

PRISM

Tax Newsletter

2nd Quarter 2020

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Cyprus

Cyprus ratifies the Base Erosion and Multilateral Instrument

On 22 January 2020, the Instrument of Ratification of the Multilateral Convention to Implement (MLI) Tax Treaty Related Matters to Prevent Base Erosion and Profit Shifting were published in the Official Gazette of the Republic of Cyprus. This Convention aims to update existing Double Tax Treaties (DTT) and ensure uniformity and coherence as per OECD/G20 Base Erosion and Profit Shifting (BEPS) project.

在2020年1月22日，落实租税协议相关措施避免税基侵蚀与利润移转的多边公约已通过，并刊登在塞浦路斯政府官方宪报。公约旨在更新现有的避免双重课税协定，并确保协定与经济合作暨发展组织/二十国集团的税基侵蚀与利润移转报告一致。

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Hong Kong

Passage of Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Bill 2019 by Legislative Council

The Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Bill 2019 has been passed by the Legislative Council in Hong Kong on 15 July 2020.

香港立法会已于二零二零年七月十五日通过《2019年税务（修订）（与保险有关的业务的利得税宽减）条例草案》。

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Italy

Measures issued by the Italian Government to support the employment and the economy in Italy after Covid – 19 outbreak

After the Covid-19 outbreak, the Italian government promptly approved the Law Decree no.18 of 17th March 2020 to support the employment and the economy. The law contains a cluster of measures to contrast the emergency of COVID-19. This article resumes a number of measures about employment, in particular, we focus on the following three sections:

1. Social Safety Net (art.19-22 of the Law Decree)
 - (i) Standard Layoff Fund, (ii) Special Layoff Fund and (iii) Wage Integration Fund
2. Allowances, leave and permits for certain categories of workers (art. 23 of the Law Decree)
3. Other provisions of interest to companies

在新冠疫情爆发后，为了支持就业与经济，意大利政府迅速通过了2020年3月17日第18号法令，当中包含一系列应对新冠疫情紧急情况措施。本文概述了一些与就业相关的措施，并主要针对以下三个部分：

1. 社会安全网（法令第19-22条）
 - (i) 标准解雇基金，(ii) 特别解雇基金和 (iii) 工资整合基金
2. 特定类别员工的津贴、休假和许可（法令第23条）
3. 企业其他相关规定

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Malaysia

Prihatin Rakyat (People Concerned) Economic Stimulus Package (PRIHATIN)

On 27 March 2020, Malaysia's Prime Minister YAB Tan Sri Dato' Haji Muhyiddin Bin Haji Mohd Yassin announced a comprehensive economic stimulus package known as Prihatin Rakyat (People Concerned) Economic Stimulus Package or PRIHATIN, valued at RM250 billion. It aims at assisting businesses and people in times of serious Covid-19 outbreak.

马来西亚首相丹斯里慕尤丁于2020年3月27日宣布了共2,500亿令吉的全面经济振兴配套，称为“关怀人民振兴经济配套”，旨在协助受新冠肺炎疫情影响的企业及人民。

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Nepal

Tax Amendments made by Nepal Budget 2077 (2020 AD)

This article is a summary of the tax amendments made by Nepal Budget 2077 (2020 AD), including:

1. Tax Rebates (Applicable from 2076/77 (2019))
2. Major Amnesty announced in Finance Bill 2077 (2020)
3. Changes in Income Tax Rate of Co-Operative Entity:
4. Amendments in provisions related to Tax Deducted at Source (TDS)
5. Other Major Amendments in Income Tax [Effective from Shrawan 1, 2077 (16 July 2020)]
6. Other Amendments in VAT Act, 2052 (1995 AD)

本文摘要了尼泊尔财政法案2077 (2020) 的税务修正案中的几项要点, 包括:

1. 退税 (自2076/77 (2019) 起适用)
2. 《2077年金融法案》(2020年) 中宣布的大赦
3. 合作实体所得税率的变化
4. 源头扣税 (TDS) 相关条款的修订
5. 所得税的其他主要修正案 (自Shrawan 1 2077 (2020年7月16日) 起生效)
6. 增值税法2052 (1995) 的其他修正案

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UAE

Introduction of Economic Substance Regulations (ESR) in UAE

UAE introduced ESR to honor the UAE's commitment as a member of the OECD Inclusive Framework on BEPS. The regulation applies in respect to financial years commencing on or after 1 January 2019.

Any Licensee who is undertaking any Relevant Activity (Banking, Insurance, Investment Fund Management, Lease Finance, Headquarters, Shipping, Holding Company, Intellectual Property, Distribution and Service Centre Business) is required to file a notification and a report as per the deadlines set by the Ministry of Finance. Hence this regulation covers all kind of entities including free zone, offshore and mainland which are carrying out any relevant activity.

按照作为经合组织 (OECD) 税基侵蚀和利润转移 (BEPS) 项目成员国的承诺, 阿联酋发布了《经济实质法规》(ESR)。该法规适用于2019年1月1日起的财政年度。

所有开展相关活动 (包括银行、保险、投资基金管理、租赁融资、总部、航运、控股公司、知识产权、配送和服务中心业务) 的特许持有人都须按照财政部规定之期限提交通知和报告。因此, 这项法规涵盖了在自由贸易区、离岸公司和本地从事任何相关活动的企业。

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UK

Property Tax changes from 6 April 2020

There are important changes arising to the taxation of properties for individuals. Within our article we have discussed the previous rules and the changes from 6 April 2020 in the following areas:-

- Principal Private Residence
- Lettings Relief
- Buy-to-let mortgage interest
- Capital Gains Tax changes for Residents and Non-Residents

英國个人物业税发生了重大变化。本文讨论了以往的税务政策以及自2020年4月6日起在以下方面所作出的更改:

- 主要私人物业
- 出租物业所获得的税务减免
- 以租养贷 (Buy-to-let) 物业按揭利息
- 居民和非居民资产增值税变更

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Cyprus



Cyprus ratifies the Base Erosion and Multilateral Instrument

Principal Purpose test

The main impact of the convention for Cyprus' active DTTs is the Principal Purpose Test (PPT). The PPT provides that a bilateral DTT benefit shall not be granted, if it is reasonable to conclude, having regard to all relevant facts and circumstances, that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit, unless it is established that granting that benefit in these circumstances would be in accordance with the object and purpose of the relevant provisions of the bilateral DTT. This measure is designed to tackle "treaty shopping" and puts a strong emphasis on ensuring that operations are supported by appropriate substance and reflect a principal commercial rationale.

Cyprus MLI position

Cyprus has listed the vast majority of its bilateral DTTs as being a "covered DTT" under the MLI, excluding recent bilateral DTTs in cases where such bilateral DTT already reflects the BEPS project. As noted above, a bilateral DTT is only modified by the MLI if both contracting party jurisdictions to the bilateral DTT choose to list it as a "covered DTT" under the MLI. For example, while Cyprus has listed its bilateral DTT with the United States (US) in its MLI Position, that DTT will not be a "covered DTT" unless the US subsequently signs the MLI and lists the Cyprus-US DTT as a "covered DTT".

Effect to Cyprus Tax Resident Companies

As from 1 January 2021, in the case of a Cypriot tax resident company (usually established by a non - Cypriot tax resident individual or by a non - tax resident company), in order to continue to be able to claim reduction or elimination of withholding taxes on income received (usually dividends, interest or royalties) from a country with which Cyprus has concluded a double tax treaty, (provided this country itself has completed the ratification procedures) it must prove that obtaining treaty benefits was not the only purpose or one of the principal purposes for the company being established in Cyprus.

In order to be able to prove the above, the Cypriot tax resident company needs to have sufficient substance in Cyprus, has business considerations for being set up in Cyprus and, preferably, carry out multiple activities within the company. 🇨🇵

Hong Kong



Passage of Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Bill 2019 by Legislative Council

The Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Bill 2019 has been passed by the Legislative Council on 15 July 2020.

The new Ordinance seeks to amend the Inland Revenue Ordinance (Cap. 112) to reduce the profits tax rate by 50% (i.e. tax rate at 8.25%) for all general reinsurance business of direct insurers, selected general insurance business of direct insurers and selected insurance brokerage business. Some global financial centers are lowering corporate tax rates. The passage of this Ordinance can promptly enhance the competitiveness of insurance industry in Hong Kong and make the tax rates of Hong Kong roughly comparable to those of Singapore.

The new Ordinance would promote the development of the marine and specialty risk insurance businesses of Hong Kong and enhance the development of high value-added maritime services. The new Ordinance would also assist the insurance industry to seize new opportunities, including those arising from the Belt and Road Initiative.

The Government and the Insurance Authority will proceed with the next stage of preparatory work, including formulation of implementation details and drafting of subsidiary legislation. The target is to give effect to the aforementioned tax concessions by the end of 2020 or early 2021. 🇭🇰

Italy



Measures issued by the Italian Government to support the employment and the economy in Italy after Covid – 19 outbreak

1. Social Safety Net (art. 19 – 22 of the Law Decree)

The Law Decree provides for a number of Social Safety Net: (i) Standard Layoff Fund, (ii) Special Layoff Fund and (iii) Wage Integration Fund.

The basic difference between each of them is about the activity carried on by the company and the number of employees.

However, the substantial content of each measure is the same:

- They apply to workers employed on the date of 23 February 2020 (no minimum effective work is required);
- Maximum period of use: 9 weeks to be used from 23 of February 2020 to 31 August 2020;
- The amount paid to employees is equal to 80% of the global salary due with reference to the unused working hours with the some specified caps in the amount payable;
- No additional contribution by the company is required;
- Benefit applies to all Italian companies;
- Funds are limited: first come, first served.
 - The Social Safety Net applied according to the Law Decree is to be added to the special layoff fund provided by article 17 of the law decree no. 9/2020. Therefore, if a company operates in Lombardia, it can benefit of a further 1 month to be used in addition to the 9 weeks mentioned above: article 17 limits the benefit to cases where evidence of a prejudice suffered by the company exist, but a statement given by the legal representative of the company should be enough.

2. Allowances, leave and permits for certain categories of workers (art. 23 of the Law Decree)

Any of each parent has, alternatively to the other, a right to a leave for a continuous or split period of no more than 15 days from March 5, 2020, with an indemnity equal to 50% of the salary in case they have children up to 12 years of age.

As an alternative to the use of the mentioned leave the Law Decree provides for the possibility to opt for the payment of a bonus for baby-sitting services within the overall limit of 600.00 Euros. Furthermore, the Law Decree increases the number of days of paid monthly leave envisaged by the Law n. 104 of 5 February 1992 (a law aiming to support employees assisting disabled relatives) with additional 12 days (for a total of 15 days per month) for March and April 2020.

Parents with children aged between 12 and 16 have a right to leave for the time of suspension of the educational services for children and educational activities in schools, provided that in the family unit there is no other parent receiving income support benefits or a non-working parent; during the abstention: (1) there is no right to compensation; (2) there is a ban on dismissal and there is a right to job retention.

3. Other provisions of interest to companies

The Law Decree provides for additional provisions of interest to companies, here outlined as follow.

- Article 26 (Urgent measures regarding the period of active surveillance of employees in the private sector): the period spent in quarantine for workers in the private sector is treated as sickness;
- Article 42, paragraph 2: ascertained cases of Covid – 19 infection during work qualify as an injury to be indemnified by INAIL (the National Insurance for Injuries suffered at Work);
- Article 39 (Agile work provisions): disabled workers or who have a person with disabilities in their family has a right to “smart working”, if compatible with the characteristics of the job performed; employees affected by serious and proven pathologies with reduced working capacity can file with the employer a request for “smart working” which is assessed and accepted with priority;
- Article 43: (Contributions to companies for the safety and enhancement of health facilities): contributions are provided to companies for the purchase of devices and other personal protection tools;
- Articles 61 and 62: Payments to public administrations have been postponed to March 20, 2020, including those relating to taxes, social security and compulsory insurance expiring on March 16, 2020, with no penalties or interest. However, companies with a turn over within 2 million euros in 2019, may postpone such payment to May 31. With specific reference to VAT, regardless of the turnover, payments due between 8 of March and 31 of March are postponed to 31 of May 2020 in one or up to five instalments, if the company has registered company in those identified as “red zones”.
- Article 63: (employee bonus): for employees with a total annual income within 40,000 euros in the 2019, a one-off bonus of 100 euros is granted in March 2020, or proportionally to the effective working days carried out in the month. Such bonus is not taxable for the recipient. The employer pays the bonus with the salary paid in April. After payment the employer has a tax credit for the same amount paid to the employee;
- Article 64, with reference to tax period 2020, provides for a tax credit in the amount of 50% of the costs of sanitizing offices and work tools up to a maximum amount of 20,000 euros for each beneficiary. Such tax credit aims to encourage the sanitation of the workplace, as a preventive measure to contain the

infection of the COVID-19 virus.

- Article 57 provides for a support to the liquidity of companies affected by the outbreak through mechanisms of warranty: Cassa Depositi e Prestiti S.p.A. (CDP) has been authorized to support liquidity of companies that have suffered a reduction in turnover due to Covid-19, by securing the loan requested by such companies. This measure allows (i) banks, with the support of CDP, to more easily give loans to companies that have suffered a reduction in turnover due to the emergency, (ii) CDP, to support banks through guarantees on bank loan portfolios, also of so-called first loss, or guarantees on individual bank loans ("loan by loan") and (iii) State to grant "counter guarantees" in favor of CDP up to a maximum of 80% of the exposure assumed.



Malaysia



Prihatin Rakyat (People Concerned) Economic Stimulus Package (PRIHATIN)

On 27 March 2020, Prime Minister YAB Tan Sri Dato' Haji Muhyiddin Bin Haji Mohd Yassin announced a comprehensive economic stimulus package known as Prihatin Rakyat (People Concerned) Economic Stimulus Package or PRIHATIN, valued at RM250 billion. Of this, almost RM128 billion will be channelled to preserve people's welfare, RM100 billion to support business, including Small Medium Enterprises (SMEs) and RM2 billion to strengthen the economy. Meanwhile, RM20 billion has been announced in the earlier stimulus package.

Some of the key measures are as follows:

- Deferment of monthly tax instalment payments for SMEs for 3 months commencing from 1 April 2020
- Subsidise employees' wages of RM600 per month for a 3-month period on the following conditions:
 - Employer suffering a 50% drop in revenue since 1 January 2020
 - Employee's monthly salary below RM4,000
 - Employer shall not terminate the existing employees or instruct the employees to take unpaid leave
 - Employer shall not implement pay cut on existing employees
- Waiver of Human Resource Development Fund (HRDF) contribution for 6 months for all sectors effective 1 April 2020

- All banks are required to provide financial relief in the form of payment moratorium comprising restructuring and rescheduling loans for affected business and individuals
- Takaful/insurance policyholders affected by the Covid-19 outbreak are allowed to defer payment of premiums for up to 3 months
- A one-off cash assistance will be given to the following group:
 - RM1,600 for households with monthly income of RM4,000 and below
 - RM1,000 for households with monthly income between RM4,001 and RM8,000
 - RM800 for single Malaysians aged 21 and above with monthly income of not more than RM2,000
 - RM500 for single Malaysians aged 21 and above with monthly income between RM2,001 and RM4,000
- RM200 one-off cash assistance to students of higher education institutions
- Electricity bill discounts ranging from 15% to 50% for all sectors for a period of 6 months (April to September 2020)

Reference

Official Portal of Prime Minister's Office of Malaysia

www.pmo.gov.my

Tax Amendments made by Nepal Budget 2077 (2020 AD)

1. Tax Rebates (Applicable from 2076/77 (2019))

a. Tax concession for micro, cottage & small industries has been provided based on their annual turnover.

Category	Annual Turnover (NPR)	Existing Rate	Tax Rebate	New Rate
Presumptive taxpayer Section 4(4)	0 – 2 million	NPR 7,500/4,000/2,500	75%	NPR 1,875/1,000/625
Turnover based tax Section 4(4a)	2 million – 5 million	0.25%/0.75%	50%	0.125%/0.375%
Firm or Company	5 million to 10 million	Special Industry -20% Trading -25% High Profit -30%	25%	Special Industry -15% Trading -18.75% High Profit -22.5%
Hotel, travel, trekking, transport and airline industry	Above 10 million	25%	20%	20%

2. Major Amnesty announced in Finance Bill 2077 (2020)

Particulars	Criteria	Waiver
Any taxpayer	Withdraws lawsuit filed against tax assessment made by tax authority until 2075 Ashadh end (16 July, 2018) under Income Tax Act 2058, Value Added Tax Act 2052 and Excise Act 2058 by paying the assessed tax along with applicable interest.	Fees, additional fees and penalty shall be waived.
Natural person: Not obtained PAN	Registers and obtains PAN and submits the tax returns for FY 2074-75 (Year Ended 16 July 2018) & 2075-76 (Year Ended 16 July 2019) and deposits the applicable tax by end of Falgun 2077 (13 March 2021)	a) Interest and penalty for the above period b) Taxes, interest and penalty for earlier years
Natural person registered in PAN and turnover upto 5 million	Submits the tax returns for FY 2073-74 (Year Ended 15 July 2017), 2074-75 (Year Ended 16 July 2018) & 2075-76 (Year Ended 16 July 2019) and deposits the applicable taxes and 25% of the interest by end of Falgun 2077 (13 March 2021)	a) Additional charges, fees and penalty for the above period b) Taxes, interest and penalty for earlier years
Natural person registered in PAN and turnover more than 5 million	Submits the tax returns for FY 2073-74 (Year Ended 15 July 2017) and earlier, and pays the taxes and 25% of the interest by the end of Falgun 2077 (13 March 2021)	Fees and balance interest shall be waived
Person registered in Value Added Tax	Files the returns upto Ashadh 2075 (Mid-july 2018) and pays the applicable taxes and 50% of the interest by end of Falgun 2077 (13 March 2021)	The additional charges, fees, penalty and balance of interest

Particulars	Criteria	Waiver
Drinking water and sanitation consumers group		The outstanding taxes, fees and interest up to FY 2076-77 (Year Ended 15 July 2020) of the drinking water and sanitation consumers group has been waived.
Any taxpayer		NPR 50,000 per record has been waived on tax due for assessment made up to Ashad 2060 (15 July 2003) on the following: a) Taxes assessed as per Income Tax Act 2031 (1974) but not yet recovered. b) Taxes assessed under the extant sales tax, entertainment tax, contract tax, hotel tax which were replaced by the VAT Act 2052 (1995).

3. Changes in Income Tax Rate of Co-Operative Entity:

Particulars	Rate
Income earned by agro and forest-based cooperative involved in activities as prescribed in Section 11(2)	Zero
Cooperative societies operated in Rural Municipality established pursuant to Cooperatives Act, 2074 (2017) as prescribed in Section 11(2)	Zero
Co-operative operated in the municipality as prescribed in section 2(3) of Schedule 1	5%
Co-operative operated in the sub-metropolitan as prescribed in section 2(3) of Schedule 1	7%
Co-operative operated in the metropolitan as prescribed in section 2(3) of Schedule 1	10%

4. Amendments in provisions related to Tax Deducted at Source (TDS)

Particulars	Rate
For Transport Service provider or renting out Transport Vehicle	If registered in VAT - 1.5% If not registered in VAT - 2.5%
Bank and Financial Institution making payment of interest on loan obtained in foreign currency from foreign bank for making investment as prescribed by Nepal Rastra Bank (NRB)	10%
Reward/rebate awarded to consumer making payment through electronic payment medium including payment card, digital wallet, mobile banking on purchase of goods or services	No TDS
Bank and Financial Institution to deduct TDS on remitting the payment for foreign language exam and tuition fee	15%
All payments made to Non-Resident against contract or agreement	5%
If beneficiary of an approved retirement fund transfers the amount deposited in Approved Retirement Fund to Social Security Fund within 2077 Chaitra end	TDS waived

5. Other Major Amendments in Income Tax [Effective from Shrawan 1, 2077 (16 July 2020)]

- a. Deduction is allowed on any sum of amount contributed to corona infection, prevention, control, and treatment fund established at all three levels of government.
- b. Deduction is allowed on payment to casual labor upto NPR 3,000 per instance even without PAN
- c. Deduction is allowed for purchase of agricultural, animal-related, and other domestic product made from natural person not doing business and who is not having PAN.
- d. The limit of NPR 1000 has been increased to NPR 2000 for eligibility of deduction of expenses without Tax Invoice.
- e. The claim of 1/3rd additional depreciation by special industries has been included in Annexure 2 of the Income Tax Act. For claiming this additional depreciation, the special industry has to be in operation for the entire year. Additionally, entities operating roads, bridges, tunnel, ropeway, tram and trolley bus shall also be entitled to the same.
- f. Where a person opting couple status makes a contribution to Contribution-based Social Security Fund, 1% tax on basic exemption limit (NPR 450,000) is not applicable.
- g. Starting Period of Tax Holiday for Special Industry operating in "Highly Undeveloped", "Undeveloped" and "Less Developed" area u/s 11(3)(a) is changed to date of commercial production/operation.
- h. For the exemption of 100% for 5 years and 50% for next 3 years u/s 11(3)(c), capital investment is increased to NPR 2 billion from 1 billion and number of direct employments is decreased to 300 from 500. Also, tourism industry (except casino) is added to this list of special industry for such exemption.
- i. For the exemption u/s 11(3b), fuel is added after natural gases.
- j. 100% Concession on Income Tax for first 10 years from the date of commercial production and 50% concession on next 5 years is available to Hydropower Company. Earlier it was Production, Transmission and Distribution of hydropower.
- k. Concession on income tax for business u/s 11(3f):
 - Operating trolley or tram – increased to 40% from 20%
 - Building and operating ropeway, cable car, or overhead bridge - increased to 40% from 20%
 - Building and operating road, bridge or tunnel way – decreased to 50% from 52%

- l. 25% Concession on Income Tax is introduced on industry manufacturing fruit-based brandy, cider and wine that are operating in "Undeveloped" area u/s 11(3h).
- m. U/s 11(3k), concession for existing industries who increases its capacity by minimum 25% and investment to 2 billion are withdrawn. However, such concession for new industry is unchanged.
- n. 100% tax exemption being provided to Micro Industries u/s 11(3p) for first 5 years of commencement of business has been extended to 7 years. Similarly, additional 2 years tax holidays if such micro industries are operated by female is extended to 3 years.
- o. Tax Concession of 25% for first 5 years of start of operation to special industry established in industrial area or industrial village is introduced under new provision section 11(3r).
- p. The due date for giving letter of intent for merger u/s 47A(6) is extended from Ashadh 2077 (July 15, 2020) to Ashadh 2078 (July 15, 2021).
- q. The due date for completing the merger process u/s 47A(7) is extended from Ashadh 2078 (July 15, 2021) to Ashadh 2079 (July 16, 2022).

6. Other Amendments in VAT Act, 2052 (1995 AD)

- a. The registration of registered person who has not submitted return until 2073 Ashadh end shall be cancelled automatically with waiver of penalty applicable for failure to file VAT return.
- b. Compulsory registration of business of motor parts u/s 10(2)(a) and waste management, legal service, tailoring with shirting suiting u/s 10(2)(b) is removed.
- c. Amount of VAT paid by United Nations Organization, its member organization and specialized agencies on purchase of goods and service shall be refunded under new section 25(1) (a2).
- d. Newly introduced provision – Section 25 (C1): Refund of excess VAT under Contract with government entity
 - The registered person has to make application for refund of VAT after continuous credit of 4months.
 - The Tax Officer shall refund such VAT within 60 days from date of application.
 - The registered person shall not carry forward such VAT after making application for refund.
- e. Refund of VAT paid on local purchases of raw materials, auxiliary and packing materials for pharmaceutical industry:
 - If it applies for refund of tax on trimester basis.

- The tax officer shall refund such tax within 60 days of application.
- f. Penalty of NPR 10,000 is increased to NPR 20,000 for breaching the order of registration of tax officer u/s 5B or 10(1) or 10(2) or fails to get registered u/s 10(1) or 10B(1).
- g. In case a person requiring VAT registration, operates without a registration, the person may be penalized with 50% of payable tax amount. 🇳🇵

Reference

Nepal Budget 2077 (2020 AD)

Income Tax Act, 2058 (2002 AD) and Value Added Tax 2052 (1995 AD)

UAE



Introduction of Economic Substance Regulations (ESR) in UAE

UAE is on the path of transformation by introduction and implementation of the new tax regime of Excise Tax in the year 2017, VAT in the year 2018 and Economic Substance Regulations (ESR) in the year 2019 to demonstrate the determination to accredit, adapt and execute the enacted taxation and ESR successfully. UAE is considered as a low or no corporate and income tax jurisdiction and it was the major concern of the European Union for the territories such as Cayman Islands, British Virgin Islands, Isle of Man, Bahrain, Bermuda and UAE enjoying the status of low tax or no tax regime and allowing businesses to avail the tax benefits.

UAE introduced Economic Substance Regulations (ESR) to honor the UAE's commitment as a member of the OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS), and in response to a review of the UAE tax framework by the EU which resulted in the UAE being included in the EU list of non-cooperative jurisdictions for tax purposes. The UAE joined the BEPS Inclusive Framework on 16th May 2018 and has committed to implementing the four BEPS minimum standards of Harmful tax practices, Prevention of tax treaty abuse, Country by country reporting (CbCR) and Mutual Agreement Procedure.

ESR is introduced to curb international tax planning of certain business activities, which are typically characterized by the fact that they do not require extensive fixed infrastructure in terms of human and technical capital. This allows profits of those businesses to be shifted to no or nominal tax jurisdictions, as

opposed to taxing profits in the countries where the company has actually created economic value. The economic substance legislation is specifically targeted at businesses that do not have genuine commercial operations and management in the UAE.

The UAE issued the ESR legislation in April, 2019 under the cabinet resolution no. 31 of April, 2019, followed by cabinet resolution no. 58 of September, 2019 for determining the concerned regulatory authorities as well as cabinet decision no. 215 of 11th September, 2019 guidelines for the implementation of ESR.

As per the ESR, all the Licensees that carry out any Relevant Activity in the UAE via Offshore, Free Zone or a Limited Liability Company will fall under the scope of this legislation and they must ensure compliance with the Economic Substance Test. A Licensee who carries out any of the nine relevant activities, Banking Business, Insurance Business, Investment Fund Management Business, Lease - Finance Business, Headquarters Business, Shipping Business, Holding Company Business, Intellectual Property Business ("IP"), Distribution and Service Centre Business, is covered under the scope of ESR and responsible to meet the ESR compliances.

A Licensee who undertakes a Relevant Activity meets the Economic Substance Test in relation to that particular Relevant Activity if the Licensee conducts State Core Income-Generating Activity in UAE, it is directed and managed in the UAE, if there is an adequate number of qualified full-time employees who are physically present in the UAE even if not employed by the Licensee and includes temporary or outsourced, or adequate level of expenditure on outsourcing to third party service providers in UAE, if there is adequate operating expenditure incurred by a licensee in the UAE, or adequate level of expenditure on outsourcing to third party service providers in the UAE, if there are adequate physical assets in the UAE or adequate level of expenditure on the outsourcing. In case of State Core Income-Generating Activity is outsourced to another entity if it must be monitored and controlled by the licensee.

There are reduced substance requirements for Holding Company businesses. If a Licensee whose activity is restricted to carrying out a Holding Company Business that derives its income from only dividends and capital gains, such Licensee meets the Economic Substance Test if it complies with the requirements of the relevant Regulatory Authority in accordance with the law applicable to the Licensee in the UAE and has adequate employees and premises for holding and managing the Holding Company Business.

Administrative penalty from AED 10,000 to AED 50,000 can be imposed for failure to meet the Economic

Substance Test, failure to provide information or for providing inaccurate information. The administrative penalty can go up from AED 50,000 to AED 300,000 in the financial year immediately following the financial year in which penalty notice was issued by the authority. 🇦🇪

UK



Property Tax changes from 6 April 2020

There are significant changes arising to the taxation of properties for individuals. These changes are outlined below:-

Principal Private Residence (PPR) Relief

Position pre 6th April 2020

PPR relief is available for individuals selling a property that they have lived in as their main home. PPR relief exempts all or part of the capital gain subject to taxation made in respect of periods of actual occupation.

The rules stated that if the individual had occupied the property as their main residence at some stage of ownership, then the final 18 months of ownership qualified for relief from capital gains tax even if they had not lived in the property.

Change from 6th April 2020

The final deemed occupation period for PPR relief has been reduced from 18 months to 9 months.

Lettings Relief

Position pre 6th April 2020

There was a separate relief available to owners relating to periods where the property was let out, and the owner was not in occupation or within deemed occupation. This relief was available in addition to PPR. Gains arising in the lettings period were reduced by up to a maximum £40,000.

Changes from 6th April 2020

Lettings relief is no longer available unless the property is in shared occupation (e.g. renting a room in their home).

Buy-to-let Mortgage Loan Interest

In the tax year ended 5 April 2021, there will be no deduction allowed for mortgage interest and related finance costs. You will only get 20% tax relief for the cost against any taxes due. Individuals who pay tax at the higher (40%) or additional rate (45%) tax will not benefit from an additional relief of effectively 20% (higher rate taxpayers) or 25% (additional rate taxpayers).

Companies are not subject to the above restriction and will continue to fully deduct the mortgage interest or finance costs from profits.

Capital Gains Tax (CGT)

Residents

Pre 6 April 2020: When a CGT liability had arisen on the disposal of a UK residential property, it was reported via their self-assessment tax return and paid by 31 January following the end of the tax year in which the disposal was made.

Post April 2020: A CGT return stating the residential property gain will need to be submitted and any tax paid over to HMRC within 30 days of completion. The gain would still be reported on the tax return and adjustments can be made at this point.

In the event where there is a capital loss, a submission is not required.

The CGT return only applies to disposals by UK residents of UK residential property. Other disposals are reported on the tax return relating to the relevant tax year.

Non-residents

Non-residents realising chargeable gains are taxed in this manner:

- Non-resident companies realising capital gains on UK land and property are required to complete corporation tax returns and which will be taxed through these returns at the rate of 19%.
- Non-resident individuals disposing of UK property or land (residential or commercial) will be subject to the same filing and payment rules as UK resident individuals above. 🇦🇪

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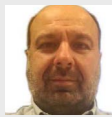
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