The new tax paradigm — Time to act

Key themes and actions for tax leaders from the 2016 KPMG Asia Pacific Tax Summit
9-12 May, Beijing

KPMG Asia Pacific Tax Centre
It was our honor to welcome delegates from over 30 countries to Beijing recently, where business leaders, policy makers, tax authorities and KPMG professionals came together to discuss the complexities and opportunities for companies operating in the region.

We heard from numerous policy makers and influencers, including Pascal Saint-Amans, Director, Centre for Tax Policy and Administration at the OECD; Dr. Tizhong Liao, Director General of the International Taxation Department of the State Administration of Taxation of the People’s Republic of China (via exclusive video), Chris Jordan, Commissioner of Taxation, Australian Taxation Office; Masaaki Kaisuka, Deputy Commissioner, International Affairs, National Tax Agency, Japan; Douglas W. O’Donnell, Commissioner, Large Business and International (LB&I) Division, IRS (Internal Revenue Service, United States of America); and Dang Ngoc Minh, Deputy Director General, General Department of Taxation, Vietnam.

We were also joined by Senior Corporate Tax Directors, and regional subject matter experts, who continued to explore how the unprecedented changes to the international tax landscape are impacting businesses today, and what to consider as we shape the tax departments – and economies – of the future in Asia Pacific.

The new tax paradigm – *Time to act*

Now truly is the time to act as we enter a new era in tax policy, governance, and transparency. The following report highlights the key themes emerging from the 2016 KPMG Asia Pacific Tax Summit, and provides insights into how business leaders can prepare to respond to, and succeed, in the new tax paradigm.

Sincerely,

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Adoption of BEPS within Asia Pacific reflects the diversity of the region itself. However, most countries are moving to some level of implementation over the next 12-18 months.

India

India is experiencing an unprecedented period of proactivity, particularly in reference to treaties. Changes have been announced in relation to the India-Mauritius tax treaty under which India could tax capital gains on investments routed through Mauritius, subject to transitional rules. Additionally, as the capital gains tax exemption under the India-Singapore tax treaty is co-terminus with that under the India-Mauritius tax treaty, this India-Mauritius change means that India should also acquire the right to tax capital gains under its treaty with Singapore. As such, clarity is now also required in respect of whether or not similar transitional rules will apply under the India-Singapore tax treaty.

Another important development to note is that the Indian government is now using social media to communicate tax matters, for example the impact of new policy on the India-Singapore treaty.

Japan

The main concern in Japan is the consistency in application of Action Plan initiatives. Japan is likely to stay within the pack.

United States of America

There will be a need to ensure rule of law prevails when implementing BEPS. There is a fear that there will be a proliferation of disputes, and a strong framework will be required in order to effectively manage this going forward. The United States has recently joined the ‘ad hoc’ group discussions on the Multilateral Instrument (Action 15).

Vietnam

Policy in Vietnam is shifting from ‘isolation to integration’, signaling a move to adopt international standards.

Australia

New Diverted Profits Tax (following the second limb of the UK DPT) and significant additional funding for the ATO reflects community and political concerns for fairness and integrity.
I hope to make your jobs boring by 2026.

Pascal Saint-Amans
on the ultimate goal of BEPS
OECD’s 15 point action plan on base erosion and profit shifting (BEPS)

1. Address the tax challenges of the digital economy
2. Neutralize the effects of hybrid mismatch arrangements
3. Strengthen CFC rules
4. Limit base erosion via interest deductions and other financial payments
5. Counter harmful tax practices more effectively, taking into account transparency and substance
6. Prevent treaty abuse
7. Prevent the artificial avoidance of PE status
8. Develop rules to prevent BEPS by moving intangibles among group members
9. Develop rules to prevent BEPS by transferring risks among, or allocating excessive capital to, group members
10. Develop rules to prevent BEPS by engaging in transactions which would not, or would only very rarely, occur between third parties
11. Establish methodologies to collect and analyze data on BEPS and the actions to address it
12. Require taxpayers to disclose their aggressive tax planning arrangements
13. Re-examine transfer pricing documentation
14. Make dispute resolution mechanisms more effective
15. Develop a multilateral instrument
OECD’s three tax pillars

1 Tax transparency
   — Eliminating fraud and evasion

2 BEPS Action Plan; 15 action items
   — Minimum standards
   — Treaty shopping
   — Mutual agreement procedure

3 Tax policy
   — Innovation driven
   — Inclusive growth

For additional insights on the implementation of BEPS across the region, please read our recently launched report: OECD BEPS Action Plan: Taking the pulse in the Asia Pacific Region
As discussions move from policy to operations, business leaders discussed how their tax departments are transforming in this period of unprecedented change. Further consideration was given to how the ASEAN community might impact regional development. Dr. Keyu Jin, Tenured Professor at the London School of Economics, shared her thoughts on China specifically, looking ahead at the potential landscape for the economy, policy development, and geopolitics.

Business leaders Ann-Maree Wolff, General Manager Taxation Asia Pacific Rio Tinto; William Morris, Director, Global Tax Policy, General Electric (GE); and Terence Yuen, Regional Head of Tax, Asia Pacific, BP and Country President for BP Singapore and Myanmar took part in a lively and dynamic panel discussion on how they are adapting within their own organizations, and in the broader discussion on tax transparency. Joined by KPMG leaders Jane McCormick, Global Head of Tax; Girish Vanvari, National Head of Tax, KPMG in India; and Simon Clark, KPMG Asia Pacific Leader for Alternative Investments and Private Equity, the conversation provided practical insights and strategies on topics critical to building the Tax function of the future: governance, brand management, and the new mix of skills required to deliver the BEPS agenda.

### Pace of change

| BEPS is here to stay and driving unprecedented change. The challenge for corporations is to navigate the varying timetable and approach adopted from country to country. |

### Technology

| While technology will play a key role in collecting and reporting the data, the real challenge will be in interpreting it. Securing funding for IT that is fit-for-purpose for tax is critical. |

### Disputes

| There will be a heightened need for people with deep knowledge across all key markets as this will be critical in helping to navigate the rise in disputes. Particular care and attention should be paid to supply chains. |

### Policy

| Tax departments need to get more involved in policy development. Tax executives must help shape the discussion to design better policy for all stakeholders. |

### Communications

| The challenge isn’t just about getting the data out, but in thinking about how to communicate its meaning to key stakeholders. Businesses must be prepared to share their point of view externally, including with media. |
ASEAN connecting with the rest of the world: 
leveraging trade and cash flows

Multinational organizations are being asked to develop a ‘Southeast Asia Strategy’ due to high growth in the region with a rapidly growing middle class.

Main drivers of growth are: labor costs, deep specialization in some areas, particularly financial services and biotechnology in Singapore, IT in Malaysia, and a progressive free trade environment.

But challenges abound. Cultural differences and systems of government make it difficult to expand across borders for successful local companies. This can often be coupled with highly protective national competitive environments. In addition, language, religion, and income diversity in the region give rise to significant complexity.

Important Trade Pact in ASEAN – TPP, AEC and RCEP

ASEAN Economic Community (AEC) ASEAN FTA enforced more than 20 years with tariff 0~5 percent for most products.

TPP (signed, waiting ratification) potential game changer.

Regional Comprehensive Economic Partnership (RCEP) (ASEAN plus) under negotiation.

Source: KPMG International
Tax Policy and Regulation
Continued reforms in China
Focus on China

Over the course of the Summit, delegates heard from a senior government tax official in China, who provided China’s tax perspectives, Action Plan, and thoughts on the future for China. They also heard from a leading economist who provided an economic perspective on China.

15 China Action Plans (CAPs):

1. China is adjusting its international tax policy goals from not simply safeguarding tax to also promoting economic development.
2. Apply the new GAAR where appropriate.
3. Rules to deal with indirect transfer of China assets.
4. Upgrade IT systems to monitor MNE profits.
5. Implement CbyC reporting.
6. Implement CRS reporting.
7. Deal with intangibles.
8. Rules dealing with hybrid mismatches.
9. CFC rules to fit within broader economic policy.
10. Credit system reform for ‘one belt, one road’ strategy.
11. Dealing with intra-group charges.
12. Drafting anti-abuse rules.
13. Revising the law of tax collection and administration.
15. Helping developing countries build capacity.

Tax perspectives

— International taxation constitutes an integral part of international economic cooperation, as such arising from recent BEPS developments taxation is moving from a world of competition to cooperation.
— There is a world-wide campaign on ‘tax substance alignment’. Profits must be taxed in the jurisdiction where economic activities occur and ‘value is created’.
— Regarding intangibles (CAP 7), China will conflate FASB’s six categories of intangibles into three: technology, market and other.
  — For technology-related intangibles, ‘exploitation’ is key. The market where the know-how or trade secret is applied or exploited is critical to the value contribution.
  — For market-related intangibles, ‘enhancing’ is key. One needs to consider the contribution of specific market characteristics to value growth of a brand. Localization of an international brand is remunerable.
— Four factors contribute to value: capital, labor, market and intangibles. Market has special significance. Growth of demand leads to growth of value.
— By 2020 a modernized international tax system in line with international trends and China’s open policy, which welcomes ‘quality FDI’ will be in place.

The ‘economic miracle of China’ which has seen millions of people rise from poverty has given rise to an economy filled with “puzzles, paradoxes and policy dilemmas” according to Dr. Keyu Jin, Tenured Professor of Economics at the London School of Economics. Low household income and savings relative to GDP reflects an imbalance in the economy. From 1978 to 2007 state sector productivity growth was 1.5 percent, private sector productivity growth was 4.6 percent. China has seen a major shift from agriculture to manufacturing, with the private sector absorbing approximately 420 million jobs from traditional agriculture.

China will need to move investment from the state sector to the private sector, and to expand into the services sector. In China, the first ideological shift was economic. A second ideological shift will involve institutions. Dr. Jin closed her compelling presentation with a quote from Giuseppe Tomasi di Lampedusa in The Leopard: “If we want things to stay as they are, things will have to change.”
Key takeaways

— No longer is the debate around tax a technical one; it is also political and cultural; all of these factors need to be considered.

— Vast differences, cultures and attitudes towards tax across borders mean a one-size-fits-all approach is not feasible for multinationals who need a strong understanding of each jurisdiction.

— Tax leaders’ roles are drastically expanding, and organizations need their tax leaders to step up as overall strategic thinkers for the business.

— Many tax departments will need to invest in tax technology in order to evolve their functions, keep pace with tax authorities and deliver more value to the business.

— An organization must be able to tell its business story and its tax story in a way that supports the organization’s values and role in society. The tax position must address not only how value is created within the business, but also how transparency fits and how it adds value to society itself.
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