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2025 Asia Pacific Financial Services Tax Conference

Asia Pacific indirect tax updates

MAKING AN IMPACT THAT MATTERS since 1845

Speakers

Senthuran Elalingam
Financial Services
Indirect Tax Leader
Deloitte Asia Pacific

Ong Siew Yong
Tax Director
Deloitte Singapore

Candy Tang
Tax Partner
Deloitte China

Ronald Bernas
Tax & Legal Partner
Deloitte Philippines

Dionisius Damijanto
Tax Partner
Deloitte Indonesia

APAC indirect tax updates

APAC indirect tax updates

Key themes

E-invoicing/ E-reporting

- Reflecting on Malaysia's implementation
- Singapore's five corner model
- Potential announcements for Philippines, Australia, Thailand
- Indonesia's CoreTax

Expansion of electronically supplied services regimes

- Philippines, Sri Lanka, Laos

Reform/refinement of indirect tax regimes

- Malaysia service tax expansion
- China VAT Law
- Status of Singapore FITR reform

Audit and other regulatory trends

- Apportionment methods – Australia
- Tax Governance – CAR (Australia), ACAP (SG)
- Case Law – Cross Border Services (Philippines)

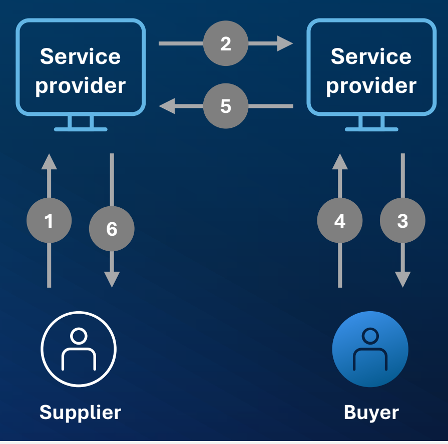
Overview of e-invoice

Electronic Invoice

- Initiated in Latin American countries but also gaining more traction in other parts of the world, e.g., Asia and Europe (VAT in Digital Age—ViDA)
- **Vary in formats and transmission modes** from country to country—invoices can be generated in financial systems
- Structured invoice **data generated** and **submitted** on a **per transaction basis**
- **Real-time** (or near real-time) **reporting** on **transactional levels**
- Impacted transaction type (sales, purchase, etc) vary country by country

Types of e-invoice regime

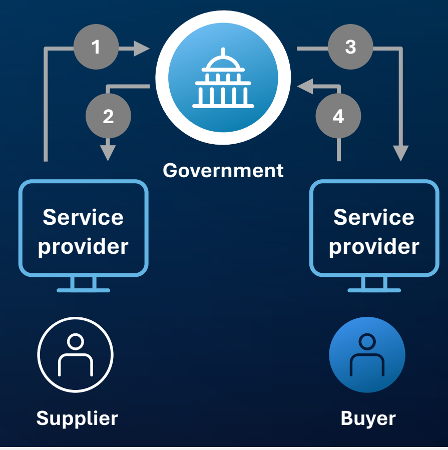
Interoperability



Fully digital exchange of any transaction documents via interoperability

- Peppol
- Australia

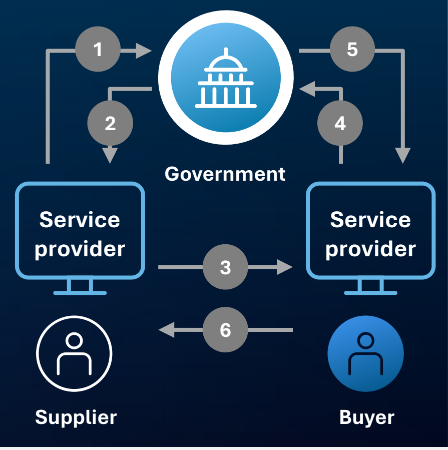
Centralised invoicing



Transactions exchanged by a predefined infrastructure

- France*
- Italy
- India

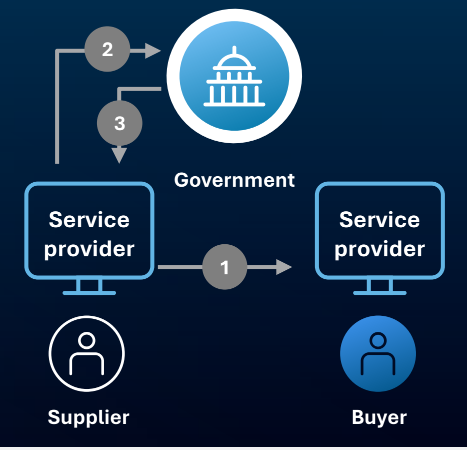
Clearance (variations)



Approval of transactions pre-issuance and validation post-receipt

- Mexico
- Malaysia
- Ksa

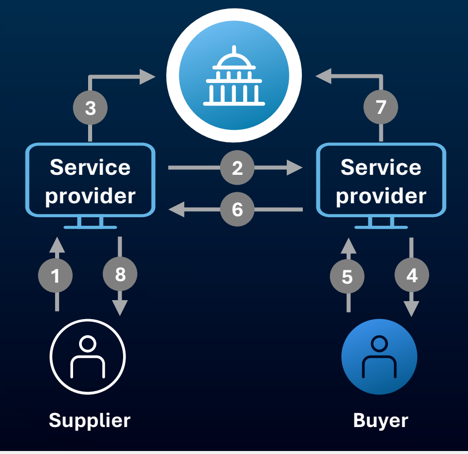
Real-time reporting



Reporting of transactional data in near-time post issuance

- Hungary
- Spain

5 corners model



5 corners model, an extension to the interoperability model

- Singapore*

*Future requirements

Malaysia:

- August 2024 – annual sales turnover of MYR 100 million
- January 2025 – annual sales turnover between MYR 25 million to RM100 million
- July 2025 – taxpayers between MYR 25 million and MYR 500,000
- January 2026 – taxpayers between MYR 500,000 and MYR 150,000

Singapore:

- 1 May 2025 – Soft launch (existing GST registered businesses who volunteered)
- 1 November 2025 – newly incorporated company who volunteered for GST
- 1 April 2026 – all other voluntary GST registrants

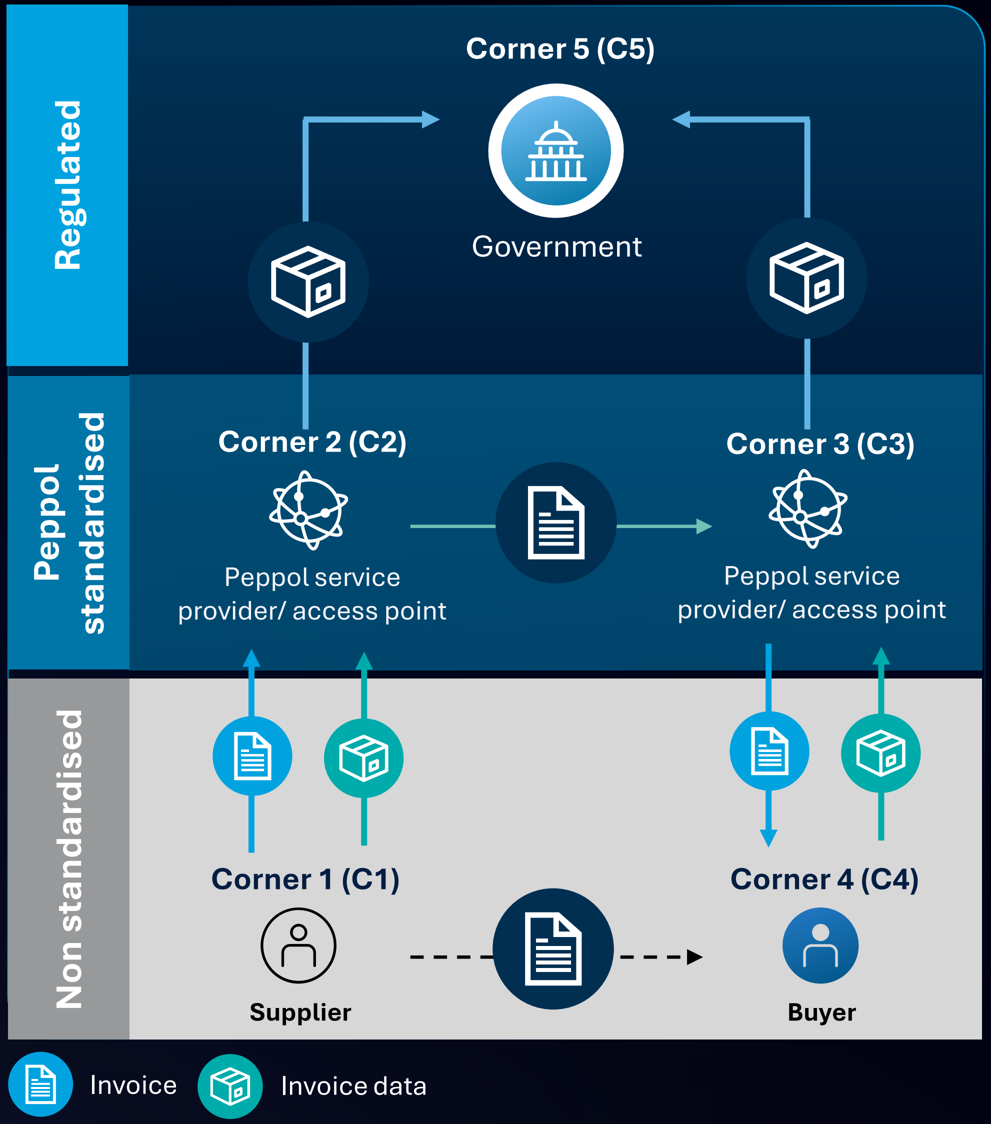
Singapore e-invoicing model

High level e-invoice flow

InvoiceNow solution are finance and accounting software that allow the transmission of invoices between businesses via the InvoiceNow network. The solution can be purchased off-the-shelf or be customized specifically for businesses in the form of proprietary enterprise resource planning (ERP) systems. InvoiceNow solution will be connected to IRAS via AccessPoints (AP) using the Application Programming Interface (API) technology.

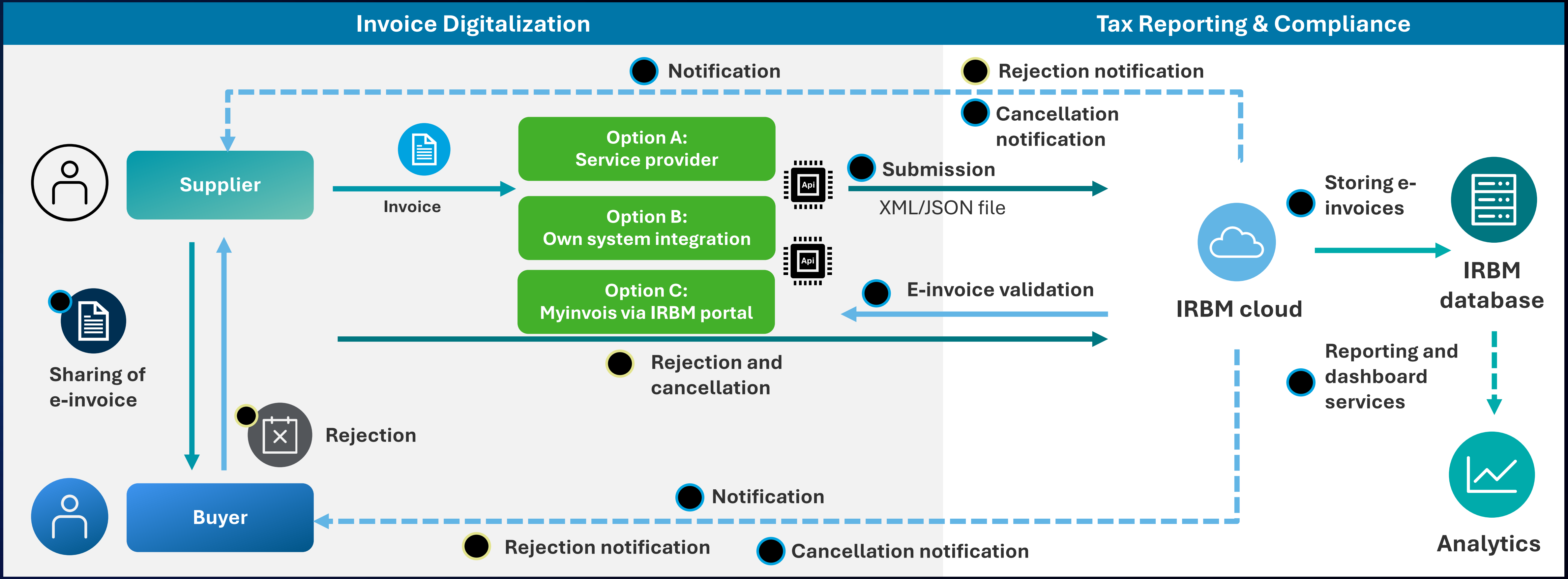
On the Peppol network, an invoice document is firstly created by supplier (known as Corner 1 or C1), and sent to their Access Point (known as Corner 2 or C2). C2 will send the invoice document to the buyer's Access Point (known as Corner 3 or C3), who will then forward the same to the buyer (known as Corner 4 or C4).

As part of the GST InvoiceNow requirement, invoice data will subsequently be channelled to IRAS system (known as Corner 5 or C5) via C2 and C3.



Malaysia e-invoicing model

High level e-invoice flow



- Buyer can initiate a rejection request by specifying the reason for the request. If the supplier agrees to the reason provided, the supplier can proceed to cancel the said e-invoice within 72 hours from the time of validation.
- If the supplier did not accept the request for rejection initiated by the buyer (or did not proceed to cancel the said e-invoice), no cancellation would be allowed after the 72 hours have elapsed.
- Any amendment thereon would require a new e-invoice (e.g., credit note, debit note, or refund note e-invoice) to be issued.

APAC indirect tax updates—Malaysia

Service tax reform

Scope expansion

- Expanded scope to include business to business (B2B) services from various sectors including construction, commercial leasing, private health and financial services
- Expected tax rate is 8%
- Staggered implementation—May 2025; July 2025

Impact to financial services

- Expanded scope includes those licensed under the Acts regulating banking, insurance, capital markets (securities brokers, asset managers)
- In addition to taxing core financial services, scope could include other non-financial services (e.g., consultancy, management, leasing)
- Position on SSCs/GBS and general treatment of intercompany services
- Lack of intragroup relief/expanded B2B service tax exemption

Key concerns/focus areas

- Limited timeframe to implement
- Referencing earlier GST implementation as a starting point for implementation
- Possibility of a grace period on penalties

APAC indirect tax updates—China

China VAT law formally ratified

1994

Provisional regulations on VAT (1^{st} version)

2012 to 2016

Replacing business tax with VAT for services

2017 to 2019

1) VAT rates cut
2) Refund of unutilized input VAT

Public consultation on draft VAT law

2019

End of 2022

First review of draft VAT law by NPC Standing Committee, followed by public consultation

August 2023

Second review of draft VAT law by NPC Standing Committee, followed by public consultation

On 25 December 2024, the long-expected China VAT Law was approved by the China's Standing Committee of the 14^{th} National People's Congress and promulgated as Order No. 41 by the President of the People's Republic of China.

- Overall speaking, the VAT law itself imports most of the current VAT rules aiming to provide a stable policy environment.
- The detailed implementation rules and subsequent circulars on specific issues will be released within 2025.

Effective on 1 January 2026

APAC indirect tax updates—China

Potential impacts on the financial industry

01 VAT recovery for loan interest

- Under the VAT law, input VAT on loan interest is **removed** from the list of irrecoverable input VAT.
- However, the VAT law grants the State Council the right to include other input tax restrictions into the scope. In this regard, it remains to be clarified.

Non-financial service sectors

Reducing financing cost

What is the impact?

Financial service sectors

- Significant increase in invoice issuance and compliance cost
- What about the exempted financial services?
- Input VAT attributable to exempted services

02 Place of supply rules for financial services

Current rule

The seller or the buyer is in China

VAT Law

For financial products transactions: The seller is in China, or the financial products are issued in China.

For other transactions: The seller is in China, or the service/intangible asset is consumed in China.

Questions to be clarified:

1. How to define the financial products being "issued" in China?
2. How to determine the place of "consumption"?

APAC indirect tax updates—China

Potential impacts on the financial industry

03 Input VAT incurred on fixed assets

Current Rule

Full input VAT credit on fixed assets, intangible assets and real estate, which are not exclusively used for VAT exempted supplies

This rule is removed from the VAT law.

Impact: Input VAT on fixed assets may need to be apportioned and hence, the irrecoverable VAT cost may be increased.

Questions to be clarified:

1. How to calculate the apportionment?
2. How to monitor changes of use and the apportionment ratio during the useful life of the fixed assets?
3. How to balance between tax revenue and administration/ compliance costs?

04 Deemed sales (taxable supply)

VAT law — Scope

- "Free-of-charge services" **removed**
- Potential impact on design of the business model / promotional programs, e.g. free supply of services vs. goods

VAT law — Tax base

Market price of the supply

APAC indirect tax updates—China

Other changes in the VAT law

Tax base

- Cash and non-monetary consideration
- To be further clarified: How to define and quantify the non-monetary consideration?

Withholding agent for non-resident taxpayers

- The buyer shall act as the withholding agent
- In addition, the State Council can specify the situations whereby the local agent(s) can be appointed for tax filing purposes in China

Mixed sales: both definition and treatment are changed

- Definition—one transaction involves two or more applicable VAT rates
- Treatment—VAT rate is determined based on the main component of the supply

Tax collection rates

- Removal of 5%, while maintaining 3%. It is yet to be observed how the transactions that are currently subject to 5% will be treated in the future.

Refund of unutilized input VAT mentioned in the VAT law (taxpayer's self choice)

- Refund now vs. credit in future
- Cash flow benefit vs. Tax audit exposures

APAC indirect tax updates—China

What's next

Regulations to be expected within 2025

- Detailed implementation regulations attached to the VAT law;
- Special VAT preferential policies to support small or micro-sized businesses, key industries, innovations, entrepreneurship, employment promotion, and charitable donations;
- More detailed guidance on specific subject matters, such as the VAT zero-rating/exempt treatment for cross-border services, etc.

Issues to be further clarified

- Definition of "financial products"
- Definition of the place of "consumption" in the supply of services
- Definition of "financial institutions" especially for foreign entities
- Continuity of the existing preferential VAT policies
- Expansion of the VAT exempted scope for export of financial services
- The carry-over/retroactive adjustment of the loss generated from the trading of the financial products
- Exemption of VAT on the net gains generated from the trading of financial products by offshore entities and tax withholding mechanism

APAC indirect tax updates—China

Indirect tax administration and audit

Enhanced day-to-day administration

- Golden Tax IV has significantly improved the tax authorities' ability to identify tax risks.
  - Taxpayers to establish and improve their own tax risk prevention and control system, shifting from passive response to a tax audit to proactive monitoring of risk.
- Advanced tax rulings are piloted in Shanghai and Beijing

Increasing tax investigation

- **Comprehensive case selection methods**
- Increased requests **for self-inspection**
- Balancing tax revenue collection and consistent / reasonable treatment through case-by-case communication

Indirect tax audit focus

- The authenticity of VAT invoices
- Reconciliation of VAT revenue and CIT revenue
- Inspections on preferential VAT treatment and deemed sales

APAC indirect tax updates—Korea

Application of VAT exemption for linked loan business through online platform

01

Linked loan business

The business model of financial institutions is shifting from offline to online, particularly in "linked loan" transactions. This service allows applicants who have been denied a loan by financial institutions to secure financing from third-party institutions, with fees being charged for the service. These transactions are subject to VAT.

02

Relevant tax office authoritative interpretation

Since the service did not align with traditional financial services, the Korean tax authorities initially provided no clear interpretation. As a precaution, the service provider treated it as a VAT-taxable transaction and collected VAT. However, despite being an online transaction, it qualifies as a financial service provided by a financial institution, which should be exempt from VAT. An official interpretation confirming this exemption was later obtained from the tax authorities.

03

VAT refund claims

Based on the tax authority's interpretation, the VAT refund claims were successfully processed. Since then, additional interpretations have confirmed VAT exemptions for online financial transactions that were previously subject to VAT.

APAC indirect tax updates—Taiwan

E-Invoicing (e-GUIs) and recent update on tax rate

- Effective 1 January 2025, business entities issuing electronic government uniform invoices (e-GUIs) for the sale of goods or services must accurately transmit the relevant information to the Ministry of Finance's (MOF) e-GUI integrated platform for certification within the specified time limits.
- This requirement applies not only to Taiwan-based entities but also to foreign electronic service suppliers (ESS) that do not have a fixed place of business in Taiwan. If their sales of e-services to Taiwanese individual customers exceed the tax registration threshold, they must comply with e-invoicing regulations under the ESS tax regime.
- Failure to comply with transmission requirements including scope, required information, and deadlines may result in penalties for each violation.
- The MOF is considering raising the tax registration threshold for foreign ESS from an annual B2C sales amount of NTD 480,000 to NTD 600,000. This proposed amendment is currently open for public comment.
- The local FSI lobbied for a reduction in tax rate for banks and insurance businesses from 5% to 2% or 3% in 2024. The primary reason for this request was that 2% of the existing 5% tax was allocated to FSI's special reserves, a requirement that expired at the end of 2024. However, MOF has declined the request, and the 5% tax rate will remain in effect for these businesses.

APAC indirect tax updates—Australia

Apportionment, cost allocation and reduced input tax credits

The Australian Taxation Office (ATO) is continuing to focus on apportionment and cost allocation across the Financial Service industry.

Following the Full Federal Court dismissed the ATO's appeal in Hannover Life the ATO has published a Decision Impact Statement indicating that it will look to challenge taxpayers who apply similar apportionment methodologies.

However, we consider given the established case law there are opportunities for taxpayers to review existing apportionment methodologies as a result of the recent Court decision.

Specifically, we consider the Full Court decision presents opportunities for taxpayers with cross-border arrangements to revisit their cost allocation and apportionment methodologies, as the risk allocation concept (between offshore and onshore entities) is also applied more broadly in commercial arrangements (beyond life insurance).

The ATO has announced it is currently undertaking a review of financial services businesses relying on private rulings that the ATO consider are outdated and may conflict current guidance and ATO position.

The ATO is also increasingly scrutinising taxpayer's cost allocations for GST purposes. As cost allocation is a gateway to GST recovery and a prerequisite step to apportionment. It is important that this is considered by taxpayers and the determined approach is suitably documented with the relevantly identified technical positions.

With additional focus on cost allocation, the ATO has increased its focus on reduced input tax credits (RITCs) claimed by financial services organisations.

The is currently undertaking reviews of inbound financial services institutions focused on apportionment, cost allocation, RITCs and reverse charges. These areas are also a focus for clients subjected to Combined Assurance Reviews, so preparation and focus are required in the current environment.

APAC indirect tax updates—Australia

Areas of ATO interest

01

Insurance

The ATO is taking an increased focus in the insurance sector. For the general insurance sector, the ATO is reviewing how general insurers set up processes, systems and data flows for GST compliance, particularly in relation to claims processing and determining GST adjustments.

For the life insurance sector, the issues are those listed on the previous slide.

02

Cryptocurrency

The ATO is undertaking targeted compliance activities on industry participants, particularly those global crypto-asset intermediaries (such as digital currency exchanges) in the Medium & Emerging market. There is a focus on the correct application of GST to services provided by intermediary brokers, agents, and principles. With a specific concern of the ATO's being taxpayer's ability to identify the location of its customers and as such determine the GST treatment of the underlying service.

03

Governance—Assurance reviews

The continuing Combined Assurance Review (CAR) program requires businesses to consider, and provide to the ATO, information in respect of its tax technical positions, tax governance, tax controls, and its data. These reviews are resource intensive, but preparation can greatly assist.
With the ATO focus on the financial services sector, and its procurement of additional resources, there is greater scrutiny for businesses in the financial service sector.

04

Governance—Independent data testing

As part of justified trust expectations, the ATO requires taxpayers to undertake extensive GST data testing/analysis.

The ATO has specific tests for financial services and insurance businesses which address specific risks across the industry.

Testing required as part of a CAR can be done by the ATO or an independent advisor, while ongoing testing can be insourced or outsourced to an advisor.

APAC indirect tax updates—India

Digital landscape—Linking transactions from Vendor to Recipient

Introduction of E-invoicing
1 October 2020

Auto-population of information for reporting
1 October 2020

Digital Reporting
1 July 2017

Invoice Management System for effective Input Tax Credit matching
1 October 2020

Automated notices and responses
1 July 2017

<u>The missing link:</u>
Invoice Management System (IMS) has now been introduced on an optional basis. IMS offers a functional dashboard to a registered supplier for invoices issued by a registered vendor. Supplier is required to take actions for accepting/rejecting such inward supplies on a timely basis thereby linking the transaction and Input Tax Credit. Offset of tax liability on account of Credit Notes is also subject to acceptance by recipient on IMS.

APAC indirect tax updates—India

Focus on digital compliance and dispute resolution

India Budget 2025
[1 February 2025]

- **Blocks ITC on services relating to construction of immovable property**: Retrospective amendment proposed to overturn an Apex Court Ruling and deny ITC for GST paid on construction services for immovable property
- **No GST for trading in FTWZ or SEZ**: Legislative amendments introduced to exclude GST levy on trading in warehoused goods while within a FTWZ or SEZ
- **GST adjustment for Credit Notes**: Supplier to adjust GST liability on account of issue of Credit Note only on corresponding ITC reversal by Recipient

55th GST Council Meeting
[21 December 2024]

- **Taxaton of Vouchers:** Time of supply provisions to be aligned with corresponding transaction mechanism
  - ✓ Transactions in vouchers—not a supply
  - ✓ Ancillary services such as advertisement, co-branding etc—liable to GST
  - ✓ Breakage amount—not liable to GST
- **Approval to introduce Track & Trace Mechanism**: Unique Identification Marking which shall be affixed on specified goods. This will help tracing specified commodities throughout the supply chain
- **Pre-deposit recommended to appeal against orders having only penalty dispute**

Others

- **Introduction of Invoice Management System**: Digital dashboard introduced on pilot basis from 1 October 2024
  - ✓ Facilitates recipient in matching invoices issued by suppliers
  - ✓ Accept/reject action required by Recipient to avail/deny input invoice
  - ✓ Accepted transactions to flow for Input Tax Credit entitled in recipient's returns.
- **Amnesty for waiver of interest and penalty**: Conclude tax disputes with waiver of interest and penalty—subject to payment of tax under dispute by 31 March 2025

APAC indirect tax updates—India

Recent updates for the BFSI Sector

01

Banks, non-banking finance companies and financial institutions

No GST liability for penal charges

- Banking Regulator mandated use of term ‘penal charge’ as against ‘penal interest’
- Change in nomenclature resulted into ambiguity towards availability of GST exemption for interest
- GST Council has clarified that penal charges are not liable to GST

Exemption to payment aggregator for low value transaction settlement

- Ambiguity existed whether exemption is available only to Banks or extends to technology services providers a well
- GST Council has clarified that Payment Aggregator registered with the Banking Regulator should be entitled to exemption

Co-lending transactions

- Difference in opinion to recognize excess interest spread as value of taxable services
- Industry had represented before the Board to seek clarification—however the advocacy request has not been accepted
- Ambiguity on tax levy likely to impact potential growth of co-lending

Taxation of Head Office Cost Allocation

- Partial Input Tax Credit denial for GST paid on import of services from head office of foreign banks – disparity when compared with banks having India head office
- GST disallowance results into increase in cost of Head Office Cost Allocation

GST on cross-border supplies

- Cross border supplies of investment banking, stock broking, insurance broking services etc are being subject to GST
- Such services are being characterized as ‘intermediary services’ for which the place of supply is prescribed as ‘location of service provider’
- GST is being charged, in certain cases as cost to the supplier, owing to undermining of destination-based tax principle due to overriding provision on intermediary
- On the contrary judicial rulings have recognized the transaction character (P2P or P2A) to qualify/ disqualify supplies under the intermediary rule.

APAC indirect tax updates—India

Recent updates for the BFSI Sector

02 Life insurance, general insurance and health insurance

Rate rationalization for health insurance and term insurance supplies

- Group of Ministers has been constituted to evaluate exemption or rate reduction of certain insurance products
- Industry body has opposed a complete exemption citing blockage of Input Tax Credit which is likely to defeat the government objective
- Preliminary reports suggest that government may evaluate lower rate of 12 percent

Clarification offered on Follower premium and Reinsurance commission

- GST demands for past years have been waived through adequate clarification

Orders on various industry matters

- Adjudication orders denying ITC on marketing expenses incurred by insurance companies by treating the same as incremental commission
- Adjudication orders recognizing no GST liability for salvage generated during motor claims. *(certain non-life service providers however have received negative orders)*
- Adjudication orders upholding ITC entitlement for GST paid in case of motor claim costs in a reimbursement model *(certain non-life service providers however have received negative orders)*
- Adjudication orders issued denying zero-rating of group health products when provided to units in special economic zones citing the same as supplies for personal consumption and not linked with export objective of Unit

03 Private equity/venture capital

Carry Interest

- Nature of Carried interest remains a contentious issue with revenue recognizing the same as performance fee
- Expenses incurred by AIFs is also being equated as cost of services provided to Investors

Investment research services

- Classification of deal advisory services as export services on account of the intermediary provision – place of supply being recognized as the 'location of service provider'

APAC indirect tax updates—Vietnam

VAT rate reclassification and e-invoicing

01

Potential VAT rate reclassification for credit-granting services

- With the introduction of the New VAT Law 2024, the criteria for determining which services qualify as credit-granting will now be based on specialized laws, changing the landscape for VAT obligations.
- Services, previously considered VAT-exempt, such as letters of credit, would potentially be classified as payment services and subjected to VAT.
- This law will take effect on 1 July 2024, bringing potential changes to VAT rates for certain services.

02

Streamlining e-invoice issuance for financial services

- Current regulations guide invoice issuance, but a draft amendment to the Decree on E-Invoices proposes new flexibility in invoicing practices for banking services.
- The deferral of invoice issuance for non-collected interest until collection aligns better with financial reporting and reduces administrative burdens

03

E-invoice alignment with insurance revenue recognition

- The proposed amendment would synchronize the timing of invoice issuance in the insurance sector with revenue recognition rules, introducing consistency across the board.
- This change aims to minimize discrepancies between VAT and CIT revenues, ensuring better alignment between tax reporting and financial accounting.

APAC indirect tax updates—Thailand

01

Implementation of transmission system for evidence supporting the claim of input VAT from importation

Thai Revenue Department signed a memorandum of understanding with the Customs Department leveraging the information on input VAT relating to importation which can streamline the requirement for supporting document on taxpayers' end.

02

Extension of reduced 7% VAT rate

A Thai royal decree (No. 790) extends the period for statutory VAT rate reduction from 10% to 7% for an additional year.

03

Extension of VAT exemption for digital asset trading

A Thai royal decree (No. 788) extends the VAT exemption for certain transfers of digital assets (with no end date specified for the extension).

APAC indirect tax updates—Thailand

Tax headline	Overview of change
Memorandum of understanding signed between Thai Revenue Department and Customs Department for development of transmission system for information related to GorSorGor.123 receipts	• On 9 August 2024, the Thai Revenue Department (TRD) signed a memorandum of understanding with the Thai Customs Department regarding the development of a transmission system for transferring information related to GorSorGor.123 (GSG.123) receipts, which pertain to tax payments made by importers. • The purpose of this initiative is for the TRD to use the information from these receipts to verify whether input VAT has been paid on imports. • VAT registrants will be able to use GSG.123 information transferred through the transmission system as evidence of their VAT payments.
Extension of reduced 7% VAT rate	• A Thai royal decree (No. 790) which was issued on 19 September 2024 extends the period during which Thailand's statutory VAT rate is reduced from 10% to 7% (inclusive of municipal tax) for an additional year, through 30 September 2025. • Statutory VAT rate for Thailand is 10% but Thailand has maintained the applicable VAT rate at 7% for more than 2 decades. This royal decree was issued to extend the reduction for another year.
Extension of VAT exemption for digital asset trading	• A Thai royal decree (No. 788), which was issued on 30 June 2024 (following the 6 February 2024 approval of a draft royal decree by the Thai cabinet) and is effective retroactively as from 1 January 2024, extends the VAT exemption for certain transfers of digital assets (with no end date specified for the extension). The exemption is available for transfers of cryptocurrency or utility tokens carried out through exchange platforms, digital asset brokers, or digital asset dealers, as well as for transfers made to digital asset dealers in accordance with the law on digital asset businesses.

APAC indirect tax updates—Philippines

Electronic Invoice System (EIS)

Mandatory E-invoicing
R.A. 10963

The following taxpayers are required to issue electronic receipts or sales, commercial invoices *in lieu of* manual documents:

1. Taxpayers engaged in the export of goods and services;
2. Taxpayers engaged in electronic commerce; and
3. Taxpayers under the Large Taxpayers Service.

This is currently suspended due to technical challenges.

Electronic VAT Invoice
RR No. 8-2022

1. Seller's registered name, TIN, business address, and VAT registration status.
2. Clearly labeled as an "Invoice."
3. Date of transaction.
4. Buyer's Information.
5. Serial number.
6. Quantity, unit cost, and description of goods or services.
7. Total sale amount, with VAT breakdown.
8. Electronically-generated serial number, approved from registered CAS, or accredited CRM/POS with Machine ID Number.

APAC indirect tax updates—Philippines

Digital Services Act

VAT on Digital Services
R.A. No. 12023

Services of bank, non-bank financial intermediaries performing quasi-banking functions, and other non-bank financial intermediaries, including those rendered through different digital platforms are exempt from VAT.

APAC indirect tax updates—Philippines

Tax audit trends and common issues

01

Differences in books vs. returns

Differences may arise due to accounting versus tax reporting methods, such as installment sales recognition, provisions for bad debts, and deferred revenue.

02

Compliance with substantiation

Inadequate documentation (e.g., missing VAT zero-rating certificates, improper official receipts, or insufficient supporting records) results in disallowed claims and deficiency assessments.

03

Reconciliation of databases

Common discrepancies in cross-referencing of taxpayers' declarations with third-party data from Summary List of Sales and Purchases (SLSPI) and Alphalists are timing differences, incorrect tax bases, mismatched TINs, and clerical errors.

04

Issuance of subpoena

The BIR issues Subpoena Duces Tecum (SDT) to compel taxpayers to appear and present documents, with non-compliance risking criminal prosecution. This leverages the BIR's position in audits pressuring tax compliance and collection.

APAC indirect tax updates—Philippines

Recent legal developments of financial services

Tax treatment of cross-border services

Following the Supreme Court's ruling in *Aces Philippines v. CIR (G.R. No. 226680, August 30, 2022),* the BIR issued Revenue Memorandum Circular (RMC) No. 5-2024.

In multi-jurisdictional transactions, if a stage occurring in the Philippines is integral to the transaction, income is considered Philippine-sourced, hence subject to tax, including VAT in the Philippines.

APAC indirect tax updates—Indonesia

Application of 12% VAT and introduction of CoreTax

01

Application of the 12% VAT Rate as mandated by law

- The 12% VAT rate applies primarily to luxury goods, meaning it is generally not applicable to financial service companies.
- Although the VAT Law mandates 12%, there is still a preference for 11%. To address this, the government regulates the VAT base as 11/12 × 12%, effectively maintaining an 11% rate for fee-based income.
- For the sale of foreclosed assets, the VAT base incorporates the 12% rate, making the effective VAT 1.2%.

02

Implementation of Coretax in Indonesia, including VAT invoices

- The Directorate General of Taxes (DJP) is introducing Coretax to modernise tax administration through digital integration.
- This initiative aims to enhance efficiency, transparency, and compliance for taxpayers nationwide.

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