

Asia-Pacific
Tax Facts



Contents

Australia	2
China	4
Hong Kong	6
India	8
Indonesia	18
Japan	28
Malaysia	31
New Zealand	35
Singapore	37
Vietnam	40
Asia-Pacific Regional Principal Offices	41

Introduction

BKR International is an association of more than 135 independent firms of accountants, with member firms in 300 offices in over 60 countries around the world including most of the major trading nations of the world.

Asia-Pacific Tax Facts has been prepared with the assistance of BKR member firms in the Region.

This publication is issued as a helpful guide and is general in nature. It is not intended to, and does not, cover all aspects of the countries referred to.

It is important that specific advice is sought before any action is taken based upon information contained within this publication.

A list of the principal offices of BKR International member firms in the Asia-Pacific Region is given at the back of the publication.

Australia

Exchange Controls

There are generally no exchange controls for funds coming into Australia. Funds in excess of AUD10,000 exported from Australia must be reported to the Australian Transaction Reports and Analysis Centre (AUSTRAC).

Corporate Tax

Basis

Resident companies are subject to corporate income tax on their worldwide income. Non-resident companies are taxed on income from sources in Australia, subject to the provisions of double tax treaties.

Rate

Corporate tax is charged at 30% from 1 July 2004.

Personal Tax

Basis

Resident Individuals are taxed on their worldwide income. Non-residents are taxed on their income from Australia.

Rates – Resident Individual

The tax applicable to income derived by Australian resident individuals from 1 July 2004 is:

Taxable Income (AUD)	Tax Payable on Column 1 (AUD)
0 – 6,000	Nil
6,001 – 21,600	Nil + 17% of excess over 6,000
21,601 – 52,000	2,652 + 30% of excess over 21,600
52,001 – 62,500	11,772 + 42% of excess over 52,000
62,501 and over	16,182 + 47% of excess over 62,500

Rates – Non Resident Individual

The tax applicable to income derived by non-residents from 1 July 2004 is:

Taxable Income (AUD)	Tax Payable on Column 1 (AUD)
0 – 21,600	Nil + 29% of excess over 0
21,601 – 52,000	6,264 + 30% of excess over 21,600
52,001 – 62,500	15,384 + 42% of excess over 52,000
62,501 and over	19,794 + 47% of excess over 62,500

Withholding Taxes

The rates of withholding taxes vary between 5% and 30% for different types of payments, subject to the provisions of double tax treaties. This tax applies principally to interest, dividends and royalties paid to non-residents.

Australia has a dividend imputation credit system on dividends paid from taxed sources. No withholding tax need be deducted from franked dividends paid to non-residents.

Capital Gains Tax

Basis

Capital Gains Tax (CGT) applies to assets (excluding trading stock, motor vehicles and certain depreciable assets) purchased and sold after 19 September 1985. The legislation deems any capital gain made on the disposal or ending of an asset to be attributed to the taxpayer as income. Capital losses can only be applied in reduction of the same or subsequent years' capital gains.

There are a number of exemptions and rollover reliefs (enabling deferral of all or part of the tax) provided by the CGT provisions.

Rate

Net capital gains are included in the taxpayer's total assessable income for the relevant tax year. If a company derives the gain, the rate applicable to that gain is the corporate tax rate (currently 30%).

If a trust or an individual derives the gain, they may include in their assessable income the net capital gain with indexation of the asset's cost base frozen as at 30 September 1999. Alternatively they may include 50% of the actual capital gain without indexation (provided the asset has been held for a minimum of 12 months). The adjusted gain is then taxed at the relevant marginal tax rate of the individual. Certain superannuation funds are entitled to a discount of 33.33% of the gain

Goods & Services Tax (GST)

Australia introduced GST on 1 July 2000. This is a broad-based consumption tax of 10% levied on the supply of most goods, services, or other items (including rights) sold or consumed in Australia.

GST is charged on goods and services supplied in the course of carrying on an enterprise that is registered, or required to be registered. An enterprise is required to be registered if its annual turnover is AUD50,000 or greater. Certain types of supply are not subject to GST, including input taxed supplies (eg. supplies of certain financial services and residential rents), and GST free supplies (e.g. supplies of certain exports, foods, and medical services).

With only limited exceptions, GST will be payable where goods are imported into Australia, the GST being payable by the entity responsible for the importation of the goods into Australia. The GST will be calculated as 10% of the CIF (customs, insurance, freight) value of the importation and should be paid to Australian Customs. However this does not apply to the importation of GST-free or input taxed goods.

An enterprise is entitled to input tax credits for GST paid on creditable acquisitions or imports where taxable and GST-free supplies are provided. If supplies are input taxed, no GST is charged on the supply nor is the enterprise entitled to input tax credits for GST paid on acquisitions or imports to make the supply.

The system of refunding input tax credits to registered enterprises making taxable supplies ensures the economic cost of the GST is borne by the end consumer.

Social Security Contributions

A Medicare Levy of 1.5% of taxable income is paid by individuals. No levy is paid by low income earners and non-residents.

In addition, a Medicare Levy Surcharge applies to high income earners, who exceed the thresholds listed below, at a rate of an additional 1% of the taxpayer's taxable income if the taxpayer, taxpayer's spouse and all dependents are not covered by private health insurance.

Threshold for Surcharge

Individual	AUD50,000
Couple/Family	AUD100,000

Compulsory superannuation contributions are payable by employers. The minimum contribution is calculated using the notional earnings base and the applicable prescribed support rate. The rate is 9% (since 1 July 2002).

Employers are liable for a Superannuation Guarantee Charge if they fail to provide the minimum level of superannuation support for each employee.

Other Taxes

Fringe Benefits Tax

This tax is levied on employers in respect of benefits provided to employees, including motor vehicles, loans and housing. The Fringe Benefits Tax (FBT) year commences on 1st April.

Tax is paid at 48.5% on the GST inclusive value of the fringe benefit, less any contributions paid by the employee, with a deduction allowed to the employer for any Fringe Benefits Tax paid.

Stamp Duty

This is a State tax levied on documents, property transfers, sale of businesses and numerous other activities. The rates vary from State to State and according to the nature of the transaction. Stamp duty is generally levied on the purchaser; however, the State of New South Wales (NSW) introduced a Vendor Duty of 2.25% on transferors of certain land-related property in New South Wales from 1 July 2004. There are certain exemptions and, in particular, Vendor Duty does not apply on the sale of a principal private residence.

Land Tax

Land Tax is an annual tax based on land ownership and usage of land as at 30 June (31 December in NSW) in a year. It is calculated on the total site value (unimproved land value) of land owned. The Land Tax Rates and 'Tax Free' steps vary from State to State. For the 2005 year the rates vary between 0.4% and 4%. There are exemptions available including an exemption for land which is a principal private residence. Other exceptions may also be applicable depending on the State.

Pay-roll Tax

Pay-roll tax is levied by each State and Territory on employers and is imposed on wages and benefits paid or payable to employees. The rates currently vary between 4.75% and 6.85% from State to State. Various tax-free thresholds and exemptions may also apply. All States (except Western Australia, Queensland and the Northern Territory) have extended the definition of wages to include payments made to contractors.

Luxury car tax

Luxury car tax of 25% applies on all taxable supplies and importations of luxury cars. The tax applies to transactions involving cars over the luxury car tax threshold, which is AUD58,009 for the years ended 30 June 2004 and 2005. In general, the tax is paid when a car is sold or imported at the retail level.

Wine equalisation tax

Wine equalisation tax is a value-based tax of 29% levied at the wholesale level. The tax is paid on the value of the goods at the last wholesale sale or an equivalent value when there is no wholesale sale.

Normal Tax Year End

30 June

China

Exchange Controls

In recent years China has relaxed its foreign currency exchange controls on trading settlement; strict administrative measures, however, are still in place for capital items. All purchases of foreign currency and withdrawals from a bank account denominated in foreign currency require the approval of the State Administration of Foreign Exchange.

Corporate Income Tax

Basis

A Foreign Investment Enterprise (FIE) which establishes its head office in China will pay Corporate Income Tax on its worldwide income. An FIE without a permanent establishment in China will pay Corporate Income Tax on its income derived from sources within China.

Rate

The standard corporate income tax rate is 33%.

The State encourages the establishment of FIE's that operate with advanced technological know-how, manufacture for exports, carry on business in energy, communications, agriculture, or forestry industries, or invest in remote underdeveloped areas. The standard corporate income tax rate is reduced for these investments; or even exempted.

For investment in special economic zones, economic and technological development zones or other special areas such as Pudong New Area in Shanghai, the effective tax rate is levied at the reduced rate of 15% or 24%. Furthermore, manufacturing FIE's with an operating period of over 10 years are eligible for the corporate income tax holiday of a zero tax rate in the first two profit-making years and half the normal tax rate in the following three years.

Personal Tax – Resident

Individuals who have domicile in China or, though not domiciled, have resided for one year or more in China will be liable for Personal Tax on their worldwide income.

Basis

The income of an individual includes wages and salaries for employment, royalties, interest, dividends, bonuses, the lease and transfer of property, or other income specified by government as being taxable.

Rate

Income from wages and salaries is taxed at progressive rates ranging from 5% to 45% with a monthly deduction of RMB800 to RMB1,000.

Level	Monthly Taxable Income (RMB)	Tax Rate
1	0 – 500	5%
2	501 – 2,000	10%
3	2,001 – 5,000	15%
4	5,001 – 20,000	20%
5	20,001 – 40,000	25%
6	40,001 – 60,000	30%
7	60,001 – 80,000	35%
8	80,001 – 100,000	40%
9	100,001 and over	45%

Income from royalties, interest, dividends, bonuses, the lease and transfer of property, as well as contingent income and other income is taxed at a flat rate of 20%.

Personal Tax – Non-Resident

Foreign individuals not domiciled in China, or who are domiciled and reside for less than one year in China will pay Personal Tax on their income gained within China.

Rate

Income from wages and salaries will be taxed at progressive rates ranging from 5% to 45% with a monthly taxable deduction of RMB4,000.

Income from royalties, interest, dividends, bonuses, the lease and transfer of property, as well as contingent income and other income will be taxed at a flat rate of 20%.

Withholding Tax

An FIE with no permanent establishment in China but which derives profits, interest, rental income, royalties or other income from sources within China, will be subject to withholding tax at the rate of 10–20%.

There is no withholding tax on dividends distributed by an FIE.

Capital Gains Tax

In China, there are no general capital gains tax provisions. Capital gains may fall under the Corporate or Individual Income Tax Category.

At present income from an individual's share transfers in a recognised stock market is exempt.

Social Security Contribution

Both employers and employees are required to make contributions at prescribed rates (approximately 43.5% for employers) on the basis of the employees' remuneration, subject to a ceiling, e.g. the monthly upper limit for Shanghai in the 2004 Year is RMB5,541.

Other Taxes

Value Added Tax (VAT)

All entities and individuals engaged in the sale of goods, the provision of processing or repairs, and the importation of goods into China are subject to VAT.

VAT payers are divided into small-scale taxpayers and general taxpayers. VAT payable by small-scale taxpayers is calculated at the rate of 4% or 6% of sales value. Small-scale taxpayers are not entitled to offset or deduct input VAT.

VAT payable by general taxpayers is calculated based on the excess of the amount of output VAT over input VAT. Output VAT equates to the applicable rate multiplied by the sales value. The applicable rates for general taxpayers are 17% or 13%, depending on the product.

Business Tax

All units and individuals engaged in the provision of services, the transfer of intangible assets or the sale of immovable properties within China will be liable to pay Business Tax.

The applicable rate is in the range of 3% to 20%.

Urban Real Property Tax

Urban Real Property Tax is payable by the owners of a building situated in China at the rate of 12% of the actual rental income from the building, or 1.2% of the building cost less a 10% to 30% allowance.

Individuals are exempted when the property is for private residences.

Consumption Tax

Tax is levied on certain categories of goods including tobacco, cosmetics, and vehicles. The rate is in the range from 3% to 45%.

Land Appreciation Tax

Land Appreciation Tax is levied on entities and individuals and is levied on income derived from the transfer of state-owned land-use rights, buildings, and their attached facilities. The tax is assessed at a prescribed tax rate on the basis of the gain derived by the taxpayer from the transfer of the real estate.

Level	Calculation Basis	Tax Amount
1	Profit < 50% of the cost of the properties sold	30% of the profit
2	Profit > 50% to 100% of the cost of the properties sold	40% of the profit less 5% of the cost
3	Profit > 100% to 200% of the cost of the properties sold	50% of the profit less 15% of the cost
4	Profit > 200% of the cost of the properties sold	60% of the profit less 35% of the cost

Normal Tax Year End

31 December

Hong Kong

Exchange Controls

There are no exchange control restrictions in Hong Kong.

Corporate tax

Basis

The distinction between resident and non-resident companies is not relevant (except in very limited cases) as generally only Hong Kong source profits are subject to tax.

Rates

Profits tax payable by corporations is 17.5%. Profits tax for unincorporated bodies is 16%.

Personal Tax

Basis

Resident and non-resident individuals are taxed on their income earned in Hong Kong.

Rates

Income after deductions and allowances is charged at rates ranging from 2% to 20%. The overall tax charged will not exceed 16% (standard rate) of the net total income before allowances.

Withholding Tax

Dividend and Interest Income

There is no withholding tax on dividends and interest.

Non-resident selling goods in Hong Kong through an agent

The agent is required to furnish quarterly returns showing the gross proceeds from the sales and is required to pay 1% or a lesser sum as agreed, of the sales proceeds.

Non-resident receiving Royalties and licence fees

The Hong Kong resident paying such fees should withhold and pay to the Inland Revenue Department tax based on 30% of the fee. If the Hong Kong resident is an associate of the non-resident, tax should be based on 100% of the fee paid.

Income derived from a performance by a non-resident entertainer or sportsman

The Hong Kong resident who engages the non-resident entertainer or sportsman should withhold and pay tax based on two-thirds of the gross proceeds.

Sales Tax

There are neither sales taxes nor Value Added Taxes in Hong Kong.

Capital Gains Tax

There are no general capital gains tax provisions. However such gains may be assessed under the profits tax if the capital transaction is speculative in the course of the business.

Social Security Contributions

Both employers and employees are required to contribute to Mandatory Provident Funds or a Registered Retirement Funds scheme at the rate of 5% of the income earned. An employee with monthly income of less than HKD5,000 is exempt from making contributions and the mandatory monthly contribution is capped at HKD1,000.

Other Taxes

Property Tax

Property tax is payable by the owners of land or buildings situated in Hong Kong. Tax is payable at the rate of 16% of the actual rental income from such land or buildings, less an allowance of 20% for repairs and maintenance. If a corporation carrying on business in Hong Kong has income from buildings, such income is subject to corporation profits and is exempt from property tax.

Estate Duty

Estate duty is charged on the total value of an estate situated in Hong Kong which passes on the death of an individual. If the value of estate is less than HKD7,500,000, the estate is exempt from estate duty. The rates of estate duty are as follows:

Value of Estate (HKD)	Rate %
0 – 7,500,000	exempt
7,500,001 – 9,000,000	5
9,000,001 – 10,500,000	10
10,500,001 and over	15

Hong Kong continued

Stamp Duty

Stamp Duty is levied at various rates on certain types of documents, including the following:

1. Conveyance on sale,
2. Agreement for sale of residential property,
3. Lease of immovable property, and
4. Transfer of Hong Kong stock.

The rates of fixed duties vary from HKD3 to HKD100 where as ad valorem duties range from 0.1% to 3.75%.

Excise Duties

Duty is levied on certain categories of goods including alcoholic beverages, tobacco, hydrocarbons, motor vehicles, cosmetics and medicines.

Hotel Accommodation Tax

Hotel Accommodation tax is imposed on hotel and guesthouse accommodation at the rate of 3% of the accommodation charges paid by guests.

Normal Tax Year End

31 March.

India

Exchange Controls

Exchange control Regulations are governed by the provisions of the Foreign Exchange Management Act, 1999 (FEMA).

FEMA extends to the whole of India, it also applies to all branches, offices and agencies located outside India, which are owned or controlled by a person resident in India. It applies to any contravention committed outside India by the above entity if FEMA is applicable to the person committing the contravention.

The applicability of the provisions of FEMA is to be effected by:

1. Central Government prescribing rules
2. Reserve Bank of India (RBI) specifying regulations
3. RBI issuing directions to the authorised person, i.e. bankers

FEMA prohibits the following unless permitted by the rules or regulations or by specific or general permission of RBI

1. any person dealing in foreign exchange or foreign security
2. any person transferring any foreign exchange or foreign security to any person other than an authorised person
3. any payment to or for the credit of any person resident outside India in any manner
4. receipt of any payment by order of or on behalf of any person resident outside India in any manner otherwise than through an authorised dealer.

Any person may draw or sell foreign exchange from or to an authorised dealer if such drawing or sale is a current account transaction subject to the rules framed by the Central Government to that effect.

RBI governs drawings of foreign exchange for capital account transaction in consultation with Central Government. RBI has listed various capital account transactions, which may be permitted. Permissible capital account transactions have been classified into two categories:

1. transactions of a person resident in India
2. transactions of a person resident outside India

RBI has specified detailed regulations governing different types of permissible capital account transactions. The regulations lay down the substantive law governing those transactions.

The applicability or otherwise of the provisions of FEMA depends upon the residential status of a person.

Person Resident in India is defined as

1. a person residing in India for more than one hundred and eight-two days during the course of the preceding financial year, but does not include:
 - a. a person who has gone out of India or who stays outside India, in either case:
 - i. for, or on taking up, employment outside India, or
 - ii. for carrying on outside India a business or vocation outside India, or
 - iii. for any other purpose, in such circumstances as would indicate their intention to stay outside India for an uncertain period;
 - b. a person who has come to or stays in India, in either case, otherwise than:
 - i. for or on taking up employment in India, or
 - ii. for carrying on in India a business or vocation in India, or
 - iii. for any other purpose, in such circumstances as would indicate their intention to stay in India for an uncertain period ;
2. any person or body corporate registered or incorporated in India,
3. an office, branch or agency in India owned or controlled by a person resident outside India,
4. an office, branch or agency outside India owned or controlled by a person resident in India.

A person resident outside India means a person not resident in India.

Investment Windows

Broadly, non-residents can invest and participate in businesses in India or carry on commercial, trading and industrial activity through the following windows:

1. Foreign Direct Investment (FDI) Scheme
2. Portfolio Investment Scheme
3. Investment without repatriation benefits
4. Non equity/convertible debenture investment
5. Investment through Government {Foreign Investment Promotion Board (FIPB) /Secretariat for Industrial Assistance (SIA)} approval.
6. Non corporate business participation
 - a. Proprietorship
 - b. Partnership
 - c. Branch, liaison office.

The categories of foreign investors are as follows:

1. Foreign Institutional Investor (FII) registered with Securities and Exchange Board of India (SEBI)
2. Venture capitalists
3. A person resident outside India who is a citizen of India or is a person of India Origin (NRI)
4. Person of India Origin (PIO)
5. Foreign citizens/companies

Foreign Direct Investment Scheme (FDI Scheme)

The FDI Scheme is incorporated in Schedule 1 to the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000 RBI. Schedule 1 together with the annexures provides the policy framework of FDI scheme which includes the following.

1. Eligible activities or items for which automatic approval of RBI for investment from non-residents is not available
2. Specified industrial sector and respective cap on investments by non-residents
3. Documents to be filed by an Indian company who has issued Global Depository Receipt /American Depository Receipt
4. List of Industries in respect of which dividend balancing is applicable

FDI scheme includes foreign investment in equity shares, preference shares, convertible preference shares and convertible debentures.

Government of India (GOI) Approval

The following Investment would require prior approval of GOI through SIA/FIPB –

1. Industries or activities listed in Annexure A to Schedule 1 to Securities Investment Regulations
2. Investment in excess of sectoral policy/caps
3. Industries for which industrial licensing is compulsory or which require an Industrial license in terms of locational policy notified by the Government under the New Industrial Policy of 1991
4. Foreign investment exceeding 24% in equity capital of units manufacturing items reserved for Small Scale Industries.
5. Transfer of existing shares in favour of non-resident on repatriation as well as private arrangement basis.

Corporate Tax – Basis and Rates

The Income Tax Act 1961 (ITA) bifurcates companies into Domestic Companies and Foreign Companies.

Domestic Company means an Indian Company, or any other company, which in respect of its income liable to tax under ITA, has made the prescribed arrangements for declaration and payment, within India, of dividends (including dividends on preference shares payable out of such income).

Indian company means a company formed and registered under the Companies Act 1956 and includes any corporation established by or under a Central, State or Provincial Act, whose principal or registered office is in India.

Foreign company means a company, which is not a domestic company.

Residential Status of a company

An Indian company is always resident in India. A foreign company is resident in India only if during the relevant tax year the control and management of its affairs is situated wholly in India.

The scope of total income, which is subject to tax in India, depends on the residential status of the company. A resident company is subject to tax on its world income irrespective of its place of receipt or accrual.

A non-resident company is taxable on its income received in India and also on income sourced in India. There are certain provisions under ITA which deem the income to accrue or arise in India i.e. sourced in India.

The companies are allowed deductions for the expenses incurred in earning income subject to certain limitations and disallowances. The companies enjoy certain concessional tax treatments including 100% exemption in respect of certain types of income. These include:

1. 100% of the profits and gains derived by an undertaking from the Export of articles, things or computer software.
2. Concessions for 100% export oriented undertakings
3. Concessions in respect of film, TV, Music software exports
4. A certain percentage of profits and gains derived from specified new industrial undertakings
5. A certain percentage of the profits and gains of enterprises engaged in specified infrastructure projects.

Depreciation allowance

Depreciation is calculated by using the written down value method and is allowed on a block of assets (group of assets). The rates vary according to the class of assets. The general rates are:

Assets	Rate (%)
Plant and Machinery	25
Office Equipment	25
Computer	60
Buildings	10
Furniture and Fittings	15
Intangible Assets like patents, copyrights, trademarks etc.	25

Companies engaged in power generation or in power generation and distribution may elect to use the straight-line method of depreciation. The applicable rates are:

Assets	Rate (%)
Canals, dams, reinforced concrete flumes and syphons, spillways and weirs	1.95
Offices and showrooms	3.02
Plant and machinery	3.4 to 33.4
Other assets	7.69

The basic rates of income tax applicable to the company are tabulated below:

Source of Income	Rates of Income Tax (%)	Surcharge (%) (Including Educational Cess wherever applicable)
Domestic Company	35	1.5925
Foreign company with income from sources other than royalties, fees for technical services, dividends and interest	40	1.82

The following income of foreign companies is taxed at concessional rates:

Dividends (other than dividends specified under section 115-O)	20%
Royalties and fees for technical services (other than royalties and fees for technical services specified under section 44DA)	20%
Long term capital gains arising from transfer of capital assets other than listed securities	20%
Long term capital gains arising from transfer of capital assets being listed securities	Nil

Note:

The above rate has to be increased by a surcharge of 2.5% and education cess of 2%.

Section 115-O

Under the provisions of section 115-O, any amount declared, distributed or paid by a domestic company by way of dividend, whether out of current or accumulated profit, will be chargeable to additional tax of 12.5% (plus surcharge and education cess).

Such dividend income will not be chargeable to tax in the hands of the shareholders by virtue of the provisions of section 10(34).

Section 44DA

Under the provisions of section 44DA, income received by a foreign company by way of royalties or fees for technical services from the Government of India or an Indian concern in pursuance of an agreement entered into with them will be computed under the 'Profits and Gains of Business or Profession', if the foreign company carries on business through a permanent establishment situated in India or performance of professional services from a fixed place of profession situated in India, and the right property or contract in respect of which the royalties or fees for technical services are paid is effectively connected with such permanent establishment or fixed place of profession.

Further, the foreign company will also be required to keep and maintain books of account and other documents in accordance with the provision of section 44AA and have its accounts audited.

For foreign institutional investors that satisfy certain conditions, gross interest is subject to tax at a rate of 20% (plus applicable surcharge and education cess). Long Term Capital Gains arising from the transfer of a capital asset other than listed securities are taxed at concessional rates of 20% (plus applicable surcharge and education cess), whereas no tax is to be paid on long term capital gains arising from the transfer

of capital assets being listed securities. Short term capital gains arising from the transfer of capital assets being listed securities are taxed at concessional rates of 10% (plus applicable surcharge and education cess), whereas short term capital gains arising from the transfer of capital assets other than listed securities are taxed at normal rates (both the long term and short term capital gains must be computed in rupees).

Special tax rates apply to specified offshore financial funds investing in units of the Unit Trust of India or in units of mutual funds established by a public sector bank or by a public financial institution or authorised by the Securities and Exchange Board of India or the RBI.

Note:

'Short Term Capital Asset' means a capital asset held by an assessee for not more than 36 months immediately preceding the date of its transfer.

However, in the case of the assets which are shares in a company or any other security listed on a recognised stock exchange in India, 'Short term capital asset' means a capital asset held by an assessee for not more than 12 months immediately preceding the date of its transfer.

Long Term Capital Asset: Means a capital asset that is not a short-term capital asset.

Instalments of Advance tax and their due dates for payment

The companies are required to estimate their tax liability and pay advance tax as follows:

Due date of instalments	Amount payable
On or before 15th June	Not less than 15% of such advance tax
On or before 15th September	Not less than 45% of such advance tax as reduced by the amount paid earlier
On or before 15th December	Not less than 75% of such advance tax as reduced by the amount paid earlier
On or before 15th March	The whole amount of such advance tax as reduced by the amount paid earlier

Minimum Alternate Tax

If the tax liability of a company (computed under the Normal provisions of the Income Tax Act) is less than 7.5% of its book profits, such book profits will be deemed to be the total income chargeable to tax at the rate of 7.5%. 'Book profits' means the net profit for the relevant tax year as shown in the profit and loss account prepared in accordance with the provisions of the Companies Act, 1956 as increased or reduced by the specified adjustments.

Personal Tax

Resident Individual

For the purpose of ITA, an individual is regarded as a resident of India if he

1. is in India for a period for 182 or more days in a tax year; or
2. is in India for an aggregate period of 60 days or more in a year and has been in India for a period of 365 days or more in four tax years preceding that tax year. The period of 60 days is extended to 182 days in certain cases

A resident individual is subject to tax in respect of:

1. Income, which is received or deemed to be received in India in the relevant tax year by them or on their behalf.
2. Income which accrues or arises or is deemed to accrue or arise to them in India during the relevant year and
3. Income, which accrues or arises to them outside India during the relevant tax year.

Resident but not ordinarily resident individual

An individual is regarded as resident but not ordinarily resident in India in any tax year, if they

1. have not been resident in India in nine out of ten tax years preceding that tax year; or
2. have not, during the seven tax years preceding that year, been in India for a period or periods amounting to 730 days or more.

A resident but not ordinarily resident is not liable to tax in respect of the income which accrues or arises to them outside India unless that income is derived from a business controlled in or a profession set up in India.

Non-resident Individual

A non-resident individual is liable to tax in respect of income which is received or deemed to be received in India by them or on their behalf or which accrues or arises or is deemed to accrue or arise in India during the relevant tax year.

Income tax rates for individuals are same regardless of their residence status. They are as follows:

Taxable Income (INR)	Rates of Income Tax
0 – 50,000	Nil
50,001 – 60,000	10
60,001 – 150,000	20
150,001 – 850,000	30
850,001 and over	30

Resident individuals having taxable income up to INR1,000,000 will not be required to pay any income-tax in view of new tax rebate u/s 88D.

- * Marginal relief would be available to ensure that the additional tax is limited to the amount by which the income is more than INR850,000.

The following income of non-residents is taxed at concessional rates:

Income	Concessional rate
Dividends (other than dividends specified under section 115-O)	20%
Interest on borrowing in foreign currency	20%
Income in respect of mutual funds	20%
Long term capital gains arising from transfer of capital assets other than listed securities	20%
Long term capital gains arising from transfer of capital assets being listed securities	Nil

A rebate of a percentage of specified payments (i.e. Life Insurance Premium) or investment made in certain specified assets is available to Individuals and Hindu Undivided Family from their tax liability. The rebate is allowed at a specified rate depending upon the income of the taxpayer.

Instalments of advance tax

Individuals are required to estimate their tax liability and pay advance tax according as follows:

Due date of instalments	Amount payable
On or before 15th September	Not less than 30% of such advance tax
On or before 15th December	Not less than 60% of such advance tax as reduced by the amount paid earlier
On or before 15th March	The whole amount of such advance tax as reduced by the amount paid earlier

Transfer Pricing

The ITA specifically provides for avoidance of tax from an international transaction with associated enterprises where either party to the transaction is a non resident. It provides that any income arising from an international transaction has to be calculated having regard to the arm's length price. The arm's length price in relation to an international transaction is required to be determined by any of the following methods:

1. Comparable uncontrolled price method;
2. Resale price method;
3. Cost plus method;
4. Profit split method;
5. Transactional net margin method; or
6. Any other prescribed method.

So far no other method has been prescribed.

Withholding Tax

(Tax Deducted at source – TDS)

Every person making certain specified payments (including payments of salary and interest) is required to deduct tax at source at prescribed rates.

Individuals and Hindu Undivided Families are required to deduct tax at source only if total sales, gross receipts or turnover from the business or profession carried on by them exceed the specified monetary limits during the immediately preceding the financial year.

The rate of tax varies according to the status of the payee. Further, a non resident who is subject to tax in India, is also entitled (if eligible) to claim a beneficial tax rate or beneficial tax treatment for the said income, as per the provisions of the Double Taxation Avoidance Agreement signed by the Government of India with the Government of other respective countries under constitution.

The basic rates of taxes for different taxpayers are as follows:

Foreign Companies

Source of Income	% of total taxable income
Royalties and fees for technical services	20%
Interest	20%
Long term capital gains arising from transfer of capital assets other than listed securities	20%
Long term capital gains arising from transfer of capital assets being listed securities	Nil
Income from sources other than royalties, fees for technical services, interest and long term capital gains	40%

Note: The above rates are subject to surcharge and education cess, as applicable.

Non-resident Individuals

Source of Income	% of total taxable income
Long-term capital gains arising from transfer of capital assets other than listed securities	20%
Long term capital gains arising from transfer of capital assets being listed securities	Nil
Interest	20%
Other Income	30%

Note: The above rates are subject to surcharge and education cess, as applicable.

Residents – Domestic Companies

Source of Income	% of total taxable income
Interest on Securities	20%
Other Interest	20%
Payments to Contractors	2%
Payment to Subcontractors	1%
Rent	20%
Fees Paid for Professional and Technical Services	5%
Commission or Brokerage income	5%

Note: The above rates are subject to surcharge and education cess, as applicable.

Resident Persons other than Domestic Companies Source of Income	% of total taxable income
Interest on Securities	10%
Other Interest	10%
Payments to Contractors	2%
Payment to Subcontractors	1%
Rent	15%
Income from Units	10%
Commission or Brokerage Fees	5%

Note: The above rates are subject to surcharge and education cess, as applicable.

Capital Gains Tax Basis and Rates

Profits and gains arising from the transfer of capital assets are charged to tax as capital gains in the year in which the transfer is effected.

Capital gains are classified as long-term capital gains if they arise from the transfer of capital assets held:

1. in the case of shares held in a company or other securities listed on a recognised stock exchange in India, or units of specified mutual funds, for a period of 12 months or more; and
2. in the case of other assets, for a period of 36 months or more.

Capital gains arising on transfers of assets held for a shorter period are classified as short-term capital gains.

Capital gains are computed after deducting expenses incurred in connection with the transfer and the costs of acquiring or improving the asset. The actual cost is permitted to be increased taking inflation into account in case of long term capital gains.

Long Term Capital Gains arising from transfer of capital asset other than listed securities are taxed at concessional rates of tax of 20%, whereas no tax is to be paid on long term capital gain arising from transfer of capital asset being listed securities.

Short term capital gains arising from transfer of capital assets being listed securities are taxed at concessional rates of tax of 10%, whereas short term capital gains arising from transfer of capital assets other than listed securities are taxed at normal rates.

Special Provision in relation to sale of Land and Buildings

Where consideration declared to be received or accruing as a result of the transfer of land or buildings or both is less than the value adopted or assessed by any State Government Authority, for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed, will be deemed to be the full value of the consideration and the capital gain is required to be computed accordingly.

However, where the assessee claims that the value adopted or assessed for stamp duty purposes exceeds the fair market value of the property as at the date of the transfer and they have not disputed the value so adopted or assessed before any authority or any court, the Assessing Officer may refer the valuation of the relevant asset to a valuation officer.

If the fair market value determined by the Valuation Officer is more than the value adopted or assessed for stamp duty purposes, the Assessing Officer will not adopt such fair market value and will take the consideration to be the value adopted or assessed for stamp duty purposes.

If the value adopted or assessed for stamp duty purposes is revised in any appeal, revision or reference, under stamp duty law, the assessment will be amended to recompute the capital gains by taking the revised value as the full value of consideration.

Exemption has been provided for the income arising from the transfer of agriculture land situated in specified areas, chargeable under the head capital gains, in the hands of an individual or HUF, where such land during the period of two years immediately preceding the date of transfer, was being used for agricultural purposes and such transfer is by a compulsory acquisition under any law, or transfer and consideration for which is determined or approved by the Central Government or Reserve Bank of India and such income has arisen from the compensations or the consideration for such transfer received on or after 1st day of April, 2004.

Social Security Contributions

Social Security Contributions encompass contributions made for the social security of employees. The legislations governing such contributions includes Employees State Insurance Act, 1948 and Employees Provident funds and Miscellaneous Provisions Act, 1952.

The Employees State Insurance Act, 1948

The Act applies to all factories excluding seasonal factories employing 10 or more persons if working with power or employing 20 or more persons if working without power. It also applies to shops employing 20 or more persons and any establishment, which is specifically notified by the Government.

Under the Act the employer is required to deduct a certain percentage of the employees' salary and match this with its own contribution and pay to the Employees state Insurance Corporation (ESIC). The Act is not applicable to employees whose salary exceeds INR6,500 per month.

The employees are entitled to Sickness benefit, Disablement benefit, Dependent benefit, Medical benefit etc. Free Medical treatment is offered to employees at Hospital and Dispensary run by ESIC.

Employees Provident funds and Miscellaneous Provisions Act, 1952

The Act applies to every establishment which is a factory engaged in any specified industry and in which 20 or more persons are employed. It also applies to any establishment employing 20 or more persons, which the Central Government may notify. However it will not apply to any other new establishment for a period of 3 years.

Under the Act the employer is required to deduct a certain percentage of the employees' salary and match this with its own contribution and deposit the same with Provident Fund Authorities. Generally employer contributes an amount equal to the employees' contribution.

Employees covered enjoy the benefit of social security in the form of an unattachable, unwithdrawable balance with the provident fund authorities. The sum is normally payable on retirement or death.

Other Taxes

Central Sales Tax

India is divided into various states and Union Territories. The purchase and sale of goods under specified transactions between the states attracts Central Sales Tax.

All sales of goods (other than Electrical Energy) effected in the course of interstate trade or commerce attract Central Sales tax if the sale or purchase:

1. occasions the movement of goods from one state to another, or
2. is effected by a transfer of documents of title to the goods during their movement from one state to another.

However, no tax is payable on any transaction of sale in the course of export out of the territory of India.

Movement of goods within states and the transfer of property in the goods between persons within the states are subject to local sales tax of the relevant states

Fringe Benefit Tax (Perquisite Tax)

In India there is no separate legislation in relation to fringe benefits. The fringe benefits (perquisites) granted by the employer to the employee are required to be valued as per the rules prescribed under ITA and the value so arrived forms part of the salary of the employees.

Important perquisites requiring valuation include:

1. Residential Accommodation (both furnished and unfurnished)
2. Use of Motor Car.
3. Supply of gas, Electric energy and water for household consumption.
4. Services provided including sweeper, gardener, and watchman or Personal Attendant.
5. Free or Concessional Meals.
6. Gifts.
7. Credit Card payments.
8. Club expenses.
9. Free or concessional education to the household members of an employee.
10. Interest free or loan provided at concessional rate of interest
11. Use of movable assets owned by the employer.

12. Transfer of Movable assets owned by the employer for inadequate consideration
13. other benefits or amenities, services, and rights provided by the employer
14. Any amount paid by the employer in respect of an obligation of the employee

Stamp Duty

The Indian Stamp Act, 1899 ('the Act') is a fiscal enactment governing the levying of tax in the form of stamp duties on instruments recording transactions. The primary object of the Act is to raise revenue for the state. The Act extends to the whole of India except the state of Jammu and Kashmir. The State governments have in some cases enacted separate State Stamp laws. However, the provisions of these State laws are more or less the same as the Act.

There is a distribution of power to legislate regarding stamp duties between the Centre and the States. The Central Parliament has the exclusive power to fix the rates of duty in respect of bills of exchange, cheques, promissory notes, bills of lading, transfers of shares, debentures, proxies and receipts. The States has the exclusive power to legislate on the rates of stamp duty in respect of all other documents.

The following principles govern the application of the Act to instruments:

1. Stamp duty is leviable on an instrument and not on a transaction;
2. Stamp duty is payable on an instrument according to its tenor, that is, it is the real nature of the transaction which determines the stamp duty; and
3. a transaction may be structured in such a manner that a lower rate of duty is attracted.

The Act provides direction for valuation in certain cases, e.g. where the consideration is stated in a currency other than Indian Rupees; where instruments are connected with stock or other marketable securities; where instruments are executed to secure an annuity; and where the value of the subject matter is indeterminate. In such cases stamp duty is payable on the basis of such valuation.

Land Tax

Land tax is levied on a yearly basis by the State Government/Union Territory on immovable properties located within their territories through Municipal and Other Quasi Government Bodies.

Goods & Services Tax

Excise Duty

Excise is a duty on the manufacture of goods. The following conditions should be satisfied for the levy of excise duty.

1. There should be production or manufacture of goods in India;
2. The production or manufacture should result in the creation of excisable goods and
3. The excisable goods should be specified in the Schedule to Central Excise Tariff.

Excisable goods are defined as:

'Goods specified in the first schedule and the second schedule to the Central Excise Tariff Act, 1985 (5 of 1986) as being subject to a duty of excise and includes salt'.

Service Tax

Tax is levied on certain specified services in India and the person rendering the specified services is responsible for collecting the service tax and paying it to the central government.

Services rendered in India with respect to overseas projects for which payment is made in convertible foreign exchange are exempt from services tax. The exemption is not available for projects located in India, or where services are rendered outside India but payment is not received in convertible foreign exchange.

Foreign enterprises may render services from outside India that may relate to projects located in India. Such services will be subject to the levy of service tax because the government is of the view that services used in India are within the definition of 'taxable services'.

Payments made in foreign exchange for services rendered are exempt from service tax. Accordingly, payments made in foreign exchange to a non resident by an Indian client for services rendered are exempt from service tax. The exemption does not apply if the payment received in India in convertible foreign exchange is repatriated from or sent outside India.

India continued

Normal Tax Year End

ITA recognises a financial year as the year starting from the first day of April and ending on the 31st day of March. In the ITA it is referred to as 'Previous Year'.

Companies

Companies are required to file a return of income in respect of the relevant tax year on or before October 31 after the relevant year end.

Individuals

The due date for filing a return of income is July 31 or October 31 after the relevant year end depending on the nature of income and certain other factors.

Indonesia

Corporate Income Tax Rate

For resident companies:

Taxable Income (IDR)	Tax Rate
0 – 50,000,000	10%
50,000,001 – 100,000,000	15%
100,000,001 and over	30%

Tax Subject

A resident Tax Subject shall be:

- A body which is established or domiciled in Indonesia; or
- A permanent establishment being an establishment used by an individual not residing in Indonesia or present in Indonesia for not more than 183 days in any 12 month period, or a body which is not established or domiciled in Indonesia, to conduct business or engage in activities in Indonesia in the form of among others: a place of management, a branch office, a representative office, an office building, a factory, a workshop, etc.

A non-resident Tax Subject shall be:

- A body which is not established or domiciled in Indonesia, conducting business or carrying out activities through a permanent establishment in Indonesia.
- A body which is not established or domiciled in Indonesia, receiving or accruing income from Indonesia other than from conducting business or carrying out activities through a permanent establishment in Indonesia.

Tax Object

A tax object shall be income, namely any increase in economic capability received or accrued by a Taxpayer, in whatever name of form and originating from within or outside Indonesia, which can be used for consumption or to increase the wealth of the Taxpayer concerned, including:

- consideration or other remuneration received or accrued in connection with work or services including salary, wage, allowance, honorarium, commission, bonus, gratuity, pension, or compensation in other forms, except where stipulated otherwise in this law.
- Lottery prizes or gifts from work or other activities, and awards
- Profit from business
- Gains from the sale or transfer of property

- Refund of tax payments already deducted as expenses
- Interest, including premiums, discounts and compensation from loan repayment guarantees
- Dividends, in whatever name and form, including dividends paid by an insurance company to policyholders and the distribution of surplus by a cooperative.
- Royalties
- Rent and other income related to the utilization of property
- Annuities received or accrued
- Gains from the cancellation of indebtedness, except up to an amount as determined by Government Regulation
- Gains from fluctuations in foreign currencies
- Gains from revaluation of property
- Insurance premiums
- Contributions received or accrued by an association from its members who consist of Taxpayer engaged in business or independent
- An increase in net wealth from income which has not been taxed

Business Profits

Taxable business profits are computed on the basis of normal accounting principles as modified by certain tax adjustments.

Disallowed deductions include:

- Benefit-in-kind (BIK)
- Private expenses
- Non-business gift and aid
- Provisions/reserves, except for the provisions for doubtful debts of banks and finance lease companies and provisions for reclamation cost of mining companies
- Income tax payments
- Tax penalties
- Distributions of profits
- Employer contributions for life, health and accident insurance
- Expenses relating to income which is taxed at a final rate

- Salaries or compensation received by a partnership or 'firmas' members where their participant is not divided into shares.

Losses

Losses may be carried forward for a maximum of five years. However, for a limited category of business in certain regions, the period can be extended up to ten years. A carry-back of losses is not possible. Tax consolidation is not available.

Deemed Profit Margins

The following businesses have deemed profit margins for tax purposes:

	On gross revenue	Effective income tax rate
Domestic shipping operations	4%	1.2%
Domestic airline operations	6%	1.8%
Foreign shipping and airline operations	6%	2.64%
Foreign oil and gas drilling service operations	15%	–
Certain Ministry of Trade representative offices	1%	0.44%

Interest on Bonds

Income tax on interest earned on bonds sold on Indonesian stock exchange is fixed at a final 20% rate for resident taxpayers and 20% (or lower treaty rate) for non-resident taxpayers. Banks operating in Indonesia, Government approved pension funds and mutual fund companies registered with The Capital Market Supervisory Board are except from this tax within 5 years of their establishment.

Tax Facilities

Investors in certain business sectors and/or locations may be eligible for the following income tax incentives:

- A reduction in net income of up to 30% of the amount invested, prorated at 5% for 6 years provided that the assets invested are not transferred within 6 years.
- Acceleration of fiscal depreciation
- Extension of tax loss carry-forwards up to 10 years; and
- A reduction to 10% in the withholding tax on dividends paid to non-residents.

Exporters

Exporters are granted special tax concessions designed to encourage export. These concessions, which included bonded warehouses, generally relate to VAT relief by zero-rating exported goods and the recovery of other indirect taxes (such as import duty and sales tax on luxury goods) relating to the production of goods intended for export.

Capital Allowances

Depreciation

Expenditures incurred in relation to assets with a beneficial life of more than one year are categorized and depreciated from the month on acquisition by consistently using either the straight line or declining balance method be as follows:

No	Class of Tangible Assets	Useful Life	Depreciation Rate based on	
			Section (1)	Section (2)
I. Non Buildings				
	Class 1	4 years	25%	50%
	Class 2	8 years	12.5%	25%
	Class 3	16 years	6.25%	12.5%
	Class 4	20 years	5%	10%
II. Buildings				
	Permanent	20 years	5%	–
	Non-Permanent	10 years	10%	–

Amortisation

Intangible property or cost, including the cost of extending building use right, right for business use, right for use and land and building transfer duty (BPHTB) on land rights with a useful life of more than one year, should be amortized on the following bases, as appropriate:

Class of Intangible Assets	Useful Life	Amortization Rate based on	
		Straight Line method	Declining Balance method
Class 1	4 years	25%	50%
Class 2	8 years	12.5%	25%
Class 3	16 years	6.25%	12.5%
Class 4	20 years	5%	10%

Asset transfers

For transfers of property or rights, the remaining book value of the property or rights is deducted and the amount received as compensation constitutes income in the year of the transfer.

Revaluation of Fixed Assets

Resident corporate taxpayers and permanent establishment (PE) may revalue any income-earning tangible fixed asset (not intended for transfer or sale) on a selective basis provided:

- The taxpayer has no outstanding tax obligations
- The taxpayer are not keeping accounts in US dollars; and
- The revaluation is based on fair value as confirmed by a Government recognized assessor.

Individual Income tax

Rate

For resident individual Taxpayer shall be as follows:

Taxable Income bracket (IDR)	Tax Rate
0 – 25,000,000	5%
25,000,001 – 50,000,000	10%
50,000,001 – 100,000,000	15%
100,000,001 – 200,000,000	25%
200,000,001 and over	35%

Non-taxable income shall be:

- For an individual Taxpayer IDR2,880,000
- For a married Taxpayer, an additional of IDR1,440,000
- For a married Taxpayer whose wife's income combined with that of the Taxpayer, an additional allowance of IDR2,880,000
- For an individual Taxpayer, an additional allowance of IDR1,440,000 for each wholly dependent family member by blood or marriage in direct lineage, including an adopted child, up to maximum of three individuals for each family.

Occupational expenses 5% of gross income, max IDR1,296,000/year or max IDR108,000/month)

Pension expenses 5% of gross income, max IDR432,000/year or max IDR36,000/month

Tax Residence

An individual is regarded as a tax resident if he/she:

- Is domiciled in Indonesia; or
- Is present in Indonesia for more than 183 days within any 12-month period ;or
- Is present in Indonesia within a fiscal year and intends to residence in Indonesia.

Note: The Provisions of tax treaties may modify these rules.

Non-resident individuals are subject to a 20% withholding tax (Articles 26, subject to treaty provisions) on Indonesian sources of income (as specified on page 22).

Registration and Filing

All expatriate and Indonesian individuals who receive or earn income which is higher than the annual non-taxable income (PTKP) threshold must register with the Indonesian Tax Office and file personal tax returns.

The personal tax return should report all of the individual's income, including compensation from employment, investment income, capital gains, overseas income and other income. Starting from 2001, it should also report the assets and liabilities of the individual.

Collection of tax

Employers are required to withhold tax monthly (Article 21) from salaries and other compensation paid to employees based on their income and personal relief entitlement.

Pension funds approved by the Minister of Finance are required to withhold tax from pension payments using the progressive tax rates specified on page 12.

For severance payments transferred to a Manpower Severances Pay Management Board, any interest earned from severance pay received by an employee is subject to 20% final tax if the Board is a bank or 15% withholding tax under Article 23 if the Board is not a bank.

Tax must also be withheld from fees paid to independent, individual professionals such as lawyers, notaries, accountant, architects, doctors, actuaries and appraisers. The effective tax rate is 7.5% of the fees.

Salaries or compensation received by partnership or 'firmas' members are not subject to employee withholding tax so long as their participation is not divided into shares.

The government will bear a portion of the income tax liability for employees whose monthly salaries not exceed IDR2,000,000. In this regard, the government will bear the income tax liability on the first IDR1,000,000 (or part there of) at such employees monthly salary.

Fiscal exit tax

An 'exit tax' (IDR1,000,000 per exit from Indonesia by plane, IDR500,000 by ship) is another form of prepayment of an individual's income tax. If the exit tax borne by an employer and the overseas trip was for business purpose, the amount paid is a prepayment of the employer's income tax, otherwise the exit tax can be credited against the individual's income tax.

Benefits-in-kind

Benefits-in-kind (BIK) e.g., car, housing, education, home leave and reimbursement of an employee's Indonesian tax liability provided by the employer, are not taxable in the hands of the employee.

The same principle applies to BIK required for job performance such as protective clothing, uniforms, transportation costs to and from the place of work and accommodation for ship crews and the like, and the cost of providing BIK 'remote' areas. However, BIK are taxable in the hands of the employee if provided by:

- Mining companies and production sharing contractors which are subject to tax under the 'old' tax laws;
- Representative offices of offshore companies not constituting taxpayers;
- Final-taxed companies; or
- Deemed profit companies.

Jamsostek-Social Security

Indonesia does not have a comprehensive Social security system; however, there is a Worker's Social Security program (Jamsostek).

Employers are responsible for the entire amount of contributions to the occupational accident security and death security programs. Contributions for accident security range from 0.24% to 1.74% of an employee's wage, depending on the employer's business (employers are classified under one of five industry categories). The contribution for death security is 0.3% of the employee's wage.

The premium for old age security is jointly borne by the employer and the employee; the employer's share is 3.7% of wages and the employee's share is 2% of wages. Employee contributions to Jamsostek are collected by the employer through payroll deductions. Since 1998, the Jamsostek scheme has been optional for expatriate employees. Starting April 2004, expatriate employees are also required to participate in the scheme.

Health maintenance security for up to 3 dependants is another feature of Jamsostek. A company which provides better company health insurance to its employees can elect not to join the health care program under Jamsostek. The contribution for the health care program under Jamsostek is 6.0% for a married employee (max IDR60,000 per month) and 3.0% for an unmarried employee (max. IDR30,000 per month).

Payments of old-age security savings to individuals by Jamsostek are subject to income tax (see page 12).

Deemed Salaries

Employees in the oil and gas drilling sector are taxed on deemed salaries according to their job titles, as follows:

	USD per month
General managers	11,275
Managers	9,350
Supervisors and tool pushers	5,830
Assistant tool pushers	4,510
Other crew	3,245

Withholding Tax

General

Indonesian income tax is collected mainly through a system of withholding taxes. Most withholding taxes must be paid by the 10th day of the month following payment or its accrual in the books whichever is earlier. These withholding taxes are commonly referred to by the relevant article of the Income Tax (PPh) Law.

1. Income Tax Article 21 – Salaries

On salaries, as stated in Individual Income Tax

2. Income Tax Article 22 – Import

On import, payments from the State Treasury and certain state owned companies for goods, and payments for products sold/delivered locally by specific industries or Government bodies.

Taxpayers are required to prepay income tax by making payments at the rate of 2.5% (or 7.5% if the taxpayer has no delivered licence) of the CIF value of imports plus any import duty.

Payments from the State Treasury and certain state-owned companies for goods are also subject to Income Tax Article 22 at 1.5%, which is deducted by the State Treasury state-owned companies. Payments from industries and exporters for plantation, forest, fishery goods are also subject to Income Tax Article 22 at 0.5%. The Income Tax Article 22 rates for specific industries are determined by the Ministry of Finance.

3. Income Tax Article 23 – Residents

On payment to tax residents of dividends, interest, rents, royalties, prizes and awards, and fees for technical, management or other services.

Residents companies, permanent establishments, representatives of foreign companies, organizations, and appointed individuals are required to withhold 15% tax from the following payments to other resident:

- On gross amounts:
 - Dividends
 - Interest, including premiums, discounts, and loan guarantee fees (except payments to investment funds within 5 years from earlier of establishment or business licence and to venture capital companies under certain conditions)
 - Royalties
 - Prizes and awards

Notes:

Interest on time deposits, savings accounts and discounts on Bank Indonesia certificates (SBI's) are subject to 20% final tax, except that received or earned by a pension fund registered with the Minister of Finance under certain conditions.

- On estimated net income (ENI):

	ENI	Actual with-holding (% of gross amounts)
Rentals other than land and/or buildings:		
– Rental of land and transportation vehicle	20%	3%
– Other	40%	6%
Fees for services:		
– Professional services		50%
– Consulting services, except construction consulting services		50%
– Construction contracting services, including installation and maintenance services provided by licensed construction companies		13.33%
– Construction planning services		26.67%
– Construction supervisory services		26.67%
– Technical and management services		40%
– Design services including interior, landscape, machine, equipment, vehicle, transportation equipment, advertising/logo and packaging design services		40%
– Accounting and bookkeeping services		50%
– Installation services, except those provided by licensed construction companies		40%
– Maintenance/repair services except those provided by licensed construction companies		40%
– Support services in flight services and airport, including catering support		40%
– Custodial/storage/consignment services (excluding those provided by KSEI and storage rental which is already subject to final tax)		40%
– Securities trading services except those provided by BEJ, BES, KSEI and KPEI		40%
– Technology information services, including internet services		40%
– Telecommunication services not for public purposes		40%
– Waste treatment and disposal		40%
– Forest felling services including land clearing		40%
– Drilling and support services in mining (excluding drilling services in oil/gas provided by PEs)		40%
– Mining and support services in non-oil/gas mining industry		40%
– Intermediary services		40%
– Appraisal services		50%
– Actuarial services		50%
– Film dubbing/mixing services		40%
– Contract manufacturing		40%
– Recruitment/manpower supply		40%
– Computer software services		40%
– Post control and cleaning services		10%
– Catering services		10%
– Services other than above the payments for which are borne by government budgets		10%

4. Income Tax Article 26 – Non-residents

Residents taxpayers, organizations, and representatives of foreign companies are required to withhold 20% tax from gross amount of dividends, interest, royalties, rents and payments for the use assets, fees for services, work, and activities, prizes and awards, pension and any other periodic payments.

Where the recipient is resident in a country which has a tax treaty with Indonesia, the withholding tax rates may be reduced or exempted.

5. Income Tax Article 4 – Final tax

Residents companies, permanent establishments, representatives of foreign companies, organizations, and appointed individuals are required to withhold tax from the following gross payments to residents:

- Rentals of land and/or buildings 10%

Fees for the services of 'small construction companies' that have obtained a 'small-scale entrepreneur's certificate' issued by an authorised institution and have a contract of not more than IDR1 billion:

- Construction contracting 2%
- Construction planning 4%
- Construction supervision 4%

Income on prizes from lotteries is subject to 25% final tax on the gross income amount.

Sales of Shares

Sales of listed shares are subject to withholding tax of 0.1% of the transaction value. An additional final tax of 0.5% applies to the value of founder shares at the time an initial public offering is made, irrespective of whether the shares are held or sold. Founding shareholders may elect to pay tax at normal tax rates at the time the shares are actually sold. Resident of tax treaty countries may be entitled to an exemption from these taxes.

Sales of non-listed shares by non-residents are subject to a final tax of 5% of the transaction value unless protected by a tax treaty.

Value Added Tax

General

VAT is levied at 10% on imported and locally produced goods, on most services and also at the retail level, including disposals and transfers of assets not originally intended for resale whose input VAT paid at the time of purchase could be credited. VAT is also levied on deliveries of goods from a head office to branches or between branches and on deliveries to intermediaries, except for companies which:

- obtain VAT centralisation approval
- register in Large Tax Office
- file VAT Returns by e-filing

In principle, input VAT on purchases related to a taxpayer's business may be credited against output VAT due on sales with some exceptions, most notably VAT on expenditures associated with making exempt supplies and employee benefits-in-kind. Input VAT on imports paid by an importer on a Customs Office may also be credited against output VAT. Any excess of output VAT over input VAT must be paid to the Tax Office by the 15th of the following month. A monthly tax return be lodged by the 20th of that month.

VAT Refund

Where input VAT exceeds output VAT, a refund VAT can be requested on a monthly basis or the excess amount can be credited against the output tax in future periods. The approval periods for refund are determined as follows:

- a. Certain qualifying taxpayers will receive approval within 1 month.
- b. Exporters and suppliers to VAT collectors who do not qualify for the 1 month approval will receive approval within 2 months.
- c. Other taxpayers will receive approval within 6 months.
- d. If the Tax Office elects to audit all taxes, the refund in all cases must be determined within 12 months.

Except for (a.), VAT refunds are subject to the tax authority's audit/review before payment.

Crediting input VAT

An input tax credit must be claimed not later than three months after the end of the tax period in which it should have been claimed. If this deadline is missed, the credit can still be claimed, but only by submitting an amended VAT return for the period when it should have been claimed.

An input VAT invoice issued late for more than 3 months, is considered as an invalid tax invoice. Therefore, it is not creditable.

Exemptions

The following goods and services are not subject to VAT by legislation:

Goods:

- a. mining or drilling products extracted directly such as crude oil, natural gas, geothermal energy, sand and gravel, coal before being processed into coal briquettes, iron ore, tin ore copper ore, gold ore, silver ore and bauxite ore;
- b. basic commodities needed by society – rice, salt, com, sago and soya beans;
- c. food and drink served in hotels, restaurants and the like; and
- d. money, gold bars and securities

Services:

- a. medical health services;
- b. social service such as orphanages and funeral service;
- c. mail services with stamps;
- d. banks, insurances, and finance leasing services;
- e. religious services;
- f. educational services;
- g. commercial art and entertainment services which are taxed under regional entertainment tax;
- h. broadcasting services for advertising;
- i. public transportation on land and water and international air transport;
- j. manpower services;
- k. hotel service; and
- l. public service provided by the Government.

The following goods and service are categorised as strategic goods that are exempted from the imposition of VAT, under certain circumstances, on their import and delivery:

- a. Certain machinery and factory equipment used to manufacture taxable goods (excluding spare parts)
- b. Agricultural, plantation and forestry products, animal husbandry products, including hunting and trapping, and cultivation or fishery products, including the catching and cultivation of fish produced by farmers;
- c. Electricity, except household electricity exceeding 6,600 watts;
- d. Piped water, or through drinking water tankers;
- e. Cattle, poultry and fish feed, and the raw materials for manufacturing cattle, poultry and fish feed; and
- f. Seeds and seedlings for agricultural, plantation, forestry, farm and animal husbandry product.

In addition, imports and local deliveries of the following goods or service are exempted from VAT:

- a. weapons, ammunitions and transportations for use by the armed forces which are not yet produced in Indonesia;
- b. polio vaccines for the National Immunization Program;
- c. general textbooks and religious books;
- d. ships and spare parts imported for use by national commercial shipping companies, or national fishing companies
- e. service received by national commercial shipping companies or national fishing companies, including ship rental, seaport services and ship maintenance or docking services;
- f. aircraft and spare parts imported for use by national commercial airline companies;
- g. service received by national commercial airline companies including aircraft rental and maintenance service ;
- h. trains and spare parts imported by PT Kereta Api Indonesia;
- i. leasing service for low-cost housing.

Self-Assessed VAT

Where an Indonesian taxpayer receives and utilises certain services from outside Indonesia, including royalties, the recipient of the services must self-assess, report, and pay VAT by the 15th of the following month. The VAT due under this procedure is available for input tax credit, subject to the normal VAT input tax rules.

Special Rates of Output VAT

Special rates apply to certain goods and services. For example, VAT on:

1. services rendered by a travel agent are levied at 1% of invoice value;
2. cigarettes sold by manufactures are levied at 8.4% of invoice value;
3. courier services are levied at 8.4% of invoice value;
4. independent construction (self-building) is levied at 4% of total costs incurred or paid, exclusive of the acquisition price of land;
5. factoring services is levied at 0.5% of the total fee, including service fees, provisions, and discounts;
6. sales of second-hand motor vehicles by motor vehicle dealers is levied at 1% of total sales value.
7. redemption of VAT on 'paid' stickers on audio tapes and video recordings;
8. own use and free gifts of taxable goods and/or services are levied at 10% of the cost of sales.

Sales Tax on Luxury Goods

Sales tax is levied at 10%, 20%, 30%, 40%, 50%, 60%, and 75% on imported and domestically produced luxury goods as stipulated by the Minister of Finance.

Sales tax is collected at the import and manufacturing levels, not at the end-consumers level.

Taxable items include the following (note that a number of items are taxed at several rates and specific rates and specific advice should be sought in relation to the appropriate rate):

1. Taxable at the 10% rate:
 - a. fermented cream or milk, nuts or cocoa, yoghurt, kephir, whey, cheese, butter
 - b. bottled/packageged fruit or vegetable juices
 - c. bottled/packageged non-alcoholic drinks including soda water
 - d. certain household utensils, coolers, heaters, and certain TV receivers
 - e. equipment and accessories for sports
 - f. air conditioners
 - g. visual recording or reproducing apparatuses, radio receivers
 - h. photography, cinematography apparatuses and their equipment
 - i. Motor vehicles with less than 10 seats using petrol, diesel or semi-diesel
 - j. motor vehicles with less than 10 seats, except sedans and station wagon with 4x2 wheel drive, using petrol, diesel or semi-diesel fuel with a cylinder capacity of less than 1500 cc
2. Taxable at the 20% rate:
 - a. certain household utensils, coolers, certain heaters, except those under (1)
 - b. luxury apartments, condominiums, town houses
 - c. air conditioning units, washing machines, dryers, electromagnetic instruments, and musical instruments
 - d. perfumes
 - e. certain carpets, except those made from choir, silk or wool, or animal fur or feathers
 - f. motor vehicles with less than 10 seats, except sedans and station wagons with 4x2 wheel drive, using petrol, diesel or semi-diesel with a cylinder capacity of 1500 cc to 2500 cc
3. Taxable at the 30% rate:
 - a. ships, vessels and water vehicles, dugouts, canoes, except those for government and public use
 - b. equipment and accessories for sports, except those under (1)
 - c. motor vehicles with less than 10 seats in the form of sedans/station-wagons, or other vehicles having 4x4 wheel drive, with a cylinder capacity of up to 1500 cc

Indonesia continued

4. Taxable at the 40% rate:

- a. certain alcoholic beverages
- b. goods made of leather or imitation leather
- c. silk or wool carpets
- d. goods made of crystal for table, kitchen, home or office decoration
- e. goods made of precious metals and/or precious metals or combinations thereof
- f. ships, vessels, and water vehicles, except those for government and public use and those under (3)
- g. balloons and private aircraft
- h. bullets and other weapon, except those for government use
- i. Footwear
- j. household and office furniture and fitting
- k. goods made of porcelain, land, Chinese land or ceramic
- l. goods made of stone
- m. motor vehicles with less than 10 seats with 4x4 wheel drive using petrol and having a cylinder capacity of 1500 cc to 3000 cc
- n. motor vehicles with less than 10 seats using diesel or semi-diesel and having a cylinder capacity of 1500 cc to 2500 cc

5. Taxable at the 50% rate:

- a. carpets made of animal fur or feathers
- b. aircraft, except those under (4) and except those for government and public use
- c. equipment and accessories for sports, except those under (1) and (3)
- d. weapons and shooting equipment, except those for government use
- e. all motor vehicles used as golf carts

6. Taxable at the 60% rate:

- a. 2-wheeled motor vehicles with a cylinder capacity of 250 cc to 500 cc
- b. special motor vehicles used for the snow or beach

7. Taxable at the 75% rate:

- a. alcoholic beverages, except those under (4)
- b. goods made of precious metal, precious stones, pearls or combinations thereof, except those under (4)
- c. luxury yachts, except those for government and public use
- d. motor vehicles with less than 10 seats using petrol and having a cylinder capacity of more than 3000 cc or using diesel or semi-diesel and having a cylinder capacity of more than 2500 cc
- e. 2-wheeled motor vehicles with a cylinder capacity more than 500 cc
- f. trailers and semi-trailers for caravans for camping or home use.

Luxury goods exempt from the imposition of luxury sales tax are:

- a. motor vehicles used as ambulances, police vans, fire-engines, hearses, and public transportation
- b. motor vehicles used for the official duties of State protocol
- c. motor vehicles with more than 10 seats using diesel or semi-diesel of all cylinder capacities used for the official duties of the Indonesian Armed Forces/State Police

If the luxury goods which are exempted from luxury sales tax are transferred/sold within 5 years or are not to be used for main purposes, the luxury sales tax exempted must be paid within 1 month after the goods are transferred/sold or not used for main purposes, otherwise the ITO may impose penalties for late or non-payment of such tax.

Stamp Duty

Stamp duty is nominal, at either IDR6,000 or IDR3,000 on certain documents.

Examples of documents which are subject to stamp duty nominal IDR6,000 include:

- a. letter of agreement and other letters (such as authorization letters, letters bestowing gifts, declarations) which are prepared for the purpose of being used as evidence of act, fact, or condition of a civil nature.
- b. Notarial deed and their copies
- c. Deeds prepared by officers who are responsible for the preparation of land deeds)
- d. All documents bearing a sum of money
- e. Documents to be used as instruments of evidence before a court: ordinary letters or internal papers

For (d), the rate is IDR6,000 when the money value stated in the document is more than IDR1 million, and IDR3,000 when the value is between IDR250,000 and IDR1 million. Values below IDR250,000 are not subject to stamp duty. For cheques, the rate is IDR3,000 regardless of the money value stated.

Land and building tax

Land and building tax is payable annually on land, building, and permanent structures. The effective rates are nominal, typically not more than 0.1% per annum of the value of property. An effective rate of 0.2% is applicable to certain tax objects such as forestry, plantation, mining and other objects that have a value of more than IDR1 billion.

The sales value of property is determined every three years by the Minister of Finance, except in certain regions, where it is determined annually according to development in the region concerned, for example the addition of toll roads.

Land and building transfer duty

Land and building transfer duty (BPHTB) of 5% is payable by an individual or corporate entity obtaining rights to land or buildings. The 5% rate is computed on the transfer value or the value forming the basis of the land and building tax (NJOP), whichever is higher.

BPHTB applies only if the acquisition value is higher than certain value which is stipulated by each regional government but may not be more than IDR60,000,000. The non-taxable tax object acquisition value of rights acquired due to an inheritance is stipulated regionally at no more than IDR300,000,000

Japan

Exchange Control

The Japanese government established 'The Invest in Japan Business Support Centres (IBSCs)' in 2003 to encourage and support investment in Japan. The Japanese government is also planning to increase the investment in Japan to stimulate the growth of the Japanese economy.

Taxes in Japan

General

There are two kinds of taxes on income: national taxes and local taxes.

National taxes generally comprise an income tax which is levied on individuals and a corporate tax levied on companies.

Local taxes consist of a prefectural tax for individuals and companies; a business tax for individuals and companies; and a municipal tax, also for individuals and companies.

Taxes on assets are also made up of national and local taxes, with the national tax component being an inheritance and gift tax and the local taxes comprising a motor vehicle tax, fixed assets tax, land valuation tax and business office assets tax, amongst others.

There is a general national consumption tax, as well as taxes on alcohol, petrol and tobacco, whilst a special local consumption tax is imposed, as well as a local tax on golf links usage. Other local consumption taxes also exist.

A number of taxes are imposed on the transfer of assets. At the national level, these include registration and licence taxes, a securities transaction tax and stamp duty, whilst local taxes include a real estate acquisition tax and a vehicle acquisition tax.

Taxes Levied On Corporations

Corporate Tax

Taxpayer: The payers of corporate tax are corporations. Public corporations are not liable to taxation while public service (non-profit) corporations are separately assessed according to limited assessment provisions.

Scope of taxable income: The assessment of income for domestic corporations covers all types of income regardless of whether derived in Japan or from overseas and corporate tax at fixed rates will apply. Foreign corporations are assessed at source according to their domestic income derived.

Taxable income: Taxable income is calculated by deducting outgoings from the amount of business income in the current financial year. The gains derived from the following business activities are included:

- the sale of assets,
- transfer of assets with or without payment,
- provision of services with or without payment, and
- acquisition of assets without payment and other activities.

The amount of deductible outgoings consists of outgoings for business activities other than accumulation of capital reserve. These are:

- costs of products or services sold,
- costs incurred for work completed and other similar costs,
- selling expenses,
- general administrative expenses and other such expenses and outgoings.

There are additional provisions stipulated in the Corporate Tax Laws and the Special Taxation Measures Laws with regard to income and outgoings.

Foreign tax credits: Foreign tax credits are usually granted by government declaration to eliminate a double taxation.

Tax returns: The payment of corporate tax is by means of a tax declaration or tax return which is prepared by the taxpayer and lodged with the taxation office.

The lodged return is reviewed by the Bureau of National Tax and the Taxation Office, or an examination of the taxation records is carried out at the corporate premises. Any errors or improper claims found in the return must be amended by the taxpayer. Alternatively, the Taxation Office may also, by its own authority, make such necessary revisions and assess the amount of tax.

Tax returns must be lodged within a two-month period after the end of each accounting period, apart from in exceptional cases. In cases where the accounting period is a year, the due date of lodging the tax return may, by application, be extended for a further one month.

Profit and loss statements, a balance sheet, a statement of the appropriation of profits, and details of any specific accounts are to be attached to the tax return. The tax return of a Japanese branch office of a foreign company is required to be accompanied by the combined financial statements of the head office and all branch offices in overseas locations as well as the profit and loss statements and a balance sheet. If the branch office is given an allocation of the administrative costs of the head office, these particulars and the basis of calculation for such an allocation must also be submitted.

There are two types of tax return forms: a white form and a blue form, the latter one allowing for special tax privileges. Blue tax returns are subject to certain conditions and requirements: activities are to be recorded according to the principle of double-entry bookkeeping in prescribed account books and the entries recorded in them have to be examined and acknowledged by the chief of taxation office concerned. The major benefit of the blue tax return is that any net losses may be carried forward for a period of seven years as deductions.

Assessment at the source: A 20% withholding tax is levied on dividends paid by a domestic corporation (subject to reduction under a double taxation convention). Bonds and debentures, as well as interests from deposits and savings are subject to a 20% * withholding tax (consisting of a 15% national tax and a 5% local tax).

Income from bonds and debentures issued overseas on which foreign tax is levied can benefit from having the amount of foreign tax deducted.

If interest, dividends and royalties, etc are paid to non-residents, a 20% withholding tax is usually applicable. This rate, however, may be reduced to 10 or 15% under an applicable double taxation convention.

* Dividends of stocks and distribution from publicly trade stock investment funds are taxed at the reduced rate of 10% (consisting of a 7% national tax and a 3% local tax) by withholding until March 31, 2008.

The rates of corporate tax are as follows:

Corporations with capital exceeding Y100 million	30.0%
Corporations with capital of up to Y100 million	
– on the first Y8 million of income (annualised basis)	22.0%
– on income above Y8 million	30.0%

Income Tax

Domestic corporations and foreign corporations have obligations to pay tax on their income if they receive payments such as bonds, debentures and interest from deposits and savings in Japan. Where the bonds, debentures and interests from deposits and savings are subject to withholding tax at source, the amount of income tax which the corporation pays is usually deducted from the amount of corporate tax payable and any remainder (the amount which was not deducted) is refunded.

Enterprise Tax

Any income deriving from business activities conducted in Japan is subject to enterprise tax (normally 9.6%) levied by the prefectures. Corporations having paid-in capital of more than JPY100 million are subject to corporate enterprise tax on a pro forma basis using a pro forma standard ration of one-fourth.

Enterprise tax is not levied on income deriving from business activities conducted overseas.

Resident's Tax

Resident's tax (usually 17.3%) is levied by the local governments (usually prefectural and municipal governments) based on the amount of corporate tax. Corporate inhabitant taxes are levied not only on income but also on a capita basis using the corporation's capital and the number of its employees as the tax base.

Taxes Levied On Individuals

Income Tax

Taxpayer: There are three categories of taxpayer according to the Income Tax Law: permanent residents, non-permanent residents and non-residents.

Scope of taxable income: The income subject to tax for permanent residents includes all income created in and outside of Japan. For non-permanent residents income includes domestic income which was derived within Japan or transferred into Japan from overseas. The income subject to tax for non-residents is the domestic income which was derived within Japan.

Tax rates: The tax rate is a progressive rate with the maximum of 34.5%. The maximum rate of the aggregated tax rates for individual residents is 47.2%.

Deduction of foreign tax amount: If foreign tax has been paid on the income on which income tax was levied in Japan then the foreign tax paid is deductible within certain limits.

Tax standards: For individual there are three income classes with different tax rates: aggregated income, retirement income and forestry income. Aggregated income is divided into the following: interest income, dividend income, real estate income, business income, salary income, retirement income, forestry income, capital gain income, temporary income and miscellaneous income.

These types of income are, in principle, taxed as one aggregated amount of income. Incomes from dividends and interest, when a separate withholding tax treatment for these incomes was chosen, are taxed separately from other income at the source.

Retirement income and Forestry income as well as capital gain income from the transfer of property (land and buildings) and shares, etc is also taxed separately.

The rates for income tax are as follows:

Taxable income (JPY)	Rate
0 – 3,300,000	10%
3,300,001 – 9,000,000	20%
9,000,001 – 18,000,000	30%
18,000,001 and over	37%

Resident's Tax

Resident's tax mainly consists of prefectural and municipal taxes. Those taxes consist of head tax (normally JPY4,000 per head) and taxation of income basis. There are standard and maximum tax rates prescribed for both taxes and within the range of these rates, each prefecture and city can establish the rates that shall apply in its area.

The rates for resident's tax are as follows:

Taxable income (JPY)	Rate
0 – 2,000,000	5%
2,000,001 – 7,000,000	10%
7,000,001 and over	13%

Consumption Tax

Consumption tax was introduced from 1 April 1989. For the purchase of goods or provision of services, the purchaser pays 5% (consisting of a 4% national tax and a 1% local tax) of the purchase price to the seller or provider. Financial dealings are non-taxable, the rate of consumption tax on exports is 0%; however, imports are subject to tax.

People who conduct a business pay the Tax Office the difference between the amount of consumption tax obtained on the sale of the item and the consumption tax paid on the purchase of the materials. If the amount of consumption tax paid exceeds the tax received, a refund of tax will be paid by the Tax Office.

A business with taxable income of less than JPY10million is exempt from this tax. For the business whose taxable income is ¥50 million or less, the amount of tax payable may be calculated using the following simple method:

$$\text{Taxable sales} \times 5\% \times (1 - \text{nominal purchase rate})$$

The nominal purchase rates are set down according to the nature of the particular business activity:

Wholesale	90%
Retail	80%
Agriculture, forestry, fishery mining, architecture and construction, manufacturing, electric and gas utilities, suppliers of fuel and water	70%
Real Estate, transportation, service (except for restaurant business)	50%
Others	60%

A review of the Consumption Tax Law, including a possible increase in the tax rates, is under consideration by the government.

Malaysia

Exchange Control

General

The exchange control policies of Malaysia are applied uniformly to transactions with all countries, except Israel, Serbia and Montenegro for which special restrictions apply. Foreign exchange administration regulations are also applied where appropriate to prevent recourse to the Malaysian banking system for money laundering and terrorist financing. Companies which are accorded with Multimedia Super Corridor (MSC) status will continue to enjoy exemption from all exchange control rules.

Current Account Transactions

For import of goods and services, there is no restriction on payments to non-residents but such payments must be made in foreign currency. For export of goods and services, within six months, all export proceeds must be repatriated in full to Malaysia in foreign currency and must be sold for ringgit or retained in export foreign currency accounts (FCA) with onshore licensed banks. For exports with value exceeding MYR100,000 per shipment, exporters have to submit a form (Form KPW X) to Customs authorities at the time of shipment but exemption is given to exporters who declare their exports through Electronic Data Interchange (EDI).

Capital Account Transactions

Foreign direct investors are freely able to repatriate their investments, including capital, profits, dividends and interest, without being subject to any levy.

Credit Facilities in Ringgit

There is no restriction for residents, including foreign-owned banking institutions in Malaysia, to extend credit facilities in ringgit to a Non-Resident Controlled Company (NRCC) operating in Malaysia up to an aggregate limit of MYR50 million per corporate group or on a single entity basis and any amount of short-term trade financing where the tenure does not exceed 12 months. For amounts that exceed MYR50 million, the NRCC has to comply with the 3:1 gearing ratio requirement between its domestic debt and eligible capital funds only.

Portfolio Investment

There is no restriction for non-resident portfolio investors to repatriate their principal sum and profits out of the country at any time.

Currency

The Malaysian currency is the Ringgit Malaysia (MYR), which is divided into 100 Sen. Currently, the exchange rate of Malaysia is pegged at USD1.00 = MYR3.80

There is no restriction for non-residents to bring in any amount of foreign currency and/or traveller's cheques up to the equivalent of MYR10,000. However, residents and non-residents must obtain permission from the Controller to bring Ringgit notes in or out of Malaysia exceeding MYR1,000

Social Security Contributions

Employees Provident Fund (EPF)

All employers and employees are required to contribute to the EPF at the minimum rates of 12% and 11% respectively of the employee's monthly wages. Since 1 August 1998, all foreign workers earning less than MYR2,500 per month have been required to contribute 11% of their monthly wages while the employers are required to contribute MYR5 per employee per month.

The Social Security Organisation (SOCSO)

SOCSO administers the Employment Injury Insurance Scheme and the Invalidity Pension Scheme provided under the Employees' Social Security Act 1969. All establishments, including factories, employing workers earning wages not exceeding MYR2,000 a month, are required to insure their workers under the two social security schemes. The contribution is borne solely by the employer and is about 1.25% of the wages of an employee. SOCSO however covers only Malaysian workers and permanent residents.

Taxation

General

Generally, all income of companies and individuals accrued in, derived from or remitted to Malaysia is liable to tax. However, income remitted to Malaysia by resident companies, non-resident companies (other than companies carrying on the business of banking, insurance, air and sea transportation) and non-resident individuals is exempted from tax. In 2001, the assessment of income tax was changed from preceding-year to the current-year assessment basis and the Self-Assessment System replaced the Official Assessment System. This self-assessment system is currently applicable to companies (since 2001), partnerships and cooperatives (since 2003) and was extended to salaried groups in the 2004 year. Apart from income tax, there are other direct taxes such as real property gains tax, and indirect taxes such as sales tax, service tax, excise duty and import duty.

Corporate Tax

A company, whether resident or not, is assessable on the income accrued in or derived from Malaysia. Income derived from sources outside Malaysia and remitted by a resident company is not subject to tax, except in the case of banking, insurance, air and sea transport undertakings. A company is considered a resident in Malaysia if the control and management of its affairs are exercised in Malaysia.

A tax rate of 28% is applicable to both resident and non-resident companies. In the case of a company carrying on petroleum production, the applicable tax rate is 38%.

Personal tax

All individuals are liable to tax on income accrued in, derived from or remitted to Malaysia.

A resident is taxed on their chargeable income at a graduated rate from 0% to 28% after deducting personal reliefs. A non-resident will be taxed only on income earned in Malaysia at the flat rate of 28% without any personal relief.

Withholding Tax

Non-resident individuals receiving certain types of income such as interest, service of a public entertainer, technical and consultant or professional fees etc. are subject to a withholding tax ranging from 10% to 15%. This is a final tax.

Real Property Gains Tax (RPGT)

Capital gains are generally not subject to tax in Malaysia. RPGT is charged on gains arising from the disposal of real property situated in Malaysia or interests, options or other rights in or over such land as well as the disposal of shares in real property companies. The rates of RPGT on a company range from 5% to 30% depending on the year of disposal, but for individuals who are citizens or permanent residents, gains from disposal of real properties after five years are not subject to tax. For non-citizens and non-permanent resident individuals, gains from the disposal of real property within 5 years are subject to tax at a flat rate of 30%. However, disposal in the sixth year and thereafter will be taxed at 5%.

Service Tax

Service tax is a consumption tax levied in respect of any taxable services provided by any taxable person. It applies throughout Malaysia excluding certain designated tax-free locations. Generally, the imposition of service tax is subject to a specific threshold based on annual turnover of taxable services ranging from MYR150,000 to MYR500,000. The rate of service tax is at 5% of the price, or amount charged for, the taxable services.

Sale Tax

Sale tax is a single stage tax imposed on taxable goods imported or manufactured locally. All manufacturers with annual sales value of more than MYR100,000 are required to be licensed under the Sales Tax Act 1972 and it applies throughout Malaysia excluding designated tax-free locations, Free Zones and Licensed Manufacturing Warehouses. Sales tax is generally charged at the range of 5%-10% but exemptions are given for certain selected goods or raw material whereas those non-essential foodstuffs such as cigarette and liquor are taxed at up to 25% and 20% respectively.

Sale tax is a consumption tax and the onus is on the manufacturers to levy and collect the tax from their customer. For imported goods, sale tax is collected from the importer upon the release of goods from the control of Customs.

Import Duties

Import duties are levied on specific goods imported into the country. The import duties range from 2% to 300%. Raw materials, machinery, essential foodstuffs and pharmaceutical products are generally non-dutiable or subject to duties at lower rates. For a limited range of products an import license has to be obtained prior to the importation of prohibited goods, for protection of local industries or for reasons of security and public safety.

Export Duties

Export duties are generally imposed on the country's main commodities such as crude petroleum and palm oil. With the exception of crude petroleum, which is subject to duty at a flat rate of 10%, duties on all other commodities are only imposed on the excess over a threshold price that reflects the cost of production of each of the commodities. No export duties are collected when the price of the commodities falls below the threshold.

Excise Duties

Excise duty are imposed on selected goods manufactured in Malaysia include beer, stout and other intoxicating liquors, cigarettes containing tobacco, motor vehicles, playing cards and mah-jong tiles. With effect from 1st January 2003, excise duties were extended to cover imported motor vehicles.

The rates of excise duties vary from 10 cents per litre for alcoholic beverages with alcohol content exceeding 1.5% vol but not exceeding 11.4% vol, to MYR58 per kg for cigarettes, and as much as 30%-100% for motorcars.

Stamp duty

Stamp duty is chargeable on certain instruments and documents, mainly on the conveyance, assignment and transfer of properties and shares. The rate of the duty varies according to the nature of the instruments/documents and the transacted values.

Tax Incentives

General

Tax incentives, both direct and indirect, are provided for in various legislative Acts in Malaysia. These Acts cover investment in the manufacturing, agriculture, tourism and approved services sectors. The direct tax incentives grant partial or total relief from income tax payments for a limited period, while indirect tax incentives come in the form of exemptions from import duty, sales tax and excise duty.

Investment incentives

The major incentives for companies are the Pioneer Status, Investment Tax Allowance and Reinvestment Allowance. Eligibility for either Pioneer Status or Investment Tax Allowance will be determined according to priorities termed as promoted activities or promoted products as determined by the Minister of International Trade and Industry (MITI). Submission has to be made to Malaysia Industrial Development Authority (MIDA).

1. Pioneer Status

A company granted Pioneer Status enjoys a 5-year partial exemption from the payment of income tax. It will only have to pay tax on 30% of its statutory income, with the exemption period commencing from its Production Day.

2. Investment Tax Allowance (ITA)

As an alternative to Pioneer status, a company may apply for ITA, which grants an allowance of 60% of qualifying capital expenditure incurred within five years from the date on which the first qualifying capital expenditure is incurred. Companies can offset this allowance against 70% of their statutory income in the year of assessment. The remaining 30% of statutory income will be taxed at the prevailing company tax rate.

3. Reinvestment Allowance (RA)

Reinvestment Allowance (RA) is granted to manufacturing companies, which have been in operation for at least 12 months and incur qualifying capital expenditure for the expansion of production capacity, modernisation and upgrading of production facilities, and diversification into related products and automation of production facilities. The RA is 60% of qualifying capital expenditure incurred by the company, and can be offset against 70% of its statutory income for the year of assessment for a period of 15 consecutive years.

Other investment incentives

1. Accelerated Capital Allowance (ACA)

Upon expiry of the Reinvestment allowance (RA), companies that reinvest in the manufacturing of promoted products, agriculture activities and food products are eligible to apply for the ACA. The ACA on capital expenditure is to be utilised within three years, i.e. an initial allowance of 40% in the first year and annual allowances of 20%.

2. Industrial Building Allowance (IBA)

IBA is granted to companies incurring capital expenditure on the construction or purchase of a building that is used for specific purposes including manufacturing, agriculture, mining, infrastructure facilities, research, Approved Services Projects and hotels that are registered with the Ministry of Culture, Arts and Tourism. Such companies are eligible for an initial allowance of 10% and an annual allowance of 3%. As such, the IBA can be claimed within 30 years.

3. Infrastructure Allowance

Companies in the States of Sabah and Sarawak and the designated 'Eastern Corridor' of Peninsular Malaysia are also eligible for an infrastructure allowance of 100%. Companies eligible are those engaged in manufacturing, agricultural, hotel, tourism or other industrial/commercial activities and which incur qualifying capital expenditure on infrastructure such as reconstruction, extension or improvement of any permanent structure including bridges, jetties, ports and roads. These companies can offset the allowance against 85% of their statutory income in the year of assessment. The remaining statutory income will be taxed at the prevailing company tax rate. Any unutilised allowance can be carried forward to subsequent years until it is fully utilised.

Incentives for export

1. Tax Exemption on the Value of Increased Exports

Manufacturers producing for the export market are eligible to apply for a tax exemption on statutory income equivalent to 10% of the value of increased exports, provided that the goods exported attain at least 30% value-added. Such exemption is increased to 15% if the value-added reaches 50%. For a manufacturing company with Malaysian equity of 60% and above, full exemption may be granted if the company achieves the highest increase in export in its category.

2. Double deduction for promotion of export

Certain expenses incurred by resident companies for the purpose of seeking opportunities for export of products manufactured in Malaysia as well as promoting tourism activities are eligible for double deduction. The lists of expenses include overseas advertising or publicity, market research expenses, exhibition and accommodation, cost of maintaining sales offices overseas etc. In addition, a premium payment on export credit insurance is also eligible for double deduction.

Incentive for the Multimedia Super Corridor (MSC)

Multimedia Super Corridor (MSC) is a 15-by-50 kilometre (9-by-30 mile) zone extending south from Malaysia's present national capital and business hub, Kuala Lumpur. MSC Status is the recognition by the Government of Malaysia through the Multimedia Development Corporation (MDC) for companies that participate and undertake ICT activities in the MSC. Companies with MSC Status are entitled to enjoy a set of incentives and benefits i.e. pioneer status with tax exemption of 100% of statutory income for a period of five years and investment tax allowance of 100% etc from the Government of Malaysia that is backed by a Bill of Guarantees.

Incentives for Operational Headquarters (OHQs)

An approved operational headquarters (OHQs) refers to a locally incorporated company, whether locally-owned or foreign-owned, which carries on a business in Malaysia of providing qualifying services to its offices or its related companies outside Malaysia. Companies granted OHQ status enjoy a concessionary tax rate of 10% on income for 10 years. Income arising from sources outside Malaysia and received in Malaysia by a resident company is not subject to tax. Since 21st May 2003, a full tax exemption for a period of 10 years has applied to

business, interest and royalty income for services extended to related companies in Malaysia, provided such income does not exceed 20% of the QHQ income from qualifying services.

Incentives for Regional Distribution Centres (RDC)

A regional distribution centre (RDC) is a collection and consolidation centre for finishing goods, components and spare parts produced by its own group of companies for its own brand to be distributed to dealers, importers or to its subsidiaries or other unrelated companies within or outside the country. Among the activities involved are bulks breaking, repacking and labelling.

An Approved RDC enjoys full exemption on its statutory income for 10 years and dividends paid from the exempt income are exempted from tax in the hands of its shareholders

Incentives for International Procurement Centres (IPC)

An International Procurement Centre' (IPC) refers to a locally incorporated company, whether local or foreign-owned, which carries on a business in Malaysia to undertake procurement and sale of raw materials, components and finished products for its group of related and unrelated companies in Malaysia and abroad. This would include procurement and sale from local sources or from third countries.

An Approved IPC enjoys full exemption on its statutory income for 10 years and dividends paid from the exempt income are exempted from tax in the hands of its shareholders

New Zealand

Exchange Controls

Except in limited circumstances, there are no exchange controls that would inhibit the flow of funds into and out of New Zealand (NZ). Any transaction over NZD10,000 requires disclosure.

Corporate Tax

Basis

Resident companies are subject to tax on worldwide income. Non-resident companies are subject to tax on income derived in New Zealand. Closely held (5 or less shareholders) companies may enter what is known as an LAQC (loss attributing qualifying company) regime that essentially taxes the company as if it were a partnership.

Rates

Tax for both resident and non-resident companies is at 33%.

Dividend Imputation Credits

In general terms tax paid by companies is available as a tax credit to NZ tax resident shareholders on receipt of dividend income. This avoids any double taxation.

Personal Tax

Basis

Resident individuals are subject to tax on worldwide income. Non-residents are subject to tax on income sourced from New Zealand.

Rates

Income (NZD)	Tax Rate
0 – \$38,000	19.5%
\$38,001 – \$60,000	33%
\$60,001 and over	39%

Trusts

Trustee retained income is taxed at 33%. Beneficiary income is taxed at the above personal rates.

NZ Trusts owned by non-NZ residents can be taxed on distributions at 45 cents.

Trustee income distributions over NSD 1,000 to minors under 16, taxed at 33% unless certain qualifications met.

Withholding Taxes

Non-resident Withholding Tax

Withholding tax applies subject to double tax agreements, on the following:

Dividends	30%
Interest	0 – 15%
Royalties	15%

Most countries give a credit for any withholding tax deducted.

Resident Withholding Tax

Dividends paid by New Zealand companies, to the extent dividend imputation credits are not available, are subject to resident withholding tax of 33%. Interest received has resident withholding tax deducted of between 19.5% and 39%, unless a recipient of interest holds an exemption certificate.

Goods and Services Tax

A Goods and Services Tax (GST) is collected by the supplier of the goods or service and passed on to the Inland Revenue Department together with a GST Return – either monthly, two monthly or six monthly based on turnover of the Taxpayer. The rates are:

Exported Goods	0%
Financial Services & Residential Rent	Exempt
All Other Goods & Services	12.50%

Other Taxes

Stamp Duty

Payable on commercial land and buildings at the rate of:

1.0% on the first \$50,000
1.5% on the second \$50,000
2.0% on the balance

Estate Duty/Inheritance Tax

Amendments to Estate Duty/Inheritance Tax initially zero-rated the taxes until they were finally repealed from 1992.

Stamp Duty

Stamp duty was repealed from 1999.

Gift Duty

The first NZD27,000 gifted per person in any calendar year is free of duty.

New Zealand continued

Gift duty is then payable at progressive rates according to the value of gifts made by the donor within a twelve-month period at the rate of:

5% on excess over NZD27,000
NZD450 + 10% over NZD36,000
NZD2,250 + 20% over NZD54,000
NZD5,850 + 25% over NZD72,000

Fringe Benefit Tax

Employers are liable to pay fringe benefit tax on the value of benefits provided to their employees at a rate of up to 64% of the deemed value of the benefit.

Normal Tax Year End

31 March

Foreign Investments

Foreign investments held by NZ tax residents in other than certain grey list countries are subject to a foreign investment fund or controlled foreign company tax regime.

Royalties

In general subject to a minimum 15% withholding tax at source.

Accident Compensation

Employees pay a flat levy and employers pay a variable rate levy depending on the nature of their business.

Singapore

Exchange Controls

There are no Singapore exchange controls that would stop the flow of funds into and out of Singapore.

Corporate Tax Basis

The liability to Singapore tax is attached to profits deriving from, or accruing in, Singapore and profits derived elsewhere but remitted to Singapore. However, with effect from 1 June 2003, all Singapore resident companies will not be taxed on foreign dividends, foreign branch trading profits and foreign sourced service income provided the following conditions are satisfied:

In the year the foreign income is received in Singapore, the headline tax rate of the country from which the foreign income is received is at least 15%.

The foreign income has been subject to tax albeit at a lower rate than the headline rate in the country from which it is received ie foreign tax must have been paid. In the case of foreign dividends, tax paid would include both the underlying and withholding tax.

The above is only applicable to dividends paid by a company not tax resident in Singapore, trading profits of a foreign registered branch and to service income provided in the course of a trade, business or profession through a fixed foreign place of operation. In addition, the foreign income must be received directly in Singapore from the foreign country in which the income is derived.

Rates

Current corporate tax is 20%. 75% of the first SGD10,000 of normal chargeable income (excluding Singapore dividends) is exempted from tax. 50% of the next SGD90,000 of normal chargeable income (excluding Singapore dividends) is also tax-exempt.

In addition, there are numerous tax incentives that have the effect of substantially reducing the 20% rate.

Singapore tax resident companies incorporated in Singapore between 2004 and 2008 with no more than 20 individual shareholders will be exempted from tax on the first SGD100,000 of normal chargeable income (excluding Singapore dividends) for the first three years of assessment falling within Years of Assessment 2005 to 2009.

Personal Tax Basis

Tax resident individuals are taxed on their income earned in Singapore and foreign sourced income received in Singapore. However, with effect from 1 June 2003, they will not be taxed on certain types of foreign income as for companies (see under Corporate Tax above). Further, they will be exempted from tax on all foreign income received on or after 1 January 2004 (excluding foreign income received through a partnership in Singapore).

Non-tax-residents are taxed only on income derived from Singapore.

However, as announced in the 2004 Budget, both resident and non-resident individuals are exempted from tax on certain types of passive investment income subject to specific conditions (and not received through a partnership in Singapore) such as interest from certain bank deposits, interest/discount income from debt securities, annuities, payments on life insurance policies, distributions from unit/real estate investment trusts, and fees and payments from securities lending and repurchase arrangements. From 1 January 2005, there will be full exemption on interest from all bank deposits.

Rates (with effect from YA 2003)

Resident

Income (SGD)	Rate of Tax
1 – 20,000	0
20,001 – 30,000	4%
30,001 – 40,000	400 + 6% on excess over 30,000
40,001 – 80,000	1,000 + 9% on excess over 40,000
80,001 – 160,000	4,600 + 15% on excess over 80,000
160,001 – 320,000	16,600 + 19% on excess over 160,000
320,001 and over	47,000 + 22% on excess over 320,000

Non-resident

Non-resident individuals are taxed at a flat rate of 20% except for Singapore employment income which is taxed at 15% or at the resident rate, whichever is higher.

Withholding Tax

The withholding tax rate for interest, royalties, rents, and professional fees is 15% (where the payment relates to a trade, business, profession or vocation carried on in Singapore or any permanent establishment of the non-resident in Singapore the rate is 20%) or as specified in the relevant double tax agreement. For charter fees, the rates are between nil and 3%. Other payments will be subject to withholding tax at 20%. No withholding tax is deducted on dividends paid to non-residents.

Capital Gains Tax

There is no capital gains tax in Singapore. Capital gains are not taxed and capital losses are not deductible. However, certain gains are deemed to be taxable income.

Other Taxes

Goods and Services Tax

Any company with a turnover of \$1 million or more is required to register under the Goods and Services Tax Act (GST). GST is chargeable at 5% (with effect from 1 January 2004) on the value of goods and services supplied by such company unless the supply is zero-rated, exempt or out-of-scope.

Social Security Contributions

The Central Provident Fund ('CPF') is the national social security scheme for wage earners.

Both employers and employees make contributions to the Fund at prescribed rates. Expatriates working in Singapore are not required to contribute to the Fund.

Stamp Duty

Stamp duty is imposed on various documents at rates of up to 3%.

Property Tax

Property or land tax is payable at a rate of 10% p.a. on the annual assessed value of immovable property.

Other taxes include an entertainment tax, tourist promotion fund, lottery duties, petrol duty, motor vehicle tax, etc.

Other matters

The following have been implemented:

1. One-Tier Corporate Taxation (with effect from 1 January 2003)

Tax will only be imposed at the corporate level and any dividends paid by a company on the one-tier system will be tax exempt to its shareholders.

Companies that have a Section 44 balance of tax paid as at 31 December 2002 under the earlier dividend imputation system have till 31 December 2007 to fully utilise the balance by paying taxable dividends to shareholders who would be entitled to a tax credit of 20% of the gross dividend received to offset against their liability to tax on the dividend. Accordingly tax resident individual shareholders with a marginal rate below 20% would obtain a refund of the excess credit.

Upon complete utilisation of the Section 44 balance or 31 December 2007, whichever is earlier, the company would move to the one-tier system. However, a company can opt at any time before that to move to the one-tier system (the option once exercised is irrevocable).

2. Group Relief (with effect from YA 2003)

Companies within a '75%' corporate group are allowed to offset current year unabsorbed capital allowances, losses (including further deductions) and donations (in that order) against the taxable profit of another company within the same group subject to certain conditions. To illustrate, two Singapore companies are members of a group if one company holds at least 75% of the ordinary shares in the other directly or indirectly with a similar entitlement to the residual profits and assets of the subsidiary. Alternatively, three Singapore companies are members of a group if one company holds at least 75% of the ordinary shares in the other two companies directly or indirectly.

Unabsorbed amounts brought forward from YA 2002 cannot be utilised for group relief purposes but can only be carried forward for set-off against future taxable profits in the same company.

Other conditions include co-terminous accounting year-ends of transferor and claimant companies, restriction of amounts qualifying for transfer to that attributable for the period in the accounting year from the date the 75% shareholding commences, yearly irrevocable written election for the transfer by the parties concerned specifying also order of claimant companies where there is more than one.

Foreign incorporated companies cannot be part of the group for group relief purposes. In addition, losses of foreign branches/tax exempt activities and trades eg under tax incentives and investment allowances do not qualify for transfer. Income from certain activities eg investment holding (Sec 10E), finance and offshore leasing (Sec 10D/43I) and car hire/driving instruction (Sec 10H) are not allowed to be set-off. Certain companies granted tax incentives are also not eligible for group relief.

3. Not-Ordinarily Resident ('NOR') scheme for employees (with effect from YA 2003)

Qualifying individuals who are based in Singapore and are required to travel extensively outside Singapore in discharge of their regional duties and responsibilities for at least 90 days in the year are, in essence, allowed to apportion their income, subject to Singapore tax based on the number of days they spend in Singapore. The apportionment does not apply to director's fees, leave pay and benefits-in kind such as accommodation and related benefits, car benefits and club entrance/subscription fees.

The NOR status is granted for 5 consecutive YA from the first YA that the individual is resident in Singapore with scope for subsequent granting of further 5 YA of NOR status subject to certain interim tax residence criteria.

However, there is a basic 10% floor rate of tax that the NOR individual has to pay. Therefore if their Singapore tax liability is less than 10% of their total Singapore employment income, the Singapore taxable income will be adjusted to an amount such that they will be subject to tax at 10% on their total Singapore employment income computed based on resident rates (see above).

Under the NOR scheme, tax exemption is also given on employer contributions to non-mandatory overseas pension fund or social security schemes in respect of non-Singapore citizen/PR employees.

This exemption is subject to a cap based on the local CPF scheme limits (see above under Social Security Contributions). Nevertheless, employers are allowed a full deduction on these non-mandatory scheme contributions regardless of the CPF limits.

Normal Tax Year End

31 December

Vietnam

Exchange Controls

Legitimate foreign-currency trading has been allowed on the foreign-currency interbank market since late 1994. The market is intended to allow banks to trade in foreign currency with one another, to regulate the amount of foreign currency in the market and to maintain the value of the dong in line with government monetary policy.

Corporate Tax

Basis

Taxation occurs at national and municipal levels. Resident companies are taxed on worldwide profits/income (with a credit for foreign tax). Most Vietnamese income of non-residents is taxed.

Rate

The standard effective corporate tax rate is 28% for both local and foreign-invested companies. A surtax at progressive tax rates from 10% to 25% applies to income from land use right assignment.

Personal Tax

Basis

Progressive rates up to 40% apply for both expatriates and locally hired individuals.

Withholding Taxes

Withholding taxes of 10% are applied to payments of interest and royalties. The rate of withholding tax on dividends is 0%. These rates may be reduced by tax treaty.

Capital Gains Tax

Basis

Capital Gains are taxed at 28%.

Gains made by foreign investors on the transfers of interests in a foreign-invested or Vietnamese enterprise are subject to a flat tax of 25%. Transfers of capital to state-owned enterprises are exempt, and transfers to Vietnamese enterprises are taxed at 12.5%.

Value-added-tax (VAT)

Vietnam has had a VAT since 1 January 1999. The VAT has three levels; a standard rate of 10%, reduced rates of 0% and 5% (the higher rate of 20% was removed from 1 January 2004).

The VAT is broadly applied although there are 26 categories of exemption, including stock-exchange activities, certain kinds of imports, technology transfer, local sales of software, services provided to consumers outside Vietnam and a range of exemptions relating to firms in export-processing zones (EPZs).

The 0% rate applies to export goods subject to special sales tax, exports of software, software to firms operating in EPZs, goods processed by subcontractors and goods sold by a foreign-invested enterprise to a foreign customer but delivered in Vietnam.

The 5% rate applies to around 40 groups of goods and services, including coal, machinery, computers and accessories, chemicals, construction and installation services.

The 10% rate applies to 16 specific categories of goods and services, and a 17th catch-all group defined as any good or service not subject to the other rates.

VAT is paid on imports at the CIF price plus import duty and importers are responsible for declaration and payment. The 10% VAT must be paid immediately although it is refunded once the goods are sold.

Social Security Contributions

Compulsory superannuation contributions are payable by employers to the Social Insurance Fund at the rate of 15% of their employees' total salary.

Other Taxes

There are taxes on imports and exports of a range of goods.

Foreign airlines operating from Vietnam are taxed under a specialised regime, as is the oil industry.

There is no withholding tax on management fees to a parent company. Such arrangements should be included under licence payments.

The financial support provided by a parent company to a subsidiary in Vietnam is not subject to value-added or business income taxation. However, the expenses covered by this financial support are not tax deductible. This if the Vietnamese company has already claimed a tax deduction for these expenses, the support received would be taxable.

Normal Tax Year End

31 December

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