax benefits

- The IPC is subject to corporate income tax at the rate of 15 percent of its net profit from the following qualified income for five consecutive accounting periods:
- Income from procuring and selling goods outside Thailand to affiliated companies situated abroad whereby the goods must not be brought into Thailand.
- Income from procuring parts and raw materials either in Thailand or abroad for sale to affiliated companies situated abroad for manufacturing goods outside Thailand by the affiliates.

Employee tax benefits

- Personal income tax at the rate of 15 percent for a maximum of three expatriate staff working for the IPC at management level or as high level experts for five consecutive years, subject to the condition that the qualified IPC earns qualified income not less than 50 percent of the total revenue (qualified and disqualified income) of the IPC.
- Expatriate staff employed by the qualified IPC will be entitled to exemption from personal income tax for five consecutive years in respect of income earned from assignments outside Thailand providing that the IPC does not claim their costs as a corporate income tax deduction.

Conditions to become a qualified IPC

1. Paid-up capital of at least Baht 10 million at the end of each accounting period
2. Maintain the following expenditure in each accounting period:
   - Not less than Baht 15 million operating expenses payable to recipients in Thailand, excluding depreciation, operating expenses paid abroad, cost of goods, raw materials, royalties, parts and packing materials; or
   - Not less than Baht 30 million capital expenditure payable to recipients in Thailand, excluding investments in securities.
3. The counter party affiliated companies must carry on business according to their objectives and have their own management and employees.
4. Employ skilled staff who graduated at least secondary school or primary vocational institute levels or equivalent.
5. From the third accounting period onwards, the IPC must:
   - have qualified income of not less than Baht 1 billion in each accounting period; and
   - pay compensation of not less than Baht 2.5 million per person per annum to at least three employees.

Registration and reporting requirements

The following are the registration and reporting requirements:

- A company wishing to operate as an IPC must submit the registration form to the tax office within two years from 6 May 2011.
- Where a company conducts both IPC and non-IPC business, it must calculate the (taxable) profit or loss from each business separately. Where expenses are common to both businesses, they must be apportioned on the basis of the relative income of each business.
- Any loss generated by the IPC business cannot be offset against the non-IPC business.
- A company operating both IPC and non-IPC businesses must submit a separate corporate income tax return (and worksheet) for each business.

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Additional information on Thailand that can be found on our website pwc.com/th

- PwC Thai Tax Book 2012
- PwC Guide to Doing Business in Thailand

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Vietnam

At a Glance – Vietnam	
Population	91 million
GDP 2011 Official Exchange rate	$123 billion
GDP 2011 PPP	$304 billion
FDI 2011	$14.7 billion
Inflation 2012	5.35%
Unemployment Rate 2012	4.5%
Minimum Wage -- daily	$1.66
Average monthly manufacturing wage	$107
Corporate tax rate	25%
VAT rate	10%
Budget Surplus (Deficit) as % of GDP 2011	-2.40%
Public Debt as % of GDP 2011	57.3%
Exports 2011	$96.3 billion
Imports 2011	$105.3 billion

Amounts are in U.S. Dollars

Vietnam

Vietnam, in the last 30 years, has had to recover from the ravages of war, the loss of financial support from the old Soviet Bloc, and the rigidities of a centrally planned economy. Vietnam launched economic reforms (Doi Moi) in 1986, which have transformed the country from one of the poorest in the world to a developing lower-middle income country within a quarter of a century.

Even though in recent times there have been difficult market conditions, including high inflation, tight liquidity and tough regulatory requirements, Vietnam remains a strong growth story.

Government and Politics

The Socialist Republic of Vietnam, as it is officially named, is led by the Communist Party of Vietnam (CPV), which has been the sole political party in Vietnam since the country's reunification in 1975.

The National Party Congress is held every five years, determining the country's orientation and strategies and adopting its chief policies on solutions for socio-economic development. The National Party Congress elects the Central Committee, which in turn elects the Politburo. Since the 11th National Party Congress in January 2011, at which the CPV reaffirmed its staying power as the ruling party, there has been no sign of any likely change in power. The National Assembly is the highest law-making body in the country. The President, as the Head of State, is elected by the National Assembly from its members to represent Vietnam in domestic and foreign affairs for a five-year tenure. The Prime Minister is the leader of the government and is responsible for the day-to-day operations of the government.

By virtue of such consistency as a one-party State, together with the clear mechanisms for leadership transition and the likelihood that policies will not change drastically in the medium term, Vietnam is well-known for its political stability. According to the 2010 Foreign-Invested Enterprises Survey conducted by USAID/VNCI, political stability ranks among the top three determinants encouraging flows of foreign direct investment (FDI) into Vietnam.

Business Environment

While Vietnam's economy remains dominated by state-owned enterprises, which account for roughly 40% of GNP, the government has reaffirmed its commitment to economic liberalisation and international integration. The government has sped up privatisation of state-owned enterprises to make the country's privatisation process more comprehensive. In particular, the Vietnamese government has an ambitious plan to extend the privatisation process to major state-owned conglomerates in sectors such as power and telecommunications. By 2014, the state aims to transform the current monopoly and subsidised power situation with a competitive power-generation market. In seaport construction, the Public-private Partnership (PPP) form of investment is encouraged and is becoming increasingly popular.

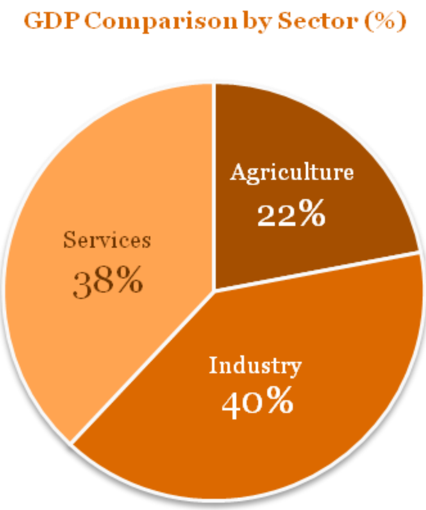
Vietnam is a developing country and, as such, has suffered from poor infrastructure. However, it has begun to make significant investments. The government is committed to increasing infrastructure development and this is reflected in numerous projects to build new container ports, roads and highways, bridges, power plants, and water supply networks. Some of the major projects under way include the Ho Chi Minh City Metro project, the new Long Thanh International Airport near Ho Chi Minh City, and new power plants, including the nation's first nuclear power plant.

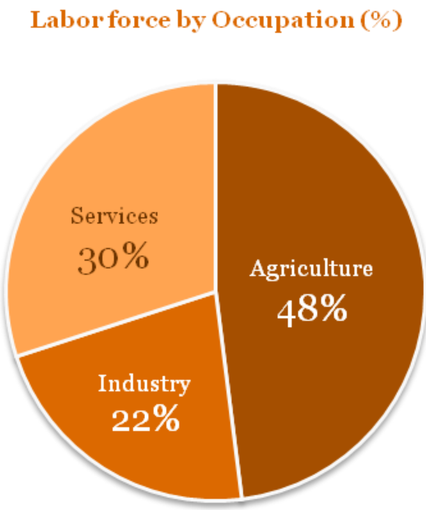
With the government's continuous efforts to improve its institutional systems, Vietnam's legal system has improved remarkably, resulting in a higher ranking for the country in rule-of-law indicators, and enabling it to catch up with its more developed peers in the region. Though various measures have been taken to improve the administrative environment, this remains an issue that has diluted foreign investors' interest in Vietnam's business environment. However, the government is committed to ongoing change via several major reform initiatives such as Project 30 (Vietnam's Master Plan of Administrative Procedure Simplification in the field of state management for the period 2007 – 2010). The project has brought significant changes in Vietnam's business environment such as in the field of customs, with the widespread introduction of e-customs and implementation of one-stop-shop customs procedures, which have allowed businesses to save time and cut costs.

The Economy

After its accession to the WTO in 2007, Vietnam has become a magnet for foreign investment and is evolving rapidly from an agricultural economy to one focused on higher-value manufacturing and services. Exports have historically been the most significant driver of GDP, with Vietnam's key export products being garments and textiles, crude oil, footwear, as well as agricultural products and seafood.

Vietnam has transformed itself into a dynamic market-based economy in which industry and services have been playing increasingly important roles. With progressive measures to liberalise Vietnam's market, the economy has seen a structural shift from one that was agriculturally driven, to one that is increasingly industrial and services-focused. The industrial and service sectors are now responsible for a much larger share of GDP and have been expanding at a higher rate than the overall economy, reflecting the critical role of these sectors in boosting the country's overall performance.





As disposable income rises, Vietnam's economy is increasingly driven by personal consumption and more of the population is moving up the economic ladder. With Vietnam's young and well educated work force this trend is expected to continue.

Vietnam is also one of the most popular tourist destinations in the Asia-Pacific region and its tourism industry has been growing unprecedentedly for the past few years. The government has been readily spending on promotional activities across the world to boost Vietnam's tourism, creating opportunities in the hotel and services sectors.

INVESTMENT PROMOTION AND TAX INCENTIVES

Business opportunities

Vietnam wants to involve itself more deeply in the global manufacturing chain and the government is shifting focus from quantity to quality in attracting foreign direct investment (FDI). Aiming to improve quality of FDI, the government wants to attract projects that effectively utilise natural resources, reinforce linkages with domestic enterprises, and lure more investment into auxiliary industries, agriculture, preferential services, information and technology, and high-tech industries.

The aim of the Vietnamese Government to lure investors to invest in specific industries is also reflected in its incentive scheme. Apart from investments in certain industries, Vietnam also wants to attract investments in remote areas, i.e., areas of the country that are still underdeveloped and need investment. Tax and customs duty incentives, as well as land rental incentives, are mainly available to investments in the encouraged sectors, and/or investments in encouraged geographic locations.

Corporate income tax (CIT) incentives

The current standard CIT rate applicable to domestic- and foreign-invested enterprises is 25%. CIT incentives in the form of reduced CIT rates, CIT exemption and CIT reduction are available for investment in certain sectors, or investments in certain geographical areas of Vietnam.

Preferential tax rates, tax exemption and reduction

Two preferential CIT rates of 10% and 20% are available for periods of 15 years or 10 years respectively, starting from the commencement of operating activities. When the preferential CIT rate expires, the CIT rate reverts back to the standard rate of 25%.

In addition, tax holidays followed by tax reductions are available. The tax holidays take the form of a complete exemption from CIT for a certain period of time beginning immediately after the enterprise first makes a profit, followed by a period where CIT is charged at 50% of the applicable rate. Where an enterprise has not derived profits within three years of the commencement of operations, the tax holiday/tax reduction period will start from the fourth year of operation.

Industry sectors eligible for CIT incentives

Investment projects in the following industry sectors could be entitled to CIT incentives:

- High technology
- Scientific research and technological development
- Infrastructure projects including water and power plants, water supply and drainage systems, bridges, roads, railways, airports, sea ports, river ports, airfields, stations and other especially important infrastructure projects per decision of the prime minister
- Production of software products
- Education, training, vocational training
- Health care
- Culture and sports
- Publication activities in accordance with the law on publication
- Environment
- Micro-financing institutions

Geographical regions eligible for CIT incentives

New investment in the following geographical regions could be entitled to CIT incentives:

- Economic zones and high technology zones established by the prime minister’s decision
- Regions with difficult and especially difficult socio-economic conditions

An **economic zone** is a zone that has an economic area separate from the general investment and business environment and with especially favourable conditions for investors. An economic zone is an identified geographical zone with privileges regarding the investment environment, preferential stable policies, and flexible management, creating the best conditions for the business activities of the domestic and foreign investor. Vietnam currently has the following economic zones:

Chu Lai (Quang Nam)	Nghi Son (Thanh Hoa)	Nam Can (Ca Mau)
Dung Quat (Quang Ngai)	Van Don (Quang Ninh)	Dinh An (Tra Vinh)
Nhon Hoi (Binh Dinh)	Dong Nam Nghe An (Nghe An)	Van Phong (Khanh Hoa)
Chan May – Lang Co (Thua Thien Hue)	Dinh Vu – Cat Hai (Hai Phong)	Vung Ang (Ha Tinh)
Phu Quoc – Nam An Thoi (Kien Giang)	Nam Phu Yen (Phu Yen)	Hon La (Quang Binh)

Many additional economic zones are expected to be established in the future.

A **high-tech zone** is multi-function economic-technical zone with a defined boundary established in accordance with a decision of the Prime Minister to conduct high-tech research, development and applications, to nurture high-tech enterprises, to train high-tech human resources and to manufacture and trade high-tech products. Vietnam currently has the following high-tech zones:

Hoa Lac High-Tech Zone(Ha Noi)	Da Nang High-Tech Zone (Da Nang)	Ho Chi Minh City High-Tech Zone

Summary of CIT incentives

Preferential CIT Rate	Criteria	Duration of preferential CIT rate	Duration of CIT exemption	Duration of 50% CIT reduction after CIT exemption
10%	Newly established enterprises in: Locations with especially difficult socio- economic conditions; Economic Zones, High-Tech Zones established by prime minister's decision or Sectors: high-technology, scientific research and technological development, infrastructure projects; production of software products. In respect of infrastructure projects, in order to be entitled to CIT incentives, the projects must generate income from their operation (income from building or constructing such projects is not entitled).	Fifteen years from the first year of revenue generation (for large-scale, high or new technology projects for which Vietnam especially needs to attract investment; the maximum period is 30 years, with the prime minister's approval)	Four years	Nine years

Preferential CIT Rate	Criteria	Duration of preferential CIT rate	Duration of CIT exemption	Duration of 50% CIT reduction after CIT exemption
	Enterprises operating in the field of education, training, vocational training, health care, culture and sports and environment (socialisation field)	During the whole operation period	Four years	Nine years (five years for newly-established enterprises located in regions other than regions with difficult or especially difficult socio-economic conditions)
	Publication activities	During the whole operation period	N/A	N/A
20%	Newly established enterprises located in areas of difficult socio-economic conditions	Ten years from the first year of revenue generation	Two years	Four years
	Micro-financing organisations	During the whole operation period (For newly established enterprises in regions with especially difficult socio-economic conditions, 20% CIT shall be applicable after the preferential rate of 10% has been utilised)	N/A	N/A

Example of How CIT Incentives Operate:

Tax incentives usually consist of three components:
- Preferential tax rate for a certain period of time
- CIT exemption for a certain period of time
- CIT reduction (after exemption period) for a period of time

Hence a company could get a preferential tax rate of 10% which applies over a period of 15 years from the commencement of operations. In addition, this company could have a period of four years' CIT exemption, starting from the first year of profit, followed by nine years' 50% tax reduction. So, assuming the company makes a profit from year one, it would pay tax as follows:

Years 1 – 4: no tax, due to CIT exemption
Years 5 – 13: 50% of 10% preferential tax rate = 5% CIT
Years 14 – 15: 10% preferential tax rate
Year 16 onwards: 25% standard rate

Tax reductions for employing females or ethnic minorities

Enterprises engaged in manufacturing, construction, and transportation activities are entitled to CIT reductions when employing many female staff or ethnic-minority labourers.

Tax incentives for Small & Medium Enterprises (SMEs)

In recent years, in order to stimulate the economy, small and medium-sized enterprises (SMEs) and labour-intensive enterprises engaged in certain sectors have been granted a 30% CIT reduction and CIT payment deferral.

The incentives are not provided for enterprises earning profits from certain industries, including lotteries, property trading, securities business, finance, banking, insurance or goods/services subject to special sales tax.

Customs duty incentives

There are various customs duty exemptions available for investment projects in Vietnam. The most important exemptions include:
- Goods imported to create fixed assets of an investment project in a sector or geographical area eligible for import duty incentives
- Plant varieties and livestock breeds permitted to be imported for implementation of investment projects in agriculture, forestry of fisheries
- Certain goods being equipment and devices that are imported to create fixed assets of investment projects in certain fields such as hotels, supermarkets, tourist resorts, medical examination and treatment establishments (first-time duty exemption)
- Certain goods imported to serve petroleum activities
- Domestically unavailable materials and supplies that are imported in direct service of software production
- Certain goods imported for direct use in scientific research and technological development
- Certain goods imported for investment projects in especially encouraged sectors or in regions with especially difficult socio-economic conditions

Customs duty exemption for goods imported to create the fixed assets of an enterprise

In order to enjoy this customs duty exemption, the investment project must be either in an industry sector in which investment is encouraged/especially encouraged or a geographical area eligible for import duty incentives.

Industry sectors in which investment is encouraged/especially encouraged to support the country's sustainable economic growth include amongst others:
- Production of light construction, composite, soundproof or other types of new materials
- Construction of establishments using new energy, such as solar or wind power or bio-gas
- Application of high, new and bio-technology
- Treatment of pollution, protection of the environment, and collection of waste
- Developing the petrochemicals industry
- Investing in building power plants, power distribution and transmission networks

Geographical regions eligible for customs duty are specified in the Appendix providing the list of geographical regions eligible for CIT incentives issued together with the Government's Decree No. 124/2008/ND-CP of December 11, 2008.

The customs duty exemption for goods imported to create fixed assets includes the following imported goods:
- Equipment and machinery
- Specialised means of transport of a production line that cannot yet be produced domestically and means of transport to be used for carrying workers (automobiles having 24 seats or more, and watercraft)
- Components, details, detachable parts, spare parts, accessories, moulds and supplements pertaining to or accompanying the equipment and machinery, and specialised means of transport as specified above
- Raw materials and materials that cannot yet be produced domestically for the manufacturing of equipment and machinery that are parts of the production line or the manufacturing of components, parts, detached devices, spare parts, installations, moulds and accessories that accompany the equipment and machinery
- Construction materials that cannot be manufactured domestically

The above exemption from import duty is also applicable in the case of a project's expansion, or the replacement or renovation of its technology.
Customs duty exemption for certain goods being equipment and devices which are imported to create fixed assets of investment projects in certain fields

A first-time duty exemption is given to the following imported goods being equipment and devices:

- water supply systems of various types
- air-conditioning and ventilation systems
- fire-fighting systems
- rubbish and liquid waste treatment systems
- transport systems (shift)
- laundering systems
- protection device systems
- automatic teller machines (ATMs)

The above goods must be imported to create fixed assets of investment projects eligible for import duty incentives or investment projects funded with ODA capital in the following fields:

- hotels
- offices, apartments for lease, houses
- trade centres, technical services
- supermarkets
- golf courses, tourist resorts
- sport facilities, entertainment centres
- medical examination and treatment establishments
- training, culture
- finance, banking, insurance, audit or consultancy services.

Customs duty exemption for certain goods imported to serve petroleum activities

Developing the petrochemical industry is one of key focuses of the Vietnamese Government. Therefore, customs duty exemptions in this area are available. The exemption applies to goods imported to serve petroleum activities and covers:

- equipment and machinery
- specialised means of transport necessary for petroleum activities, and means of transport to be used for carrying workers (automobiles having 24 seats or more, and watercraft)
- domestically unavailable supplies necessary for petroleum activities
- medical instruments and equipment and first-aid medicines to be used on oil rigs and floating works
- office equipment
- other goods temporarily imported for re-export for petroleum activities

Customs duty exemption for certain goods imported for investment projects in especially encouraged sectors or in regions with especially difficult socio-economic conditions

A five-year customs duty exemption applies to goods imported for their own use and that cannot be produced domestically for investment projects in especially encouraged sectors or in regions with especially difficult socio-economic conditions, including raw materials, materials and component parts. This five-year tax exemption does not apply to certain projects, including, inter alia, projects producing and assembling automobiles, motorcycles, air conditioners, refrigerators and other items as identified by the prime minister.

Land rental incentives

Land in Vietnam is owned by the state, meaning that users of land are required to acquire or rent land use rights from the government. Foreign investors requiring land for their operations in Vietnam have to pay a rental fee to the government which is in effect a form of property tax.

Land rental exemptions and reductions apply to a number of investment projects that satisfy certain conditions, such as investment in encouraged sectors or certain fields of business and/or encouraged geographical locations. Such exemptions may be enjoyed for a period between three years and the whole operation period and apply to land and water-surface rent reduction in some cases.

Criteria (for investment projects in)	**Land/water-surface rent exemptions**	**Land/water-surface rent reductions**
- Special investment encouragement sectors that are located in areas with especially difficult socio-economic conditions or in border gate economic zones - Construction of apartments for industrial park workers - Construction of dormitories for students where the expenses for construction are funded by the State Budget - Socialised field: education, health care, culture, sports, science and technology - BOT (Build-Operate-Transfer), BTO (Build-Transfer-Operate), BT (Build-Transfer) projects and PPP (Private-Public Partnership) forms	During the whole operation period	N/A
- Sectors included in the list of investment encouragement sectors - New business establishments of the economic organisations which are subject to relocation under planning or due to environmental pollution	Three years from the date of operation	N/A

Criteria (for investment projects in)	**Land/water-surface rent exemptions**	**Land/water-surface rent reductions**
- Areas with difficult socio-economic conditions	Seven years from the date of operation	N/A
- Areas with especially difficult socio-economic conditions or border gate economic zones - Sectors included in the list of special investment encouragement sectors - Sectors included in the list of investment encouragement sectors that are located in areas with difficult socio-economic conditions	Eleven years from the date of operation	N/A
Sectors included in the list of investment encouragement sectors that are located in areas with especially difficult socio-economic conditions or in border gate economic zones - Sectors included in the list of special investment encouragement sectors that are located in areas with difficult socio-economic conditions	Fifteen years from the date of operation	N/A
Agriculture, forestry, aquatic products, salt sector suffering from natural disasters or fires that caused a loss of less than 40% of output.	N/A	Corresponding rent reduction to be considered
Agriculture, forestry, aquatic products, salt sector suffering from natural disasters or fires that caused a loss of 40% or more of output.	In the affected year	N/A

Non-tax incentives

There are numerous other non-tax incentives the government provides to encourage investment in certain areas. Below are some examples.

The government is eager to attract more quality FDI and therefore encourages the transfer of advanced technology into Vietnam and investment in technology innovation. Favourable conditions and policies for technology transfer are provided under the law on technology transfer and law on intellectual property, including the contribution of capital in the form of technology in order to carry out investment projects in Vietnam.

The government also encourages investors to raise funds for training or supports enterprises to undertake training. Training costs incurred by enterprises are recognised as deductible expenses, lowering the taxable profit of the enterprise. Besides, the government spends part of the state budget on supporting labour training in economic organisations through the supporting programme of human resource training. There are also plans and programmes to support human resources training for small and medium-sized enterprises.

Investment credits are available for certain investment projects that do not receive funding from the state budget and cannot get loans under the usual conditions from commercial banks due to the risks involved but are in key industries and fields in the major economic programme, which directly affect the economic restructuring and boost the sustainable economic growth of Vietnam.

Also, capital from the state budget can be reserved for investment in the development of technical and social infrastructure systems outside functional areas and important public services works in economic zones, compensation for site clearance within functional areas and resettlement areas and investment in facilities for waste water treatment and concentrated waste treatment of functional areas.

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Additional information on Vietnam that can be found on our website, pwc.com/vietnam:

- PwC Vietnam Pocket Tax Book 2012
- PwC/HSBC Guide to Doing Business in Vietnam

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Myanmar

At a Glance -- Myanmar	
Population	55 million
GDP 2011 Official Exchange rate	$52 billion
GDP 2011 PPP	$84 billion
FDI 2011	N/A
Inflation 2012	8.25%
Unemployment Rate 2012	4.0%
Minimum Wage -- daily	$0.57
Commercial Tax (no VAT)	-5%
Corporate tax rate	30%
Budget Surplus (Deficit) as % of GDP 2011	-4.3%
Exports 2011	$9.5 billion
Imports 2011	$5.5 billion

Amounts are in U.S. Dollars

Myanmar

No country in SEA has attracted as much attention as Myanmar in the past year. A long-isolated country due to various economic and other sanctions imposed by the US, EU and other nations, the situation is rapidly changing. Enormous economic, political and social transformations are sweeping through Myanmar. In response, the US and EU continue to ease or lift their long-held bans on foreign investment into the country. These developments have resulted in optimism from the global business community and an eagerness to exploit opportunities in one of the world's few remaining untapped markets.

Government and Politics

Burma, as Myanmar was formerly known, was a British colony until gaining its independence in 1948. The following five decades saw various military juntas and dictatorships in power.

The current government of the Republic of the Union of Myanmar (previously Union of Myanmar; Union of Burma) is nominally a civilian parliamentary government that took office in March 2011. On 30 March 2011, the State Peace and Development Council (SPDC) formally transferred power to a new Union Government headed by President Thein Sein, former general and prime minister for SPDC. The new regime has since embarked on a series of sweeping changes and reforms. The reforms, as well as the conduct of the 1 April 2011 by-elections, have led to widespread praise from the international community and immediate actions to ease the sanctions regime against the country to support its transition to democracy and its economic development.

Business Environment

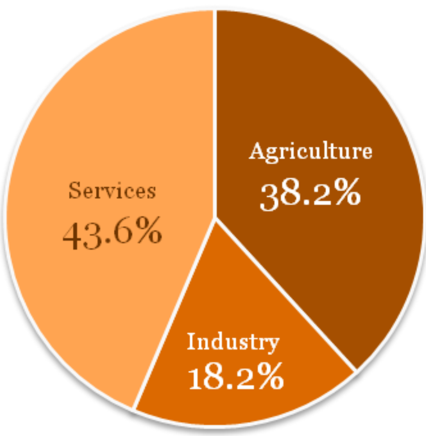
Myanmar is one of the least developed countries in the world, with a high level of poverty. It has suffered from decades of stagnation, mismanagement and isolation. Infrastructure in major urban areas is rudimentary at best and almost non-existent in most rural areas. The quality of the education system has deteriorated over many years, resulting in a severe shortage of skilled workers, not to mention qualified individuals to manage the economy. The financial sector is primitive, with an antiquated banking system. The country suffers from an exchange rate policy that is neither uniform nor unified. Multiple exchange rates exist in the market that are hundreds of times higher that the official pegged rate. This has not only caused distortion in the market and in prices, but has also negatively affected exports and imports.

Myanmar also lacks many of the basic business and commercial laws and regulations required for a functioning business environment. Outside of the agricultural sector, much business activity is concentrated in state-owned enterprises or enterprises controlled by former regime members. Crony capitalism is rampant.

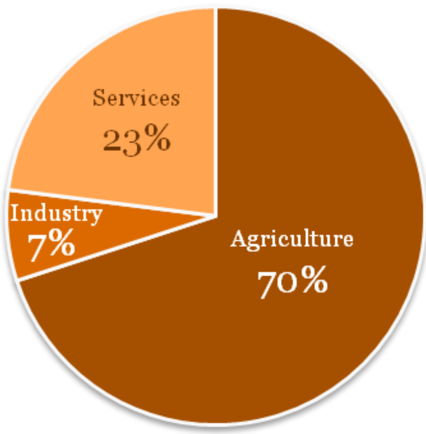
The Economy

Myanmar is still very much an agricultural society, with agriculture representing a disproportionate percentage of the economy in comparison with other ASEAN nations. Myanmar is rich in natural resources such as arable land, forestry, minerals, natural gas, as well as freshwater and marine resources, gems and jade. The country has recently emerged as a natural gas exporter, with exports to neighbouring countries providing an increasingly important revenue stream.

GDP Comparison by Sector (%)



Labor force by Occupation (%)



The most productive segments of the economy are currently the extractive industries, in particular oil and gas, mining and timber. Other areas such as manufacturing and tourism, which represent a small share of economic activity, are largely accounted for by state industries. In contrast to most of the other ASEAN states, there is no real middle class and no real consumer economy other than in basics like food, clothing and shelter.

Exports of gas increased by nearly 15% in 2011 to an estimated US$3 billion. Gemstone and jade exports, however, declined after having doubled in FY10. Higher levels of imports, particularly construction materials and machinery, widened the current account deficit.

Increased foreign investment in energy and hydropower have driven almost all economic growth in the past year. Foreign investment in other industries is insignificant owing to barriers to entry and the poor business environment.

The enthusiasm of the global business community to get in on the ground floor of an opening Myanmar is understandable. However, caution and prudence are the watchwords when assessing opportunities in Myanmar. Much depends on the sustainability of political and economic reforms and the commitment of the government to continue the reforms that it has begun.

INVESTMENT PROMOTION AND TAX INCENTIVES

Business opportunities

The government that took office in March 2011 has an opportunity to rejuvenate the economy after more than 50 years of stagnation. In a promising start, the authorities took steps to unify the multiple exchange rates and are preparing other reforms, including a new National Development Plan.

The government is also now preparing a new Foreign Investment Law that is expected to offer tax breaks to investors and allow them to lease private land and repatriate investment proceeds using market exchange rates. Special economic zones in Dawei in southern Myanmar, Thilawa near Yangon, and Kyaukphyu on the west coast will be established to attract investments.

Relaxing foreign exchange controls is expected to propel imports upward and contribute to a widening of the current account deficit.

Investment Incentives

Foreign investment in Myanmar is governed under the Foreign Investment Law (FIL) 1988. The revised draft FIL is to be put forward to parliament for approval by the end of 2012. The Ministry of Industry and Commerce (MIC) has issued a notification listing the types of economic activities that are open to foreign investment. It covers most activities with the exception of those reserved for the State under the State-owned Economic Enterprises Law (SEE Law).

Economic activities prohibited under the SEE Law

The SEE Law specifies 12 economic activities that are closed to private investment and may only be carried out by the government:

1. extraction and sale of teak in Myanmar and abroad
2. cultivation and conservation of forest plantations, with the exception of village-owned firewood plantations cultivated by the villagers for their personal use
3. exploration, extraction and sale of petroleum and natural gas and production of products of the same
4. exploration, extraction and export of pearls, jade and precious stones
5. breeding and production of fish and prawns in fisheries that have been reserved for research by the government
6. postal and telecommunications services
7. air and railway transport services
8. banking and insurance services
9. broadcasting and television services
10. exploration, extraction and export of metals
11. electricity-generating services, other than those permitted by law to private and cooperative electricity-generating services
12. manufacture of products relating to security and defence which the government has, from time to time, prescribed by notification.

The government, on a case-by-case basis, may permit these activities to be carried out by any person or economic organisation, with or without a joint venture with the government and subject to unspecified conditions.

Sectors allowed for foreign investment

Based on the MIC Notification No. 1/89 of 30 May 1989, foreign investments may be made in the economic activities (other than the 12 economic activities restricted under the SEE Law, above) which are classified into nine sectors as follows:

1. agriculture and irrigation
2. livestock and fishery
3. forestry
4. mining
5. power
6. oil and gas
7. industry involving foodstuffs, textiles, personal goods, household goods, leather products and similar products, transport equipment, building materials, pulp and paper, chemicals, chemical products and pharmaceuticals, iron and steel, and machinery and plant
8. construction
9. transportation and communications

Investment proposals in sectors other than those listed above are considered on a case-by-case basis by the MIC.

Incentives under the Myanmar FIL

Companies registered under the MFIL that have obtained MIC permits are entitled to the following special benefits and tax incentives. The benefits and incentives are granted by the MIC at its discretion.

- Exemption from income tax for up to three consecutive years for an enterprise engaged in the production of goods or services. The exemption may be extended by the MIC for a further reasonable period, depending on the success of the enterprise.
- Exemption or relief from income tax on profits of the business that are maintained in a reserve fund and subsequently re-invested within one year after the reserve fund is made.
- Accelerated depreciation of machinery, equipment, building or other capital assets used in the business at the rate fixed by the MIC.
- Relief from income tax of up to 50% of the profits accrued on exported goods.
- The right to pay income tax payable to the state on behalf of foreign employees and the right to deduct such payments from assessable income.
- The right to pay income tax on the income of the foreign employees at the rates applicable to citizens residing within the country.
- The right to deduct expenses incurred in Myanmar on research and development relating to the business of the enterprise from assessable income.

- The right to carry forward and set off losses for up to three consecutive years from the year the loss is sustained.
- Exemption or relief from customs duty or other internal taxes on machinery and equipment, instruments, machinery components, spare parts and materials used in the business, and items that are imported and required to be used during the construction period of the business.
- Exemption or relief from customs duty or other internal taxes on imported raw materials for the first three years of commercial production following the completion of construction.

Special economic zones

In addition to foreign investment under the MFIL, foreign investors may invest under the Myanmar Special Economic Zone Law of 2011 (Myanmar SEZ Law) and the Dawei Special Economic Zone Law of 2011 (Dawei SEZ Law).

The Myanmar SEZ Law is a basic law for any Special Economic Zone (SEZ) within Myanmar whereas the Dawei SEZ applies only to a specified designated area, i.e., the Dawei SEZ, which is located in the Tanintharyi Region in the south, and is the first SEZ in Myanmar. The main regulatory body handling foreign investment under the Myanmar SEZ Law and the Dawei SEZ Law is the Central Body for the Myanmar Special Economic Zone which was formed by the President's Office in April 2011. Subordinate regulatory bodies are the Central Working Body and the Dawei SEZ Temporary Supporting Working Body, as formed by the President's Office in April 2011.

The Myanmar SEZ Law and Dawei SEZ Law contain, inter alia, provisions relating to developers and investors; exemptions and reliefs; restrictions; duties of developers or investors; land use; banks and finance management and insurance business; management and inspection of commodities by the customs department; quarantine; labour; and guarantee of non-nationalisation. In general, the investment projects in the Dawei SEZ must be approved by the Central Body. Tax exemptions or relief may be granted under the Dawei SEZ Law upon application by the investor.

Incentives under the Myanmar SEZ Law include:

- a tax holiday for the first five years
- 50% income tax relief on revenue from products sold overseas for the next five years
- 50% income tax relief on reinvestment obtained from export sales for the following five years
- exemption from customs duty on certain goods (e.g., machinery and vehicles) for five years. A 50% exemption applies for the next five years.

With respect to land use under the Dawei SEZ Law, land use may be granted under an initial lease of at least 30 years (or 60 years), renewable as follows:

- for another 30 years (plus 15 years) for a large-scale business; or
- for another 15 years (plus 15 years) for a medium-scale business; or
- for another five years (plus five years) for a small-scale business.

The additional years may be granted on a discretionary basis, depending on the investment amount and the success of the business.

With the approval of the Union government and the Central Body, and pursuant to the Dawei SEZ Law and existing Myanmar law, developers/investors may rent, mortgage or sell land and buildings to another person for investment purposes within the term granted for operating in the Dawei SEZ.

The rules and procedures relating to the Myanmar SEZ Law and Dawei SEZ Law have not yet been prescribed. Further detailed provisions are expected once such rules and procedures are prescribed.

Investment Guarantee and Protection

The MFIL provides an explicit guarantee that an economic enterprise with an MIC permit cannot be nationalised during the term of the contract or during any extended term. The MFIL also includes a provision expressly providing that upon the expiry of the contract term, the government guarantees that an investor may remit its investment and profits in the foreign currency in which such investment was made.

Investors in the Dawei SEZ are guaranteed against nationalisation under the Dawei SEZ Law. Under the Dawei SEZ Law, foreign investors may be allowed to exchange and remit their own foreign currency within the Dawei SEZ and abroad.

Investment protection agreements

Myanmar has investment protection agreements with China, India, Kuwait, Laos, the Philippines, Thailand and Vietnam.

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PwC in Myanmar

With the easing and lifting of sanctions PwC is in the process of re-establishing an office in Yangon (Rangoon), which is expected to be operational late in 2012. PwC Singapore will manage the practice in Myanmar.

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Additional information on Myanmar that can be found on our website pwc.com.sg

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Sources and Acknowledgements

Sources

The various statistical and other information cited in this publication was gathered from international financial and economic institutions, national statistical offices and other publicly available industrial intelligence services. Though different sources sometimes had conflicting data, we have attempted to use the most consistent information, but some differences might remain. Principal sources include The World Bank, The International Monetary Fund and the CIA World Fact Book.

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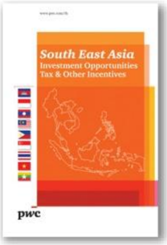

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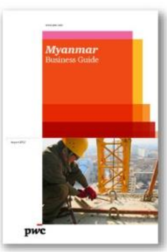

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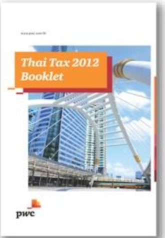

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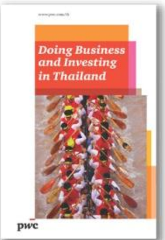

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