

# InTouch

with indirect tax news

Asia Pacific VAT/GST Alert



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Welcome to the third issue of InTouch for 2010. The major highlights of this issue are reforms to the indirect tax rulings regime in Australia, the new VAT in Laos, the increase in the GST rate in New Zealand, as well as developments in India, Singapore, Taiwan and Thailand. Please feel free to reach out to any of the PwC contacts listed at the end of this issue.

# Australia

## Reforms to indirect tax rulings regime

The indirect tax rulings regime has been amended with effect from 1 July 2010. The changes include:

- The new definition of an indirect tax ruling will exclude ATO documents such as Law Administration Practice Statements, ATO Interpretative Decisions and ATO fact sheets, which could previously be relied upon;
- Indirect tax advice previously issued to industry associations for the benefit of their members will no longer be a public ruling and as such can no longer be relied upon;
- The Commissioner will be able to issue class and product rulings in respect of indirect tax from 1 July 2010;
- Taxpayers will now be able to seek rulings on administrative provisions; and
- Taxpayers will now be able to object to an indirect tax ruling.

## Further GST law changes

A further round of GST law changes has been passed by Parliament which will apply from 1 July 2010:

- allowing entities to self-assess their eligibility to form, alter or revoke a GST group or GST joint venture at any time during a tax period;

- introducing clear exit rules for entities leaving GST groups or joint ventures and to allow entities to enter into indirect tax sharing agreements; and
- introducing principle based rules to allow one or more documents to satisfy the tax invoice requirements.

In addition to the above, law has now been passed through Parliament regarding global roaming in Australia and cross-border transport supplies. The legislation will be retrospectively applied to supplies on or after 1 July 2000.

## Proposed Budget changes

As part of the Federal Budget, the Australian Government has announced a number of changes to GST including:

- Hire purchase arrangements will have the same treatment as leases (i.e. fully taxable, and giving rise to full input tax credits);
- The Financial Acquisitions Threshold will rise to A\$150,000 GST. This allows taxpayers who do not generally make input taxed supplies to claim full input tax credits where acquisitions do not exceed the threshold;
- The 'borrowing rule' exemption allowing input tax credit recovery on costs associated with borrowings used to make taxable or GST-free supplies is to be modified to exclude bank deposits;

- Provisions will be introduced to stop the 'bundling' of acquisitions into trustee and single responsible entity fees charged to trusts thereby limiting the entitlement of Reduced Input Tax Credits on some acquisitions; and
- Boats which are used for recreational purposes whilst in Australia and exported by the purchaser within 12 months will be GST-free.

For more information, please contact:

Denis McCarthy  
[denis.mccarthy@au.pwc.com](mailto:denis.mccarthy@au.pwc.com)

+61 2 8266 5229

# India

## VAT and Service Tax amendments

### Maharashtra

- The State Government has introduced the following amendments in the VAT Act with effect from 1 May 2010:
  - Increase in the turnover limit for VAT audit from Rs. 40 lakhs to Rs. 60 lakhs;
  - Introduction of Composition scheme for registered dealers engaged in construction of flats, dwellings etc.; and
  - Enhancement in penalty amounts with regard to specified non-compliances under the Act.

### Delhi

- The following amendments have been made to the VAT rates with effect from 1 April 2010:
  - The rate on mobile phones and accessories above Rs. 10,000, on tractor tyres and tubes, and on inverters has been increased from 5% to 12.5%; and
  - The rate on diesel and aerated drinks has been increased from 12.5% to 20%.
- Provisions have been made to restrict the claim of input tax credit in proportion to the goods sold during a tax period.
- Provisions have been made for proportionate reversal of input tax credit where the sale price of goods is less than the purchase price on account of subsequent price adjustments by way of

discount, commission, rebate etc. No reversal of input tax credit is required where the goods are sold at a loss in the ordinary course of business.

### Madhya Pradesh

- VAT rate on goods liable to tax at 12.5% has been increased to 13% with effect from 1 April 2010.

### Service Tax

- The Central Board of Excise and Customs has clarified that the arrangement between an insurance company and a reinsurer is only for the sharing of expenses and no service is being provided by the insurance company to the reinsurer for a consideration. Consequently, the arrangement of sharing of expenses is not chargeable to service tax.

For more information, please contact:

S.Madhavan  
s.madhavan@in.pwc.com +91 11 4115 0505

# Japan

## IMF statement on consumption tax rate

IMF (International Monetary Fund) released a report dated 19 May 2010 stating "A gradual increase of the consumption tax to 15% or more should begin with a modest increase in FY2011. Distributed over several years, the consumption tax hike could generate 4–5% of GDP of revenue. This measure could be combined with a reduction of personal income tax allowances and a corporate tax reform to stimulate domestic investment."

For more information, please contact:

Masanori Kato  
masanori.kato@jp.pwc.com +81 3 5251 2536

Kotaku Kimu  
kotaku.kimu@jp.pwc.com +81 3 5251 2713

# Laos

## New Value Added Tax (VAT)

The Ministry of Finance of the Lao People's Democratic Republic has announced the initial implementation of Value Added Tax (VAT) starting January 2010 (intended to be implemented on 1 January 2009 previously).

VAT is to replace the existing Business Turnover Tax (BTT) of 5% and 10%. The new VAT will be 10% for general transactions and zero rate for export activities. There are certain products or activities which are exempted from VAT, such as unprocessed agricultural products, activities relating to education, banking, insurance, etc.

The initial implementation of VAT will be targeted at juristic entities which generate annual revenue of LAK400 million (US\$48,000) or more. The existing BTT will continue to be applied to juristic entities which generate annual revenue of less than LAK400 million. This means there will be two sale tax systems simultaneously running for a period of time. The tax department is in the process of approving VAT registration for qualified juristic entities.

For more information, please contact:

Thavorn Rujivanarom  
thavorn.rujivanarom@th.pwc.com +662 344 1444

# New Zealand

## Significant GST development - GST rate to increase to 15%

The Government has confirmed that the New Zealand GST rate will increase from 12.5% to 15% from 1 October 2010.

For transactions that span 1 October, the GST rate which applies would be the rate applicable at the 'time of supply' – generally, the earlier of an invoice being issued or any payment being received. For recurring or successive supplies, the time of supply will be triggered upon each payment being made or falling due.

## Time of supply on payments of deposits

Inland Revenue has recently finalised its draft interpretation statement on when payments are received for "time of supply" purposes specifically in relation to the receipt of a deposit by a stakeholder.

## Legal services provided to non-residents relating to land transactions

Inland Revenue has released an exposure draft (XPB0047) allowing for certain legal services relating to transactions involving land in New Zealand to a non-resident who is not in New Zealand at the time the legal services are performed to be zero-rated.

## New zero-rating model for land transactions

Inland Revenue has confirmed that a compulsory zero-rating regime for land transactions in a business-to-business context will be introduced. Indications are that the new rules will apply from 1 April 2011.

The new zero-rating model will apply on a "compulsory" basis to any supply that features land between GST-registered persons or entities (i.e. not applicable to business-to-consumer). It is likely that land will include buildings. Businesses selling land to GST-registered purchasers will not have to account for GST on the sale.

For more information, please contact:

Eugen Trombitas  
eugen.x.trombitas@nz.pwc.com +64 9 355 8686

Gary O'Neill  
gary.oneill@nz.pwc.com +64 9 355 8432

Jared Otto  
jared.a.otto@nz.pwc.com +64 9 355 8073

# Singapore

## Revised e-tax guides

The Inland Revenue Authority of Singapore (“IRAS”) has revised the following e-tax guides:

- GST: Major Exporter Scheme (revised on 1 May 2010);
- GST Guide for the Aerospace Industry (revised on 1 June 2010);
- A Guide on Exports (revised on 1 June 2010);
- GST and the Travel Industry (revised on 1 June 2010);
- GST Guide for Freight Forwarding Industry (revised on 1 June 2010); and
- Import GST Deferment Scheme (revised on 10 June 2010).

The IRAS has also issued the following new e-tax guides:

- Record Keeping Guide for GST-registered businesses dated 31 May 2010. This guide is designed to help businesses in preparing and keeping records for Income and GST purposes.
- Guide for the Marine Industry dated 1 June 2010. This guide explains the existing GST treatment and the GST changes affecting the industry and sets out the documentation which businesses need to maintain in order to apply zero-rating for GST purposes.

## GST Assisted Self-Help Kit

On 1 April 2010, the IRAS introduced a GST Assisted Self-Help Kit (“ASK”). It is a self-assessment package which is designed to help GST-registered businesses effectively manage their compliance in the following key areas:

- GST practices that businesses can include in their internal processes;
- Pre-Filing Checklist – a set of questions and answers for business to go through before submission of GST returns; and
- Guide on conduct of annual review of past GST returns for early detection of errors.

For more information, please contact:

Soo How Koh  
soo.how.koh@sg.pwc.com +65 6236 3600

May SY Ng  
may.sy.ng@sg.pwc.com +65 6236 3739

# Taiwan

## Updates on VAT refund for foreign entities

From 1 July 2010, VAT refund is available to foreign enterprises, institutions, organisations, or groups with no fixed place of business in Taiwan but that engage in exhibitions or temporary businesses activities, such as business travel, personnel training, investigation, or market research, etc., in Taiwan. VAT refund is allowed to the extent that the VAT levied on the foreign entities’ purchases of goods or services for their exhibitions or temporary businesses is more than NT\$5,000 within the calendar year and the foreign governments where the foreign entities are located provide reciprocal treatment or VAT exemption to Taiwanese companies.

For more information, please contact:

Lily Hsu  
lily.hsu@tw.pwc.com +886 2 2729 6666 Ext. 23684

# Thailand

## Updates to Thailand's VAT regulations and guidelines

- There shall be exemption of VAT for certain transactions where conditions specified under Royal Decree no. 495 or Royal Decree no. 496 are satisfied. For example, under Royal Decree no. 496, VAT shall be exempted for a public limited company or a limited company for the value of tax base, income or execution of instruments arisen from or owing to the said business operators having transferred certain parts of business to each other, specifically in the case of a transfer of business made from 1 January 2010 to 31 December 2010.
- Reduction of output tax attributable to the bad debt in the month in which the bad debt is written off is allowable if the conditions specified in Notice of Director-General of Revenue Department on Value Added Tax No. 177 are satisfied.
- There may be the exemption of VAT on the importation for the sale or on the sale of gems, ruby, emerald, Topaz, garnet, opal, black spinel, zircon, lapis lazuli, jade, and precious stones of the same nature, specifically not yet cut, but excluding imitations thereof or those reconstructed, diamond, pearl, and diamond or pearl imitations, or those reconstructed if the importation or the sale are qualified under the conditions specified in Notice of Director-General of Revenue Department on Value Added Tax No. 178.
- Under Royal Decree no. 479, the rate of VAT was reduced and collected at 7% for the sale of goods, the rendering of services, or the importation in all cases in the period from 1 October 2008 to 30 September 2010. Unless the period is further extended, the rate will revert to 10% from 1 October 2010.

For more information, please contact:

Thavorn Rujivanarom  
Thavorn.rujivanarom@th.pwc.com +662 344 1444

Darika Soponawat  
Darika.soponawat@th.pwc.com +662 344 1015

# Contact

## Australia

Denis McCarthy, Executive Director  
E-mail: denis.mccarthy@au.pwc.com  
Tel: +61 2 8266 5229

## Cambodia

Jean Loi, Partner  
E-mail: jean.loi@vn.pwc.com  
Tel: +855 2321 8086 ext. 1500

## China

Alan Wu, Partner  
E-mail: alan.wu@cn.pwc.com  
Tel: +86 10 6533 2889

## India

S.Madhavan, Partner  
E-mail: s.madhavan@in.pwc.com  
Tel: +91 11 4115 0505

## Indonesia

Jim McMillan, Partner  
E-mail: jim.f.mcmillan@id.pwc.com  
Tel: +62 81 1180 1657

## Abdullah Azis, Senior Manager

E-mail: abdullah.azis@id.pwc.com  
Tel: +62 21 5289 0601

## Japan

Masanori Kato, Partner  
E-mail: masanori.kato@jp.pwc.com  
Tel: +81 3 5251 2536

## Kotaku Kimu, Senior Manager

E-mail: kotaku.kimu@jp.pwc.com  
Tel: +81 3 5251 2713

## Laos

Thavorn Rujivanarom, Partner  
E-mail: thavorn.rujivanarom@th.pwc.com  
Tel: +662 344 1444

## Malaysia

Wan Heng Choon, Senior Executive Director  
E-mail: heng.choon.wan@my.pwc.com  
Tel: +60 3 2173 1488

## New Zealand

Eugen Trombitas, Partner  
E-mail: eugen.x.trombitas@nz.pwc.com  
Tel: +64 9 355 8686

## Gary O'Neill, Director

E-mail: gary.oneill@nz.pwc.com  
Tel: +64 9 355 8432

## Philippines

Mary Assumption Bautista-Villareal, Principal  
E-mail: mary.s.bautista-villareal@ph.pwc.com  
Tel: +63 2 459 2004

## Singapore

Soo How Koh, Partner  
E-mail: soo.how.koh@sg.pwc.com  
Tel: +65 6236 3600

## May SY Ng, Manager

E-mail: may.sy.ng@sg.pwc.com  
Tel: +65 6236 3739

## South Korea

Dong-Keon (D.K.) Lee, Partner  
E-mail: dklee@samil.com  
Tel: +82 2 709 0561

## Sri Lanka

Hiranthi Ratnayake, Director  
E-mail: hiranthi.c.ratnayake@lk.pwc.com  
Tel: +94 11 4719838

## Taiwan

Lily Hsu, Partner  
E-mail: lily.hsu@tw.pwc.com  
Tel: +886 2 2729 6666 Ext. 23684

## Thailand

Thavorn Rujivanarom, Partner  
E-mail: thavorn.rujivanarom@th.pwc.com  
Tel: +662 344 1444

## Darika Kriengsuntikul, Associate Director

E-mail: darika.kriengsuntikul@th.pwc.com  
Tel: +662 344 1015

## Vietnam

Richard J. Irwin, Partner  
E-mail: r.j.irwin@vn.pwc.com  
Tel: +84 8 823 0796 Ext. 4880

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