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Dbriefs

Post COVID-19 changes and transformations in the operating model: A focus on China and India

The Dbriefs Geography Updates series

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Agenda

- Tax and regulatory updates – China and India
- A tax perspective to changes in operating models
  - Tax operating model in the context of remote work
  - Change in supply chain
  - Cloud based ERP
- Cash flow optimization options
- The way forward
- Questions and answers

Tax and regulatory updates

China

Preferential tax treatments for prevention and control of COVID-19

Preferential tax treatments for prevention and control of COVID-19

Enterprise income tax

- **Cash flow enhancement and supporting health sector**

  1. Immediate deduction of manufacturing equipment by qualifying taxpayers manufacturing key goods and supplies required to combat COVID-19
  2. Extension of loss carry-forward period for severely affected sectors
  3. Full deduction of qualifying donations to support prevention and control of COVID-19

- **Deferral of tax payments**
- **Other relevant policies**

Preferential tax treatments for prevention and control of COVID-19

Indirect tax

Highlights of indirect tax preferential policies

- **VAT exemption**
  - Transporting key emergency supplies
  - Public transportation services
  - Lifestyle services
  - Pick-up, courier, and/or delivery services of daily necessities provided to residents
  - Movie broadcasting in cinemas
  - Qualifying donations of goods for the purposes of epidemic prevention and related medical treatment
- **VAT refund**
  - Relaxing restrictions on refund of unutilized input VAT for qualifying taxpayers manufacturing key goods and supplies required to combat COVID-19
  - Increasing export VAT refund rates from 20 March 2020
- **Reduced VAT rate (or exemption) for small businesses**
- **Exemption from construction fee for cultural undertakings**

Financial supports

Financial Supports

National policy

Reducing social security fees of enterprises and extending payment of social security fees

Encouraging financial institutions to optimize financing guarantee services

Encouraging local government to provide relevant financial supports

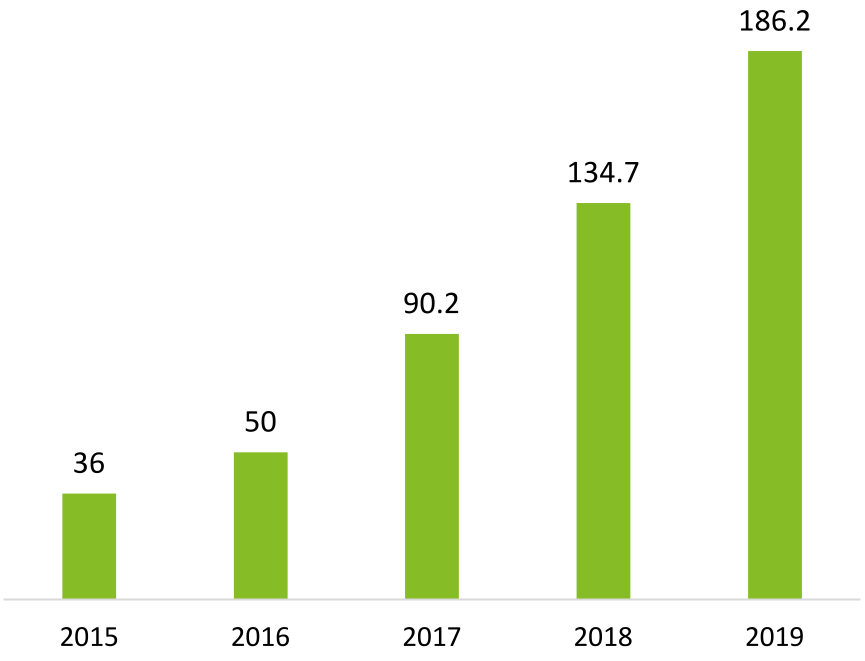
Others

– Encouraging to reduce rental; exempting administrative fees and government funds, etc.

Cross-Border E-Commerce (CBEC)

Brief introduction of CBEC

Market analysis



Market scale of CBEC industry from 2015-2019
(Unit: Billion in RMB)

- According to statics, the number overseas online shopping consumer has reached 41 million, which is estimated to reach 74 million in 2018
- In 2019, the growth rate of import CBEC value is 38.3%
- According to the head of Foreign Trade Department of the Ministry of Commerce, CBEC transaction volume in the comprehensive pilot area has more than doubled for two consecutive years (2017-2018)

CBEC approaches for foreign enterprises

New CBEC policies – effective from 1 January 2020

Import goods list

- **1,413** categories
- **92** new categories: rock lobster and other sea crawfish (03061100), Norway lobsters (03061500), etc.

Tax policy

- **Upper limit per transaction**: RMB 5,000 (≈US$714)
- **Higher annual allowance per person**: RMB26,000 (≈ US$3,716)
- **When single product's value exceeds RMB5000 but is below RMB26,000**: it can be imported via CBEC retail channel, with full customs duty, VAT, and consumption tax

Legal and administration

- **E-commerce law of the PRC**: effective from 1 January 2019, all CBEC enterprises and activities should apply to e-commerce law of the PRC
- **1st global CBEC conference** co-organized by the WCO and China Customs in February 2018: an innovative, inclusive, strategic, and collaborative approach to sustainable CBEC
- **State Council executive meeting**: premier Li Keqiang promotes more CBEC comprehensive pilot areas, CBEC special policy of "tax exemption without invoices", advanced system for CBEC enterprises and platforms

Tax and regulatory updates

India

Tax and regulatory updates

Comparative analysis of corporate tax rates - India versus select foreign jurisdictions

Tax rates – as per domestic laws					
Particulars	India*	China	Vietnam	Taiwan	Philippines
Corporate tax rate	**15%[1]/ 22%[2] / 25%[3] /30%[4]**	25%	20%	20%	30%
Capital Gain – transfer of shares (non-resident (NR) shareholder)	10%	10%	20%	No Capital Gain tax on transfer of shares. It is subject to AMT(12%)	Generally taxed as income
WHT – NR					
- Dividend	**20%**	10%	Nil^	21%	15%/30%
- Interest	20%@	10%	5%	15%/ 20%	20%
- Royalty	10%	10%	10%	20%	30%
- FTS	10%	10%	5%	20%	30%

Other tax considerations					
Particulars	India*	China	Vietnam	Taiwan	Philippines
Carry forward of losses	8 years$	5/10 years	5 years	10 years	3 years

- Note:
  - Abovementioned WHT rates are as per domestic tax laws and are subject to applicable tax treaty rates
  - Tax rates of other countries to be finally confirmed by respective jurisdiction
  - India recently abolished its Dividend Distribution Tax (DDT) regime and now WHT applicable on dividend
  - Incentive schemes provided by other jurisdictions, if any, have not been considered

[1] Applicable for new manufacturing companies subject to certain conditions and no minimum alternate tax

[2] applicable for companies not claiming tax holidays/reliefs subject to certain conditions and no minimum alternate tax

[3] applicable for companies claiming tax holidays/reliefs whose turnover is INR 4000 million (approx. USD 54 million) or less and minimum alternate tax applicable

[4] applicable for companies claiming tax holidays/reliefs whose turnover is more than INR 4000 million (approx. USD 54 million) and minimum alternate tax applicable

* Rates are to be increased by applicable surcharge and cess

$ Indefinite period for unabsorbed depreciation

Post COVID-19 – key announcements

Direct tax

Particulars	Revised Due Date
• Tax Payers Charter and faceless assessments	• Taxpayers Charter issued outlining the rights and obligations of taxpayers • All assessments orders to be passed under the faceless assessment scheme
• Due date for revision of income tax returns for FY 18-19	• 30 September 2020
• Vivaad se Vishwas scheme	• **31 December 2020** (Announced by the Finance Minister on 13 May 2020)
• Due dates for issue of notice, intimation, notification, approval order, sanction order, filing of appeal, furnishing of return, statements, applications, reports, any other documents and time limit for completion of proceedings by the authority and any compliance	• Time limit falling between 20 March 2020 to 31 December 2020 is extended to **31 March 2021** except for compliances where due dates have been specifically mentioned
• TDS/TCS returns for Q4 of FY 2019-20	• 31 July 2020 for TDS/TCS return • 15 August 2020 for TDS certificates
• Date for commencement of operation for the SEZ units for claiming deduction under section 10AA of the IT Act which has received necessary approval by 31 March 2020	• **30 September 2020**
• Deferment of GAAR and GST reporting in Tax Audit Report	• 31 March 2021 – applicable from FY 2020-21 onwards
• Reduction in TDS/TCS rates by 25% on non-salary resident payments	• For the period from 14 May 2020 to 31 March 2021
• Investment/payment for claiming deduction under Chapter-VIA-B of the IT Act which includes section 80C (LIC, PPF, NSC, etc.), 80D (mediclaim), 80G (donations), etc.	• 31 July 2020

Post COVID-19 – key announcements

Indirect tax

- GST timeline compliances for various assessees (below INR 50 million [~US$ 6.7 million] and above INR 50 million [~US$ 6.7 million]) have been extended for filing returns giving relief from interest and late fees
- **Extension on various schemes under FTP**
  - MEIS (Merchandise Exports from India Scheme) – MEIS application is to be filed within 12 months from Let Export date. Shipping bills where let export date falls within February 2020 to May 2020, application to be allowed period of 15 months instead of 12 months
  - SEIS (Service Exports from India Scheme) – SEIS application's date extended to 31 December 2020 for FY 18-19. Service categories eligible and reward rates on such services rendered for April 19 to March 20 would be notified
  - Additional scheme for "inbound manufacturing" introduced for "Make In India"
  - Faceless assessment under custom laws has been introduced
- **E-invoicing to go live from 1 October 2020**
  - The proposed system envisages uploading details of each invoice on Invoice Registration Portal (IRP) a central portal for authentication of such invoice
  - Documents covered under e-invoicing - invoice, credit note, debit note, and any other document as required by law

Turnover	Date of implementation	Requirement
INR 500 CR or more [~US$ 67 million]	1 October 2020	Mandatory
Less than INR 500 CR [~US$ 67 million]	1 October 2020	Voluntary

Post COVID-19 – key announcements

Work from home

CBDT – Circular no. 11/2020

- Due to COVID-19 pandemic, many individuals who visited India during the previous year 2019-20 were unable to leave before 31 March 2020.
- The CBDT thus issued circular to provide relaxation for determining residential status in case of individuals who came to India on visit before 22 March 2020

Situation for FY 2019-20	Period of stay in India to be excluded
• Unable to leave India on or before 31 March 2020	• 22 March 2020 to 31 March 2020
• Quarantined in India due to COVID-19 on or after 1 March 2020 and either departed by evacuation flight or unable to leave India on or before 31 March 2020	• Date of quarantine to date of departure or 31 March 2020 as the case may be
• Departed on evacuation flight on or before 31 March 2020	• 22 March 2020 to his date of departure

DOT

- The Department of Telecommunication has relaxed the conditions for other service providers for "work from home". The relaxations include:
  - No requirement of security deposit and "work from home" agreement
  - Static IP can be used for VPN as against the required authorized service providers provisioned secured VPN
  - Prior permission for work from home is not required

Implications for tax holiday SEZ entities to be analyzed

SEZ-compliance relaxation

- Ministry of Commerce has directed the SEZ authorities to ensure that no hardship is caused to developers/co-developer/units and no punitive action is taken in cases where any compliance (returns, SOFTEX, renewal) is not met during this period impacted by COVID-19
- Cochin SEZ has issued a circular for relaxing the conditions for work from home - Circular clarifies that SEZ Units opting for work from home can do so under intimation to the development commissioner, Cochin SEZ

- Representations made for relaxation of permanent establishment and residential status conditions amid COVID-19

Tax and regulatory updates

Production Linked Incentives Scheme (PLI) – electronic manufacturing

Scheme for large scale electronics manufacturing — Effective from 1 August 2020

- Production Linked Incentive (PLI) scheme to provide financial boost and aid growth of domestic manufacturing in electronics value chain
- **Target sectors**: manufacturers of **mobile phones** and **specific electronic components** (viz. SMT components, semiconductor devices, PCBs, System-in-Package, ATMP units, etc.)
- **Incentive**: 4% to 6% incentives on incremental sales of goods manufactured in India, with FY 2019-20 as base year
- Incentives would be available for a 5 year period
- Expected incentive outlay over the duration of scheme to exceed **USD 5.4 billion**/INR 40,000 crores
- **Eligibility**: companies engaged in manufacturing of target segments in India. This shall include contract manufacturers as defined in the FDI Policy Circular of 2017

Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme — Effective from 1 April 2020

- Scheme notified to aid Electronics System Design and Manufacturing (ESDM) sector
- **Who can apply**: the application under the EMC 2.0 Scheme can be submitted by a State Government, State Implementation Agency (SIA) or Central Public Sector Unit to Project Management Agency (PMA) along with the details of the Anchor unit(s) clearly mentioning the roles and responsibilities of PIA and the relevant Anchor Unit(s)
- Electronic manufacturing companies required to commit purchase/lease of minimum 20% of saleable/leasable land for setting up manufacturing facility with a minimum investment outlay of USD 40 million/INR 300 crores with a land parcel not less than 200 acres, except for North East regions
- **Financial assistance for project would be available up to 50% in the case of EMC projects and up to 75% in the case of Common Facility Centre available with prescribed ceiling of benefits**
- **Time limit**: applications can be filed within 3 years from the date of notification of scheme, whereas funds would be disbursed for a further period of 5 years
- Illustrative list of eligible activities

Vital services	• Boundary wall, internal roads, storm water drains, electric sub-station/distribution network
Essential services	• Waste disposal/recycling, water recycling/water treatment plant, effluent treatment plant, sewage lines, e-waste management, street lighting, backup power plant, warehousing, ready built factory sheds (RBF)/plug and play facility, fire fighting and safety service
Desirable services	• Welfare services, support services, manufacturing support

Tax and regulatory updates

Production Linked Incentives Scheme (PLI) – manufacturing of KSMs (drug intermediaries) and APIs

Scheme for promotion of domestic manufacturing of critical Key Starting Materials (KSMs)/ drug intermediates and APIs

- Financial incentive will be given to eligible manufacturers of identified **53 critical bulk drugs** on their incremental sales over the base year (2019-20) for a period of 6 years
- Out of 53 identified bulk drugs, 26 are fermentation based bulk drugs and 27 are chemical synthesis based bulk drugs
- Rate of incentive will be **20 % (of incremental sales value)** for fermentation based bulk drugs and **10%** for chemical synthesis based bulk drugs
- A sum of Rs. 6,940 crore [~US$ 925 million] has been approved for next 8 years

Particulars	Description
Quantum of incentive	• Support under the scheme shall be provided for six years in case of fermentation based products and five years of chemically synthesized products • For fermentation based eligible products, incentive for first four years (2022- 2023 to 2025-2026) would be 20%, for fifth year (2026-27) incentive would be 15% and the sixth year (2027-2028) incentive would be 5%; on incremental sale Of KSMs/Drug Intermediates/APIs • For chemically synthesis eligible products, incentive for five years (2021-2022 to 2025-2026) would be 10% on incremental sales of KSMs/drug intermediates/APIs
Target segments	• The scheme shall only be applicable for target segments of critical KSMs/drug intermediates and APIs as detailed in Annexure B
Eligibility	• Support under the scheme shall be provided only to manufacturers of critical KSMs(drug Intermediates) and APIs in India • Eligibility shall be subject to threshold of incremental investment for manufacturing critical KSMs/drug intermediates and APIs (as distinct from traded critical KSMs/drug intermediates and API) • The scheme is applicable only for greenfield projects
Tenure of the scheme	• The tenure of the scheme will be for a period of eight years from 2020-21 to 2027-28 subsequent to the base year
Application window	• 4 months. May be reopened depending on applications received
Base year	• 2019-20 for computation of incremental sales

Tax and regulatory updates

Production Linked Incentives Scheme (PLI) for medical devices

Incentives overview

- Incentives at rate of 5% on incremental sales of goods manufactured in India
- Incentives for 5 years subsequent to base year 2019-20
- Sales of traded goods not eligible for incentives

Proposed incentive rate (on incremental sales of manufactured goods)	Incremental Investment	Incremental sales of manufactured goods
FY 2020-21: 5% FY 2021-22: 5% FY 2022-23: 5% FY 2023-24: 5% FY 2024-25: 5%	INR 180 cr [~US$ 24 million] over 3 years Cumulative Minimum Year 1: INR 60 cr [~US$ 8 million] Year 2: INR 120 cr [~US$ 16 million] Year 3: INR 180 cr [~US$ 24 million]	Year 1: INR 120 cr [~US$ 16 million] Year 2: INR 240 cr [~US$ 32 million] Year 3: INR 360 cr [~US$ 48 million] Year 4: INR 460 cr [~US$ 62 million] Year 5: INR 560 cr [~US$ 75 million]

Eligibility

- Specified segments of medical devices
- Incremental investment of INR 1.8 bn over 3 years period
- 5 percent of incremental sales threshold. Per company cap to be decided by Empowered Committee

Medical devices

- Cancer care/radiotherapy medical devices
- Radiology and imaging devices (both ionizing and non-ionizing radiation products) and Nuclear imaging devices
- Anesthetics and Cardio-Respiratory medical devices including catheters of cardio respiratory category and renal care medical devices
- All implants including implantable electronic devices like Cochlear implant and Pacemakers

Tenure and application

- Scheme Tenure: 2020-21 to 2025-26
- **Application window of 4 months (i.e., up to September 2020)**
- Second window may be opened (if considered necessary) – however benefits limited to remaining tenure

Equalisation Levy (EL)

Taxing the digital economy: global and Indian developments

- **2015 - BEPS action 1: 2015 final report**
  - Three options: (i) SEP (ii) withholding tax (iii) equalisation levy
- **2016 – India introduces equalisation levy on specified services**
- **2018 – India introduces SEP**
- **January 2019 - OECD policy note**
  - Sets out the two pillar approach
- **February 2019 - Public consultation document**
  - Comments sought on policy issues and technical aspects
  - Followed by **public consultation meeting** – March 2019 and programme of work in May 2019
- **October 2019 - OECD secretariat proposal**
  - Unified approach : nexus and profit allocation rules
- **2020 – India expands the scope of EL and defers applicability of SEP to FY 2021-22 onwards vide Finance Act, 2020**

Equalisation Levy (EL) – an overview

Existing provisions of EL - Finance Act 2016

- Introduced in Finance Act, 2016
- Applicable at **6 percent** to consideration received or receivable by non-resident (NR) from person resident and carrying on business or profession or NR having a permanent establishment (PE) for specified service
- **Specified service** was defined as online advertisement, any provision for digital advertising space or any other facility or service for the purpose of online advertisement and includes any other service as may be notified
- EL was required to be deducted as a withholding tax by the resident

Expanded provisions of EL – Finance Act 2020

- Amendment introduced in Finance Act, 2020
- Applicable at **2 percent** to consideration received or receivable for e-commerce supply or services made or provided or facilitated on or after the 1 April 2020

Exemption from provisions of Income-tax Act, 1961 (ITA)

- Exemption from applicability of normal income tax provisions on the revenues subjected to EL from specified service (with effect from 1 June 2016) and from any e-commerce supply or services made or provided or facilitated on or after the **1 April 2021**

Equalisation Levy (EL)

Expanded scope – definitions

E-commerce operator

- Means a **non-resident** who owns, operates or manages **digital or electronic facility or platform** for online sale of goods or online provision of services or both

E-commerce supply or services

- **Online sales of goods** owned by the e-commerce operator; or
- **Online provision of services** provided by the e-commerce operator; or
- Online sale of goods or provision of services or both, **facilitated by the e-commerce operator**; or
- Any combination of the above activities

Equalisation Levy

- Tax leviable on consideration received or receivable for any specified service or e-commerce supply or services under the provisions of Chapter VIII of Finance Act, 2016

Online

- A facility or service or right or benefit or access that is obtained through the internet or any other form of digital or telecommunication network

Equalisation Levy (EL)

Expanded scope

Provision

- On and from the 1st day of April, 2020, there shall be charged an equalisation levy at the rate of two per cent of the amount of consideration received or receivable by an **e-commerce operator** from **e-commerce supply or services made or provided or facilitated by it –**
  - To a person **resident** in India; or
  - To a **non-resident** in the specified circumstances as referred to in sub-section (3); or
  - To **a person who buys such goods or services or both using internet protocol address located in India**

Specified circumstances

- "Specified circumstances" mean
  - **Sale of advertisement**, which targets a customer, who is resident in India or a customer who accesses the advertisement though internet protocol address located in India; and
  - **Sale of data**, collected from a person who is resident in India or from a person who uses internet protocol address located in India

Exclusions

- The equalisation levy under sub-section (1) shall not be charged where the e-commerce operator making or providing or facilitating e-commerce supply or services has
  - **A PE in India** and such e-commerce supply or services is effectively connected with such PE;
  - Where the EL **is leviable under section 165**; or
  - Sales, turnover, or gross receipts, as the case may be, of the e-commerce operator from the e- commerce supply or services made or provided or facilitated as referred to in sub-section (1) is **less than two crore rupees during the previous year**

Equalisation Levy (EL)

Compliances and consequences of default

Payment and Compliances

- **Payment schedule**: EL to be paid vide Challan number 285 (as notified on 3 July 2020) bye-commerce operator as below:

Quarter closing date of FY	Due date for payment
30 June	7 July
30 September	7 October
31 December	7 January
31 March	31 March

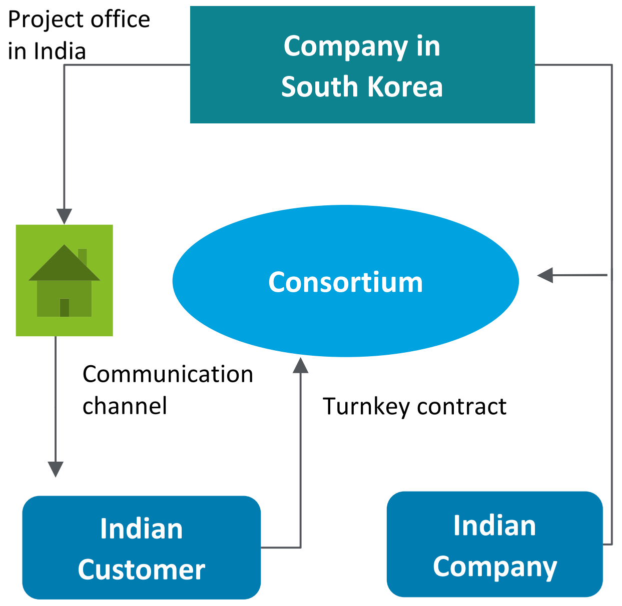
- **Annual statement**: to be furnished to the tax authorities as may be prescribed

Interest and penal consequences

- **Interest on delayed payment of EL**: simple interest at 1 percent of such levy for every month or part of a month by which such crediting of the tax or any part thereof is delayed
- **Penalty for failure to pay EL**: amount of EL failed to pay
- **Penalty for failure to furnish annual statement**: INR 100 for each day during which the failure continues
- **Prosecution for false statement in any verification/delivering false account or false statement**: imprisonment term which may extend to 3 years with fine
- **No prosecution for failure to pay EL/furnish annual statement**

Tax and regulatory updates

Recent decision of Supreme Court – [22 July 2020]



Facts of the case

- An Indian Company awarded a turnkey contract to a consortium of a company incorporated in South Korea and an Indian Company. The turnkey contract was for carrying out the work, amongst others, of **surveys, design, engineering, procurement, fabrication, installation and modification at existing facilities, and start-up and commissioning of entire facilities** covered under the 'Vasai East Development Project' (Project).
- The taxpayer set up a **Project Office** (PO) in Mumbai to act as a "**communication channel**" between the taxpayer and ONGC in respect of the Project. **Pre-engineering, survey, engineering, procurement and fabrication activities took place outside India in 2006 and were brought outside Mumbai in 2007 to be installed at the project site**.

Facts of the case

- The taxpayer's return was selected for audit and the AO in the draft order, based on terms of the agreement, held that:
  - The Project was a single indivisible "turnkey" project, whereby ONGC was to take over the project completed only in India;
  - Resultantly, the profits arising from the successful commissioning of the Project would also arise only in India;
  - The work relating to fabrication and procurement of material was part of the contract for execution of work assigned by ONGC. **The work was wholly executed by the permanent establishment (PE) in India**.
  - Accordingly, the AO **attributed 25% of the revenue earned outside India**, as the income of the taxpayer, which was taxable in India.
  - On appeal by the taxpayer, the DRP upheld the AO's draft order and the AO passed the final order pursuant to the directions received from the DRP which was upheld by ITAT.
  - The HC held the tax liability could not be levied without establishing that the same was attributable to the tax identity or PE of the taxpayer in India. The HC passed the order in favour of the taxpayer

Relevant provisions

- As per Article 5(1) of the **India- Korea tax treaty**, PE means a fixed place of business through which the business of an enterprise is wholly or partly carried on
- As per Article 5(4)(e) of the India-Korea tax treaty, PE excludes fixed place of business solely for the purpose of advertising, the supply of information, scientific research or any other activity, if it has a preparatory or auxiliary character

Tax and regulatory updates

Recent decision of Supreme Court

Decision of Supreme Court

- The SC relied on the following principles laid down in its earlier rulings (which had dealt with tax treaty provisions similar to India-Korea tax treaty) which were relevant for examination of existence of a fixed place PE:
  - To constitute a fixed place PE as per Article 5(1) of the tax treaty, there should be an establishment "through which the business of an enterprise" was wholly or partly carried on;
  - The profits of the foreign enterprise were taxable only when the said enterprise carried on its core business through the PE;
  - Maintenance of a fixed place of business, which was of a preparatory or auxiliary character in the trade or business of the enterprise would not be considered as a PE under Article 5 of the tax treaty;
  - Only profits attributable to the PE were taxable

Decision of Supreme Court

- The SC verified the Board Resolution dated 3 April 2006 relating to the setting up of the PO by the payer and noted that the PO was established to **co-ordinate and execute "delivery of documents in connection with construction of offshore platform for ONGC"**. Accordingly, the SC, amongst others, **set aside** the following findings of the ITAT:
  - The PO was not a mere liaison office, but was involved in the core activity of execution of the project;
  - Rejection of the taxpayer's contention that the PO had not incurred expenditure relating to the execution of the Project, on the basis that mere mode of maintaining the accounts alone could not determine the character/existence of the PE
  - Ignoring the fact that the two persons who worked in the PO were not qualified to perform any of the core activity of the taxpayer
  - The onus was on the taxpayer and not on the tax authorities, to demonstrate that the PO constituted a PE in India

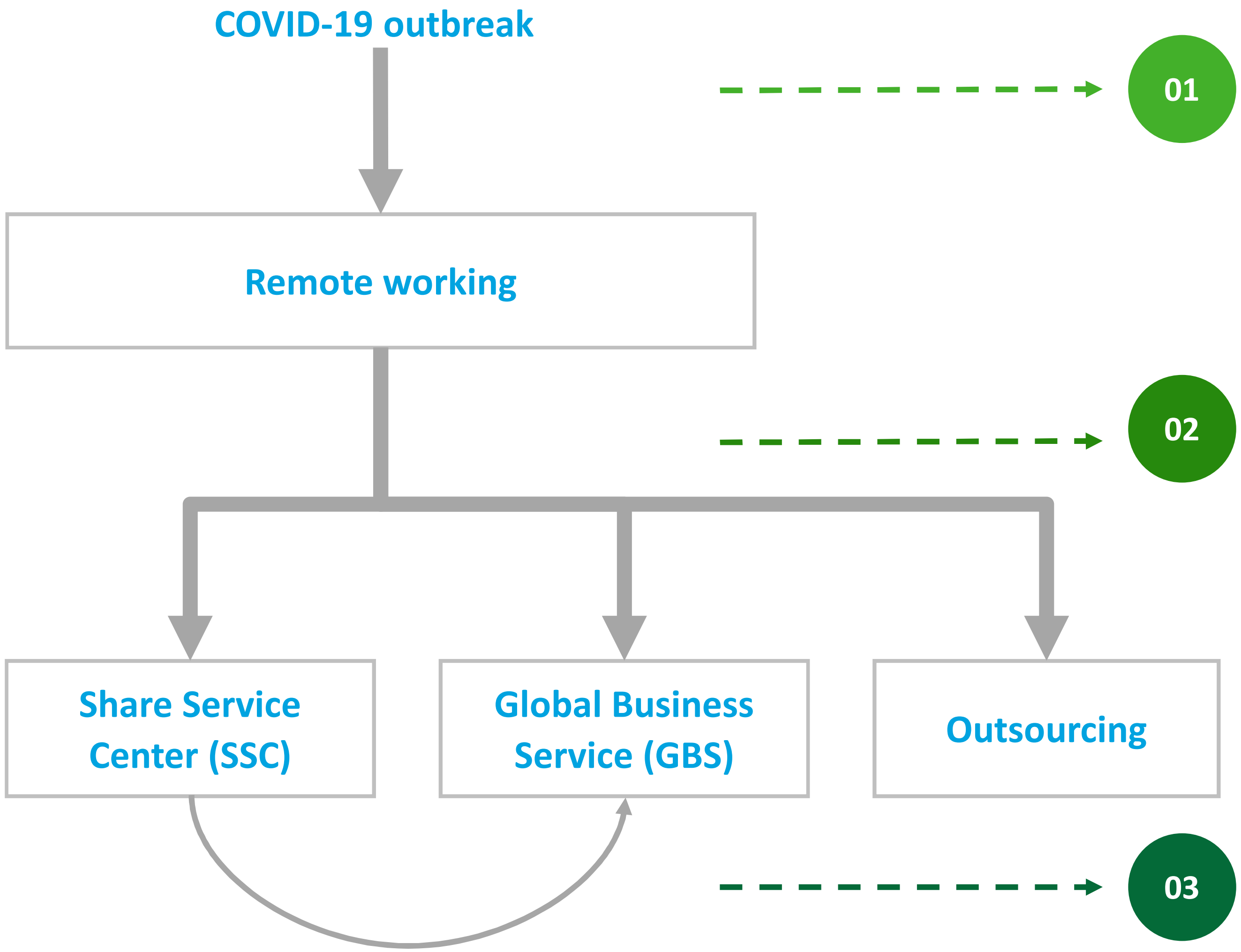
Decision of Supreme Court

- In view of the above and on the following basis, the SC dismissed the appeal of the Revenue against the order of the HC, holding that:
  - The PO was not a fixed place of business through which the core business activities of the taxpayer were (wholly or partly) carried out;
  - The PO was covered under exclusion of fixed place PE under Article 5(4)(e) of the India-Korea tax treaty, as based on facts it was solely an auxiliary office for liaisoning between the taxpayer and ONGC

- This ruling affirms the following principles in relation to existence of a fixed place PE under Article 5 of the India-Korea tax treaty:
  - Fixed place PE is constituted only when core business activities are carried out in India;
  - In case, auxiliary activities are carried out then the same could be covered under the exclusion under Article 5(4)(e) of the India-Korea tax treaty

A tax perspective to changes in operating model

Changes in operating model



01 The COVID-19 global pandemic and the resulting public safety demands have prompted companies to implement work-from-home orders, forcing tax departments to move to virtual workforces with little to no time to prepare

02 Besides that, in response to the pandemic, we need to further consider more deeply in the change of operating model, such as take below actions:

- Build up of your SSC
- Leverage resources and skills by Outsourcing some of your tax operation processes

03 Global Business Service (GBS) revolutionizes the traditional share service and is a higher form of SSC

Remote working

Back office operation: in response to this unexpected epidemic, many companies have turned to remote working mode after the COVID-19 happened

- How can the finance, tax and HR department?
  - Respond quickly in this special period;
  - Provide timely and uninterrupted support to the business departments;
  - Minimize the negative impact on the business

Post epidemic

- **Cloud Infrastructure Development**
  - Recognition and acceptance of cloud based system and infrastructure
  - More cloud based systems would be in the market
  - Automated back office solutions would be recognized
  - Technology such as AI, machine learning, block chain would be speedily used in back office functions

Advantage

- **Less Limit of space and time**
- **Save time to commute**
- **Save costs, esp. facilities**
- **Less possible to catch disease**

In the long term

- **Digital Transformation**
  - Back office outsource trend
  - Digital solution to combine business development and back office operation
  - Shared resource, technology, and platform
  - Automated, mobile, and paperless
  - Human + robots
  - Cloud based shared service center

Opportunity

- **Liberate company resource**
- **Chance to enhance internal control**
- **Chance to optimize financial workflow**
- **Chance to strengthen data security**

Share Service Center

Share Service Center can provide steady and constant service and creates value for companies, especially in the time of COVID-19 outbreak. So design your tax department in a way which is naturally resilient

- 5 Key considerations for tax department leaders for setup and optimize your SSC or GBS

Workforce management

Digital enablement

Business continuity and disaster recovery

Service delivery model and outsourcing relationships

Agility in processes

Outsourcing

Efficiently leveraging technology, experts and workforces by some portion of tax processes can help tax departments substantiate and promote their strategic value to the organization

Why outsourcing

- More time to focus on your core business

- Access to modern operational systems to help reduce costs

- Manage your tax operations by specialists, using best practice, proven solutions, methods and templates

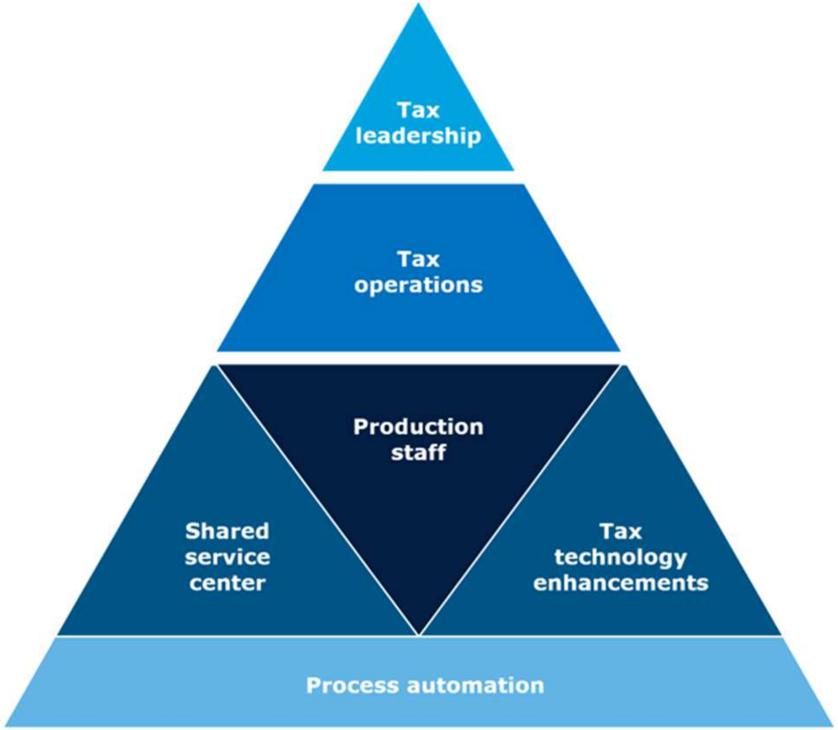
- Quick access to high-quality management information

- The benefits of a shared service structure

- Access to a continuously-improved methodology through your service provider

Operations transformation for tax

To discover a tax operating model that combines shared services, technology enhancements, and a hybrid production staff to keep your team on track during this global pandemic while also identifying potential opportunities for efficiency improvements, cost savings, resource reallocations, and increased business value



Process Automation:
- Automation tools for processing data can save time from data wrangling as handling paper records can be interrupted by travel restrictions or lockdown

Shared service center:
- With more flexibility in work schedule, more backlog in filing can happen and SSC offers more efficiency in remediation and solving delayed initiatives

Production staff:
- Get production staff from different expert area through outsourcing some of your tax processes

Tax technology enhancement:
- Advanced tax technology can help meet deadlines in spite of work restrictions; stable work collaboration tool can facilitate delivery across various locations

Tax Operation:
- Productivity can remain and be further improved because of streamlined process, less paperwork required, less travel required, less office activities due to in person work attendance

Operations transformation for tax

In the new normal of the epidemic, develop a long-term continuous transformation model of tax operations for your organization to cope with the changing environment

Changing environment for tax

Global regulatory changes

Brand risk

Global transparency

Rapidly changing technology

Limited resources

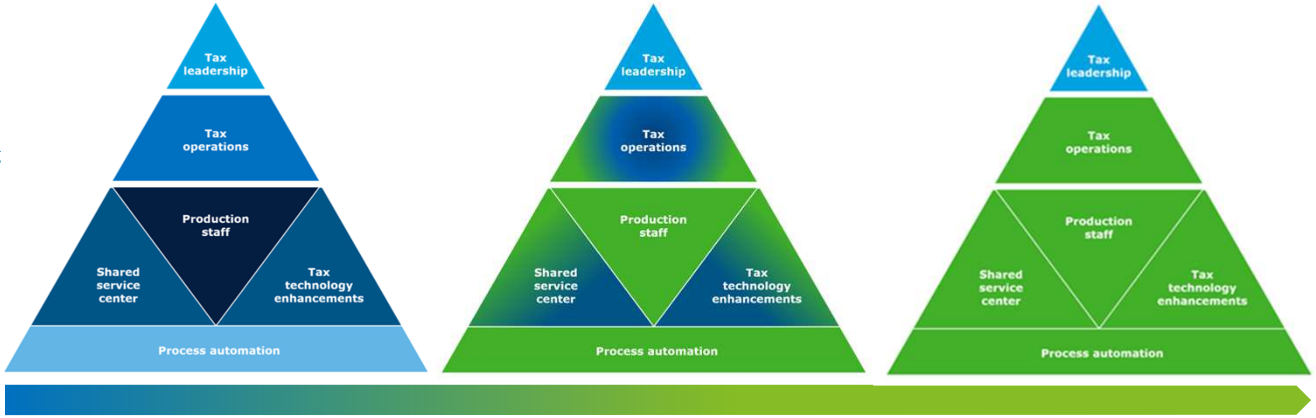
Need to add more value

A continuum of operating models

Big data, powerful technology, decreasing tax rates and inquisitive regulators are enabling the digitization of tax and a proliferation of tax operating models

Tax department

Service provider



Finding opportunity in change

- **Operations**
  - Reduce costs
  - Right-size global spend
  - Alleviate resource constraints
  - Reinvest in other areas of the business
  - Maintain quality
- **Technology**
  - Transformed tax processes and technology
  - Access to leading-edge technology
  - Streamlined compliance
  - Drive value through data
- **Talent**
  - Access to leading tax specialists
  - Reduce difficulty of hiring and retaining tax professionals
  - Solutions could include redeployment, loan staff, and talent transfers

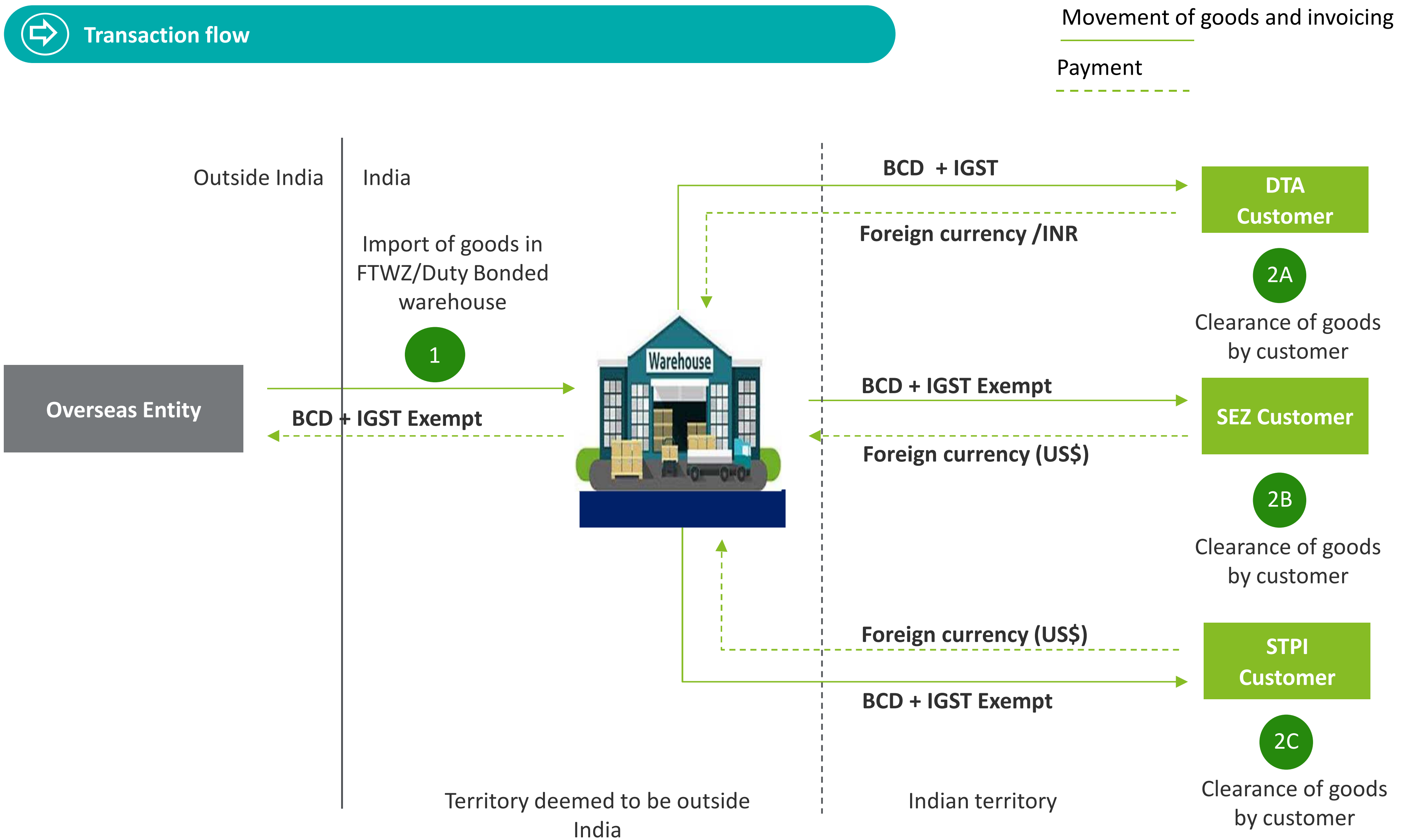
Polling question 1

Which type of operating model change does your organization need?

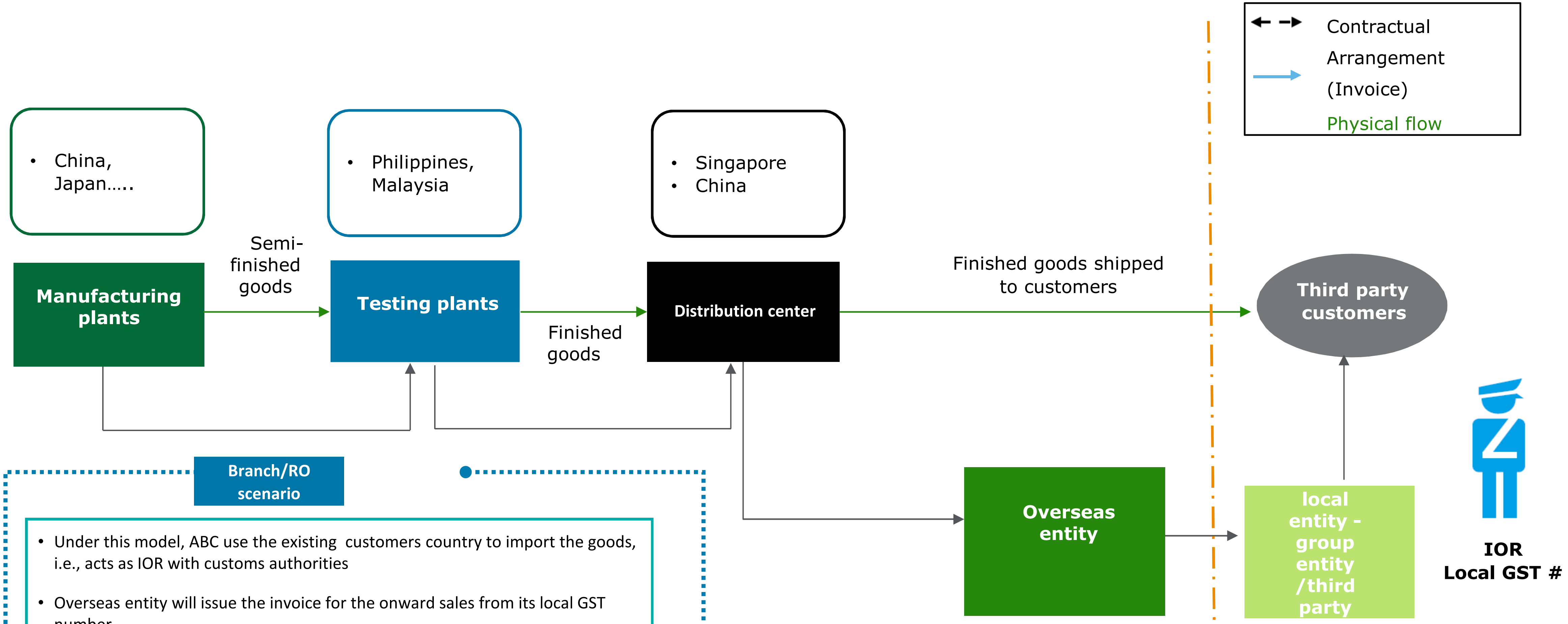
- Remote working plan solutions
- Share Service Center (SSC)
- Outsourcing
- Designing solution for OTT
- None of the above

New supply chain models – case studies

Alternative to indent commission model – buy-sell model



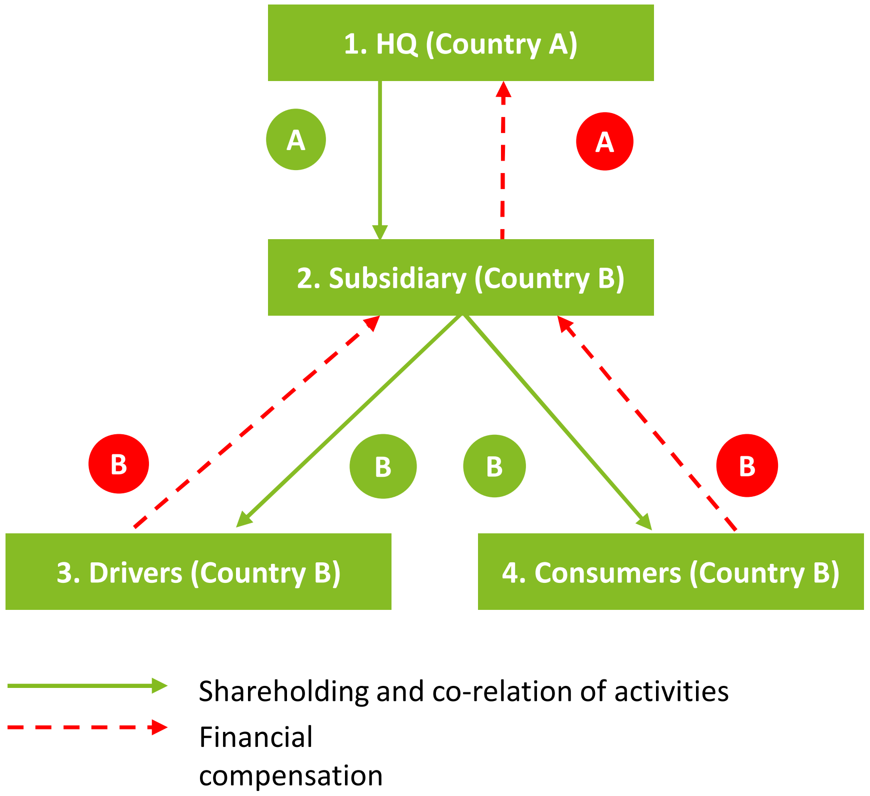
E-commerce platform with Indian Importer on Record (IOR)



- Under this model, ABC use the existing customers country to import the goods, i.e., acts as IOR with customs authorities
- Overseas entity will issue the invoice for the onward sales from its local GST number
- Goods are shipped directly from the distributor centers to the customers
- If goods cleared are stored in bonded warehouse or a free trade warehousing zone, the Customs duty and import GST can be deferred until clearance for home consumption

Contemplated operating model: overseas platform model

- The HQ in Country A is responsible for infrastructure, HR management, technology development, R&D, and other strategic operations of the Group and owns IP related for use and access to brand, technology and know-how
- The subsidiary is responsible for providing access to the platform to the contracted drivers, and the customers, whereby linking the drivers and the customers
- The billing for the services availed is raised by the subsidiary. Additionally, the subsidiary is also independently responsible for regional marketing & sales, driver support and customer support services
- The subsidiary compensates the HQ for management support services provided on the basis of an appropriate allocation key.
- The subsidiary also pays royalty as a percentage of gross commission revenue to the HQ for use of brand and technology know-how in relation to the platform
- The consumers pay the fee via the partnered payment platform for the cab hired to the subsidiary, based on the e-invoice generated by the subsidiary in the platform
- The payments for the hired cabs are transferred to the respective drivers by the subsidiary after deduction of a fixed commission fee



Cash flow optimization

Efficient tax cash flow management

- **Direct tax**
  - Income-tax refunds – faster recovery
  - Lower tax withholding certificate
  - Deferral in TDS payments
  - "Vivad se Vishwas" – close pending litigation with no interest and penalty cost
  - Deferral in statutory payments
  - Old vs new corporate tax regime – evaluate impact of change in projections
  - Efficient cash repatriation (dividend, buy-back)
  - Deductibility on extraordinary costs

- **Indirect tax**
  - Deferment of duty on import of capital goods and raw material
    - Import duty to be paid only when capital goods/finished goods are cleared in the domestic market
    - No duty payable on raw materials if finished goods are exported
    - No duty payable on utilized capital goods sold to foreign manufacturer
  - No export obligations on clearance of finished goods
  - No geographical restriction for setting up new/conversion of existing facility in India
  - Other benefits such as single point approval, seamless transfers between warehouses and other facilitates, easy compliance, etc.

- **Transfer pricing**
  - Change in margin of comparable for COVID-19 impacted years
  - Adjustment for extraordinary costs, under utilisation, bench capacity in transfer pricing margin for FY 20-21
  - Transfer pricing margin to be reviewed and adjusted
  - APA authorities are open to consider an adjustment to the margin on account of COVID-19
  - Revised % for royalty/FTS, clarification and guidance on management charges in the COVID-19 environment

Cash flow optimization – cash conservation through change in employee compensation

Global companies – alternatives

Equity and long-term incentives

- **Companies with existing plans** are
  - Accelerating unvested equity to reduce cash outflow
  - Amending/replacing stock reward plans within the tenets of law to ensure they are inline with the current share prices and longer vests to defer payouts
- **Companies introducing new plans** are
  - Ensuring that the objectives of the plans match with the revival requirements under COVID-19 scenario
  - The vesting and exercises are connected with the time period needed for recovery and stabilization

Restructuring pay

- **Compensation restructuring**
  - Cash to non-cash pay-outs
  - Pay deferment
  - Pay reduction*
  - Structures to optimize take home pay
- The pay reduction alternative is considered as a short term alternative and comes with a caveat of recompensing later

Restructuring talent

- **Head count optimization**
  - Critical workforce versus non critical
  - Staff redeployment
  - Flexible work options
  - Furloughs/work hour reductions
  - Headcount reductions
- **Talent redeployment**
  - Early repatriations
  - Localizations of expatriates
  - Changes in assignment structures

- **It is necessary to ensure that all these alternatives are within the tenets of law while managing employee expectations. Hence employee engagement and communication is critical**

Case study

Background

- One of our clients is a fast-growing F&B company. With the rapid expansion of its business, the company's back office functions fall far behind its high-speed development

Challenges

- Challenges that they are facing with particularly in this unexpected epidemic under COVID-19 including:

01 How to operate normally under COVID-19

02 How to reduce costs and make cash flow more predictable

03 How to meet the compliance requirements

04 How to get the correct information while in remote work model

Case study

Solution

End-to-end outsourcing solution

- We provide all end-to end business process. So that client enterprises can continue to operate even under COVID-19

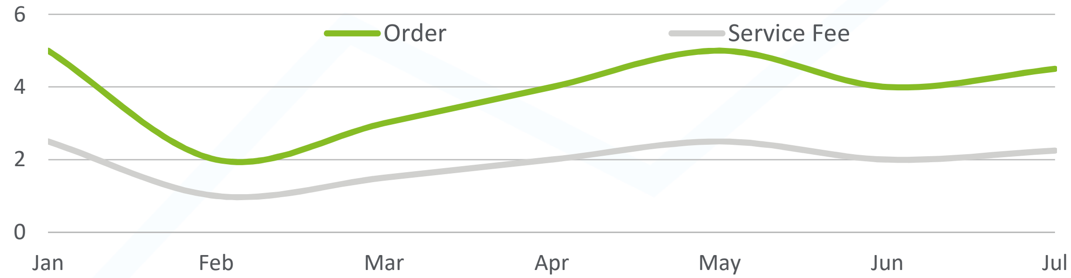
More stable ↑

More efficient ↑

Less time ↓

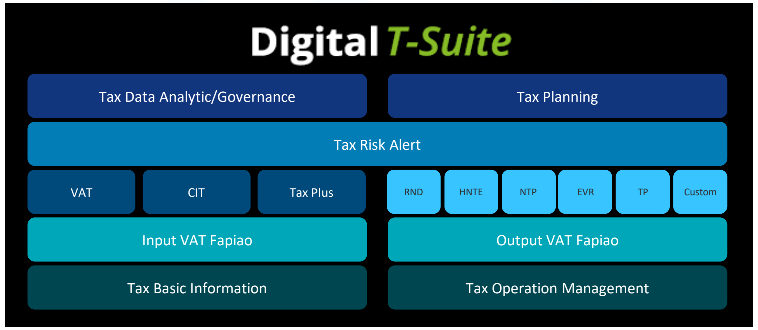
Reduce cost and make cash flow predictable

- Outsourcing services Fee is based on orders, and the smaller the order, the less the fee will be paid, thus reducing the cost of enterprises under COVID-19



Automatic finance and tax management

- With use of digital tax tool, automate the flow from finance to TAX and achieve all tax management. Fully meet the compliance requirements



BDH Business Digital Hub

Visibility and remote working model

- With use of BI tool and with APP support.They are barely affected by epidemic and step ahead into remote work model

The way forward

The way forward

Start with the right approach for you

- COVID19 has had a profound, long-term and even revolutionary impact on economic development, organizations and services, and the way people work and live
- Businesses will adapt to these changes as a new normal, and we need to embrace them

Tax department assessment

- Revisit your tax department status in areas such as workforce, process, data, technology and productivity

Tax processes reengineering

- Identify processes that can be outsourcing
- Design your Share service center in regions that not seriously affected by the COVID-19

Innovation

- Technology innovation: RPA, VR,NLP, AI, bigdata, etc.
- Workforce innovation: crowdsourcing, EMS (enterprise social media)

Transformation road map

- Develop an effective plan, with the help of OTT model, design a more agile tax operating model to facing the ever-changing COVID-19 challenges

Question and answers

Thanks for joining today's webcast.

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CPE

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Enterprise Resource Planning: Re-imagine the Tax processes with S/4 HANA

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