Chapter 12

Selected Asian economies

Contents

Summary		**349**
12.1	**Introduction**	**349**
12.2	**Public finance in Asian economies**	**350**
12.3	**Tax mix and tax burden**	**350**
12.4	**Company tax burden**	**353**
12.5	**Personal taxes**	**353**
12.6	**Company taxes**	**360**
12.7	**Capital gains**	**371**
12.8	**Indirect taxes**	**371**
	12.8.1 General consumption taxes	371
12.9	**International taxation arrangements**	**373**
	12.9.1 Residence	373
	12.9.2 Treatment of foreign source income	374
	12.9.3 Treatment of income of non-residents	378
	12.9.4 Attribution and other international tax integrity rules	380
	12.9.5 Tax treaties	380

12. SELECTED ASIAN ECONOMIES

SUMMARY

The approaches to taxation in the Asian economies often differ significantly from the standard practice in the OECD-10. A number of the Asian economies show a strong dependence on company tax (in 2002 Malaysia collected 8.9 per cent of GDP and Vietnam collected 6.9 per cent) well in excess of the OECD-10 unweighted average of 3.4 per cent of GDP.

Whilst Malaysia and Singapore have a mix of direct and indirect taxes which is broadly consistent with OECD practice, a number of the Asian economies (for example, Thailand, Cambodia and Myanmar) rely much more heavily on indirect taxes.

The amount of direct and indirect tax revenue collected as a percentage of GDP for the selected Asian economies does not exceed 18 per cent in 2002. In contrast, in 2003 the OECD-30 unweighted average of tax revenue to GDP was 36.3 per cent. Many of the Asian economies have a significant proportion of their total revenue as non-tax revenue.

The average total outlays for the Asian economies tend to be substantially lower than those of the OECD-10, reflecting the fact that many of the Asian economies are still developing. For instance, Thailand recorded outlays of 19.9 per cent of GDP in 2004, while the unweighted average for the OECD-10 was 38.6 per cent of GDP.

The issues outlined above reduce the value of attempting to compare the Asian economies with OECD countries. In addition, the quality of the data available for the Asian economies is relatively low. In many instances the data which would be required to draw useful comparisons are not available.

12.1 INTRODUCTION

This chapter contains a range of measures of taxation which mirror aspects of the taxation regimes examined across the OECD-10. In broad terms the chapter illustrates some important variations exhibited by the selected Asian economies (Hong Kong, Malaysia, Singapore and Taiwan) in their approaches to taxation relative to the OECD-10. The significance of these variations constrain the usefulness of assessing the importance of differences between the taxation regimes in Asian economies and that of other OECD countries.

A key constraint in examining the selected Asian economies is the availability and quality of data. Available data has been generally sourced from the International Monetary Fund (IMF) Government Finance Statistics publication which utilises different categories and methodologies to that used by the OECD. The data coverage is very mixed, with key items not included in source tables (for instance, source tables did not allow a comparison of the current total level of government outlays between Asian economies). Where available, data on a wider range of Asian economies have been utilised in producing the charts in this chapter.

The chapter briefly maps out the widely variable approach to the mix of taxation revenue collected amongst the Asian economies. A key finding is that they generally rely on indirect taxes to a far greater extent than OECD countries. There is also a tendency for some of the Asian economies to rely heavily on corporate tax compared to the OECD-10 unweighted average.

Government expenditures as a proportion of GDP are much higher in developed economies, including developed non-OECD economies in the Asian region, than they are in developing economies. Given that citizens in advanced industrial democracies tend to demand greater social expenditure by government, it should be expected that aggregate level comparisons would point to lower government expenditure, and lower taxation, in developing economies when compared with a developed economy such as Australia.

The level of taxation collected by these countries, and their tax burden as a proportion of GDP are generally consistent with the stages of development of many of these economies. Most are relatively poor in comparison to OECD countries, and their relatively low level of tax burden is consistent with this characteristic.

12.2 Public finance in Asian economies

The IMF Government Finance Statistics publication provides an insight into the expenditures of three of the selected Asian economies and highlights some of the problems with data collection in the Asian region. The Government Finance Statistics publication does not provide data for the five other Asian economies examined in Charts 12.1 and 12.2. In addition some of the data raises other issues. For instance, Singapore exhibits particularly high net acquisition of financial assets (which is not otherwise displayed in the 'total outlays' figure) and likewise a high net incurrence of liabilities.

The IMF data indicates that in 2004 Malaysia had a reported total outlay of 30.9 per cent of GDP, Thailand 19.9 per cent of GDP and Singapore 17.2 per cent of GDP. The IMF did not report total outlay data for the other economies canvassed in Charts 12.2 and 12.3.

It is apparent that the Asian economies for which data is available do not generally have the same levels of expenditures as the OECD-10. It is likely that the Asian economies for which reliable data has not been found also have relatively low expenditures.

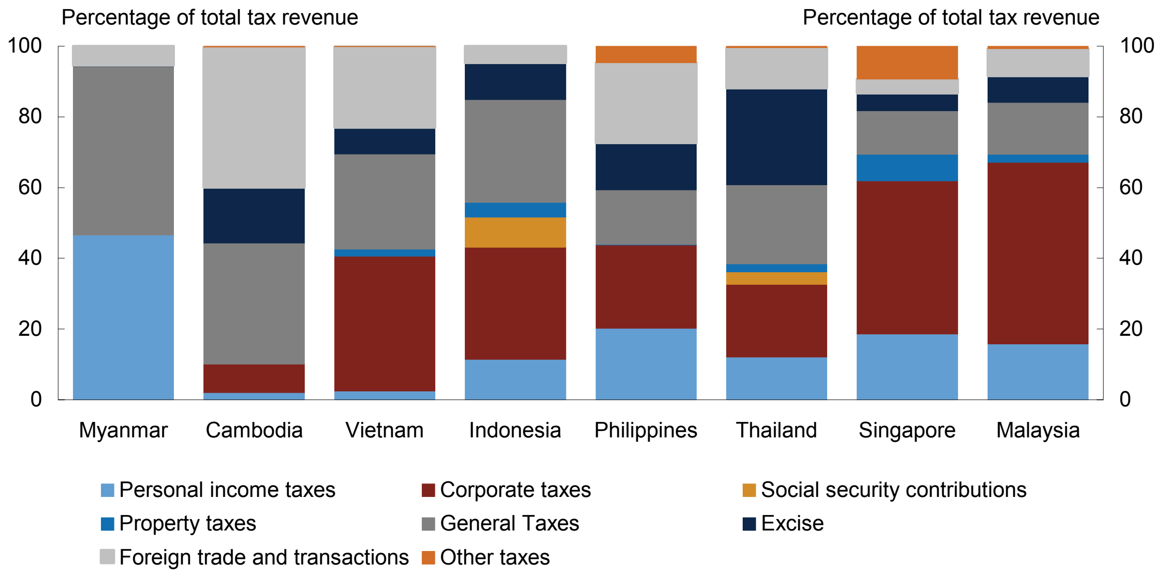
Ideally a discussion of public finance matters would also consider debt levels and fiscal position. Unfortunately the data required to make meaningful comparisons are just not available for the Asian economies.

12.3 Tax mix and tax burden

Chapter 3 provides a broad international comparison of the tax mix of OECD countries. It notes that most advanced countries raise the majority of their taxation revenue through the direct taxation of salaries, wages and profits (the OECD unweighted average was 61.6 per cent of tax raised from direct taxation in 2002 and the weighted average was 64.9 per cent). The remainder is collected through a range of indirect taxes including taxes on property, excises, foreign trade and transactions, and general taxes on goods and services.

In contrast, the Asian economies reviewed in Chart 12.1 vary widely in their approach to raising taxation revenue. Some, such as Malaysia and Singapore, have similarities in approach to the OECD-30 countries. Others, such as Thailand, Myanmar and Cambodia, rely much more heavily on indirect taxation. The significant differences in emphasis in the taxation arrangements adopted in a number of the Asian economies make meaningful international comparisons difficult.

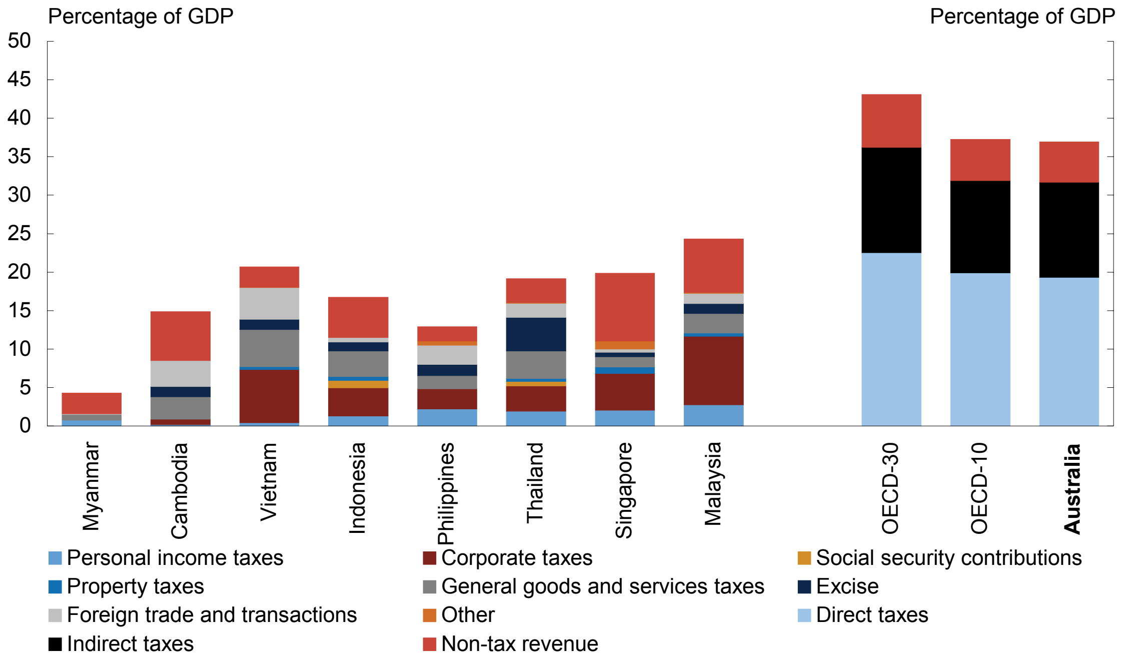
Chart 12.1: Tax mix
Selected Asian economies, 2002



Source: IMF International Financial Statistics, OECD *Revenue Statistics* 2005.

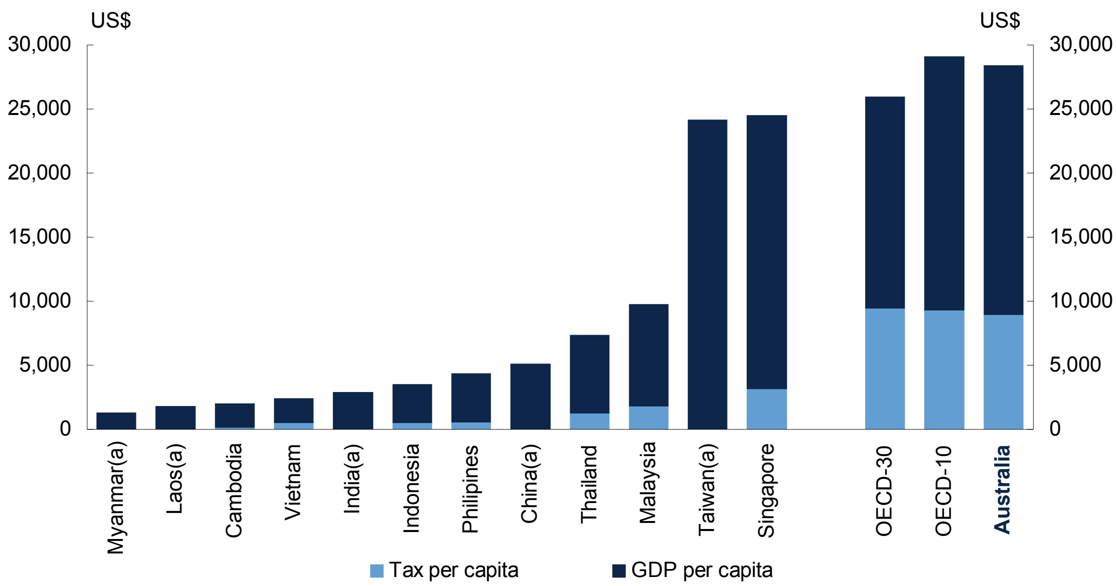
In 2002, the OECD-30 unweighted average of the total tax burden was 36.3 per cent of GDP. In contrast, none of the Asian economies examined in Charts 12.1 and 12.2 collected more than around 18 per cent of their GDP in taxes. This reinforces the comments made in Chapter 2 about the need to consider the counterbalancing issue of expenditure when examining the tax burden faced in a country. A number of the Asian economies in Chart 12.2 also have significant non-tax revenues.

Chart 12.2: Tax and non-tax revenue to GDP
Selected Asian economies, 2002



Source: IMF International Financial Statistics, OECD *Revenue Statistics* 2005.

Chart 12.3: Tax and GDP per capita
Selected Asian economies, 2003



(a) Tax per capita data are not readily available.
Source: IMF International Financial Statistics, OECD *Revenue Statistics* 2005.

Chart 12.3 further illustrates that substantial differences exist between most of the Asian economies and the OECD economies. With the exception of Singapore, Taiwan and Malaysia, the other Asian economies illustrated have GDP per capita which is substantially less than half of the OECD-30 unweighted average. The significant variation across the Asian economies is a clear indication that economic development is at different stages not only in comparison to OECD economies, but also within the Asian region. The tax per capita information further underlines the earlier discussion about the difficulties with obtaining comparable information as only seven of the 12 countries in Chart 12.3 had data readily available. The smaller expenditures which are characteristic of the Asian economies reinforce the caveat about making comparisons with these economies.

12.4 COMPANY TAX BURDEN

Chart 12.2 indicates that there is a wide variation in the company tax burden of the selected Asian economies. Vietnam and Malaysia have very large company tax burdens, particularly when compared to the OECD countries.

The unweighted average for the OECD was 3.4 per cent of GDP and Norway had the highest company tax burden at 8.1 per cent. In comparison Malaysia's 2002 company tax burden was 8.9 per cent of GDP and Vietnam's was 6.9 per cent.

It is difficult to explain why the Asian approaches to company tax vary so widely. In part this is because it is likely that different Asian economies are subject to different influences. In some of the less advanced economies it is possible that the heavier reliance on company taxation reflects administrative issues, such as the ease with which company taxation revenue can be collected compared to some other forms of taxation (for example, personal income tax). But this explanation does not fit comfortably with some other results, and particularly the Malaysian data. Alternatively it is possible that the data could be explained as a result of company income being a much greater component of total income than in the OECD countries.

12.5 PERSONAL TAXES

The following six tables deal with various aspects of the personal taxation arrangements which apply in Hong Kong, Malaysia, Singapore and Taiwan. These tables mirror those contained in Appendix 4.4 and Appendix 6.1, which provide detailed information on particular aspects of the personal taxation regimes applying in OECD-10 countries.

Table 12.1 deals with the types of income which are assessable and exempt in each of the selected economies. The arrangements in Hong Kong, Malaysia, Singapore and Taiwan are broadly consistent with the approaches to assessable and exempt income taken by the OECD-10. Taiwan stands out by exempting income from a number of occupations.

Table 12.1: Assessable income — Hong Kong, Malaysia, Singapore and Taiwan

	Assessable income	Exempt income
Hong Kong	Three distinct types of income tax — property tax, salaries tax and profits tax. Individual is liable for salaries tax on income arising in or derived from Hong Kong from any office or employment or profit, and any pension. Profits tax levied on items including royalties, grants, rents from leasing movable property, interest income. Individual may elect for personal assessment in which case salaries tax, profits tax and property tax is aggregated in a single assessment and on a single composite return.	Capital gains. Certain categories of income are exempt from salaries tax including payments from recognised occupational retirement schemes, amounts from scholarships or other educational endowments and amounts received by way of alimony.
Malaysia	Income tax is imposed on income from all sources accrued or derived in Malaysia. Income includes: gains or profits from a business; gains or profits from an employment; dividends, interest or discounts; rent, royalties, premiums, pensions, annuities, or other periodical payments not already included; gains or profits not falling under any of the above. Gains derived from the disposal of real property are subject to real property gains tax.	Several forms of exempt income including: income derived from employment on board a Malaysian ship, scholarship allowances or similar grants to an individual, whether or not in connection with an employment of that individual.
Singapore	Income tax is imposed on employment income sourced in Singapore, rental and leasing income, capital gains, royalties, interest and dividends.	
Taiwan	Income is aggregated for tax purposes. Gross consolidated income is divided into 10 categories. These are: income from profit-seeking operations (including dividends); income from professional practice; salaries and wages; interest income; income from leasing and royalties; income from undertakings in farming, fishing, animal husbandry, forestry and mining; income from transactions in property rights; income from prizes or awards in contests or lotteries; payments for retirement, severance, resignation or pensions which are not paid by insurance; and other income.	Several types of salary are exempt from taxation including payments to military personnel in active service, salaries of teachers and employees of nurseries, kindergartens, public and private schools. Interest received from financial institutions, government bonds, corporate bonds or financial bonds, profits generated from trust funds having the nature of savings received by taxpayers and their spouses and dependants who file income tax returns jointly shall be exempt to the extent of an amount of TW$270,000. Other forms of income such as travel expenses and daily allowances received by an employer are exempt from income taxation up to certain amounts.

Source: Various, see Chapter 1 (1.4.1).

Table 12.2 provides details of the deductions available in the selected Asian economies. All of the countries considered in Table 12.2 offer some form of personal allowances, compared to only half of the OECD-10. Similarly all of the selected Asian economies examined, other than Singapore, offer deductions for social security contributions. In contrast, only three of the OECD-10 allow such deductions. Like most of the OECD-10, all of the selected Asian economies except Taiwan allow tax deductions for work-related expenses.

Table 12.2: Deductions — Hong Kong, Malaysia, Singapore and Taiwan

	Personal allowances	Work related deductions	Taxes/social security	Other deductions
Hong Kong	Personal allowances are granted which reflect the marital status of the taxpayer and the maintenance of various dependants. Basic allowance for a single person of HK$100,000. Married person's allowance of HK$200,000. Child/dependant parent allowance of HK$30,000.	Outgoings and expenses 'wholly, exclusively and necessarily incurred in the production of assessable income' other than expenses of a private domestic or capital nature are to be deducted from assessable income. Specific deductions from income subject to salaries tax for example travelling expenses in the performance of the duties of the office or employment other than travelling expenses from home to the place of work and vice versa. Tax deduction for home loan interest up to certain thresholds.	Contributions to the social security fund — Mandatory Provident Fund Scheme are deductible for employees and self-employed persons.	
Malaysia	Certain standard allowances are deducted to arrive at chargeable income: • Personal allowance: 8,000 ringgit (more if disabled); • Spouse allowance: 3,000 ringgit (more if disabled); and • Child: 1,000 ringgit (more if disabled or a full time student over 18).	Outgoings and expenses incurred in the production of assessable income may be deducted unless disallowed by the Tax Act.	Life insurance premiums and contributions to pension or provident funds: maximum 6,000 ringgit.	Medical expenses: maximum of 5,000 ringgit. Education fees: maximum of 5,000 ringgit. Interest on purchase of residential property: maximum of 2,000 ringgit. Reading materials maximum of 700 ringgit.
Singapore	A general deduction of S$1,000 is available to taxpayers which is increased for seniors over 55 and further for those over 65. A S$2,000 deduction is available where a wife has little income and is fully maintained by a taxpayer. Relief is available for children below 16 or full time students. Of the three payments available, the maximum allowed is S$15,000 for a child under 12 and S$10,000 for a child over 12.	Expenses incurred in the production of income are deductible.		

Table 12.2: Deductions — Hong Kong, Malaysia, Singapore and Taiwan (continued)

	Personal allowances	Work related deductions	Taxes/social security	Other deductions
Taiwan	Personal allowance amount of TW$74,000 (in 2004) for each taxpayer, spouse and his or her dependants (for dependants over the age of 70 the amount is TW$111,000).		Itemised: contributions and donations, insurance premiums, medical expenses, mortgage interest.	Taxpayer can chose between itemising their deductions and taking the standard deduction. Itemised deductions include donations, insurance premiums (including life insurance, labour insurance, government employee insurance and national health insurance), medical expenses, disaster losses, mortgage interest, campaign interest, rental expenses. Standard deduction of TW$44,000 (in 2004). If taxpayer lodges with their spouse standard deduction is TW$67,000. Taxpayer also entitled to special deductions irrespective of whether they choose itemised or standard deduction. Includes special deduction that can be applied against wage income, amount in 2004 was TW$75,000.

Source: Various, see Chapter 1 (1.4.1).

Hong Kong, Malaysia, Singapore and Taiwan all offer opportunities for taxpayers to elect to be either assessed as a family unit or individually. The approaches to the tax unit highlighted in Table 12.3 are not particularly different or unusual when compared with the range of approaches across the OECD-10.

Table 12.3: The tax unit — Hong Kong, Malaysia, Singapore and Taiwan

	Tax unit
Hong Kong	Married couples are assessed individually unless they elect for joint assessment, either for salaries tax only or in the form of a joint personal assessment.
Malaysia	Automatically assessed individually but a joint assessment can be elected.
Singapore	Individual or Hindu joint family.
Taiwan	Generally the taxpayer, spouse and dependants are reported together. However, spouses can have their tax computed separately.

Source: Various, see Chapter 1 (1.4.1).

The approach towards national income tax rates across the selected Asian economies varies. The number of different brackets imposed by Hong Kong and Taiwan is not unusual when compared to the OECD-10. However, both Malaysia and Singapore impose a very large number of brackets. In the OECD-10 only Switzerland imposes a similar number of tax brackets.

Like the OECD-10 the approach to the provision of credits is mixed. Generally, the credits available in OECD-10 countries seem to be broadly consistent with those on offer in Singapore and Taiwan.

Table 12.4: National income tax rates and credits — Hong Kong, Malaysia, Singapore and Taiwan

	Tax rates	Credits
Hong Kong	Rates in 2006-07 Up to HK$30,000 2 per cent Next HK$30,000 7 per cent Next HK$30,000 13 per cent Over HK$90,000 19 per cent However, the maximum tax payable is limited to tax at the standard rate of 16 per cent on the person's income from employment less allowable deductions and charitable deductions, but without a deduction for personal allowances.	
Malaysia	Up to 2,500 ringgit 0 per cent 2,501 to 5,000 ringgit 1 per cent 5,001 to 20,000 ringgit 3 per cent 20,001 to 35,000 ringgit 7 per cent 35,001 to 50,000 ringgit 13 per cent 50,001 to 70,000 ringgit 19 per cent 70,001 to 100,000 ringgit 24 per cent 100,001 to 250,000 ringgit 27 per cent Over 250,000 ringgit 28 per cent	350 ringgit if income is less than 35,000 ringgit.
Singapore	Singapore does not operate a pay as you earn system for employment income. Individuals and hindu joint families are taxed as follows: Up to S$20,000 0 S$20,000 to S$30,00 3.75 per cent S$30,000 to S$40,000 5.75 per cent S$40,000 to S$80,000 8.75 per cent S$80,000 to S$160,000 14.5 per cent S$160,000 to S$320,000 18 per cent Income over S$320,000 21 per cent	Tax rebates are given to taxpayers with children. A special tax rebate is available for second, third or fourth child whose mother is married or widowed. The amount of the second child rebate depends on the mother's age at the time of birth, it is up to S$20,000. The rebate for third or fourth child is S$20,000.
Taiwan	2004 taxable year Up to TW$370,000 6 per cent TW$370,001 to TW$990,000 13 per cent TW$990,001 to TW$1,980,000 21 per cent TW$1,980,001 to TW$3,720,00 30 per cent TW$3,720,001 to and over 40 per cent Bracket amounts are adjusted according to the consumer price index if the index goes up by more than 10 per cent. Income from husbands and wives must be combined for tax purposes, unless the wife has a salary income.	Personal allowances for each taxpayer, dependant, and spouse are: TW$74,000 (as of 2000).

Source: Various, see Chapter 1 (1.4.1).

Like six of the OECD-10 none of the selected Asian economies impose sub-national income taxes. Given the small physical size of most of them this may reflect a centralisation of the delivery of government services (and therefore a reduced need to raise taxes at a state or local level).

Table 12.5 sets out the social security arrangements applying in the selected Asian economies. Unlike most of the OECD-10, most of the Asian economies examined do not impose some form of social security contributions.

Table 12.5: Social security contributions (SSC) — Hong Kong, Malaysia, Singapore and Taiwan

	Employee SSC	Employer SSC	Self-employed SSC
Hong Kong	No social security contributions levied.		
Malaysia	No social security contributions levied.		
Singapore	Employees that earn over 750 per month make contributions to the Central Provident Fund which is apportioned to three accounts — medisave, old age and the ordinary account. The rate varies depending on age and whether the taxpayer is employed by the government or private sector. Younger people below 35 pay the largest amount — up to 20 per cent of wages — contribution ceiling applies.	Employers contribute to the Central Provident Fund — up to 13 per cent of an employee's wage.	
Taiwan			

Source: Various, see Chapter 1 (1.4.1).

Dividends are exempt from tax in the hands of the recipient in Hong Kong. Malaysia and Taiwan operate an imputation system with Malaysia's being a full imputation system (although not a fully refundable scheme like Australia's). Singapore is in transition from an imputation system to one where dividends will be exempt in the hands of shareholders.

Table 12.6: Integration of company and individual taxation — Hong Kong, Malaysia, Singapore and Taiwan

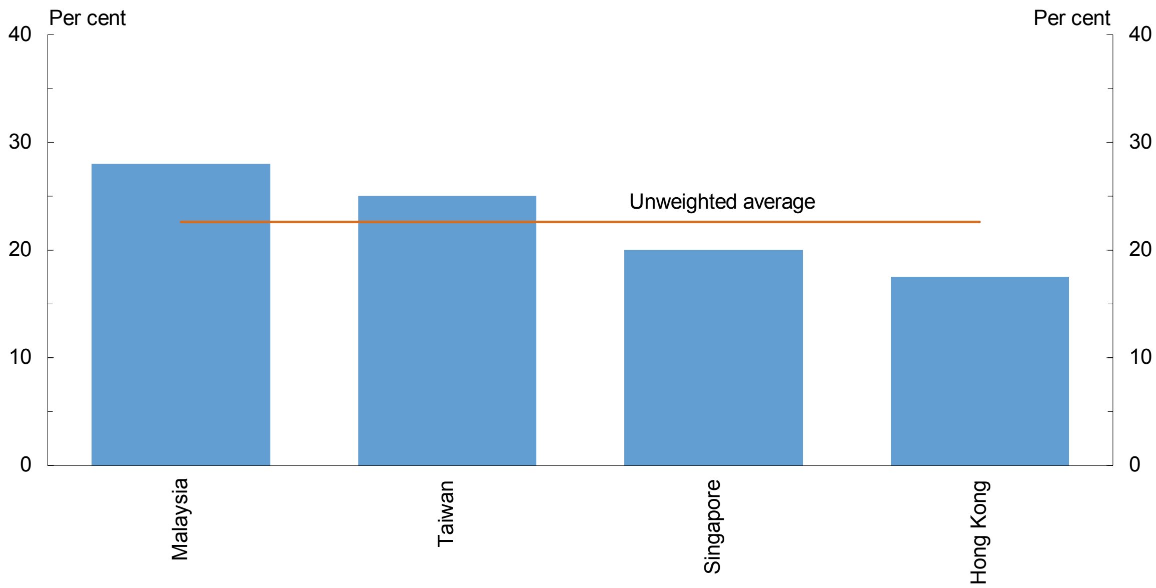
	Treatment of domestic tax paid by company, at company level	Treatment at individual resident shareholder level
Hong Kong (One layer of tax only)	Profits tax is paid at the rate of 17.5 per cent by businesses in Hong Kong who derive profits from Hong Kong.	Dividends are exempt from tax in the hands of the recipient. There is neither a withholding tax nor a credit system. No capital gains on individual level.
Malaysia (Full credit system)	Full imputation applies to dividend distributions. Distributions out of untaxed profit are subject to 28 per cent non-refundable tax.	Dividends to resident individual shareholders taxable with a credit for tax paid at the company level.
Singapore (Credit/one layer of tax)	Credits for taxes paid in Singapore may be attached to dividends distributed. Income sheltered from Singapore tax, because of a foreign tax credit, may be credited to a special account from which tax-exempt distributions can be paid.	From 1 January 2003, a new one tier system of tax was introduced whereby dividends paid-out by a company are exempt from income tax in the hands of shareholders, regardless of whether the dividends are paid-out of taxed income or tax-free gains. There is a five year transition period before the one tier system will fully replace the current imputation system.
Taiwan (Credit)	Imputation credits arise for company tax and credits attach to dividends received.	Gross dividends, including credits, are taxable and imputation credits can be used to offset the recipient's tax liability. Excess imputation credits are refundable to the shareholder.

Source: Various, see Chapter 1 (1.4.1).

12.6 Company taxes

Chart 12.4 provides a snapshot of the statutory corporate tax rates for the selected Asian economies in 2006. The unweighted average corporate tax rate for these economies is 22.6 per cent. In comparison, the unweighted average of the statutory company rate in the OECD-10 in 2006 is 30.8 per cent.

Chart 12.4: Statutory corporate tax rates
Selected Asian economies, 2006



Source: Various, see Chapter 1 (1.4.1).

Table 12.7 illustrates the top combined corporate tax rate faced in Hong Kong, Malaysia, Singapore and Taiwan and includes a brief description of other salient features (such as exemptions or special rates).

Table 12.7: Corporate tax rates — Hong Kong, Malaysia, Singapore and Taiwan

	Top combined corporate tax rate (per cent)	Comment
Hong Kong	17.5	The 17.5 per cent rate covers all profits from carrying on a trade or business (excluding profits from the sale of capital assets) arising in or derived from Hong Kong. No distinction is made between residents and non-residents. There are a number of exemptions or concessional taxation treatments, including for bank deposit interest income and profits from the reinsurance of offshore risks by a professional re-insurer.
Malaysia	28	Companies with paid-up capital of 2.5 million ringgit or less are taxed at 20 per cent on taxable income up to 500,000 ringgit with the normal rate applying to any excess. There are a range of exemptions from the company tax including the income of: resident companies engaged in operating Malaysian ships; income from the rental of international shipping containers received by non-residents from Malaysian shipping companies; and interest received by non-resident companies from deposits with a licensed bank and finance company. For companies carrying on petroleum production the rate is 38 per cent. While insurance companies are taxed at 8 per cent on their investment income the normal rate applies to their shareholders' fund income. Leasing income derived by a non-resident with no permanent establishment in Malaysia for use of movable property is taxed at 10 per cent.
Singapore	20	A partial tax exemption scheme exists for companies, which exempts from tax 75 per cent of up to the first S$10,000 of a company's income; and 50 per cent of up to the next S$90,000 of the company's income. For new companies, a complete income tax exemption (except for Singapore franked dividends) is available for a qualifying company on income up to S$100,000, for any of its first three consecutive assessment years that lie between 2005 and 2009. A concessional tax rate of 10 per cent or less is levied on a range of particular activities including: the financial sector incentive scheme; offshore leasing; offshore insurance and reinsurance; offshore global trading; and finance and treasury operations. Companies engaged in the shipping of outbound passengers, mail, livestock or goods from Singapore are exempt from income tax.
Taiwan	25	The profit-seeking enterprise tax is levied on the income of all business forms including sole traders and partnerships. Rates for domestic enterprises (TW$) Up to 50,000 0 50,000 to 100,000 15 Over 100,000 25 The 15 per cent rate applies to total taxable income but the tax may not be in excess of 50 per cent of the balance of taxable income greater than TW$50,000. If taxable income is greater than TW$100,000, 25 per cent is imposed on any excess. A withholding tax applies to income paid to domestic enterprises (apart from profit distributions) which is generally creditable against the enterprise's tax liability. A foreign enterprise which either has a fixed place of business or has a business agent in Taiwan is taxed as a domestic firm. Other foreign firms are subject only to a final withholding tax which is levied at 15, 20 or 25 per cent depending on the type of income. There are a number of exemptions including: income received by branches of international financial banks; inter-corporate dividends of domestic corporations; the new or expanded income of newly-incorporated or growing enterprises that invest in manufacturing and its accompanying technical services industry with the exemption applying for five years from the time such enterprises sell their new or expanded output; and the income of logistics distribution centres set up in Taiwan by foreign enterprises or their branches only for storage, simple processing and delivery to domestic clients.

Source: Various, see Chapter 1 (1.4.1).

Table 12.8 examines the treatment of losses in the same way as the table in Appendix 5E does for the OECD-10.

Hong Kong, Malaysia and Taiwan, do not permit loss carry back while Singapore has recently introduced loss carry back but with a cap on the amount of losses able to be carried back.

Singapore is the only selected Asian economy that allows the transfer of losses within corporate groups (the majority of the OECD-10 allow loss transfer within groups).

Singapore imposes a continuity of ownership style test on its loss recoupment while the other selected Asian economies either impose no restrictions or non-stringent restrictions on their loss recoupment rules.

Table 12.8: Treatment of losses — Hong Kong, Malaysia, Singapore and Taiwan

	Treatment of tax losses	Transfer (including conditions)
Hong Kong	Unused tax losses carried forward without time limit to offset future profits regardless of whether these profits are from the business or whether the same business is still carried on. No carry back provisions.	No continuity of ownership requirement but specific loss trafficking provisions. No consolidation of tax losses across a group. However, group relief provisions are under consideration.
Malaysia	Carry forward indefinitely (business losses offset against business income, tax depreciation against income from same source only). No loss carry back.	Continuity of share ownership test is required for utilisation of business loss and unutilised capital allowances / tax depreciation. There is no general group relief.
Singapore	Trading losses may offset all other chargeable income of the same year. Any excess unutilised losses, if not carried back or transferred out under group relief, may be carried forward indefinitely for offset against future income from all sources. Similarly any excess capital allowances are allowed to offset against other chargeable income of the same year. Any unrelieved capital allowances, if not carried back or transferred out under group relief, may be carried forward indefinitely for offset against future income derived from the same trade. One year carry-back allowed with effect from Year of Assessment 2006 but limited to S$100,000 of unutilised capital allowances and trade losses.	The loss carry-back and carry-forward provisions are subject to the taxpayer meeting the substantial (50 per cent or more) share ownership test at the ultimate holding company level. For carry-back and carry-forward of unutilised capital allowances, there is an additional provision that the taxpayer must continue to carry on the same business in respect of which the capital allowances arose (same business test). Group relief is available for a Singapore group. A Singapore group consists of a Singapore-incorporated parent company and all of its Singapore-incorporated subsidiaries. Two Singapore-incorporated companies are members of the same group if one is 75 per cent owned by the other, or both are 75 per cent owned by a third Singapore-incorporated company.
Taiwan	For companies which maintain a complete set of accounts and which use 'blue returns', losses may be carried forward for five years. No carry back of losses is allowed.	No

Source: Various, see Chapter 1 (1.4.1).

Tables 12.9 and 12.10 deal with depreciation arrangements and rates and mirrors the OECD-10 information presented in Appendix 5D. Generally, the treatment provided for in the Asian economies discussed in the table below is similar to the OECD-10 approaches to depreciation. The available loadings are somewhat different, in that Hong Kong, Malaysia and Singapore provide loadings for buildings. None of the OECD-10 offer such loadings.

Table 12.9: Depreciation arrangements – Hong Kong, Malaysia, Singapore and Taiwan

	Prime cost (straight line) or declining balance method	Determination of rate	Switching	Loadings	Balancing charge offset	Industry specific arrangements
Hong Kong	Generally can choose either prime cost or declining balance method.	Rate to be chosen that most closely reflects the use and consumption of the asset over its useful life.	Yes	Initial loadings allowed for industrial buildings, plant and machinery and motor vehicles.	Recapture rules and specific rules for asset pools but no offset rules.	Prescribed plant and equipment can be immediately 100 per cent written off.
Malaysia	Prime cost only.	Taxpayers cannot select their own rates or lives. The revenue authority publishes standard rates and the taxpayers must adopt these rates.	No	Once-off initial allowance of 20 per cent for plant and 10 per cent for industrial buildings in the first year, in addition to the standard rate.	Recapture of depreciation on disposal proceeds exceed depreciated value. Additional allowance if proceeds are less than depreciated value.	Specific regimes for agriculture and forestry.
Singapore	Generally can choose either prime cost or declining balance method. Taxpayer can elect for either method on an asset by asset basis at beginning of claim.	(1) Accelerated: three years (one year for certain assets) on a straight-line basis. (2) Straight-line allowance Initial allowance of 20 per cent of the asset's cost followed by a straight-line annual allowance write off of the balance of the qualifying expenditure over the number of years of working life. There are standard depreciation rates laid down in the tax legislation. It is compulsory for the taxpayer to use the rates specified in the tax legislation, as applied to the specific asset.	No switching between methods is allowed. Deferment of depreciation claim is possible. (1) Straight-line allowance Annual straight-line allowances is given on a 'due claim' basis. However the 20 per cent initial allowance must be claimed in first year of claim; after the first year, the entire 100 per cent cost will be written off on a straight-line basis over the remaining number of years of working life. Deferment of annual allowance on a year to year basis is possible. (2) Accelerated depreciation Commencement of claim for accelerated depreciation can be deferred. However once claim starts, it cannot be deferred again.	Yes, accelerated depreciation and investment allowances in the straight-line basis in the year of acquisition. There is an incentive which grants investment allowances. Investment allowances are given in addition to capital allowances and may allow for additional deduction of usually 30 per cent to 50 per cent of the cost of acquisition of the asset.	Recapture of allowances (Balancing Charge) if proceeds exceed the declining balance method and additional allowances (Balancing Allowances) if proceeds are less than tax declining balance method. There are provisions in the tax legislation for deferment of tax impact of a balancing charge where: (1) there is replacement of the specific equipment disposed; or (2) the disposal is made to a related party and the transaction satisfies certain conditions.	No industry specific arrangements. However a special concession is available for assets with value less than S$1,000. To reduce compliance costs, the concession provides for assets costing less than S$1,000 (regardless of the nature of the assets) to be written off over one year. This is provided that the aggregate claim for the one year write off of all such assets is capped at no more than S$30,000 per tax year. For certain industries, as an incentive and to encourage capital expenditure, investment allowances may be given in addition to capital allowances (see earlier reference to investment allowances).

Source: Various, see Chapter 1 (1.4.1).

Table 12.9: Depreciation arrangements — Hong Kong, Malaysia, Singapore and Taiwan (continued)

	Prime cost(straight line) or declining balance method	Determination of rate	Switching	Loadings	Balancing charge offset	Industry specific arrangements
Taiwan	Generally can choose between straight line, diminishing balance or working-hour methods. Depletion of assets in the form of non-replaceable resources is computed either annually or per unit. Taxpayer to apply to authorities to use a method, if no application is made then straight-line method is deemed to be in use.	Time periods over which an asset may be depreciated are specified by tax authorities. There is an official Fixed Assets Depreciation Table available. The taxpayers are allowed to select their own rates or lives to depreciate an asset if pre-approval is obtained from the tax authority.	Allowed to switch the depreciation method during the ownership of an asset if the taxpayer obtains pre-approval from the tax authority. Method for non-replaceable resources must be applied consistently.	The write-off rate may be higher if the taxpayer obtains pre-approval from the tax authority. Companies may use accelerated depreciation if they meet certain criteria.	No	Per Article 5 of the Statute for Upgrading Industries, service life of instruments and equipment purchased by a company for exclusive use for Research & Development purposes, experiments, and/or quality control, or machinery and equipment purchased by a company and used for energy saving purposes or employing new and clean energy may be accelerated to two years. The small business may apply to use the accelerated depreciation method in accordance with the Regulation Governing the Development of the Small Business. Accelerated depreciation for certain industries, equipment used for quality inspection, energy conservation.

Source: Various, see Chapter 1 (1.4.1).

Table 12.10: Summary of annual depreciation rates (selected assets) — Hong Kong, Malaysia, Singapore and Taiwan

	Equipment (approximately 8 year life)	Buildings	Computers	Intangibles
Hong Kong	Initial allowance of 60 per cent for non-manufacturing plant and machinery and office equipment when purchased. Annual allowance of 10 per cent, 20 per cent or 30 per cent is allowable under declining balance method. 100 per cent of manufacturing plant and machinery can be written off when expended.	Industrial buildings — initial allowance of 20 per cent granted on new industrial buildings in year expenditure incurred. Annual allowance of 4 per cent when building first used. No initial allowance for existing buildings. Commercial buildings — annual 4 per cent allowance.	100 per cent can be written off immediately the expense is incurred.	Not allowable.
Malaysia	20 per cent prime cost initial allowance, then 8 per cent to 40 per cent afterwards. Average 10 per cent to 20 per cent.	10 per cent initial allowance, then 3 per cent only for industrial buildings.	Some immediate otherwise 20 per cent initial allowance; then an annual allowance of 40 per cent.	Non-deductible.
Singapore	Straight line allowance: 20 per cent initial allowance, balance over useful life. Equipment depending on the type may have a specified working life of 5 to 16 years. Accelerated allowance: generally three years (although if automated equipment or computers — can be claimed over one year).	25 per cent initial allowance, 3 per cent for subsequent years based on costs for qualifying areas.	Accelerated allowance of one year.	No tax depreciation available nor is goodwill tax deductible.
Taiwan	11.11 per cent (based on useful life plus one year). The useful life of equipment is ranging from 3 to 20 years depending on the type of such equipment.	1.96 per cent = 1/(50+1) 6.25 per cent = 1/(15+1) based on purchase price. Rates based on expected life plus one year.	25 per cent (based on useful life plus one year).	Goodwill cannot be amortised longer than 20 years.

Source: Various, see Chapter 1 (1.4.1).

Table 12.11 sets out the corporate tax concessions available in the selected Asian economies. This information is similar to the information provided for the OECD-10 in Appendix 5F. The Asian economies examined tend to offer a wider range of tax concessions than the OECD-10.

Table 12.11: Corporate tax concessions — Hong Kong, Malaysia, Singapore and Taiwan

	Research & Development	Other concession
Hong Kong	Expenditure deductible at the rate of 100 per cent of the expense.	Interest income derived from certain financial instruments is exempt from taxation. Interest income and trading profits derived by corporations from a qualifying debt instrument of between 3 to 7 years is subject to a tax rate of 8.75 per cent, while those derived from instruments with a longer maturity period are exempt. Exemption for offshore funds, partial exemption of offshore manufacturing income.
Malaysia	Range of preferences including 200 per cent deduction for expenditure in certain cases. Contract Research & Development companies may be entitled to tax exemption on 100 per cent of taxable income for five years or investment tax allowance within 10 years from approval date. Many other tax incentives are also available.	Regional Distribution Centre (RDC) Incentive applicable to collection and consolidation, and distribution activities provides 0 per cent tax on statutory income for up to ten years. Incremental usage of ports and airports. International Procurement Centre (IPC) Incentive if activities consist of procurement and sale only. IPC Incentive may be applied for instead. Criteria and tax benefits are similar to RDC. Reinvestment allowance for qualifying projects of 60 per cent. Infrastructure allowance for related expenses for entities in promoted areas of 100 per cent. Other tax incentives available.
Singapore	Expenditure incurred on Research & Development undertaken directly by a person carrying on a trade/business (except on fixed assets) and related to that trade/business, or payments made by him to a Research & Development organisation, are tax-deductible. Further deductions may be granted on approved Research & Development projects, subject to certain conditions. Note however, expenditure of a capital nature incurred on plant, machinery, land or buildings or on alterations, additions or extensions to buildings or in the acquisition of rights in or arising out of research and development incurred by the taxpayer are not deductible. Further, there are provisions under current tax law for written-down allowances (WDA) where a person carrying on a trade or business has incurred expenditure under any approved cost-sharing agreement in respect of Research & Development activities for the purpose of that trade or business. The WDA available currently is 20 per cent per annum; although in the recent 2006 Singapore Budget, there is a proposal for a 100 per cent WDA claim in the year the expenditure was incurred.	Global Trader Program (GTP) incentive applicable to international companies who manage their regional or global trading activities using Singapore as their base. The GTP Incentive provides for a concessionary tax rate of 10 per cent on qualifying trade income for five years (and renewable). The rate can be reduced to 5 per cent if revenues are significantly higher plus other commitments are met. A modified GTP scheme provides for a 10 per cent concessionary tax rate for three years [but non-renewable] with lower level of commitments. International Headquarters (IHQ) Incentive applicable to MNCs who use Singapore as a base to provide corporate support and headquarters related services and business expertise on a regional or global basis. A concessionary tax rate of between 0 per cent to 15 per cent on incremental qualifying income for a specified period may be awarded. Exact terms of the Incentive grant is determined and negotiated on a case-by-case basis commensurate with the scale, value and sophistication of investment commitment the headquarters puts into Singapore. Factors specifically looked at include factors such as headcount, business spending and quality of people hired. Qualifying income includes trading profits earned by a regional supply chain principal company and management/service fees earned from non-Singapore customers.
Taiwan	Expenditures deductible or amortisable under certain conditions. Accelerated depreciation for equipment used for Research & Development. 15 per cent to 20 per cent investment tax credit (ITC) for investment in Research & Development.	Accelerated depreciation for certain industries, equipment used for quality inspection, energy conservation. Between 5 per cent and 20 per cent ITC for investments in automated production equipment or technology, environmental protection and energy-saving equipment and technology, personnel training, international brand name establishment. Up to 10 per cent or 15 per cent ITC for investment in certain industries in low development areas, payment for certain shares from the effective date on 1 January 2006. ITC or 5-year tax holiday for qualified scientific/technology and investment companies.

Source: Various, see Chapter 1 (1.4.1).

Table 12.12 examines corporate capital gains tax arrangements in the selected Asian economies. Their approach is different to that of the OECD-10, chiefly because of the limited scope of capital gains taxes in these economies. Some gains can be taxed as normal income, others (as in Hong Kong) not taxed at all.

Malaysia uses a stepped rate system for taxing the real property gains of companies while Taiwan uses its progressive corporate tax scale for taxing corporate capital gains.

Table 12.12: Corporate capital gains taxation — Hong Kong, Malaysia, Singapore and Taiwan

	Base	Rate (per cent) — scales are in local currency	Losses	Rollovers
Hong Kong	n/a	n/a	n/a	n/a
Malaysia	All capital gains are exempt except for real estate property or shares in real property companies. Residents and non-residents are subject to real property gains tax on the sale of real property and of shares in a real property company. Real property is defined as land located in Malaysia and any interest, option or right applying to such land. There are a number of exemptions including: (1) for assets transferred between members of a company group where the transfer is designed to improve efficiency and the consideration is only in the form of shares or is substantially in that form with the balance in cash greater efficiency; (2) for the transfer of assets in any corporate reorganisation, restructure or merger; and (3) for distribution of assets by a company's liquidator being part of a corporate reorganisation, restructure or merger. For (2) and (3), scheme must be in connection with transfer or distribution of assets to a company resident in Malaysia which is being restructured in compliance with government policy on capital participation in industry.	The rate scale for companies is shown below. Time of sale from purchase date (years) — Rate (per cent) 2 — 30 3 — 20 4 — 15 5 or more — 5 Insurance companies pay 8 per cent on the capital gains of the life fund.	No loss is permitted to stem from the sale of shares in a real property company. For losses from the sale of real property, the loss (calculated as applicable rate times loss on sale) is allowed as a deduction against total tax on chargeable gains in the year the loss arises. Any excess losses may be carried forward indefinitely.	Rollovers include: (1) for transfer of assets held by an individual to a company controlled by the individual (for a consideration consisting of shares in the company or for a consideration consisting substantially of shares in the company and the balance of a money payment); (2) compulsory acquisitions; and (3) disposal of an asset by a person pursuant to a scheme of financing approved by the Securities Commission or Central Bank which is in accordance with the principles of Syariah.

Source: Various, see Chapter 1 (1.4.1).

Table 12.12: Corporate capital gains taxation — Hong Kong, Malaysia, Singapore and Taiwan (continued)

	Base	Rate (per cent) - scales are in local currency	Losses	Rollovers
Singapore	Singapore currently does not impose tax on capital gains. However, there are no specific laws or regulations which deal with the characterization of capital gains. Hence, gains arising from transactions involving acquisition and disposal of real estate, stocks or shares, may be construed to be of an income nature and subject to corporate income tax if they are seen to arise from activities which are regarded to be the carrying on of a trade in Singapore.	If gains are treated as arising from the carrying on of a trade in Singapore, it could be liable to corporate income tax. The normal corporate tax rate is currently 20 per cent.	Capital losses are not tax deductible. For losses deemed to arise in connection with the carrying on of a trade in Singapore, it should be deductible.	n/a
Taiwan	All gains derived from the sale of property and property rights are taxable as normal income. Capital gains have a Taiwanese source if they stem from transactions located in Taiwan. Domestic profit-seeking firms are taxed on their worldwide capital gains. Foreign profit-seeking firms are taxed only on Taiwan-sourced capital gains regardless of their residence. The gains which are exempt from tax include: gains from the sale of land; gains from the transfer of shares or bonds irrespective of whether they are listed or unlisted; and gains from futures transactions.	Rates for domestic enterprises (TW$). Up to 50,000 0 50,000 to 100,000 15 Over 100,000 25 The 15 per cent rate applies to total taxable income but the tax may not be in excess of 50 per cent of the balance of taxable income greater than TW$50,000. A withholding tax applies to income paid to domestic firms (apart from profit distributions) which is generally creditable against the firm's tax liability. A foreign firm which either has a fixed palace of business or has a business agent in Taiwan is taxed as a domestic firm. Other foreign firms are subject only to a final withholding tax which is levied at 15, 20 or 25, 30 per cent depending on the type of income.	Capital losses may be used against other sources of income. Excess losses may be carried forward for five years.	Nil

Source: Various, see Chapter 1 (1.4.1).

12.7 CAPITAL GAINS

Singapore, Malaysia and Hong Kong do not impose a general form of capital gains tax (CGT) although Malaysia imposes a gains tax on the sale of real property and of shares in a real property company, defined as a company predominantly holding real property assets while Taiwan has a more general form of CGT.

Table 12.13: The taxation of capital gains — Malaysia and Taiwan

	Treatment of gains	Capital losses	Rollover relief
Malaysia Capital gains from real estate not treated as income of the individual and not subject to income tax. Capital gain is subject to real property gains tax and is taxed at a rate dependent on the time the asset was held.	**Shares** Not applicable unless the shares are held in a real property company. **Corporate bonds** n/a **Principal residence** Exempt for one property during lifetime. **Business assets** Not applicable (unless the business assets include real property, for which any gain will be subject to Real Property Gains Tax).	Capital losses only able to be offset against capital gains. Allowable to the extent that the loss (calculated as applicable rate times loss on sale) is offset against a future or current capital gain. Capital losses can be carried forward indefinitely but carry back is not allowed. Ordinary losses are not able to be deducted against capital gains.	**Replacement asset rollover** Available for transfer of (chargeable) assets held by an individual to a company controlled by the individual (for a consideration consisting of shares in the company or for a consideration consisting substantially of shares in the company and the balance of a money payment). **Same asset rollover** Rollover available to assets transferred between spouses or in the devolution of assets of a deceased person on his executor or legatee under a will or intestacy or on the trustees of a trust created under his will.
Taiwan Gains are taxed as part of personal income. No separate tax on capital gains except Land Increment Tax on sale of land.	**Shares** Exempt from income tax, losses not deductible. **Corporate bonds** Exempt from income tax, losses not deductible. **Principal residence** No separate CGT but gains are taxed together with other income at the personal rate. **Business assets** This gain is a part of personal income tax.	Losses from disposal of property are deductible only to the extent they can be applied to gains from disposal of property in the same tax year. Net capital losses can be carried forward for up to three years but only applied against future net capital gains. Carry back is not allowable.	No replacement asset rollover is available. Asset transfer between spouses is on a rollover basis under the estate and gift law.

Source: Various, see Chapter 1 (1.4.1).

12.8 INDIRECT TAXES

12.8.1 General consumption taxes

In relation to Hong Kong, Singapore, Malaysia and Taiwan, both Singapore and Taiwan currently levy a VAT. In Singapore, the standard VAT rate is 5 per cent, while in Taiwan the law provides that the VAT rate must not be lower than 5 per cent and not more than 10 per cent. The general VAT rate currently applicable in Taiwan is also 5 per cent.

Malaysia currently levies a sales tax on certain imported and locally manufactured goods, and a service tax on selected services. In its 2005 Budget, the Malaysian Government proposed replacing both these taxes with a single VAT-like consumption tax, which would be implemented on 1 January 2007 (the Malaysian Government has subsequently decided to defer implementation until a date to be determined).

Hong Kong does not currently levy a general sales tax but the Hong Kong Government recently announced[1] that it is also considering introducing a GST to develop a more stable source of revenue. The Hong Kong Government plans to announce detailed proposals and launch a public consultation process on introducing a GST in the middle of the year.

As in the OECD countries, Singapore and Taiwan exempt or apply a rate of zero to certain goods and services. Singapore also has a registration threshold of S$1 million. Table 12.14 shows examples of goods and services that have a zero VAT rate applied or are exempt in Singapore and Taiwan.

Table 12.14: Description of VAT systems — Singapore and Taiwan

	Zero-rated goods and services	Exemptions	Registration threshold
Singapore	Goods and services subject to a zero rate include: • exports; and • international telecommunications services.	Exempt goods and services include: • the sale or rental of residential properties; and • specified financial services.	An entity with an annual level of taxable supplies in excess of SG$1 million is required to register. Registration is allowed prior to exceeding the threshold.
Taiwan	Goods and services subject to a zero rate include: • exports; • vessels and aircraft used for international transportation; and • goods and repair services supplied to ships or aircraft used in international transactions, or ocean-going fishing boats.	Some of the major goods and services which are exempt include: • land; • water used for agricultural purposes; • health services; • educational services and academic books; • rice and wheat flour; • farm machinery and equipment; and • certain financial products and services.	

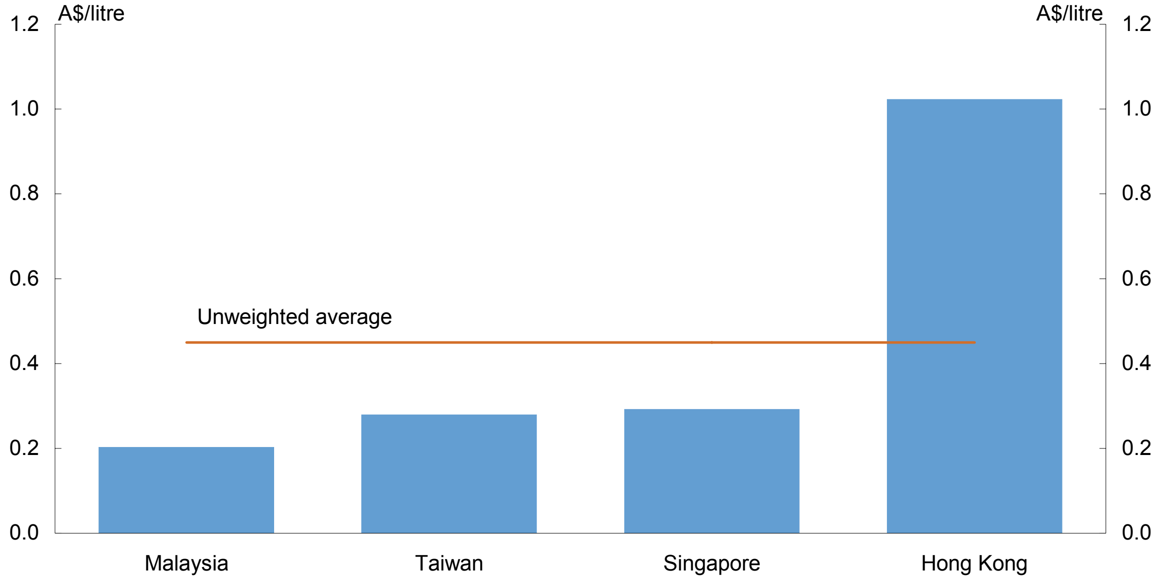
Source: Various, see Chapter 1 (1.4.1).

In Malaysia, the sales tax is levied at the manufacturing stage at a basic rate of 10 per cent. Some categories of goods have different rates applied, for example a rate of 5 per cent is applied to foodstuffs, and a rate of 15 per cent is applied to alcohol and cigarettes.

Chart 12.5 illustrates the unleaded petrol tax rates in Hong Kong, Malaysia, Singapore and Taiwan. This Chart contains information similar to that presented in Chart 8.7 on unleaded petrol tax rates in the OECD. In general the Asian economies charted have significantly lower unleaded petrol tax rates (unweighted average of A$0.449 per litre) compared to the OECD unweighted average (A$0.839 per litre).

1 Hong Kong Government (2006), 2006-07 Budget Highlights.

Chart 12.5: Unleaded petrol rates
Hong Kong, Malaysia, Singapore and Taiwan



Source: Various, see Chapter 1 (1.4.1).
Notes: Malaysia levies a specific sales tax on petrol. The sales tax rate on unleaded petrol is shown above (0.5862 ringgit per litre). Malaysia data for 2004; Taiwan, Singapore and Hong Kong data for 2005.

12.9 INTERNATIONAL TAXATION ARRANGEMENTS

This section briefly compares the international tax arrangements in the four Asian economies across a number of bases used to compare the arrangements of the OECD-10.

12.9.1 Residence

Table 12.16 shows the basis of the residence test for both individuals and companies for each of Hong Kong, Malaysia, Singapore and Taiwan. Most supplement their residence tests for both individuals and companies with substance-based tests.

Hong Kong is notable as not having a residence test for either individuals or companies as a result of having a 'pure' territorial system. Taiwan relies solely on the incorporation test to establish company residence. Malaysia and Singapore territorial tax systems are not as pure as that of Hong Kong's (see later sections) and hence have residency tests.

The Asian economies in Table 12.16 broadly apply similar residence tests to the OECD-10, with the exception of Hong Kong, which taxes only income arising within its borders, regardless of questions of residency.

Table 12.15: Residence tests for individuals and companies — Hong Kong, Malaysia, Singapore and Taiwan

	Tax residence test — individuals	Tax residence test — companies
Hong Kong	No residence test (residents and non-residents are treated the same).	Same as individuals.
Malaysia	Facts and circumstances; in practice high reliance on time present.	A company is a Malaysian resident if it is managed and controlled in Malaysia.
Singapore	Facts and circumstances; in practice, high reliance on time present.	A company is a Singaporean resident if it is managed and controlled in Singapore.
Taiwan	Facts and circumstances; in practice, high reliance on time present.	A company is a Taiwanese resident if it is incorporated in Taiwan.

Source: Various, see Chapter 1 (1.4.1).

12.9.2 Treatment of foreign source income

Treatment of an individual's foreign source income

Table 12.16 explains what constitutes temporary residency and compares the tax treatment of the income derived by temporary residents with that of ordinary resident and non-resident individuals for each of Hong Kong, Malaysia, Singapore and Taiwan.

The practice of these Asian economies deviates significantly from that found across the OECD-10. The focus among the Asian economies is on source taxation (that is, income sourced within its economy is taxable). In contrast, the general practice in the OECD-10 is to tax worldwide income of residents but with some exemptions (for example, for non-residents who may then only be assessable on locally sourced income).

Only Singapore has separate rules for temporary residents. The others either have a territorial tax system in relation to individuals (Hong Kong and Malaysia) or do not tax resident and non-resident individuals differently (for example Taiwan).

Table 12.16: Comparing tax treatment of temporary residents (expatriates) with resident and non-resident individuals — Hong Kong, Malaysia, Singapore and Taiwan

	Key temporary residence rules (expatriates)	Liability to tax	Tax rates	Tax base (including social security contributions/obligations of employees and employers)
Hong Kong	None	Residents: Hong Kong source income. Non-residents: Hong Kong source income.	Income: No difference between residents and non-residents. Capital gains: No capital gains taxes.	Income: No difference between residents and non-residents. There is no national health policy in Hong Kong. Employers can take up medical coverage for their employees; such benefits are not taxable to employees. If the employer provides a medical allowance in cash to the employee, the allowance is taxable as salary. Health insurance taken up by an individual is a personal expense and no tax deduction is available. Hong Kong does not have a social security system, any form of personal insurance taken up by an individual is a personal expense and no tax deduction is available. There is however a Mandatory Provident Fund, to assist in the provision of financial benefits for the workforce of Hong Kong when they retire. Legislation requires a mandatory contribution of 5 per cent from the employer and employee, subject to an annual contribution of HK$12,000. No contribution is required for taxpayers earning less than HK$5000 per month and visitors to Hong Kong for less than 13 months or if they are members of a similar scheme in their home countries. Capital gains: No capital gains tax.
Malaysia	None	Residents: Malaysian source income. Non-residents: Malaysian source income.	Income: Residents are taxed at a progressive rate up to 28 per cent. Non-residents are taxed at a flat rate of 28 per cent. Capital gains: Residents are taxed at zero to 30 per cent on real property depending on how long the asset has been held. Non-residents are taxed at 5 to 30 per cent on real property depending on how long the asset has been held.	Income: Non-residents are generally not entitled to claim personal reliefs. All Malaysian employers who have workers earning wages not exceeding 2,000 ringgit a month are required to contribute to a Compulsory Employment Injury Insurance Scheme (EIIS) and the Invalidity Pension Scheme (IPS) administered by the Social Security Organisation (SOCSO). For EIIS the contribution is borne solely by the employer (about 1.25 per cent of the wages of an employee). The IPS total contribution is about 1 per cent of the wages of an employee and is shared by the employee and employer. The SOCSO insurance schemes are only applicable to Malaysian citizens and permanent residents, so non-residents are not liable to contribute to SOCSO. There is an Employee's Provident Fund (EPF) which is a scheme to fund employees' retirement. The statutory rate of contribution for employees is 11 per cent (minimum) and 12 per cent for employers up to the maximum of 19 per cent. Most expatriates are required to contribute to the EPF. Capital gains: Residents have a zero per cent tax on capital gains from the sale of real property if disposal is after 6 years. Non-residents pay 30 per cent on capital gains from the sale of real property if disposal is within five years of acquisition, but only 5 per cent if disposal is after 6 years. Only gains from the sale of landed property and shares in real property companies are subject to real property gains tax.

Table 12.16: Comparing tax treatment of temporary residents (expatriates) with resident and non-resident individuals – Hong Kong, Malaysia, Singapore and Taiwan (continued)

	Key temporary residence rules (expatriates)	Liability to tax	Tax rates	Tax base (including social security contributions/obligations of employees and employers)
Singapore	Singapore has a Not Ordinarily Resident (NOR) scheme. NORs are tax residents that have not been a resident for three years prior to the year of assessment. A 5-year time limit applies.	Residents: Income derived from, accrued in or remitted to Singapore. Expatriates: Income derived from, accrued in or remitted to Singapore. Non-residents: Income derived from or accrued in Singapore.	Income: Residents are taxed at progressive rates up to 22 per cent. Non-residents are taxed on employment income at the higher of a flat 15 per cent or progressive rates up to 22 per cent; other income is taxed at a flat 22 per cent. Capital gains: No difference between residents and non-residents.	Income: Expatriates (that is NORs) get favourable treatment of pre-assignment income and overseas pension fund contributions. Also, partial exemption of foreign employment income. Non-residents are exempt from tax on certain securities and compulsory medical insurance system rights and obligations. Residents have access to certain personal and dependant tax reliefs. Singapore has a Central Provident Fund (CPF) which is a statutory saving scheme to provide for retirement and medical needs of employees. CPF contributions are compulsory for all *resident* employees working in Singapore. Contributions are payable on the employee's remuneration at the appropriate rates provided in the CPF Act (the rates vary depending on age). The contributions are allocated into three accounts (Ordinary account, Medisave account, and the Special account). Employee CPF contributions that are within the statutory limits are available as a tax relief against the statutory income of resident taxpayers. Capital gains: Exempt (residents and expatriates). Generally exempt (non-residents).
Taiwan	None	There is no difference between residents and non-residents: All individuals are taxed only on income derived in Taiwan (tax payable by non-residents on income derived in Taiwan is withheld and paid at source). Remuneration paid by employers outside Taiwan to non-resident employees whose stay in Taiwan does not exceed 90 days in a tax year is not considered to have a Taiwan source.	Income: Residents are taxed at progressive rates up to 40 per cent. Non-residents are subject to a final withholding tax (which varies from 0 to 30 per cent, depending on the characterisation of the income as a dividend, prize, income from retirement etc). Where a non-resident receives Taiwan source income, which is not subject to withholding procedure they are required to pay tax at 20 per cent on the gross income on their departure (or at end of tax year).	Income: Exempt employment income includes: salaries for military personnel in active service, foreign diplomats, foreign nationals, and teachers; salaries paid by foreign governments and organisations to foreign technicians and professors; scholarships granted by the Taiwan or a foreign government; and pensions. Taiwan has a mandatory National Health Insurance Scheme (NHI). Employees, employers and the Government pay premiums on a monthly basis based on the employee's reported income. The income percentage is approximately 4.25 per cent of the insured salary (the cost is shared 60 per cent by employers, 30 per cent by employees and 10 per cent by the Government). Employees must also pay the same rate for each dependent enrolled under their name for up to three dependants. Taiwan also has a system to finance retirement. Employers are required to deposit 6 per cent of an employee's monthly salary into the account (under the new Labour Retirement Pension Act). Employer contributions are a deductible expense and employee's can also contribute an amount of their pre-tax salary to the account. Capital gains: There is no separate capital gains tax in Taiwan, but, in general, all gains derived from transactions in property and property rights (that is, property situated in Taiwan) are taxable as ordinary income.

Source: Various, see Chapter 1 (1.4.1).

Treatment of a company's foreign source income

Table 12.17 shows the extent to which Hong Kong, Malaysia, Singapore and Taiwan tax the foreign income of their companies. Hong Kong has a pure territorial tax system and Malaysia and Singapore have extensive foreign income exemptions. Taiwan taxes its companies on a comprehensive worldwide basis without any unilateral exemptions. In contrast, the general practice amongst the OECD-10 is worldwide income taxation for resident companies but with some unilateral exemptions for specific types of foreign income (though around half of the OECD-10 also have no unilateral exemptions).

Table 12.17: Treatment of foreign source income of corporate residents — Hong Kong, Malaysia, Singapore and Taiwan

	Taxation of resident companies	Key foreign income exemptions from worldwide income taxation
Hong Kong	n/a Hong Kong has a territorial basis of taxation.	n/a The territorial basis on which Hong Kong generally levies tax serves to a large extent as a measure of unilateral relief from double taxation.
Malaysia	Malaysian resident companies are subject largely to territorial taxation only — income arising from sources outside Malaysia and received in Malaysia by resident companies is largely exempt from income tax. The only exceptions are resident companies carrying on the business of banking, insurance, shipping or air transport.	n/a The territorial basis on which Malaysia generally levies tax serves to a large extent as a measure of unilateral relief from double taxation.
Singapore	Singapore resident companies are not subject to tax on foreign dividends, branch profits and services income, provided that the source country taxes at a headline rate of at least 15 per cent.	n/a The territorial basis on which Singapore generally levies tax serves to a large extent as a measure of unilateral relief from double taxation.
Taiwan	Taiwanese resident companies are taxed on income from all sources worldwide.	None

Source: Various, see Chapter 1 (1.4.1).

Foreign tax credit (FTC) systems

Table 12.18 shows the key features of the FTC systems of Hong Kong, Malaysia, Singapore and Taiwan. Other than Taiwan, most have quite narrow FTC systems because of the extensive foreign income exemptions that exist. In comparison, the OECD-10 tend to provide various mechanisms for dealing with FTCs, which reflects their more general approach of taxing worldwide income.

Where available in the Asian economies, excess FTCs cannot be carried forward or back.

Table 12.18: Foreign tax credit systems comparison — Hong Kong, Malaysia, Singapore and Taiwan

	Key features of FTC system	Treatment of excess FTCs
Hong Kong	On the basis that foreign sourced income is not subject to tax in Hong Kong, FTCs are generally not available. Broadly however, if Hong Kong sourced income was also subject to foreign tax, or where foreign sourced income was submitted to tax in Hong Kong, a FTC may be available — provided that the foreign jurisdiction has an applicable double tax treaty (that is, Belgium and Thailand) or double tax arrangement with the Peoples Republic of China (PRC). Foreign tax which is an expense that must be borne regardless of whether or not a profit is derived is deductible not creditable. Typically such foreign tax takes the form of withholding tax on interest and royalties or is charged on the gross amount of the earnings, such as PRC Business Taxes.	No carry forward of foreign tax credits.
Malaysia	No formal system of foreign tax credits for foreign source income. Income taxed in Malaysia that is also subject to tax overseas may qualify for unilateral or bilateral credit relief. Unilateral credit relief (that is, non-treaty country) is capped to half the foreign tax payable on that income. Bilateral credit relief (that is, treaty country) is limited to the Malaysian tax payable. In both instances, credits are quarantined on a per-source basis.	No ability to carry forward their foreign tax credits.
Singapore	Income taxed in Singapore that is also subject to tax overseas may qualify for unilateral or bilateral credit relief. Unilateral credit relief (direct only) is available for foreign tax paid that is similar to Singapore tax in respect of: non-treaty Commonwealth countries that grant reciprocal relief; service income; dividends and branch profits. Where the foreign tax rate does not exceed 50 per cent of the Singapore rate, relief is granted in full. In all other cases the credit is capped at half the Singapore tax rate. Bilateral credit relief (direct only) for treaty countries is capped at an amount equal to net foreign income multiplied by the effective Singapore tax rate. Further, total FTCs, against income from all treaty countries, cannot exceed total Singapore tax. Credits may be quarantined on a per-country, per-income stream basis.	Excess credits cannot be carried forward or back.
Taiwan	Foreign tax paid is creditable against the total Taiwan income tax liability. The amount of the credit is limited to Taiwanese tax payable. Taiwanese are taxed on a cash basis when profits are remitted to Taiwan.	Excess credits cannot be carried forward or back.

Source: Various, see Chapter 1 (1.4.1).

12.9.3 Treatment of income of non-residents

Table 12.19 shows the way in which different types of income of non-residents are treated for tax purposes in Hong Kong, Malaysia, Singapore and Taiwan. Of the four economies, only Taiwan imposes dividend withholding tax on non-residents (as do most of the OECD-10). Only Hong Kong does not impose non-resident interest withholding tax (the other three Asian economies apply interest withholding arrangements similar to those across the OECD-10). All four economies impose non-resident royalty withholding tax and other withholding taxes (charged to non-residents on a gross basis).

Table 12.19: Treatment of income of non-resident taxpayers[(a)] — Hong Kong, Malaysia, Singapore and Taiwan

	Withholding tax on dividends paid to non-residents	Withholding tax on interest and royalties paid to non-residents	Withholding tax on other income paid to non-residents
Hong Kong	Hong Kong does not impose dividend withholding tax.	Hong Kong does not impose interest withholding tax. Royalties are chargeable to withholding tax if the relevant intellectual property is for use or used in Hong Kong, or if a deduction has been claimed for the royalties. Royalties are generally subject to Hong Kong royalty withholding tax at a rate of 5.25 per cent.	Consignment sale proceeds to foreign consignors are subject to withholding tax at 1 per cent, although in practice only 0.5 per cent of the gross proceeds is demanded.
Malaysia	No withholding tax on dividends.	Interest 15 per cent. Royalty 10 per cent. Subject to reduced treaty rates.	Technical services income at 10 per cent but subject to reduction under the treaty for services rendered in Malaysia.
Singapore	No withholding tax on dividends.	Interest payments to non-residents are taxed at 15 per cent and may be reduced by applicable double tax treaties (mostly to 10 per cent, but Mauritius and South Africa at zero per cent). Royalty withholding tax at 10 per cent. Rental of moveable property at 15 per cent, subject to reduction under treaties.	Equipment leasing rents are subject to 15 per cent withholding tax. Management fees and technical fees are subject to 20 per cent withholding tax. Rental of movable assets is subject to 15 per cent withholding tax. Charter fees subject to tax ranging from zero to 3 per cent.
Taiwan	Corporates are charged 20 per cent if approval from Investment Commission or Ministry of Economic Affairs under the Statute for Investment by Foreign Nationals. Subject to treaty reduction. There is a 10 per cent surtax on undistributed profits, creditable against the withholding tax. There is a franking credit system so no further withholding tax if franked.	Interest and royalty payments to non-residents are taxed at 20 per cent. Subject to treaty reduction.	If no permanent extablishment, foreign residents have 20 per cent withheld on all amounts of Taiwanese sourced income.

(a) The table does not deal with income which is taxed on a net basis such as where it is attributable to a permanent establishment.
Source: Various, see Chapter 1 (1.4.1).

Treatment of conduit foreign income

With the exception of Taiwan, conduit income is generally taxed lightly, if at all. Only Taiwan imposes non-resident withholding tax and only Taiwan broadly taxes its companies on their worldwide income. Where there are two or more resident companies in the conduit income chain, dividends are exempt from tax in the hands of the recipient in Hong Kong, and Singapore is in transition from an imputation system to one where dividends will be exempt in the hands of all shareholders.

12.9.4 Attribution and other international tax integrity rules

Table 12.20 shows the attribution and other international tax integrity rules used by Hong Kong, Malaysia, Singapore and Taiwan. None of these economies have attribution rules or specific tax integrity provisions (although general integrity measures exist for all four countries). The absence of specific provisions is at variance with the general approach across the OECD-10.

Table 12.20: Attribution and other international tax integrity rules — Hong Kong, Malaysia, Singapore and Taiwan

	CFC rules	FIF or other attribution rules	Thin capitalisation rules	Transfer pricing rules
Hong Kong	No	No	No specific rules, although there are stringent conditions for the deductibility of interest which may effectively restrict the use of overseas debt finance.	No specific rules, although tax authorities may adjust transaction prices between related parties if arm's length principle has not been observed.
Malaysia	No	No	No specific rules, although the tax authorities may disallow interest to the extent that it is not used to finance assessable operations.	No specific rules, although tax authorities may adjust transaction prices between related parties if arm's length principle has not been observed.
Singapore	No	No	No specific rules, although the tax authorities may disallow interest to the extent that it is not used to finance assessable operations.	No specific rules, although tax authorities may adjust transaction prices between related parties if arm's length principle has not been observed.
Taiwan	No	No	No specific rules, although tax authorities may adjust transaction prices between related parties if arm's length principle has not been observed.	No specific rules, although tax authorities may adjust transaction prices between related parties if arm's length principle has not been observed.

Source: Various, see Chapter 1 (1.4.1).

12.9.5 Tax treaties

Table 12.21 shows the network of treaties in place, their type and key attributes for each of Hong Kong, Malaysia, Singapore and Taiwan. As the table indicates, all their treaties are based on the OECD Model, although only Malaysia and Singapore have an extensive treaty network. Only Malaysia departs from the OECD Model to any significant degree.

Table 12.21: Tax treaties — Hong Kong, Malaysia, Singapore and Taiwan

	Network	Model predominantly relied on	Key departures from model (with respect to permanent establishments, business profits, withholding taxes and alienation of property)
Hong Kong	Full scope treaty with Belgium and Thailand. Arrangement with China.	OECD	No key departures noted.
Malaysia	61	Appears to be based on OECD with some modifications.	**Permanent establishments/business profits** • Malaysia maintains strong source country taxing rights for determining what constitutes a Permanent Establishment. **Withholding taxes** • Malaysian tax treaties generally contain a 10 per cent withholding rate on royalties.
Singapore	81	OECD	No key departures noted.
Taiwan	16	OECD	No key departures noted.

Source: Various, see Chapter 1 (1.4.1).