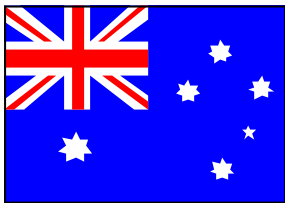


# General tax update for financial institutions in Asia Pacific

A KPMG Hong Kong tax publication

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| Country   | Tax update                    |
|-----------|-------------------------------|
| Australia | <b>Changes in legislation</b> |



Fundamental tax reform is currently occurring in Australia.

Tax Consolidation provisions (broadly, allowing groups of companies to be treated as a single entity for taxation purposes) have recently been introduced in the Australian Parliament through two tranches of legislation. The Tax Consolidations regime is proposed to apply in Australia from 1 July 2002 with further proposed legislation expected later in the year.

The new Simplified Imputation System commenced on 1 July 2002.

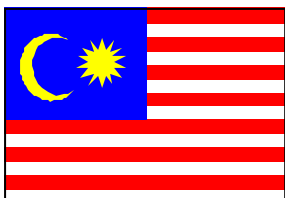
The New Thin Capitalisation rules (including recent amendments made by the *Taxation Laws Amendment Act 2002*) commenced on 1 July 2002. It is also proposed that foreign branches of foreign banks will continue to be able to group with their wholly-owned subsidiaries for thin capitalisation purposes post the introduction of the Tax Consolidations regime.

Some other measures proposed so far include:

- introduction of a new General Value Shifting (“GVS”) regime designed to repeal and replace the existing value shifting rules with a more comprehensive regime that will apply to a wider range of value shifting arrangements;
- introduction of new demerger relief provisions to ensure that no taxing event arise where entities undertake a demerger or deconsolidation and the members are in the same economic position as they were immediately before the reconstruction; and
- introduction of new rules for the Taxation Of Financial Arrangements (“TOFA”), including clarification of when foreign exchange gains/ losses are realised/ unrealised for tax purposes.

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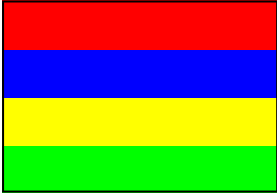
## Malaysia



The Malaysia 2003 National Budget is scheduled to be tabled in September 2002. In addition, interest-in-suspense guidelines are expected to be issued shortly in respect of year of assessment 2000 (current year basis) and prior years.

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## Mauritius



### Changes in legislation

The recent Finance Act imposes the following change as from 10 January 2003:

The following banking services offered by *domestic banks* will now be subject to the standard rate of VAT at 15%:

- services provided to merchants accepting a credit card or debit card as payment for the supply of goods or services (merchant's discount);
- services in respect of safe deposit lockers, issue and renewal of credit cards and debit cards; and
- services for keeping and maintaining customers' accounts (other than transactions involving the primary dealer system).

On the other hand, *Offshore Banks* will be in a position to opt to have all of their supplies treated as zero-rated and thus will be able to recover all input VAT.

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## PRC



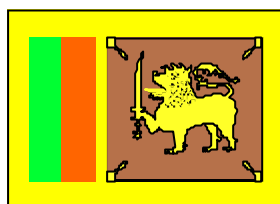
### Changes in legislation

The PBOC has issued the PRC Administration of Representative Offices of Foreign-funded Financial Institutions Regulations ("the FI RO Regulations") which took effect from 18 July 2002. It governs the representative offices of foreign-funded financial institutions in the PRC, which include both foreign financial institutions and the foreign-invested financial institutions registered in the PRC.

The FI RO Regulations mainly cover the following:

- basic requirements for establishing a FI RO;
- set-up procedures and documents required;
- requirements of acting as a chief representative of the RO;
- business activities of the RO;
- compliance requirements for the RO; and
- deregistration procedures.

## Sri Lanka



### Changes in legislation

- The National Security Levy (NSL), a cascading sales tax type of tax more recently levied at 6.5% and the single rate Goods and Services Tax (GST), have been harmonized into one composite Value Added Tax (VAT) under a dual rate system. The VAT has been in operation since 1<sup>st</sup> August 2002. Basic concepts of the GST Law have not changed. Financial services previously exempt continue to be so categorised under VAT. Banks were subject to the NSL abolished effective from 1<sup>st</sup> August 2002.
- A new consumption tax (Debit Tax) has been introduced with effect from 1<sup>st</sup> June 2002 as a temporary measure. The rate applicable is 0.1% on all debits to current accounts held at licensed commercial banks, encashment of travellers' cheques and certificates of deposit. The statute provides for exemption from Debit Tax under certain circumstances.
- Stamp duty payable to the Central Government abolished effective from 1<sup>st</sup> May 2002. Stamp Duty payable to the Provincial Councils continues and is confined to the following:
  - transfer of immovable property and vehicles; and
  - documents filed in court.
- The 20% surcharge on income tax withdrawn from the financial year 2002/03.
- A new scheme of withholding of income tax at 10% has been introduced on interest on deposits with Banks and Financial institutions. Where the withholding is made it becomes a final tax for non-corporate tax payers.

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