APAC News

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Highlights

According to Wikipedia, **2013** (**MMXIII**) will be a common year starting on a Tuesday. In the Gregorian calendar, it will be the 2013th year of the Common Era (CE) and *Anno Domini* (AD) designations; the 13th year of the 3rd millennium and of the 21st century; and the 4th of the 2010s decade. It will also be the first year to be denoted by four different digits in 26 years (since 1987).

For most of us it will simply be the beginning of a new year and the bringing in of new measures.

In this issue of newsletter, we have an article from Australia about outlook for 2013.

Hong Kong reports that a new tax treaty was signed with Canada shortly before the year end. The treaty contains some rather favourable terms on Canadian withholding tax.

Indonesia has an article on new investment policy whereas Korea, Malaysia and Singapore each have an article on tax law changes or new budgets.

….and, we also have something to celebrate in 2013, as we enter the **30th anniversary of Russell Bedford International.**

Inside this issue:

News of our regional firms

Russell Bedford Indomitra won new assignment

Our Indonesian office, Syarief Basir dan Rekan, recently won a tender for compliance audit of Batch B Phase 1 of Madrasah Accreditation Project which is financed by AusAID.

The tender has been participated by four accounting firms: PricewaterhouseCoopers, KPMG, Mazars and KAP Syarief Basir dan Rekan

(Continued)

(Russell Bedford Indomitra).

Madrasah accreditation project is one of four components of the Commonwealth of Australia program to assist the Government of Indonesia to achieve its 2010-2014 Education Strategic Plan priorities.

Total value of four components project is approximately AUD 500 Million.

AUSTRALIA

SAWARD DAWSON chartered accountants

An economic update from Alan Oster

" …resources boom still has some legs…"

Our Melborune office was recently privileged to co-host an economic update presented by Alan Oster, Group Chief Economist with NAB and respected economic commentator. We thought that it would be good to share some of the main points in our newsletter for the benefit of those who were unable to attend.

Global economic position

The global economy remains sluggish, with inadequate growth in the US, Europe and Japan to make much impression on unemployment. However, there is positive growth in these sectors which is good news. The forecast for global growth in the year ahead is underpinned by China, India and Latin America. Australia is very much tied to the fortunes of China in particular, who is the major consumer of our resources.

The Australian outlook

The dollar - One of the key factors underpinning the value of our dollar is the demand from other economies who want to hold their reserves in A$. The strength and stability of our economy and our connection to China makes our currency an attractive way to hold reserves. Russia was quoted as holding substantial $A reserves. Official interest rates now have little impact on the value of our dollar because of these other forces. NAB's view is that the dollar should trade within parity plus or minus 5 cents for the next year or so.

Growth - There is sluggishness in the Australian economy that has resulted in a lowering of growth expectations towards 2%; business confidence is currently at a low point. The investment in large scale mining projects that are currently in the system and cannot be stopped will mean there is still considerable contribution from this sector for the next few years. The Liquid Natural Gas projects will see Australia move from supplying 5% of the world's LNG to 30% once these projects come online. So the "resources boom" still has some legs! Health and services are now major contributors to employment and growth within Australia. Retail, manufacturing and construction remain in trouble.

Property - Many people have relied on the "rule of thumb" that property doubles every 7 years. Alan made it quite clear that this is not going to continue to happen! Property values are subject to many factors including supply and demand. NAB's view is that there is currently a housing supply shortfall and continued demand from population growth. This should ensure that we do not go through a major reduction in prices. Equally, other economic conditions prevent a spike in prices so slow and modest growth is the NAB outlook.

Interest rates - As expected, the Reserve Bank reduced official interest rates by 25 basis points to 3.0% in December. Banks are now looking for more reliance on local deposits and less reliance on off-shore funds. This demand has kept interest rates for deposits relatively high and official reductions may not be fully passed on to consumers because of the cost of funds to the banks.

Implications for business and individuals

Businesses should be planning around the consequences of a strong A$ for the short to medium term and subdued local economic conditions. Interest rates are not expected to increase but it is unlikely that further reductions will flow on to business.

A flat or modest growth in the property market means that heavily geared properties will not recoup their losses from capital growth. Property investors should understand the cost of property holding and how much capital growth is required to provide a long-term return. Property is likely to be more attractive when lowly geared.

The experience in the US is that, with low interest rates on deposits, there has been strong demand for equities. This has driven share prices up simply by virtue of alternate investment yields. Australian equities markets have not seen the same support as interest rate yields and are still reasonably attractive and capital stable. Equities bring the prospect of a reduction in capital value even if underlying yields are strong. Investors need to weigh up and consider the risk of, and strategies to deal with, capital reductions against the dividend yields that may emerge.

Market and consumer sentiment and economic circumstances change over time and can move very quickly. It is important to be informed but if we were to always respond to the latest headlines our investment and business decisions would be haphazard and would not result in rational decisions. So long-term business and investment planning is important as is the ability to respond to changing circumstances.

"Market and consumer sentiment ….can move very quickly…"

HONG KONG

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Income tax treaty signed with Canada

Hong Kong SAR and Canada signed the agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income ("the Agreement") on 11 November 2012.

The agreement sets out clearly the allocation of taxing rights between the two jurisdictions and the relief on tax rates on different types of passive income.

Payment from Canada	Without the Agreement	Under the Agreement
Withholding tax ("WHT") on interest	0/25% (a)	0/10% (b)
WHT on royalties	0/25% (c)	10%
WHT on dividend	25%	5/15% (d)

(a) Under domestic law, Canada does not impose WHT on arm's length interest payment to non-resident unless the interest is participating debt interest.
(b) 10% applies on contingent interest to HK resident.
(c) No WHT on literary work including computer software, but 25% on payments for the use of a patent or for information concerning industrial, commercial, or science experience.
(d) 5% if the beneficial owner is a company holding directly or indirectly 10% or more of the voting right of the Canadian company. 15% applies in all other cases.

"… contains very favourable terms to Hong Kong residents…"

The treaty contains very favourable terms to Hong Kong residents. For example, dividend WHT is reduced to 5% in respect of 10% non-portfolio investments compared to Canadian treaties with other Asian countries which require 25% or above shareholding to apply the lower 5% WHT.

The Agreement is expected to come into force on 1 January and 1 April 2014 for Canada and Hong Kong respectively, after completion of ratification procedures on both sides.

INDONESIA

Russell Bedford Indomitra
Management & Legal Consulting

Investment Policy and Redenomination

Indonesian economic growth in 2012 reached 6.2%, a very good economic growth especially due to the significant growth happened while the world's growth is generally stagnant. Head of OECD Asian Development Center, Kensuka Tanaka, recently stated that Indonesian economic growth will keep on increasing well and the best among the Asean countries. In 2013, Indonesia's GDP growth is estimated to increase to be 6.4% or even higher because of the economic stability and democracy politic, increase of tax revenue, and amount of debts that is relatively low compared to the GDP.

INDONESIA

(Continued)

Such good economic condition has become an attraction to local and foreign investors in Indonesia. Data from Indonesia Investment Coordinating Board (BKPM) of the third quarter 2012 shows a realization of investment amounting to Rp 229.9 trillion (USD 1 is equivalent to Rp 9,700), an increase of 27% compared to the same period last year of Rp 181 trillion. This realization consists of local investment of Rp 65.7 trillion and foreign of Rp 164.2 trillion. According to a source at BKPM, Major countries that invest their capital to Indonesia from January to September 2012 are Singapore with investment value of US$ 3.5 billion, Japan of US$ 1.8 billion, South Korea of US$ 1.3 billion, United Kingdom of US$ 900 million, and United States of America of US$ 700 million.

In the first quarter 2013, the investment realization is estimated to grow 24% compared to the same period of 2012. To push the investment growth, the Indonesian government will improve the regional investment licensing process from 17 working days to be 10 working days in 2014, specifically for the purpose of accelerating the investment inflow. The acceleration of capital investment licensing will be stated in Presidential decree that binds every region. In regards of this policy, the government through the Ministry of Home Affairs will keep evaluating problems and manage constraints that happen in the region and to the future, this plan is to be implemented early 2014.

In line with the economic development policy, Central Bank of Indonesia at the moment is assessing redenomination policy of rupiah currency. The redenomination will simplify the currency, for example Rp 1,000 will be Rp 1 or Rp 50,000 will be Rp 50. After redenomination, the nominal of 1 cent will be the smallest unit.

The redenomination program is planned to be implemented in 2017, with a transition period of 3 years, starting from 2014 to 2016. Redenomination of rupiah is needed since there are too many zeros in the national currency of Indonesia. As an example, at the moment USD 1 is equal to Rp 9,700. By eliminating three zero digits, rupiah will be simpler. Furthermore, currency exchange rates will also be simpler and more equal.

Redenomination bill has been submitted to House of Representatives (DPR) and has become one of the National Legislation Programs 2013. Thus, it is expected that Redenomination Laws shall be finalized in 2013.

"Redenominati on of repiah is needed…"

KOREA

CJAC 천지회계법인 CHEON JI ACCOUNTING CORPORATION

2013 Tax law changes

Some of the major amendments to the Proposed Tax Law Changes in 2013 are summarized as below:

"…changes in the conditions for income tax deduction…"

R&D tax credit formula (Article 10 of the Special Tax Treatment Control Law)

- Changes in the meaning of immediately preceding year

Original proposal	Amended proposal
Tax credit amounts = (R&D expenses incurred in the current year – R&D expenses incurred in immediately preceding year) x 40% * * 50% for small and medium-sized company	"R&D expenses incurred in the immediately preceding year" will be changed as below: → annual average R&D expenses incurred in the preceding 4 years (for 2012) → annual average R&D expenses incurred in the preceding 3 years (for 2013) → annual average R&D expenses incurred in the preceding 2 years (for 2014) → R&D expenses incurred in immediately preceding year (from 2015)

Changes in conditions for income (Article 91-15 of the Special Tax Treatment Control Law)

Original proposal	Amended proposal
Individuals eligible for income tax deduction on long-term fund: a. Employee with payroll income of KRW 50 million or less b. Individual businessman with total income of KRW 35 million or less	Changes in the conditions for income tax deduction on long-term fund: If eligibility is determined as of the initial join date: a. Employee with payroll income of KRW 50 million or less b. Individual businessman with total income of KRW35 million or less If eligibility is determined as of the year of deduction (during the tax year concerned): a. Employee with payroll income of KRW 80 million or less b. Individual businessman with total income of KRW 60 million or less

Declaration of overseas financial accounts (Article 34 of the International Tax Coordination Law)

- Changes in computation method of maximum balance threshold amounts

Original proposal	Amended proposal
Sum up balances of all overseas financial accounts as of the end of every quarter (effective from 1 Jan 2012)	Sum up balances of all overseas financial accounts as of the end of every month (effective from 1 Jan 2013)

There are also some new tax rulings:

VAT invoice issuer when the goods / service provider is not the payment recipient

If a domestic company enters into goods or services agreement with a foreign (non-Korean) company outside of Korea and makes payments directly to the foreign company, but receives goods or services from the Korean branch of the foreign company, the Korean branch of the foreign company is required to issue VAT invoices to the domestic company.

VAT treatment on joint technology development with a foreign (non-Korean) company

In the case where a Korean company ("company A") makes an agreement with a foreign company without a permanent establishment in Korea ("company B") to collaborate on technology development in Korea and they jointly possess the right for the development output and the development costs are allocated to the company A and the company B according to their ownership ratio of the development output, if the company A receives input VAT invoices on goods and services needed for the technology development from other domestic taxpayers, the input VAT portion for the company B shall not be deductible from output VAT of the company A.

In this connection, when the company A receives payments of technology development related costs allocated according to their ownership ratio from the company B, the company A shall not issue any VAT invoice to the company B and the payments received shall not be included in the VAT tax base of the company A.

Withholding tax rate on royalty paid for the use of international telecommunication network owned by a Singaporean company

In the case where a Korean company makes a payment to a US company for the use of international telecommunication network owned by a Singaporean company without a permanent establishment in Korea and the US company acts as a Singaporean company's agent for making contract and receiving payment from the Korean company for the services rendered by the Singaporean company, the payment to the US company will be classified as royalty income under Article 12 of the Korea-Singapore tax treaty and the withholding tax rate of 2.2% (including local income tax) shall be applied when the Korean company makes the payment in accordance with Article 98, Paragraph 1, Subparagraph 1 of the Corporate Tax Law.

"…payment for the use of international telecommunicati on network…will be classified as royalty income…"

MALAYSIA

RUSSELL BEDFORD MALAYSIA

"…new Limited Partnership Act…combines the characteristics of a company and a partnership firm…"

2013 Malaysian Budget highlights

On 28 September 2012, the Prime Minister and Minister of Finance, YAB Dato' Seri Mohd Najib Tun Razak, delivered the 2013 Budget themed "Prospering the Nation, Enhancing Well-Being of the Rakyat: A Promise Fulfilled". The 2013 Budget aims to reduce the nation's fiscal deficit from 4.5% of Gross Domestic Product ("GDP") in 2012 to 4% in 2013. With the projection of a positive economic outlook, GDP growth is forecasted at between 4.5% and 5.5%, giving rise to the prospect of the GDP surpassing the RM1 trillion (USD330 billion) mark for the first time in the nation's history.

Some of the salient proposals tabled in the 2013 Budget include:

Restriction to treat interest income as business income

Interest income treated as business source income under Section 4(a) of the Income Tax Act, 1967 ("ITA") is restricted to the following:

(i) interest income derived from debenture, mortgage or other source which forms part of the stock in trade of a business; or

(ii) interest income receivable from the business of lending money and that business is one which is licensed under any written law.

Review of time bar for tax assessment

The time bar for raising an assessment, additional assessments and application for relief of error or mistake be reduced from 6 years to 5 years. However, this 5 year limitation does not apply to cases of fraud, willful default or negligence.

Notwithstanding this proposal, the requirement to keep records for 7 years in accordance with Sections 82 and 82A of the ITA remains.

Tax treatment of Limited Liability Partnerships

With the new Limited Liability Partnerships Act 2012 being gazetted in February 2012, a new type of entity called LLP is introduced as an alternative vehicle to conduct business. A Limited Liability Partnership ("LLP") combines the characteristics of a company and partnership firm but it provides the protection of a limited liability for its partners.

The tax treatment of a LLP is proposed to be as follows:

Income tax rate

(a) 25%; or
(b) Preferential tax rate (if LLP meets the requirement of the ITA as a Small and Medium Sized Enterprise)
   - 20% on its first RM500,000 (USD165,000) of chargeable income;
   - 25% on chargeable income exceeding RM500,000 (USD165,000)

Residence status

Determined based on management and control of its business or affairs exercised by its partners.

Unabsorbed business losses and capital allowances

A company or partnership which converts into a LLP is allowed to carry forward unabsorbed business losses and unabsorbed capital allowances to be utilised against future income of LLP.

Similarities in tax treatment of LLP and a company

(a) Determination of basis period
(b) Due date for filing of tax returns and settlement of tax liability
(c) Furnishing of estimate of tax payable and payment of tax instalment
(d) Controlled transfer provisions apply

Tax treatment of remuneration paid to partners

No deduction is allowed if the remuneration paid to partners is not specified or provided in the agreement made in accordance with Section 9 of the Limited Liability Partnerships Act 2012.

Distribution of profits to partners

Profits paid, credited or distributed by LLP to its partners are exempted from tax.

Tax treatment for Business Trust

Business Trust ("BT") is a new business structure established under the amended Capital Markets and Services Act 2007 and adopts the unit trust structure as a basis for its business. The tax treatment of a BT is proposed to be as follows:

Income tax rate

25%

Residence status

Determined based on the residence status of the Trustee Manager. The Trustee Manager is resident in Malaysia if he carries on business of the BT in Malaysia and management and control of its business are carried on in Malaysia.

Similarities in tax treatment of BT and a company

(a) Determination of basis period
(b) Due date for filing of tax returns and settlement of tax liability
(c) Furnishing of estimate of tax payable and payment of tax instalment.
(d) Controlled transfer provisions apply
(e) Stamp duty provisions apply
(f) RPGT on disposal of real property and shares

Stamp duty

Stamp duty exemption on instruments of transfer of businesses, assets or real properties acquired at the initial stage of establishment of a BT.

Real Property Gains Tax ("RPGT")

RPGT exemption is given on gains derived from the disposal of real properties or shares in a real property company to BT at the initial stage of establishment of a BT.

Review of RPGT rates

Effective RPGT rates on gains from disposal of real properties and shares in real property companies be revised as follows:

- 15% for holding period of up to 2 years
- 10% for holding period exceeding 2 years but within 5 years
- 0% for holding period exceeding 5 years.

Reduction in individual tax rates

Tax rates for resident individuals be reduced by 1% for chargeable income bands from RM2,501 (USD825) to RM50,000 (USD16,500).

"Business Trust…adopts the unit trust structure…"

SINGAPORE

STEVEN TAN RUSSELL BEDFORD PAC
Public Accounting Corporation

Auditing accounting estimates

"…to identify the risks associated with the accounting estimates…"

Introduction

Accounting estimate is defined as an approximation of monetary amount in the absence of a precise means of measurement. It may be determined as part of the routine information system relevant to financial reporting on a continuing basis, or may be non-routine, operating only at period end. Examples of accounting estimates are:

- Allowance for doubtful receivables
- Asset useful life
- Allowance for slow moving and obsolete inventories
- Provision against the carrying amount of an investment where there is uncertainty regarding its recoverability
- Outcome of long term contracts
- Warranty obligations
- Costs arising from litigation settlements and judgments

Challenges

Accounting estimates involve judgment, and the use of assumption on matters that are uncertain at the time of estimation. Such judgment may contain unintentional or intentional management bias (for example, motivation to achieve a desired result). The susceptibility of an accounting estimate to management bias increases with the subjectivity involved in making it. Furthermore, the audit evidence available to detect a material misstatement in an accounting estimate will often be more difficult to obtain and less persuasive than audit evidence available to detect a material misstatement in other items in the financial statements.

Audit Standard on Accounting Estimates

Singapore Standard on Auditing (SSA) 540 (based on International Standard on Auditing 540): Auditing Accounting Estimates Including Fair Value Accounting Estimates, and Related Disclosures deals with the auditor's responsibilities to obtain sufficient appropriate audit evidence, about whether accounting estimates, including fair value accounting estimates, in the financial statements whether recognised or disclosed, are reasonable and adequately disclosed in the financial statements. SSA 540 stipulates the following:

1. Risk Assessment Procedures & Related Activities

Accounting estimates have different degree of estimation uncertainty. In order to identify and assess the risks associated with the accounting estimates, the auditor need to obtain an understanding of the requirements of the relevant applicable financial reporting framework including related disclosures; how management identifies those transactions, events and conditions that may give rise to the need of accounting estimates; and how management makes the accounting estimates and the data on which they are based.

2. Identifying and Assessing the Risks of Material Misstatement

The auditor has to evaluate the degree of estimation uncertainty associated with an accounting estimate and determine whether, in the auditor judgement, any of those accounting estimates that have been identified as having estimation uncertainty give rise to significant risks.

3. Responses to the Assessed Risks of Material Misstatements

Based on the assessed risks of material misstatements, the auditor is required to determine whether management has appropriately applied the requirements of the applicable reporting framework and whether the methods for making the accounting estimates are appropriate and have been applied consistently, and whether changes, if any, in accounting estimates or the method for making them from prior period are appropriate. To respond to the assessed risks of material misstatements, the auditor can undertake one or more of the following:

(a) Test how management makes the accounting estimate and the data on which it is based
(b) Determine whether events occurring up to the date of the auditor's report provide audit evidence regarding the accounting estimate
(c) Develop a point estimate or a range to evaluate management's point estimate
(d) Engage expert with specialized skills or knowledge to obtain sufficient and appropriate audit evidence, if necessary.

4. Further Substantive Procedures to Respond to Significant Risks

For accounting estimates that give rise to significant risks, the auditor has to evaluate the following:

(a) How management has considered alternative assumptions or outcomes, and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate
(b) Whether significant assumptions used by management are reasonable
(c) Where relevant to reasonableness of significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.

5. Audit Documentation

Having reviewed the judgements and decisions made by management in the making of accounting estimates and in determining whether there are indicators of possible management bias the following should be included in audit documentation:

(a) Written representation from management whether they believe significant assumptions used in accounting estimates are reasonable
(b) The basis for the auditor's conclusions about the reasonableness of accounting estimates and their disclosure that give rise to significant risks and
(c) Indicators of possible management bias, if any.

"…whether there are indicators of possible management bias…"

Disclaimer

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