Global Tax Update

CHINA

Announcement of PRC Individual Income Tax policies for non-resident individuals and resident individuals having no habitual abode in China.

Revised PRC Individual Income Tax ("IIT") Law and the Implementing Regulations of PRC IIT Law, relevant policies for non-resident individuals and resident individuals having no habitual abode ("non-domicile individuals"), have been announced.

Key Updates

- **Non-domiciled individuals residence status**
  To determine a non-domiciled individuals' residence status in China, if they are physically present in China for less than 24 hours in a day, that day will not be counted as a day of residence in China.
- **Restart of six-year period**
  Non-domiciled individuals who resided in China for more than 6 consecutive years would be taxed on their worldwide income starting from the seventh year if they remained resident in China in that particular year.
  The announcement stipulates that the six-year period will be restarted from Year 2019 and thereafter. That is to say, non-domiciled individuals' residence status in previous years will not be counted towards the six-year period.
- **Update of calculation method for non-domiciled Individuals**
  In the past, income received by non-domiciled individuals from both China and overseas was combined to calculate the total PRC IIT liabilities. Thereafter, the actual China-related IIT liabilities were apportioned based on their days of presence in China.
  The above calculation method has been replaced with an updated calculation method. According to the new calculation method, Chinese and foreign sourced income will be apportioned based on the non-domiciled individuals' days of physical presence in China. Then the actual China IIT liabilities will be calculated on the apportioned income.
- **Preferential treatment on annual bonus income and equity based incentive income**
  Based on the announcement, non-domiciled individuals can be entitled to adopt preferential treatment on bonus and qualified equity based incentive income. For calculation purposes, such income can be treated as separate income and it does not need to be combined with regular wage and salary income. There are specific formulas to use to calculate the tax due.
- **Impact**
  - Non-domiciled individuals have been given preferential conditions for their PRC IIT assessment
  - New "Six-year" rule aims to attract more foreign companies and foreign individuals to invest and work in China
  - Non-domiciled individuals' tax calculations will become more complicated than previously due to different calculation formulas to be applied
  - The rules on the tax treatment on non-domiciled individuals' annual bonus and equity based incentive income are now clearly stipulated.

BDO Comment

We recommend that withholding agents and non-domiciled individuals become familiar with the relevant tax treatment so they can fulfil tax filing obligations accurately and avoid potential non-compliance risks. Companies/ non-domiciled individuals should consider advanced tax planning with respect to the PRC IIT taxation. Do closely follow further updates regarding the tax filing system as well as local practice and take relevant actions accordingly.

> The Inland Revenue and MPF Schemes Legislation Bill 2018 seeks to encourage taxpayers to contribute more to their long-term retirement benefits

HONG KONG

New tax-deductible contributions to enhance long-term retirement and healthcare benefits

Two new amendments have been passed that aim to encourage individuals to save more towards their retirement and healthcare. Both of these amendments were introduced on 1 April, 2019.

The Inland Revenue and MPF Schemes Legislation Bill 2018, seeks to encourage taxpayers to contribute more to their long-term retirement benefits. Taxpayers will be able to claim concessions on salaries tax and personal assessment for qualifying deferred annuity premiums and voluntary contributions to the newly introduced Mandatory Provident Fund Tax Deductible Voluntary Contributions (MPF TVCs) scheme.

In addition, the Voluntary Health Insurance Scheme – Inland Revenue (Amendment) (No. 4) Bill 2018 (VHIS Amendment 2018), provides tax concessions to taxpayers who pay qualifying premiums for themselves or specified relatives under the certified Voluntary Health Insurance Schemes (VHIS).

Previous/Existing Employee Mandatory Provident Fund (MPF) Contribution Schemes

Previously, an employee's mandatory MPF contributions were capped at HKD 1,500 a month for each job they held. In each year of assessment, a cap of HKD 18,000 of an employee's mandatory contributions was tax-deductible. However, employee's voluntary contributions paid into the traditional recognised MPF scheme were not tax-deductible.

New MPF Tax-Deductible Voluntary Contributions

Voluntary contributions made to the Mandatory Provident Fund Tax Deductible Voluntary Contributions ("MPF TVCs") scheme (MPF TVCs) are tax-deductible voluntary contributions that an employee chooses to make on top of their mandatory contributions and requires no employer involvement.

The administration costs of handling both tax-deductible and non-tax-deductible voluntary contributions within one account would be substantial. Therefore, taxpayers who want to make employee's voluntary contributions to the MPF TVC scheme need to set up and pay into a different contribution account in order to receive tax concessions for making those voluntary contributions.

Individuals who are currently participating in an occupational retirement MPF-exempted (ORSO) scheme can also choose to open an MPF TVC account with an MPF Trustee and benefit from the tax incentives for making these voluntary contributions.

Each eligible person can have only one MPF TVC account under a registered scheme. A person is eligible for an MPF TVC account if they are:

- A current employee member of a registered MPF scheme
- A current self-employed member of a registered MPF scheme
- A current personal account holder of a registered MPF scheme; or
- A member of an MPF-exempted ORSO scheme.

Tax Deductions

The maximum tax-deductible amount for contributions to qualifying deferred annuity premiums (QDAPs) under a qualifying deferred annuity and/or an MPF TVC scheme is HKD 60,000 for each individual. This amount includes MPF TVC and QDAP contributions.

Withdrawal Rules On Accrued Benefits

Accrued MPF benefits from mandatory contributions are paid to MPF scheme members upon retirement at age 65, with exceptions in specific circumstances.

The same restrictions on withdrawing accrued benefits from mandatory contributions applies to the MPF TVC.

What Should Employers Do To Meet Employees' Requirements?

Employees can set up an MPF TVC account with an MPF Trustee and make direct payments through the trustee without going through their employers. However, employers still need to consider how they can meet their employees' requirements.

- If employees currently make voluntary contributions to the company's MPF scheme, the company might want to advise employees of the TVC Amendment 2018, so that employees can consider setting up an MPF TVC account and make voluntary contributions to the MPF TVC account instead to benefit from the tax deductions on their contributions
- The company may also want to ask employees whether they wish to continue making voluntary contributions to the existing MPF scheme (due to its flexible withdrawal rules) or whether they would prefer to make voluntary contributions to an MPF TVC account.

Voluntary Health Insurance Scheme (VHIS)

Another new tax deduction that came into force in the year of assessment 2019/20 applies to qualifying premiums paid into a government certified VHIS from 1 April 2019. Taxpayer or spouse may claim tax deductions of up to HKD 8,000 per insured person on salaries tax or personal assessment for premiums paid to the certified plan under Voluntary Health Insurance Scheme as policyholder for each year of assessment from year of assessment 2019/20. The taxpayer can also claim for qualifying premiums paid for specified relatives, such as their husband or wife. There are no limitations on the number of qualifying insured persons whose premiums the taxpayer can claim deductions against in a year of assessment.

BDO Comment

The introduction of the tax deductions for annuity premiums and voluntary MPF contributions, in addition to voluntary health insurance premiums, will be welcomed by all Hong Kong citizens who can claim a deduction under salaries tax or personal assessment. The above tax incentives for individuals are effective public subsidies to enhance retirement and healthcare benefits for the aging population of Hong Kong.

SINGAPORE

Lapse of not ordinarily resident ("NOR") scheme

Current Tax Treatment

A taxpayer who is granted the NOR status for a five-year period and is a tax resident in the year of claim will receive the following tax concessions:

- The portion of Singapore employment income corresponding to their business days spent outside of Singapore will be exempt from tax. This is subject to a minimum tax equal to 10% of their total employment income. To qualify for this concession, the taxpayer must have:-
    - Spent at least 90 days outside of Singapore for business purposes; and
    - Have Singapore employment income of at least $160,000.
- Tax exemption of employer's contribution to non-mandatory overseas pension fund or social security scheme, subject to a cap and meeting qualifying conditions.

Proposed Tax Treatment Change

Effective YA 2021, the NOR scheme will lapse. The last NOR status for a five-year period will be granted in YA 2020 and will expire in YA 2024. Individuals who have been accorded NOR status will continue to enjoy the tax concessions until their NOR status expires if they meet the relevant qualifying conditions.

BDO Comment

An employee with NOR status and who travels substantially enjoys significant tax savings under the time apportionment basis of assessment in the NOR Scheme. Without this concession, such an employee will pay a higher tax, and where taxes are borne by the employer, it will mean an increase in business costs.

The NOR scheme was introduced in 2002 to attract talents with regional and global responsibilities to relocate to Singapore, and to incentivise Singapore as a regional/global hub location. The scheme has seen great success in attracting such talent over the years.

In view of the lapse of the NOR scheme, companies are recommended to review their current employment arrangements in respect of expatriate employees who may qualify for the NOR time apportionment tax concession. Some questions for the company to consider:-

1. Is there a need to reconsider the basis to package remuneration of future employees who may be impacted by the loss of NOR tax benefits?
2. If the company bears the taxes of these foreign employees, what is the impact to the business costs for future hires?

SWEDEN

Measures to mitigate the social consequences of a no-deal Brexit

The Social Insurance Division of the Swedish Ministry of Health and Social Affairs has submitted a proposal with suggestions aimed at mitigating the consequences for individuals relating to social benefits during a transition period if a no-deal Brexit occurs. The suggestions would only be applicable if the UK leaves the EU without a withdrawal agreement.

Background And Information

When the UK leaves the EU, it will be considered as a third party country by the EU. If the withdrawal agreement comes into force when the UK leaves the EU, a transition period will be initiated during which the UK in practical terms will be treated as a member state. If a withdrawal agreement does not come into force this will lead to certain consequences. For example, the EU rules on social security coordination will no longer be applicable in a cross-border situation in relation to the UK. This will have an impact on individuals who have exercised free movement within the EU by living or working in the UK and one of the 27 member states.

To deal with a no-deal Brexit, the proposal suggests a time limited regulation setting out a continued entitlement to social security benefits for individuals who had a right to receive these in the UK at the time of the withdrawal. Furthermore, the proposal suggests a regulation that makes it possible to utilise earned insurance, employment or residence periods or periods as self-employed during the time the UK was part of the EU. This would be used to calculate the basis for application of benefits in another EU member state post Brexit. The same applies to the possibility of taking into account income, circumstances, benefits and events that have been received before the withdrawal of membership. In addition to this, the proposal also suggests a regulation enabling costs arising from healthcare performed in the UK, under EU-regulations, to be compensated during a transition period after the withdrawal.

By establishing a new regulation, individuals will be given the possibility of readjusting to the effect of the UK's withdrawal from the EU and to ensure continuity of individual benefits they already receive. The proposed regulation was to come into force in April 2019, but shall apply from the time of the UK's withdrawal. Most Swedish people living or working in the UK currently do not receive any social benefits from the Swedish welfare system. There is also no reliable data on how many EU-citizens receive benefits from Sweden. As no statistics exist covering current benefits for EU citizens, it will make it hard to determine how many people will be affected by the UK leaving the EU without an agreement. The same applies for people with earned periods from the UK. Irrespective of the number of affected people, actions should be taken to enable a reasonable transition for the individuals, but also to make it possible for individuals to utilise the earned period in the UK.

BDO Comment

The consequences of a no-deal Brexit will have an immediate impact and could have a significant effect on individuals. It is however, hard to foresee the consequences in advance. A withdrawal agreement has been considered to provide continued security and predictability for the member states, institutions and individuals exercising free movement. It is also considered difficult to predict the financial consequences of a no-deal Brexit, but a no-deal Brexit will add to the burden on the Swedish authorities and EU institutions in general.

The proposal is welcomed and would most likely ease the situation for those who would have been affected by a no-deal Brexit. The transition period which is suggested in the proposal would also give those concerned more time to prepare their social security before the withdrawal is final. BDO Sweden will follow the progress in this matter.

UK: WALES

Welsh rates of income tax

From 6 April 2019, your employees may be subject to Welsh rates of income tax. HMRC will be responsible for identifying when a taxpayer is subject to Welsh income tax rates and will inform you of their new tax code. An individual will be identified as a Welsh tax payer if:

- They are resident in the UK for tax purposes
- And they have had a main place of residence in Wales for more of the year than in any other part of the UK.

There will be no change in the way you report or make payments to HMRC, other than the change in tax code. At present personal allowances will remain the same as the UK and tax bands will remain the same as England and Northern Ireland.

BDO Comment

In addition to identifying Scottish residents, employers will now also have to identify Welsh residents. Those who currently do so will be aware that tax rates have now deviated in Scotland involving increase complexity and increased tax. So much for tax simplification!

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