

Clean Energy & Tax Incentives

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Highlights

We bring to you in this issue two articles on tax relating to energies. The first one is on Carbon Tax that became effective from July 2012 in Australia, where we learn that the key objective is to build a new clean energy future.

The second energy article is from Indonesia and is concerned with cooperation

between businesses and the Government on exploration of natural resources and mechanism of tax payment for such cooperation.

Hong Kong has an article on new measures in PRC tax calculations that will benefit Hong Kong and Macau residents working in Mainland China, eliminating double taxation in respect of two situations where were

previously potentially exposed to double tax.

We end this issue with a summary from Singapore on the tax and financial incentive schemes rolled out by various statutory boards and government organizations which are currently still available. Readers may be interested in taking advantages of these schemes.

News of our regional firms

Russell Bedford expands Australian coverage by adding correspondent firm in Brisbane

Russell Bedford International, the worldwide audit and accounting group, has announced the appointment of Wessels &

Co. Pty Ltd as its correspondent firm in Brisbane, Australia.

Wessels & Co. was established in 2010 to

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" ... focusing on small to medium sized enterprises and not-for-profit entities...."

provide a specialised audit service focusing on small to medium sized enterprises and not-for-profit entities. It is an Authorised Audit Company in accordance with the requirements of the Australian Securities and Investments Commission.

The firm is run by two partners, Wayne and Marjorie Wessels.

Prior to establishing the firm, Wayne Wessels was an audit partner in the Brisbane office of a national network firm. He has had extensive external audit experience both locally

and internationally and was also an audit partner with a Big 4 firm for seven years. He has provided audit and assurance services to listed and non-listed public entities, and to private entities in a wide range of industries.

Marjorie Wessels was previously an audit partner with a national network firm. She has local and international external audit experience including eight years as an audit partner with a Big 4 firm, providing assurance services to listed and non-listed public and proprietary entities across a range of

sectors. Marj headed the professional standards function of an Australian national network firm for four years, and brings to the firm the quality control and technical benefits of this experience.

Wessels & Co. has an associated practice, Australian Financial Reporting Services, which was also established in 2010 and provides a specialised financial reporting service.

Hua-Ander celebrates its 15th anniversary

" ... grown into a prominent national firm."

15 October 2012 will mark the 15th Anniversary of Hua-Ander CPAs. Hua-Ander is one of the first partnership accounting firms approved by the Ministry of Finance of the People's Republic of China in 1997. It has now grown into a prominent national firm driven by its commitment to clients' interest and satisfaction, from 5 people at the beginning to over 50. Its clientele cover foreign investment companies, state-owned entities and multi-national groups. In

China's ever-changing business environment, Hua-Ander has successfully kept low client and staff turnover and secured a stable growth over the 15 years history. A series of activities are planned to launch the celebration, including specially-made souvenirs to clients and staff, long service awards to staff (excluding partners), and a celebration party.

Hua-Ander partners also welcome a new partner, Frank Zheng, internally promoted in 2012. Frank joined the firm in 2000, when he already had

four-year finance experience with a state-owned company. Over the decade, Frank started as an audit assistant and was promoted to supervisor, manager, senior manager, and finally partnership. He holds bachelor and MBA degrees and has rich experience in audit of state owned and foreign owned entities. His expertise industries include real estate and high-tech.

Carbon tax in Australia

Further to the article named "The clean energy plan" in Volume 3, Issue 4 of the APAC newsletter, we have an update on carbon tax (or referred to as carbon price) mechanism which came into effect on 1 July 2012.

The carbon price mechanism is expected to cover the nation's biggest emitters as it requires businesses emitting over 25,000 tonnes of carbon dioxide equivalent emissions annually to purchase emissions permits. Such businesses may cover power stations, mines and heavy industry. Households, small businesses and other organizations will have no direct obligations under the carbon price. Also, carbon price will not apply to agricultural emissions or emissions from light on-road vehicles.

If a business is liable to pay carbon tax, it is required to register under the National Greenhouse and Energy Reporting System. The business is also required to report emissions and surrender permits to match their emissions.

A flat charge of \$23 per tonne of emissions is

levied as from 1 July 2012. The price will rise by 2.5% (assumed inflation) a year and adjusted to \$24.15 per tonne in 2013-14 and \$25.40 per tonne in 2014-15. Since 1 July 2015, the carbon price will be replaced with a market-driven system (Emissions Trading Scheme) and no longer fixed.

Some businesses will pass on the carbon price, leading to modest rises in prices. In 2012-13, this is expected to increase the cost of living by 0.7 per cent. The GST and related changes to the tax system pushed up prices more than three times as much as the carbon price is expected to.

To compensate for the increase, the Government claims that every cent raised from a price on carbon will be used to provide tax cuts and increased benefits to households, support jobs in the most affected industries, and build a new clean energy future:

- The tax-free threshold will be more than trebled to \$18,200 in 2012-13. Together with \$445 of low-income tax

offset, this means people on annual incomes of \$20,542 will pay no net tax.

- Household assistance for pensions, allowances and family benefits will be permanent and will keep pace with the cost of living, automatically rising in line with the consumer price index (CPI).
- Tax cuts will increase over time with a second round of tax cuts in 2015-16 that will further raise the tax-free threshold to \$19,400, matching the impact of the carbon price to 2020.



AUSTRALIA

Stantons International

"...every cent raised from a price on carbon will be used to provide tax cut..."

AUSTRALIA

(Continued)

“...national employment is projected to increase by 1.6 million jobs by 2020.”

The changes are illustrated by the following table:

	Current		2012-13		2015-16	
	Threshold (\$)	Marginal Rate	Threshold	Marginal Rate	Threshold	Marginal Rate
1st Rate	6,001	15%	18,201	19%	19,401	19%
2nd Rate	37,001	30%	37,001	32.5%	37,001	33%
3rd Rate	80,001	37%	80,001	37%	80,001	37%
4th Rate	180,001	45%	180,001	45%	180,001	45%
LITO	Up to \$1,500	4% withdrawal rate on income over \$30,000	Up to \$445	1.5% withdrawal rate on income over \$37,000	Up to \$300	1% withdrawal rate on income over \$37,000
Effective tax free threshold*	16,000		20,542		20,979	

* Includes the effect of the tax free threshold and the low income tax offset (LITO).

The Government will ensure that those Australians that need most help, such as pensioners and low and middle income households, will get most assistance for the cost of living impact of the carbon price.

The economy will

continue to grow as Australia embraces a clean energy future. Treasury modeling estimates that under a carbon price:

- Average incomes are expected to increase by about 16% from current levels by 2020

- National employment is projected to increase by 1.6 million jobs by 2020.

Source: Australian Government – Clean Energy Future
<http://www.cleanenergyfuture.gov.au/>

HONG KONG



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Double taxation of Hong Kong tax resident working in Mainland China

The State Administration of Taxation (“SAT”) issued various bulletins in the past providing guidance for reporting of individual income tax (“IIT”) by non-PRC tax

residents working in the Mainland China. The main ones include:

- Guoshuifa [1994] no. 148
- Guoshuihanfa [1995] no. 125

- Guoshuihanfa [1997] no. 546
- Guoshuifa [2004] no. 97

The SAT further issued Guoshuifa [2012] no. 16

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on 26 April 2012 to resolve the potential double taxation of Hong Kong and Macau tax residents working in Mainland China.

Guoshuifa [2012] no. 16 takes effect from 1 June 2012 and applies to tax residents of Hong Kong and Macau who are:

- employed in Hong Kong;
- employed in Macau;
- employed in both Hong Kong and Mainland China; or
- employed in both Macau and Mainland China

It does not apply to 'employed in Mainland China only' situation.

Despite the guidance given in previous bulletins, Guoshuifa [2012] no. 16 points out that:

- (a) to calculate the IIT on the portion of the income that is derived from activities in Mainland China for the purpose of the application of the respective Tax Arrangements between Hong Kong / Macau and Mainland China, the following formula shall be adopted:

$$\text{IIT payable} = A \times B/C$$

- (b) to calculate the IIT

for individuals who claim exemption from PRC tax under the respective Tax Arrangements (e.g. Hong Kong tax resident who are present in Mainland China for less than 183 days during any 12-month period), the following formula shall be adopted:

$$\text{IIT payable} = A \times (B/C) \times (D/E)$$

Whereas:

A = IIT payable on total salaries received from both inside and outside Mainland China for the period concerned

B = No. of days present in Mainland China for the period concerned

C = No. of calendar days for the period concerned

D = Salaries paid / borne in Mainland China for the period concerned

E = Total salaries paid / borne inside and outside Mainland China for the period concerned

Guoshuifa [2012] no. 16 also clarifies that:

1. When counting

actual days present in Mainland China for the period concerned, the day of arrival and the day of departure from Mainland China are counted as 'half days'.

2. The above formula also applies to bonuses and similar payments which cover a period over one tax period. i.e. the period concerned refers to the performance period in respect of which the bonus is paid.
3. Those who wish to apply the tax treatment prescribed by Guoshuifa [2012] no. 16 must notify the relevant tax bureau and provide supporting documents as requested by the relevant tax bureau.

Guoshuifa [2012] no. 16 is very welcome by Hong Kong and Macau residents as it (i) serves to avoid potential double taxation due to overlap in day counting for Hong Kong and PRC tax calculations; and (ii) provides for time apportionment on bonuses and similar payments.

"...welcome by Hong Kong and Macau residents as itprovides for time apportionment on bonuses and similar payments"



Income Tax For Oil and/or Gas In The Form Of Oil and/or Gas Volume

"...the payment of Income Tax can be in the form of oil and/or gas volume..."

As a country which has natural wealth in the form of abundant oil and/gas, the Government of Indonesia has made cooperation with domestic and foreign contractors for conducting exploration and exploitation activities for natural resources. As the result of these cooperation contracts, the Government of Indonesia has acquired state revenues from upstream oil and/or gas business activities which constitute revenues originating from the result of cooperation contract from the working areas of oil and/or gas mining, which consist of a) state share; and b) Income Tax for oil and/or gas. The State share as referred to shall include lifting which constitutes state right originating from total lifting oil and/or gas based on the Cooperation Contract.

For oil and/or gas lifting, the sale and/or delivery has to be conducted pursuant to the laws and regulations and/or cooperation contract. The sales and/or delivery of oil and/or gas consist of:

- a. Lifting which constitutes state right;
- b. Lifting which constitutes

contractor's right; or

- c. Lifting which constitutes state right and lifting which constitutes Contractor's right (joint lifting).

The Contractor conducting cooperation with the government is subject to income tax as income tax is also imposed to the contractor or other taxpayers in Indonesia. However, under special provisions as stipulated in the Regulation of Minister of Finance of the Republic of Indonesia No. 79/PMK.02/2012 dated May 24, 2012 are applicable to the contractors under cooperation in exploration and exploration activities for oil mining

According to this Regulation of Minister of Finance in case of the Government requires oil and/or gas for the purpose of complying with domestic needs, the payment of Income Tax can be in the form of oil and/or gas volume from the Contractor's share.

The amount of Income Tax in the form of oil volume from the contractor's share that has to be handed over to the

Government is calculated by applying ICP (Indonesian Crude Price) in the month at the time such Income Tax is indebted and applying weighed average price in the Contractor's sale in the month at the time such Income Tax is indebted. For the price of oil and gas which is used for calculating the amount of Income Tax, it is stipulated by the Decree of Minister of Finance.

In case of payment for Income Tax made in the form of oil and/or gas volume, the Contractor and the Government as represented by the Executive Agency shall conduct the handover of oil and/or gas volume as set forth in the official report on handover which is signed by the Contractor and the Government, as represented by the Executive Agency. The Official Report on handover shall at least contain information concerning the volume and the price of oil and/gas, and the value of Income Tax. For the payment of Income Tax as made in the form of oil and/or gas volume, the preparation and filling of Tax Deposit Slip is based on such Official Report on

handover.

The Contractor acting as Operator as well as Partner in performing the Cooperation Contract is obligatory to prepare report on state revenue from oil and/or gas upstream business activities in the relevant Working Area consisting of monthly report and annual report. Such reports should be

submitted to the Government (c.q. Directorate General of Budget and Directorate General of Taxes) containing information on state share and Income Tax. The report as intended should be attached with: a) Tax Deposit Slip and b) copy of evidence of payment which can be in the form of evidence of transfer to the oil and gas account, in

case the payment of Income Tax is made in the form of cash or official report on handover; in case of the payment of income tax is made in the form of volume of oil and/or gas.

INDONESIA

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Tax and Financial Incentive Schemes Available in Singapore

SINGAPORE

Over the years, the Singapore Government has through its various statutory boards and government organisations rolled out many tax and financial incentive schemes to encourage and incentivize business entities in Singapore to employ older Singaporean workers, upgrade and grow their businesses.

STEVEN TAN RUSSELL BEDFORD PAC
Public Accounting Corporation

Below is a summary of some of the tax and financial incentive schemes currently available:-

Central Provident Fund Board			
Tax and Financial Incentive Scheme	Purpose	Qualifying criteria	Incentives available
Enhanced Special Employment Credit (SEC)	To encourage company to employ older Singaporean workers	<p>SEC is given to employers who employed older Singaporean workers aged ≥ 50 and earning up to \$4,000 per month.</p> <p>It is applicable to employees who are employed by the company from 1 January 2012 to 31 December 2016. SEC payments received by the company from CPF Board are taxable</p>	<p>Monthly wages of eligible older employee ≤ \$3,000:</p> <ul style="list-style-type: none"> - Monthly SEC payout is 8% of wages <p>Monthly wages of eligible older employee \$3,001 - \$4,000:</p> <ul style="list-style-type: none"> - Monthly SEC payout is \$960 less 24% of wages

"...encourage company to employ older Singaporean workers"

SINGAPORE

(Continued)

"...encourage companies to invest in innovation and productivity improvement"

Inland Revenue Authority of Singapore (IRAS)			
Tax and Financial Incentive Scheme	Purpose	Qualifying criteria	Incentives available
SME Cash grant	Tax Incentive	Companies must have made CPF contributions to ≥1 employee who should not be a shareholder of the company	<p>A one-off cash grant pegged at 5% of company's revenue (main source of income) and capped at S\$5,000 (whichever lower) in Year of Assessment (YA) 2012.</p> <p>Cash Grant received will not be taxed.</p>
Enhanced Productivity and Innovation Credit (PIC) Scheme	To encourage companies to invest in innovation and productivity improvement	<p>Companies which invest in the following Six Qualifying Activities:</p> <ol style="list-style-type: none"> a. Purchase/lease of automation equipment b. Training c. Investment in R&D d. Approved design e. Acquisition of intellectual property f. Registration of intellectual property 	<p>400% tax deduction</p> <p><u>or</u></p> <p>non-taxable cash payout at conversion rate of 30% (YA2011 & YA2012); 60% (YA2013 to YA2015)</p>
Tax Exemption Scheme	Tax Incentive	All companies with normal chargeable income	<p>A partial tax exemption is given to companies on normal chargeable income of up to S\$300,000 as follows:</p> <ul style="list-style-type: none"> - First S\$10,000 at 75% - Next S\$290,000 at 50%

Inland Revenue Authority of Singapore (IRAS) - continued

SINGAPORE

(Continued)

Tax and Financial Incentive Scheme	Purpose	Qualifying criteria	Incentives available
<p>Tax Exemption Scheme for new start-up companies</p>	<p>Tax Incentive</p>	<p>New start-up companies must:</p> <ul style="list-style-type: none"> • be incorporated in Singapore • be a tax resident in Singapore for that YA • have less than 20 shareholders throughout the basis period for that YA where all shareholders are individuals beneficially and directly holding the shares in their own names or at least one shareholder is an individual beneficially and directly holding at least 10% of the issued ordinary shares of the company 	<p>Tax exemption on the first S\$300,000 of a company normal chargeable income (YA2008 onwards) as follows:</p> <ul style="list-style-type: none"> - First S\$100,000 at 100% - Next S\$200,000 at 50% <p>For each company first three consecutive years of assessment.</p>
<p>Double Tax Deduction (DTD) for Internationalization</p>	<p>To encourage SMEs to venture abroad</p>	<p>Singapore Companies which incurred qualifying expenditure in the following 4 activities:</p> <ol style="list-style-type: none"> a. Overseas business development trips/missions; b. Overseas investment study trips/missions; c. Participation in overseas trade fairs; and d. Participation in approved local trade fairs 	<p>Tax deduction of up to 200% on qualifying expenditure, up to S\$100,000 per Year of Assessment.</p> <p>DTD for Qualifying Expenditure more than S\$100,000 needs approval from International Enterprise Singapore or Singapore Tourism Board.</p>

“...encourage SMEs to venture abroad”

SINGAPORE

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Inland Revenue Authority of Singapore (IRAS) - continued

Tax and Financial Incentive Scheme	Purpose	Qualifying criteria	Incentives available
Merger and Acquisitions (M&A) Allowance	The M&A allowance is given to encourage companies in Singapore to grow their businesses through mergers and acquisitions.	For share acquisitions completed from 17 Feb 2012 to 31 Mar 2015	<p>The M&A allowance is at 5% of the value of acquisition, subject to a maximum amount of S\$5 million for all qualifying share acquisitions in the basis period for each Year of Assessment (YA). The cap of S\$5 million will effectively allow for acquisitions of up to \$100 million in any one YA. The M&A allowance is expensed over five years and cannot be deferred.</p> <p>Double tax deduction up to \$100,000 of transaction costs (e.g. legal fees and tax advisory fees) incurred on qualifying M&A per YA. The deduction of the transaction costs will be allowed in the YA in which M&A allowance is claimed.</p>

"...encourage companies...to grown...through merger and acquisitions..."

IIRAS – Goods and services tax (GST)

SINGAPORE

(Continued)

Tax and Financial Incentive Scheme	Purpose	Qualifying criteria	Incentives available
Import GST Deferment Scheme (IGDS)	IGDS aims to ease the import GST cash flow arising from the time lapse between the payment of import GST and the claiming of import GST for GST registered businesses	The companies' business must be importing or will be importing goods for business purposes. In addition, the companies must be filing its GST returns on a <u>monthly</u> basis	GST-registered importer are allowed to defer payment of import GST until its monthly GST return due dates, whereby the companies will account for the deferred import GST and claim it as input tax in the same GST return.
Major Exporter Scheme (MES)	MES is designed to ease the cash flow of businesses that import and export goods substantially.	The companies' zero-rated supplies must account for more than 50% of the total supplies, or the value of the companies' zero-rated supplies is more than S\$10 million for the past 12 months.	Under MES, companies can import non-dutiable goods with GST suspended.

"...ease the cash flow of businesses that import and export goods..."

Disclaimer

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

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