Bridging the Tax divide – connecting Asia and the world
WTS Global at a glance

- Founded in 2003 by WTS Germany
- Locally rooted - Globally connected: Present in more than 100 countries with more than 2,500 tax professionals
- Tax-focused: Coverage of the entire range of tax advisory services
- Independent & free of conflict: No audit
- Quality assurance: Stringent quality reviews
- Diverse customer base: From multinationals to private clients
- Central management & coordination: Centrally managed global tax practice

What makes us unique

WTS Global is a leading global tax practice.

- Tax-focused
- No audits
- Hand-picked partner firms
- Dedicated Management
- Exclusivity

wts
Bridging the tax divide
Tax departments in Asia Pacific are on red alert.

Developments in the region beyond the corporate board's control have stirred a more volatile and complex tax landscape for multinationals. Managing tax compliance amidst heightened scrutiny on multinational tax avoidance has reputational risks and can be costly. Another impediment is the ambiguous environment stirred by the U.S.-China trade conflict and the tensions between Japan and South Korea, thereby disrupting global value chains and lowering profit margins. Is there a way to keep pace and thrive amidst these risks and uncertainties?

These challenges require businesses with significant Asian footprints to adopt a holistic and agile approach to tax strategy and compliance. Besides dealing with complexities of international business operations, tax departments need to factor international tax policy and global trade developments in their strategic thinking. The ability to harness meaningful actionable insights from big data and modern technologies such as artificial intelligence (AI) and blockchain will enable tax departments to stay abreast with the demands of global businesses.

We believe that multinational companies need long-term and conflict-free tax advisors who can help transform risks and uncertainties into opportunities and areas of strength. We take pride in our highly collaborative Asian network with presence in 11 jurisdictions across the region. The strong bridges we have built allow our clients to benefit from our seamless local and global connections. We can assemble collaborative and highly specialised team members for all areas of tax including:

- Global value chains
- Transfer pricing
- International and regional tax planning
- Mergers & acquisitions
- Regional tax controversies
- Dispute resolution via competent authority processes - APA & MAP
- Digital taxation including intellectual property and fintech
- Financial services
- Private equity
- Indirect tax
- International trade

The areas we have chosen to discuss in this brochure are amongst the critical and complex issues which we believe tax directors and CFOs are focused on addressing. Should you need to discuss them in more detail, please feel free to contact us.

We can help you lead the transformation in a complex tax world

- How should CFOs and CEOs align their business strategies to mitigate the impact of the US-China trade war on profit margins?
- What steps do CEOs need to take to help risk-proof their businesses in line with transfer pricing and BEPS guidelines?
- What is the best approach to deal with aggressive income assessments?

Asia Pacific focus areas

- Global Value Chains
- Regional and Global Value Chains, including Digital
- Tax Controversy
- Mergers & Acquisitions
- International Trade

Eugene Lim
Asia Pacific Chief Operating Officer, WTS Global
Priority topics for Asia Pacific Tax Leaders

Multinationals have placed paramount importance on addressing global value chain challenges in response to recent developments in the region. We provide an overview of the trends and insights into the volatile landscape of value chains and transfer pricing and how C-Suite executives can mitigate risks and harness opportunities.

Global value chains

Asia has of late become the central focal point for global value chains. Trade tensions between the US and China, the increase in free trade agreements (FTAs) as well as changing cost structures create critical push and pull factors which require C-suites to rethink their value chain structures. Businesses that are best able to adapt to these changes and factor them into their strategic thinking will be well placed to beat the competition. Those that fail to change will find themselves in a losing position.

Changing trade relations as well as technology developments are creating disruption to the status quo. Trade tensions, FTAs and changing cost structures will affect how businesses locate their manufacturing activities. At the same time, technology developments such as 3D printing, drones, and autonomous vehicles will change how goods are delivered to markets to satisfy customer demands. We expect relocation of export driven manufacturing facilities from China to ASEAN. Likewise, we expect 3D printing to disrupt traditional supply-led manufacturing as well as reverse logistics. Such technologies will enable manufacturers to be more responsive to customer demands and also reduce inventory requirements for after-sales activities.

Global or regional tax directors will need a more holistic view of taxes, duties, and trade and regulatory developments to ensure that their organisations stay ahead in the current disruptive environment.

This will require tax directors to work with advisors who are able to pull together different disciplines such as direct tax, indirect tax, transfer pricing, customs & excise duties, tax treaties and free trade agreements and integrate them into a coherent and effective strategy to meet the needs of their businesses.

Such strategies will need to enable businesses to be optimised and efficient whilst ensuring that they do not incur unnecessary levels of risks.

- Eugene Lim
Asia-based innovators filed more than half of all international patent applications via World Intellectual Property Office (WIPO) for the first time in 2018. The epicentre of what is currently a trans-Atlantic digital tax debate will move inexorably East in the future.

The pre-occupation with rolling out the initial wave of country-by-country reporting, the master and local files at the headquarters in Europe or the US will gradually give way to the realisation that the Asia Pacific region is very diverse. Some countries have barely introduced their first documentation rules. Others such as Australia have already moved on to refining the OECD standard with guidance that articulates the position they wish to take and documentation requirements tailored to elicit the information that they need. The region needs a carefully considered approach rather than a one-size-fits-all.

The digitalisation of the tax function has been creating disruptions in the name of cost efficiency. The pressure to manage down costs, coupled with the desire to adopt the latest automation solutions, often means insufficient thought, resulting in inefficient allocation of resources for transformation projects. Tax leaders run the risk of changing current processes and displacing staff before the new one is fully in place.

AI, big data analytics and robotic process automation projects are often started in Asia in response to a national push such as those that we have seen in a number of East Asian countries. Although such projects can in concept yield great efficiency savings, the process of getting there is a multi-year journey. Many Asian tax teams lack the technological expertise to fully exploit the benefits of automation. The skilled labour costs of Asian shared services in countries like India and the Philippines remain very competitive and provide a very competitive alternative to automation.

Be deliberate and do not rush, it is easier said than done and the solutions touted by external providers can be tempting but you know your company best.

Consider working with an advisor who knows the landscape in Asia Pacific to partner with you in the journey of designing a solution that fits your company rather than opt for cheaper off-the-shelf cookie cutter automation or digitalisation solutions which may take more time and resources to fix once installed.

- Sam Sim
Country highlights

During 2018 and 2019, there have been a number of significant tax-related updates including multinational tax avoidance initiatives, US-China trade conflicts and OECD BEPS framework, highlights of which we bring you here.

**Australia**

To aggressively counter corporate tax avoidance by multinationals, which according to estimates cost the Australian government A$5.4bn in foregone revenues in 2017, the Australian Taxation Office (ATO) has received A$1bn funding to focus on the top 1000 taxpayers in Australia. This coincides with the ATO’s unprecedented collection and analysis of taxpayer data, and the incorporation of powerful new laws focusing on economic substance in global value chains.

Also relevant to multinationals in Australia, the developments on the proliferation and impact of the OECD Base Erosion and Profit Shifting (BEPS) 2.0, both within the Asia Pacific region and with other major global trading partners, continue to reshape the landscape of international tax. This should focus on the impact on traditional regional principal locations and discuss the emergence of new principle locations that also incorporate manufacturing and supply chain contributions to global value chain.

> BEPS 2.0 initiatives fundamentally shift the allocation of value chain profits across the Asia Pacific region, with clients requiring expert tax planning and controversy resolution advice.

---

**China**

As a result of the escalation of the US-China trade war, China implemented a “product exclusion process” in relation to retaliatory tariffs on US-originated products.

Cross-border transactions in China have also been subjected to more rigorous tax and customs audits particularly on royalty and service fee payments. BEPS-based attacks and inspections are typical.

China’s VAT reform continues its momentum in digitalisation and alignment with international practices in terms of input crediting, tax refunding, and assessment.

Further to the signing of the fifth protocol to the China-HK DTA HK’s newly issued Transfer Pricing guidelines could have an impact on China-related transactions.

> Expected the unexpected. The long arm of tax audit is extending beyond the arm’s length. Inter-company transactions are being excessively sanctioned. Don’t lie down on answers that raise more questions. Sit up to look for questions.

---

Martin Ng
Craig Silverwood
India

As a measure to revive growth, the enhanced surcharge on tax on foreign portfolio investors was rolled back. While there is a renewed focus on taxation of PEs, there is a lack of clarity on profit attribution rules, for which a recommendatory report was published, highlighting digital taxation aspects as well.

BEPS, especially digital taxation, is one of the most common concerns of all jurisdictions. The United States is close to reaching a compromise over France’s digital tax. Unilateral approaches are being adopted by countries, until the OECD comes up with a global solution. One would also note, constant changes by jurisdictions to shift from tax terrorism, by avoiding unnecessary litigation.

The most wanted and needed global solution to digital taxation is to avoid double taxation and double non-taxation.

Ajay Rotti

Japan

Effective 1 October 2019, Japan’s amended Consumption Tax (Japanese VAT) has introduced for the first time the dual consumption rate system (8% and 10%).

The strained bilateral relationship between Japan and South Korea has been reinforced with the recent removal of South Korea from Japan’s white list of preferred trading partners. (Korea subsequently excluded Japan from its white list)

Citing national security concerns, Japan’s implementation of trade and investment restrictions in sectors such as IT and telecommunications may not only impact trade. Case in point is its requirement for IT software companies incorporated in Japan from August 1 2019 to be pre-approved by the Ministry. Such developments may have implications on movement of capital and human, which ultimately impact tax consulting businesses.

Shifting from direct tax to indirect tax is the most important tax trend in Japan. Foreign subsidiaries doing business in Japan should be aware of avoiding unnecessary indirect tax burden in the Japanese operations.

Itsuko Hori

Malaysia

Malaysia implemented effective 1 July 2019 the Earning Stripping Rules consistent with the recommendations of OECD BEPS Action 4. Earlier in the year, it also imposed imported service tax effective 1 January 2019 for B2B transactions. Another key development was the introduction of the single-stage Sales and Service Tax (SST) disallowing input tax credit. The SST replaced Malaysia’s previous multi-stage GST/VAT system in September 2018.

A digital service tax will be imposed on digital services including online platforms effective 1 January 2020.

‘Technology on taxation; Taxation on technology’ – the two things that will keep us on our toes the next decade.

Thenesh Kannaa
Singapore

The Multilateral Convention to Implement Tax Treaty Related Measures to BEPS entered into force on 1 April 2019 and, as of 20 August 2019, amendments made by the MLI to 20 of Singapore’s DTAs have taken effect. The Inland Revenue Authority of Singapore (IRAS) also published guidance and tools to help taxpayers in Singapore comply with their Common Reporting Standards reporting requirements. IRAS also issued the first transfer pricing guidelines on a special topic – Commodity Marketing and Trading Activities on 24 May 2019.

Other notable developments include:

- The publication of implementing rules and guidelines for GST treatment of import of services
- The issuance of new guidelines on the GST treatment of transfers of going concerns
- The extension of the tax incentive schemes for investment funds for another five years with certain modifications
- The issuance of the Monetary Authority of Singapore of guidance on the extension of Sections 13R and 13X tax incentive schemes for funds to Variable Capital Companies
- The modification of Singapore’s DTAs with 20 countries further to its ratification of the MLI which came into force on 1 April 2019
- Tax agreements signed between Singapore and the following countries:
  - Armenia
  - Greece
  - South Korea
  - United States (exchange of information and FATCA Model 1A IGA)
- The following FTAs were signed in 2018: Comprehensive and Progressive Agreement for Trans-Pacific Partnership, Sri Lanka-Singapore FTA and European Union-Singapore FTA

"The enactment of all tax reform packages will fuel the Duterte administration’s ‘build build build’ program in full throttle."

Benedicta Du-Baladad

Philippines

The implementation of the first of the five tranches of the Philippine Tax Reform has significantly decreased personal income tax rates. The imposition of higher excise taxes on non-essential goods such as automobiles, petroleum products, tobacco and sugar-sweetened beverages has raised revenues for the government’s social services and infrastructure programs.

The remaining tax reform packages are expected to be passed this year, allowing corporate income tax rates to gradually decrease to 20%. Valuation of real estate will be rationalised and tax on passive income will have a lower standard rate.

"The enactment of all tax reform packages will fuel the Duterte administration’s ‘build build build’ program in full throttle."

Benedicta Du-Baladad

Singapore will be an oasis in a turbulent global environment, but be prepared to ensure compliance with international tax developments and defend aggressive audits in the neighbouring countries. Consider using the Mutual Agreement Procedure process to resolve double taxation when challenged by other tax authorities and gain tax certainty via Advance Pricing Agreements.

Eugene Lim
Vietnam is increasing the requirements on tax compliance. Spectacular arrests, convictions and disempowerments in the sector of state-owned-enterprises are giving the signal to the Vietnamese business community that compliance, including tax, is becoming crucial and must be taken seriously.

2020 Vietnam will see some foreign invested and Vietnamese invested companies publicly held liable for tax evasion. Lately, the Official Letter of the General Department of Taxation directly named as target for inspection the companies Grab and Uber.

— Wolfram Gruenkorn

Permanent establishment challenges as a result of South Korea's inclusion of certain provisions in line with the OECD BEPS have increased based on global trends. Korean tax authorities have started auditing multinational IT companies such as Google in Korea from the PE rules perspective.

Challenges on transfer pricing and permanent establishment by the Korean tax authority will be the main issues for 2020 as the tax laws related to these issues have been revised to supplement the legal background to make the tax adjustment for these issues.

— Shin-Jong Kang

The Thailand Transfer Pricing Act came into effect on 1 January 2019 giving basic guidelines on documentation requirements and accepted methods. The implementing statutes have yet to be issued.

The major cross-border tax topic of the coming years will be transfer pricing and how international tax laws will develop amidst the increasing number of countries implementing instruments in line with the BEPS.

Thailand will extend its transfer pricing regulations and tax auditing practice by implementing more of the actions under the OECD BEPS action plan.

— Till Morstadt

Thailand

Vietnam

South Korea
## Tax tips around the region

### Australia
In Australia, the ATO has significant information gathering powers. Asia Pacific tax directors should devise a robust strategy to manage what information should be brought onshore to Australia and what should remain offshore.

### China
The best tactic against a tax audit is to prepare for it. It does not have to be a cat-and-mouse game. Look for these signs that may ring a bell:

- The China subsidiary is making a loss;
- An expensive royalty fee is charged to the China affiliate;
- A large service fee is charged to your China affiliate;
- The supply chain is routed via a low-tax jurisdiction;
- There is a huge variance in the income filed for China VAT and CIT;
- There are substantial sales to the China affiliate.

If they are obvious to you, same to a tax officer. Plus, it is not only the tax bill that hurts, but also the overly burdensome workload.

### India
Set up operations in an SEZ unit before 1 April 2020 to be eligible to claim direct tax benefits.

### Japan
Collaboration in the indirect tax consulting (indirect tax, customs duties, etc.) among others with direct tax consulting. In a global supply chain, where goods may be imported from different exporting group companies, foreign subsidiaries doing business in Japan should be aware of avoiding unnecessary indirect tax burden in the supply chain.

### Malaysia
No plan works – unless devised with a conscious sense for being pragmatic.

You get what you ask; tax advisory or strategic tax advisory – make the right choice.

### Philippines
The tax reform will give “super incentives” to investors in key areas of agribusiness and those undertaking projects or activities in less developed communities.

### Singapore
ASEAN with its young and large skilled workforce presents excellent market potential and a good hedge for businesses looking to avoid being caught between the current US-China trade tensions. Singapore would be a natural gateway for global businesses looking to understand and establish a foothold in ASEAN and the rest of Asia Pacific.

### South Korea
According to the proposed tax revision for 2020, transfer pricing adjustment based on the estimation (not on the study) will be allowable. In addition, in relation to anti-treaty shopping, taxation based on substance will be increased by providing the practical guidance (threshold for application of the taxation on substance will be further provided by the law.)

### Thailand
Thailand offers various tax incentives for investors, including exemption from corporate income tax for up to 15 years as well as reduction of personal income tax for qualified experts.

### Vietnam
The Foreign Contractor Withholding Tax allows (depending on the specific DTA) a low final taxation (eg: 2% on construction revenue) of the foreign contractor doing business in Vietnam.
Asia Pacific partner firms - key contacts

**Australia**
*Red Consulting International*
Kip Harding
kip@redconsulting.com.au
T: +61 3 9948 3300

**China**
*WTS China*
Martin Ng
martin.ng@wts.cn
T: +86 21 5047 8665 ext. 202

**India**
*Dhruva Advisors*
Nilesh Ashar
nilesh.ashar@dhruvaadvisors.com
T: +91 22 6108 1000 / 1900

**Japan**
*HAS Partners*
Itsuko Hori
hori@has-partners.com
T: +81 3 3824 3396

**Singapore**
*Taxise Asia (“WTS Taxise”)*
Eugene Lim
eugene.lim@TaxiseAsia.com
T: +65 6304 7972

**South Korea**
*Young & Jin Accounting*
Shin-Jong Kang
shinjong.kang@ynjac.co.kr
T: +82 2 6959 6509

**Taiwan**
*Eiger Law/WTS Consulting*
Michael Werner
michael.werner@wts.tw
T: +886 2 2771 0086

**Thailand**
*Lorenz & Partners*
Till Morstadt
till.morstadt@lorenz-partners.com
T: +66 2287 1882

**Pakistan**
*Enfoque Consulting*
Muzammal Rasheed
muzammalr@enfoque.com.pk
T: +92 51 835 1551

**Philippines**
*BDB Law Office*
Benedicta Du-Baladad
benedicta.du-baladad@bdblaw.com.ph
T: +63 2 403 2001 ext. 300

**Vietnam**
*WTS Tax Vietnam*
Wolfram Grünkorn
wolfram.gruenkorn@wtsvietnam.com
T: +84 28 7302 5771
About WTS Global

With representation in over 100 countries, WTS Global has already grown to a leadership position as a global tax practice offering the full range of tax services and aspires to become the preeminent non-audit tax practice worldwide. WTS Global deliberately refrains from conducting annual audits in order to avoid any conflicts of interest and to be the long-term trusted advisor for its international clients. Clients of WTS Global include multinational companies, international mid-size companies as well as private clients and family offices.

The member firms of WTS Global are carefully selected through stringent quality reviews. They are strong local players in their home market who are united by the ambition of building a truly global practice that develops the tax leaders of the future and anticipates the new digital tax world.

WTS Global effectively combines senior tax expertise from different cultures and backgrounds and offers world-class skills in advisory, in-house, regulatory and digital, coupled with the ability to think like experienced business people in a constantly changing world.

For more information please visit: wts.com.

Follow us:

https://www.linkedin.com/company/wts-global

https://twitter.com/wts_global


© 2020 WTS. All rights reserved.

Full scope of tax services globally

Global services

- International Corporate Tax
- Mergers & Acquisitions
- Transfer Pricing & Valuation Services
- Indirect Tax- Private Clients & Family Office Services
- Global Mobility
- Tax Controversy
- Customs

Additional cross-cutting services

- Financial Services
- Real Estate
- Tax Technology