

The Commonwealth Association of Tax Administrators



coata
Newsletter

Cameroon Conference in November 2008 AMP and CTIC 2007 concluded

CMDP 2007 in Jamaica

TOIT 2007 concludes Swaziland honours McKinnon

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Editorial

Key areas in tax reforms

Most tax administrations all over the world are currently involved in major reforms projects. Various countries may be at different stages of their respective reform processes but the common denominator is that most are involved in reforms, redesigning or restructuring of existing systems. While there are some peculiarities in each specific case, there are a number of themes and approaches that have wide spread or even universal recognition.

The first of these is the acceptance of reality that no tax administration is resourceful enough to pursue every last penny of tax due or individual taxpayer who should be on tax rolls. It is therefore sensible to follow a realistic, pragmatic, selective and cost effective approach and recognise that the key to good tax administration is to create the right balance between effective enforcement mechanisms on the one hand and on the other, a customer services structure that encourages and facilitates high levels of voluntary compliance. Energy is therefore focused on development of risk assessment products for systematic identification of potential threats to revenue and effective tax audit tools for careful selective application.

There are two key approaches that are very evident in current tax reform strategies. New look tax administrations endeavour to move away from the traditional “confrontational” relationship between tax authorities and taxpayers and settle into a new work culture based on mutual respect and cooperation between the two parties. The natural outcome of this approach is that secrecy and confidentiality in planning of reforms has given way to a process of detailed and frank consultation between stake holders. This is easier said than done in many cases where impressions and perceptions are deep rooted and cast in archetypal patterns. Irrespective of how successful such attempts might turn out to be, especially in the short run, there is consensus that this is the only sensible way forward.

An important component of this approach is the desire to minimise disputes between taxpayers

and tax authorities. This includes early resolution of pending disputes and more importantly, ensuring that wherever possible, disputes are avoided before they arise. One potent tool gaining popularity is that of advance rulings by tax authorities. Tax planning is easier, especially for potential investors if advance knowledge of fiscal liabilities is ascertainable. This enables tax authorities to re-employ time and resources away from dealing with disputes about tax liability into more cost effective and productive pursuits.

Simplification of tax laws and procedures is another important area of attention. The argument is fairly simple and straightforward. If taxpayers find it difficult to understand tax laws and procedures along with their resultant fiscal obligations, they will struggle to comply even with the best of intentions. Simplification alone is not a momentous measure but is an important component of the total reforms package. Enhancing skills in drafting legislation that is easily understood and set in day to day expression rather than complicated legal jargon therefore seems potentially a priority area of capacity building in tax authorities.

In order to be successful, tax reforms have to be broad based and multi-dimensional. Above all reform measures need to be finalised and implemented at the earliest. Since traditional tax departments were part of the broader national civil structures and governed by centrally administrated rules, application of reforms measures that sought to bring about fundamental changes in the command and control structures, rules of employment, salary scales closer to economic market realities and a revolutionary change in the work culture and environment, etc. to one section only of the national civil set up suggested that such change could only be brought about by separation of the tax administration from the larger body. That has led to the emergence of autonomous national revenue boards, authorities or agencies in several countries. The degree of autonomy may have varied from case to case but the principle now has widespread coverage.

As a result of autonomous or semi-autonomous existence, tax authorities are able to recruit, retain or dismiss staff to meet the new goals and objectives. More competitive salaries outside of the national civil service structure enable better retention of qualified and competent staff. Under reform packages, the age old “seniority”

principle for vertical mobility has given way to competency benchmarks or performance related career progression. Management of change in working environment and culture has therefore become more important than in the past.

Last but not the least, is the global trend towards computerisation and automation of procedures and fundamental activities. Manual operations can no longer cope with the demands of the speedy, complexities and global nature of business and commercial transactions. Automation facilitates the development of large and reliable databases that can be easily updated and used for a vast range of audit, investigation and compliance related activities. It also enables tax administrations coverage of large geographical areas with ease, rapidity and uniformity of information and application of laws and procedures. A reliable database is the fundamental foundation upon which an efficient and cost effective tax structure can be built. Once that is developed, further sophistications in operations can then be pursued. Reform strategists recognize that automation enables the simultaneous analysis of hundreds of characteristics from the database and customised softwares can be used to achieve a host of targets such as to distinguish compliance patterns from given sets of data, taxpayer segmentation by type (individuals, corporations, self employed, company size, complexity, etc.) Such analysis is impossible to achieve through manual operations. Effective taxation requires the involvement and cooperation of not only all taxation related operations such as VAT and import duties but also information from other sources including financial institutions. Computerised databases are essential for the effective exchange of data and information between tax authorities and all related governmental departments, and indeed with other tax jurisdictions under bilateral agreements. Providing electronic services and developing online electronic products to help people meet their fiscal obligations is now a big part of most tax reform projects. Automation is thus the spine around which modern tax structures are sought to be developed.

While well planned tax reform efforts by tax authorities are vital for the desired success, it is equally important to have a strong political commitment to reforms, a resolve to avoid the temptation to go for easy and politically popular decisions as against decisions that may not go down too well in the short run or with some

segments of the society but are in the long term national interests. It is equally important for the political masters that once a tax reform project is finalised, they must provide full moral support and matching resources without which even the best designed reform projects will never achieve intended results.

CATA NEWS

TWENTY-EIGHTH CATA ANNUAL TECHNICAL CONFERENCE 2007

CATA's 28th Annual Technical Conference was held at the Intercontinental Hotel in Nairobi from 5 to 10 August 2007. It was attended by 134 delegates including 112 delegates from 29 member countries, 13 special guests representing non-member countries, namely, China, Japan, Morocco, Rwanda, Sweden, Thailand and the United States. Nine delegates from international organisations including GIDD (Commonwealth Secretariat), IMF, DFID, GTZ, EU and SADC also attended as special guests.

The following two topics were discussed at the conference:

- 1. Effectiveness of reform measures in tax administration**
- 2. International and domestic aspects of tax fraud, evasion and avoidance**

The conference was inaugurated by the Honourable Minister for Finance for Kenya, Mr. Amos Kimunya. The conference was an outstanding success, both in terms of the technical content as well as the excellent organisational arrangements made and hospitality extended by Kenya Revenue Authority. In between four days of lengthy daily schedules including presentation papers, questions from the floor, syndicate sessions and subsequent reports by rapporteurs, delegates were taken for sight seeing to the fascinating Lake Nakuru and its surrounding national park for a game drive.

CATA secretariat places on record its deepest appreciation and gratitude to the Government of Kenya, the Kenya Revenue Authority and each and every tax official of KRA who was involved in conference organisation.

TWENTY-NINTH CATA ANNUAL TECHNICAL CONFERENCE/WORKSHOP 2008

CATA's 29th Annual Technical Conference will be hosted by Cameroon in November 2008. Further details about the conference will be notified to all members in due course.

ADVANCING MANAGEMENT POTENTIAL (AMP) 2007

The Advancing Management Potential training programme for senior tax officials commenced in Lawress Hall, Lincoln, United Kingdom on **30 July 2007**. The residential period of the programme ends on Friday 14 September. The names of the participants who are attending this year's course are as follows:

- 1. Mrs Chandrika Priyadarshanie (Sri Lanka)**
- 2. Mr Hyder Ali Dharejo (Pakistan)**
- 3. Mr Jumbe Samson (Tanzania)**
- 4. Mr Emmanuel Nsengimana (Rwanda)**
- 5. Mr Athanase Nzayisenga (Rwanda)**
- 6. Mr Mark Dike (Nigeria)**
- 7. Mr Olufemi Faniyi (Nigeria)**
- 8. Mr G O Oshiga (Nigeria)**
- 9. Mr James Nyambi (Nigeria)**
- 10. Mr Nash Dung Gwom (Nigeria)**
- 11. Mr Kofi Nti (Ghana)**

COMMONWEALTH TAX INSPECTORS COURSE (CTIC) 2007

The Commonwealth Tax Inspectors Course commenced concurrently at Lawress Hall, Lincoln, United Kingdom on **30 July 2007**. The names of the participants who are attending this year's course are as follows:

- 1. Mr Roland Irish (Montserrat)**
- 2. Mrs Rosemond Asante (Ghana)**
- 3. Mr Victor Owusu Ababio (Ghana)**
- 4. Mr Patrick Kisaka (Tanzania)**
- 5. Mr Philip Tarimo (Tanzania)**
- 6. Mr Saman Santha (Sri Lanka)**
- 7. Mr Johnson Kamugisha (Rwanda)**
- 8. Mr Dennis Tumwesigye (Rwanda)**
- 9. Miss Jane Bamurange (Rwanda)**
- 10. Mr Abdulhamid Tadaama (Nigeria)**

11. Mr Josiah Abu (Nigeria)
12. Mr Umaru Jaja (Nigeria)
13. Mr James Akimfenwa (Nigeria)
14. Mr Charles Robin Njoku (Nigeria)

**COMMONWEALTH MANAGEMENT
DEVELOPMENT PROGRAMME (CMDP)
2007**

The Commonwealth Management Development Programme 2007 for tax administrators is again being hosted by the Jamaica Revenue Service and will be held at the Tax Administration Services Department, Training Unit, in Kingston, Jamaica on **24 September to 2 November 2007**. Experts from the Australian Taxation Office and Inland Revenue New Zealand will deliver the course materials.

**TAXATION OF INTERNATIONAL
TRANSACTIONS (TOIT) 2007**

The annual Workshop on Taxation of International Transactions was held at the Malaysian Tax Academy, Selangor, Malaysia from 6 to 24 August 2007. Eighteen external participants representing 13 countries are participating in the workshop in addition to 6 tax officials from Malaysia.

**MANAGEMENT COMMITTEE MEETING
(MCM) AUGUST 2007**

The meeting of the Management Committee was held on 10 August 2007 in Nairobi, Kenya. It considered various issues of immediate importance to the Association and endorsed in particular the strategy of entering into bilateral arrangements for cooperation between CATA and other international tax organisations involved in similar activities. The next meeting of the MC will be held in London in May 2008.

OTHER NEWS

Swaziland honours McKinnon for role in constitution-making



Swaziland has honoured Commonwealth Secretary-General Don McKinnon for his role in building democracy and making the southern African kingdom's constitution a reality.

The University of Swaziland bestowed on Mr McKinnon a Doctor of Letters degree (Honoris Causa) at a special full graduation ceremony on 14 June 2007.

HM King Mswati III, Chancellor of the University, praised Mr McKinnon for his commitment to Swaziland, calling him "a brilliant ambassador".

"Someone might be wondering: why honour McKinnon for the work of the Commonwealth? The answer is simple. It is because the Swazi nation recognises that the Secretary-General carried out the work of the Commonwealth in Swaziland with determination, passion, commitment, and therefore distinction," the King said in a speech.

King Mswati III played a key role in building the new constitution by agreeing to the strengthening of the judiciary and parliament as well as the establishment of other agencies to bolster the rule of law. "We are proud to have a constitution that

does not only have the stamp of ownership of Swazis, but also the nature and character

of the Swazi nation as it balances tradition with modernity," the King added. He said Mr McKinnon would be Swaziland's ambassador "wherever you may be", paying him the ultimate tribute: "People of your calibre are not plenty on this planet".

University of Swaziland Vice-Chancellor Professor Cisco Magagula praised Mr McKinnon for "walking shoulder to shoulder with our people, when it appeared everyone else was ready to abandon the kingdom. We honour you for your intervention in constitution-making in this country. We believe your intervention came at the right time. Although this token may look small and insignificant, it comes from the bottom of our hearts," Professor Magagula stated.

Mr McKinnon deemed it an "absolute honour" to receive the degree. "This is not my constitution. This is not the Commonwealth's constitution. It is the constitution of the people of Swaziland. It is not just a piece of paper. It is something the people believe in. Honour it. Protect it," he said.

Swaziland's constitution was adopted last year after three years of negotiations.

Services sector key to economies of small states

Commonwealth is committed to moving the agenda of small states to greater heights, says Deputy Secretary-General. High commissioners from Commonwealth small states based in London have heard that if their economies are to survive the onslaught of global competition, they need to focus on investing more in the services sector.

Speaking during a meeting of the Commonwealth Consultative Group on Small States on 12 July 2007, two consultants, Dirk Willem te Velde and Mahvash Saeed Qureshi told the high commissioners that services sector areas such as tourism and hospitality, education, banking and information and communication technology do not suffer high risks normally faced by small states.

“Why the services sector, one may ask: It is because they are less sensitive to high transport costs, they help diversify the economic base, reduce vulnerability to macro shocks, and reduce reliance on agriculture and manufacturing,” they said.

The 12 July meeting was a follow-up to the 2006 Review of the Commonwealth Secretariat/World Bank Joint Task Force on Small States. It took place at Marlborough House, London, and was organised by the Economic Affairs Division of the Commonwealth Secretariat. Their presentation, titled ‘Promoting knowledge-based and service industries in small states’, is one of the two studies commissioned by the Secretariat aimed at promoting a knowledge-based and service-oriented development approach for small states.

The meeting was meant to provide an opportunity for the envoys to comment on the issues highlighted in the studies. Mr te Velde and Ms Qureshi from the Overseas Development Institute said that small states had to move into knowledge-based and service industries and reposition themselves in an increasingly competitive global economy.

It was pointed out that in addition to the traditional challenges faced by small states such as small domestic market, weak investment climate, and lack of skilled labour force, new challenges had emerged. These include erosion of preferential treatment for their exports -- which they had been enjoying for decades -- competitive

pressures from emerging countries like China, India and Brazil, increased environmental vulnerabilities and rapid increase in the debt burden.

As such, the consultants argued, small states need to specialise in unique products, human capital development and build good communication with the outside world to develop trust and brand marketing. Another consultant, David Peretz, presented the second study -- ‘The international development architecture for assistance to small states’ -- a review of development partners’ support for small states with a view to examining areas where partners can collaborate further in addressing the challenges affecting small states.

Commonwealth Deputy Secretary-General Ransford Smith told the meeting that the Secretariat is committed to moving the Small States Agenda to greater heights. “We intend to progress beyond mere acceptance of the development obstacles facing small states to identifying concrete policy interventions and best practices to support our small member states, while actively engaging the international community,” he said.

Thirty-two of the Commonwealth's 53 member countries are small states -- mostly with populations of less than 1.5 million. The Secretariat attaches high priority to supporting their integration in the global economy, building their resilience and competitiveness, and helping them take advantage of the opportunities and meet the challenges arising from globalisation.

DSG Smith says, Good governance goes hand in hand with economic development

There is a clear convergence of interest between public and private sectors in promoting good governance. Poverty reduction and good governance are crucial for peace and stability, given the development challenges and conflicts of

today's world, Commonwealth Deputy Secretary-General Ransford Smith said in a speech prepared for an international economic forum. "Our experience in Commonwealth countries has shown that good governance and economic development are mutually reinforcing, long term, country-driven processes, which should go hand-in-hand," he stated.

Addressing the International Forum of the Americas/Conference of Montreal in Canada on 21 June 2007, Mr Smith said that governance and development were dynamic and complex processes and their delivery hinged on solid institutions and long-term commitment. "Both need bold, strong, competent and courageous leadership," he emphasised.

Mr Smith highlighted the clear convergence of interest between the public and private sectors in promoting good governance, pointing to the link between government and development and how waste, inefficiency, corruption and ineffectiveness impact on development. The Commonwealth had made good governance a key development priority through promoting public sector reform and building the capacity of regulatory institutions, he said.

It views the relationship between civil society and the private sector as an integral part of the political, economic and administrative management of a nation. "We strongly believe that governance is to be judged not only on outcomes, but also on the processes and relationships that produce them," the Deputy Secretary-General told the meeting.

He cited the Commonwealth's decade-long support to members in the area of corporate governance reform which has covered 40 countries. And since 2003, the Commonwealth Secretariat has also worked with more than 20 member states, advising on structuring and implementing public-private partnerships.

The Commonwealth's good offices and democracy work in resolving conflict and promoting peace have supported the stability and predictability needed for the private sector to grow and flourish in countries like Cameroon, Guyana, Swaziland and Uganda.

This year, the Secretariat will revisit the issue of good governance and its relationship with development, Mr Smith said. "We propose to highlight the key role that a successful partnership among development partners, governments and the private sector can place in taking both agendas forward."

The meeting was held from 18 to 21 June 2007 and was co-organised by the Canadian International Development Agency.

Commonwealth Secretary-General congratulates Gordon Brown on his appointment as British Prime Minister

Commonwealth Secretary-General Don McKinnon has congratulated Mr Gordon Brown on his appointment as British Prime Minister.

The full text of his letter reads:

"Please accept my warmest congratulations on your appointment as Prime Minister.

Your speech in India in January was most welcome, when you spoke of the three strands of the United Kingdom's external relationships being the American alliance, the European connection, and the UK's role in the Commonwealth. The Commonwealth and the UK have a unique and unparalleled relationship, anchored in history, and I share your sense that there is much more that we can bring to each other and do together.

I therefore look forward to you and your Government making full use of our worldwide networks and opportunities. Commonwealth Heads of Government will be gathering in retreat at Munyonyo, Uganda, in November, and will be very pleased to meet you. You and I have also spoken about using the Commonwealth's connections to promote wider global momentum on climate change and we are putting steps in place to achieve that. The Commonwealth Secretariat can also play a greater role in delivering the development outcomes you wish to achieve in Africa.

The Commonwealth and the Commonwealth Secretariat will continue to support the United Kingdom and its goals, at home and abroad, and I personally look forward to working with you.”

Commonwealth Heads of Government Meeting (CHOGM), Kampala 23-25 November 2007

Commonwealth Heads of Government will meet in Kampala, Uganda from November 23 to 25, and the media accreditation process has begun.

The theme for this year's CHOGM is *Transforming Commonwealth Societies to achieve Political, Economic and Human Development*. The meeting will focus on bringing economic and social benefits to Commonwealth member countries, and above all to the poorest.

The overriding objective of CHOGM is to develop ways of improving the lives of Commonwealth citizens by:

Reinforcing the Commonwealth's fundamental political values such as democracy and good governance; Economic

liberalisation and global stability through initiatives such as debt relief and an assessment of progress to achieve the Millennium Development Goals; Development issues like capacity and institution building in member countries; and linking the Commonwealth, its global partners and regional organisations to establish strategic partnerships for development. Climate change may also be discussed.

As well as the Heads of Government meeting, the CHOGM week will incorporate the Commonwealth Youth Forum, the Commonwealth Business Forum, and the Peoples' Forum, bringing together civil society from Commonwealth countries.

As a result of mandates given to the Commonwealth Secretariat at the last CHOGM in Malta in November 2005, the following reports and recommendations will be presented in Kampala:

- The Commission for Respect and Understanding, chaired by Nobel Laureate Amartya Sen, will report on its findings about the causes of conflict, the breakdown of understanding within and between communities, and its implications for policy-makers.
- The Committee on Commonwealth Membership, chaired by former Jamaican Prime Minister PJ Patterson, will present its review of the criteria under which applications for Commonwealth membership would be considered in future.
- The Steering Committee on 'Commonwealth Connects', which is tasked with helping bridge the digital divide among member countries.

Foreign Ministers Meeting

Foreign Ministers will meet in Kampala two days prior to CHOGM, from 21 to 22 November 2007. They will be discussing

issues such as democracy and governance issues, conflict prevention and resolution, terrorism, international trade and economic co-operation, financing for development, environmental issues and natural disasters.

CHOGM 2007 will also see the election of a new Secretary-General. Don McKinnon will finish his term of office on 31 March 2008.

NEWS FROM MEMBERS

AUSTRALIA

Country Correspondent:
Kristy Dam



DECISION IMPACT STATEMENTS

We have commenced publishing documents we call “Decision Impact Statements” on our [website](#) as part of our extensive externally accessible legal database. These statements summarise important court and tribunal cases when a decision is handed down in the case. It gives a commentary on the Tax Office view on the implications of those decisions and how the law will be administered as a result of the decision.

The purpose of publishing these statements is to communicate to the community the Tax Office view on the implications of a Court or Tribunal decision, in all decisions adverse to the Commissioner and other Court and Tribunal decisions considered significant.

A cornerstone of our administration is to help taxpayers understand their obligations under the law. Litigation provides an opportunity for taxpayers who disagree with our views to have a court or tribunal provide certainty about what the law means. This provides greater certainty to the entire community and assists taxpayers to meet their tax obligations.

Australia’s Inspector-General of Taxation in his report into the Tax Office’s litigation practices last year, highlighted concerns expressed by the community that the Tax Office is perceived to be “operating behind a veil of secrecy as to implications of finalised court and tribunal decisions.” While we did

not agree that we operate behind a veil of secrecy, we readily agreed that this was an area where we could improve our transparency, and agreed with the recommendation to produce a standard communication product.

Actual court and tribunal decisions themselves are already published on the external Tax Office website. The system will now automatically insert a link from the decision to the Decision Impact Statement (DIS).

Importantly in these statements we identify any consequences for our Public Rulings, and other publications that may have been affected by the decision. If we accept the outcome of the decision and we find that our Ruling is wrong, we will withdraw or amend the Ruling and we will give that undertaking in the statement. The Tax Office hopes that this will not only promote transparency in tax administration but will also provide taxpayers with increased certainty when organising their tax affairs.

On the website the statements are categorised between ‘current’ or ‘resolved’. A ‘current’ case is one where we need to update a Public Ruling or ATO ID or there is some other form of administrative action that needs to be taken. A ‘resolved’ case is one where no further action is needed to be taken by the Tax Office as a consequence of the decision (other than giving effect to it for that particular taxpayer).

We aim to have a DIS published within eight weeks of a significant court or tribunal decision being made final. This takes into account the four week period usually available to either party to decide if they wish to appeal the decision. The DIS contains the following information:

- Details of the case: venue, date of decision, whether an appeal is on foot;
- Subject References;
- Brief summary of facts;
- The issues decided by the court or tribunal (with a hyperlink to the full decision);
- Relevant legislation and case law;
- Tax Office view of the decision; and
- The administrative treatment of the decision. For example how the Tax Office will apply the decision including any implications on current Rulings and Determinations. The DIS may simply explain how the Commissioner will administer the law pending any review of a published Ruling.

Under the last dot point, any Tax Office precedential views, such as Public Rulings, that are impacted and under review as a consequence of the decision will not only be hyperlinked, but the actual document will be flagged with a note that states that it is currently under review.

The public are given the opportunity to provide comments and advise the Tax Office if they feel that the DIS has not identified a Tax Office publication which requires reconsideration or amendment. The DIS provides details of who can be contacted about the DIS. The contact officer will either respond to any external representations themselves or ensure that the representations are referred to the relevant area of the Tax Office that may be able to assist.

So far, the feedback from the Australian community about this initiative has been positive, but there is no doubt that a product such as this will generate strong comments from those who disagree with our position in any one case. Still, as an organisation that strives for transparency and providing certainty to the community about the law,

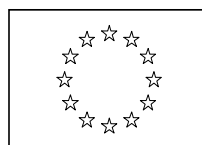
we are confident that this is a step in the right direction.

CYPRUS

**Country Correspondent:
Mrs Athina Stephanou**



TRAINING WITHIN THE DEPARTMENT OF INLAND REVENUE IN CYPRUS



Recently and in continuation to my article of March 2007, I will describe below the seminars agreed to be carried out, exclusively for the Department of Inland Revenue, under the Transition Facility of the Cyprus Academy of Public Administration. **This project is co-financed by the European Union.** In total 120 seminars will be carried out for most of the Government Departments. Experts will be provided by the European Centre of Constitutional Law (Themistokli and Demetri Tsatsou Foundation) in Greece and HAUS (Finnish Institute of Public Management).

Exclusively for the Department of Inland Revenue, the following seminars, that have been designed by **HAUS**, in accordance with the needs of the Department, will be carried out:

- ***Tax Inspections according to the guidelines of EU*** – This will be a three day seminar and the purpose is presentation of EU members best practices , challenges of the current Cyprus system of taxation and inspection with comparative study ,

presentation of policies and techniques for safeguarding compliance of taxpayers and new tax payers, principles of taxation of natural persons, principles and practical means of inspection of accounts of natural persons ,principles of company taxation, principles of inspection of accounts of large enterprises and presentation of EU Member States' best practices, required measures to modify and change the Cyprus taxation system along the current relevant legislation / regulations, selection of critical success factors for Cyprus from the EU Member States' best practices presented, indicators of compatibility etc.

- ***EU Directives related to Direct Taxation***- This will be a three day seminar and the purpose is the presentation of all EU Directives relating to Direct Taxation and the identification of required measures in order to apply above-mentioned Directives in Cyprus and determining relevant indicators of compatibility, etc.
- ***Lisbon Strategy and EU Integrated Guidelines*** – This will be a two day seminar and the purpose is the presentation of the strategy and EU guidelines, presentation of EU Member States' best practices on how to improve their national competitiveness in the EU and global context, investments in innovation policy, ICT and research and development, required measures to modify and change the regulatory framework of the Cyprus in order to improve its conformity related to Lisbon strategy, etc.
- ***Financial Risk Management*** – This will be a three day seminar and the purpose is the presentation of EU's

regulatory framework and relevant Community Directives in terms of risk management on income revenues: (a) principles of good administration; (b) fiscal certainty, challenges of the current Cyprus income revenues risk management, presentation of EU Member States' best practices and relevant cases in terms of income revenues risk management, risk mapping exercise according to the European Commission's scheme, economic analysis of tax returns – identification of risk areas for audit, liquidity analysis and taxpayers' capacity to obtain loans, indicators for good income revenues risk management system in Cyprus, etc.

- ***Introduction of Euro*** - This will be a three day seminar and the purpose is the presentation of EU's regulatory framework and relevant Community Directives on EU common currency: (a) stability pact; (b) ERM; (c) transition period, challenges of the current Cyprus monetary policy in compliance with EURO practices, presentation of EU Member States' best practices and relevant cases in terms of transition to EURO, transition to EURO – Challenges to the Cyprus economy (Risk mapping exercise) , how EURO will affect the working procedures and administrative routines of the Department of Income revenues – decision-making, staff matters, workflow, etc.
- ***EC Tax Case Law*** – This will be a day seminar and the purpose is the empirical study of ECJ tax case law ,examples of ECJ rulings and their impact on Cyprus income taxation system and procedures, challenges to the Cyprus income tax legislation, etc.

- **Performance Based Budgeting & performance indicators** - This will be a two day seminar and the purpose is the presentation of the EU stability pact and the quest for improved public administration productivity in EU Member States', performance-based budgeting and the requirements for better accountability – principles of the new methodology, introduction of best practices of performance indications from EU Member States', introduction of relevant tools for identification of indicators - (e.g. CAF, BSC), setting up objectives and indicators for public organization – examples from EU Member States' Public Administration, setting measurable indicators for audit, accounting, audit of natural persons, administration, performance indicators and CAF – link to the quality, etc.

Furthermore a number of employees of the Department will participate in a number of open seminars such as the design and completion of project co-financed by the European Union , Data protection Law – European and national extension, Competition Law etc

The expected results from the seminars are:

- Synchronization of the EU acquis into the Cyprus public administration, in particular the Department of Inland Revenue, in relation to the areas covered above.
- Promotion and improvement of effectiveness within the Department of Inland Revenue in relation to the areas covered above
- Improved legislative and administrative processes

through learning of best practices.

NEW ZEALAND

**Country Correspondent:
Ms Sally Morrison**



DEVELOPMENTS IN ELECTRONIC SYSTEMS FOR TAX ADMINISTRATIONS

SUMMARY PAPER

Background

Inland Revenue's online services first emerged in the early 1990s, with an electronic filing system for tax agents; this was followed in the late 1990s by a system for employers to file their monthly employer schedules electronically.

The organisation's first website was deployed in 1996. It largely focussed around providing information; no interactive services were available at that stage, apart from the ability to send us an email.

Ten years on, the Inland Revenue website (which has been significantly redeveloped during the intervening period) features over 70 online forms, returns, and calculators, and a range of online services.

The continuous enhancement of Inland Revenue's website and online services, in tandem with New Zealanders' growing uptake of the internet, has resulted in a consistent upward trend in site visits and uptake. More than 1,600,000 visits were made to the site during the quarter ended June 2006, an increase of 40 percent over the same quarter in 2005.

Uptake of electronic correspondence and online services available through the website has likewise been consistently trending up. A number of examples are detailed in the Inland Revenue paper, including three case studies.

Strategic alignment

Inland Revenue first formal strategy around its electronic channel was its e-Enablement Strategy (2002).

To deliver the strategy, an e-Enablement Programme was formed within Inland Revenue, comprising permanent employees, staff seconded from other parts of the organisation, and specialist contractors as required. Much of Inland Revenue's current web presence and online services is attributable to the e-Enablement Strategy, and the initiatives delivered by the e-Enablement Programme between 2002 and 2006.

In 2005 Inland Revenue recognised the need not to not only "e-enable" existing business processes, but to work with customers in new ways through electronic channels, responding to the e-Government agenda and meeting the changing expectations of customers and employees. This involved the concept of transformation: moving from providing access to Inland Revenue through the web, to designing end-to-end processes that may include several government agencies and overall will deliver a seamless customer experience.

With this in mind, an e-Business Strategy was developed and approved, and with the subsequent formation of an e-Business Programme in 2006. The Programme will operate between 2006 and 2011 to deliver the strategy. The e-Business vision is "'e' is how we do business".

Challenges, barriers and opportunities

Despite the uptake of online services achieved thus far, a number of hurdles to further uptake remain.

These include:

- adopting a more proactive approach to marketing our online services
- improving the online services, to increase customer satisfaction with the products
- meeting customers' growing expectations about online services
- providing online services for businesses as well as individuals
- prioritising the deployment of online services, given heavy demand for them and limited resources
- the potential for publicity about 'cyber crime' to undermine public trust in e-business.

Nonetheless, e-business offers notable opportunities to revenue authorities and their customers. Most particularly, improved customer compliance by:

- making it easy for customers to interact with Inland Revenue
- having better-quality information (eg via business-to-business connections with other government agencies)
- information being received more quickly – enabling better management of risk
- streamlined business reporting (eg through initiatives such as XBRL), and
- staff being freed up to focus on higher-value contacts.

In addition, we anticipate that there will be cost-savings and work efficiencies gained through increased use of lower-cost channels; increased job satisfaction for employees; and customers will be able to be more involved in policy-making processes (eg online forums).

Conclusion

The electronic services offered by Inland Revenue are continuing to evolve over time. Strategies to address and improve Inland Revenue's e-channel, first with the e-Enablement Strategy in 2002, and lately the new e-Business Strategy, are keeping Inland Revenue's electronic initiatives on track and moving forward. Becoming an 'e-business' will not be a quick or easy process, as the challenges we face are considerable – but likewise so are the opportunities: we are confident there will be significant benefits for taxpayers, social policy customers, other government agencies, and Inland Revenue as an organisation.

NIGERIA

Country Correspondent:
Mr Malik Tukur



CHANGES IN VAT RATE AND NEW LOGO

Let me start with the introduction of the new FIRS Logo which was launched in May 2007 by the Hon Minister of Finance before going into changes in Value Added Tax. The new logo comes in a vibrant red and grey colour which signifies vibrancy and dynamism. It is distinct and easily legible.



Value Added Tax was introduced in Nigeria in the year 1993 vide Value Added Tax Decree no 103 of 1993. The rate was 5% for VAT able Goods and Services while the decree also spelt out the Goods and Services that are exempt. Since then there has only been moderate changes to the goods and services but the rate was never changed.

However, in late May 2007, the Honourable Minister of Finance gave a notice of increase in VAT rate from 5% to 10% that is 100% increase. Other Tax related regulations were also introduced. The increase did not go down well with the people as Labour Union called Nigeria Labour Congress (NLC) also gave a notice of going on indefinite strike if the hike in the VAT rate and other increases in fuel price are not reversed. Below is the extract of the Ministers' proclamation on the VAT rate.

“NOTICE OF INCREASE IN VAT RATE TO 10% AND OTHER NEW TAX RELATED REGULATIONS

Pursuant to the provisions of Section 34(a) of the Value Added Tax Act (VATA) 1993 (as amended), which vest on the Honourable Minister of Finance, the power to amend the rate of tax chargeable under the Act, the PUBLIC is hereby notified as follows:

(a) The rate of tax as prescribed in section 4 of the Act is hereby increased to 10%, beginning from 23rd May, 2007.

(b) The increase in rate to 10% has been necessitated by the following development:

(i) The VAT rate of 5% is the lowest in the African sub-region and has remained without change since the commencement of VAT in 1993, thereby constituting a source of distortion to trade and discouraging competition within the Region.

(ii) Nigeria, being a strong member of ECOWAS is obliged to review its current VAT rate in line with the

policy directives of the Commission on harmonization of VAT and Excise Duties within the ECOWAS between now and 2009.

(iii) the ECOWAS ,Commission has for this reason, suggested a transition period of two (2) years, terminating in 2009, within which member-States presently applying low VAT regime should close the gap to a point within the range of 10-20%.

(iv) With the recently promulgated VAT amendments, certain key features of a standard VAT system are now being introduced into the country's VAT system in order to make it attractive for businesses. The input - output credit adjustment mechanism will eliminate inflationary effects.

(c) All taxable persons are hereby enjoined to comply with the content of this Notice and for the purpose of clarity, Taxable Person include an individual or body of individuals, family, corporations sole, trustee or executor or a person who carries out in a place, an economic activity, a person exploiting tangible or intangible property for the purpose of obtaining income there from, by way of trade or business or a person or agency of government acting in that capacity".

(d) In this connection, taxpayers, consumers and agents of FIRS VAT collection are to note that all sales and purchases transactions relating to goods and services, including contracts of supplies will henceforth attract VAT at the rate of 10% and as provided in the VAT Act, all creditable input taxes as defined in section 13A will continue to qualify for either set-off or cash refund as may be applicable. The increase to 10% will also apply to all imports passing through Customs Ports or Land Borders in Nigeria, except where such goods have been specifically exempted under the VAT Act.

(e) In order to sustain operational efficiency associated with increase in VAT rate, some obvious advantages would, be available to VAT payers, particularly in view of the newly enacted Federal Inland Revenue Service (Establishment) Act 2007 and the Value Added Tax (Amendment) Act 2007 which came into force on the 16 April 2007.

Some examples include:

- The system will be supported with an efficient VAT refund system.
- The following goods and services will, effective from 16 April 2007 enjoy zero-rated status.
 - Non-oil exports;
 - Goods and services purchased by diplomats;
 - Goods purchased for humanitarian donor-funded projects; Humanitarian donor funded projects are defined as including "projects undertaken by Non-Governmental Organizations and Religious and Social Clubs or Societies recognized by law whose activity is not for profit and in the public interest."

(f) For the avoidance of doubt, it is hereby re-emphasized that the following good and services remain exempt from VAT:

Goods exempt

1. All medical and pharmaceutical products.
2. Basic food items.
3. Books and educational materials.
4. Baby products.
5. Fertilizer locally produced agricultural and veterinary medicine, farming machinery and farming transportation equipment.

6. All exports (excluding Non-Oil exports which enjoy zero-rated status).
7. Plant and machinery imported for use in the Export Processing Zone.
8. Plant, machinery and equipment purchased for utilization of gas in down-stream petroleum operations.
9. Tractors, ploughs and agricultural equipment and Implements purchased for agricultural purposes.

Services Exempt

1. Medical services.
2. Services rendered by Community Banks, People's Bank and Mortgage Institutions;
3. Plays and performances conducted by educational institutions as part of learning;
4. All exported services (excluding Non-Oil exports which enjoy zero-rated status);

(g) Pursuant to the provisions of Section 60 of the Federal Inland Revenue Service (Establishment) Act 2007, it is further directed as follows:

(i) For greater efficiency in tax administration, henceforth all VAT and other tax collecting agents are to pay remittances direct into designated FIRS accounts, unlike the erstwhile system where remittances are first paid into the Agents' account and then selectively remitted to the FIRS account.

(ii) With effect from May 23 2007, all current and existing bank account holders must have a unique tax-payer Identification number (T.I.N.) to be provided by the FIRS. This is now a pre-requirement for opening of bank accounts as well as a pre-registration requirement for Companies, Enterprises and other organizations being registered by the Corporate Affairs Commission. All regulatory authorities and stakeholders are requested to note this for compliance.

(iii) Finally, all Accounting Officers of Ministries Departments and Agencies of the three tiers or arms of Government, as well as Agents of VAT and other taxes, including Nigeria Customs Service, (NCS), Power Holding Company of Nigeria Plc, (PHCN), Nigerian Telecommunications Plc (NITEL), Manufacturers, Financial Institutions and Taxable establishments are requested to note this of this Ministerial directive for compliance.

Dated: 21st May 2007”.

Other notable changes in the Tax environment include the assent of the President to the Federal Inland Revenue Service (Establishment) Act 2007 and amendments to Company Income Tax Act and National Automotive Council Act. These will be discussed in subsequent quarter.

Meanwhile, the Union did embark on the strike forcing the Government to rescind its decision till further notice.

PAKISTAN

**Country Correspondent:
Mr Muhammad Riaz**



The Secretariat of Association of Tax Authorities of Islamic Countries (ATAIC) is held by Pakistan since November 2006 and will remain as such till November 2007. The dates for the 4th ATAIC Technical Conference have been announced to be held on 25-28 November 2007 at Kuwait. During the tenure of holding ATAIC Secretariat, Pakistan is currently representing it at International Forums. Mr. Salman Nabi, Member (Direct Taxes) and Mrs. Farida

Amjad, Chief (International Taxes) represented it in the recently held MENA-OECD Conference at Cairo from 19-21 June 2007.

The Finance Act 2007 has been promulgated, which also includes promulgation of Federal Board of Revenue Act 2007 in substitution of Central Board of Revenue Act 1924. With the promulgation of Federal Board of Revenue Act, the Federal Board of Revenue stands established. The establishment of Federal Board of Revenue materializes the efforts of the Revenue Board to gain autonomy in realization of its Vision, so as to pursue effectively, the goals of tax reform undertaken since 2001. The Federal Board of Revenue besides achieving other important goals will effectively implement the tax reforms, promote Voluntary Compliance, customer focused approach, modernize the tax machinery with adoption of information technology system, improve productivity through effective HR strategy, maintain a system of accountability of performance and competence.

The promulgation of Finance Act 2007 also brings changes in the law and policy of the Federal Board of Revenue. The changes are enumerated as under:

1. REDEFINING “SMALL COMPANY”

The concept of “small company” was introduced through Finance Act, 2005 with incentives of reduced corporate tax rate of 20% and absolving it to withhold tax under section 153 of the Income Tax Ordinance. This expression has been redefined with following parameters:

- (i) paid up capital up to Rs. 25 million;
- (ii) the threshold of maximum turnover has been raised to Rs.250(m); and
- (iii) employees limit not exceeding 250 persons at any time during the year.

2. ADJUSTMENT OF BROUGHT FORWARD LOSSES IN CASE OF AMALGAMATION OF COMPANIES

Prior to Finance Act 2007, amalgamation meant merger of one or more:

- (i) banking companies; or
- (ii) non-banking financial institutions; or
- (iii) insurance companies; or
- (iv) companies owning and managing industrial undertaking in which at least one company is a:
 - (a) public company; or
 - (b) company incorporated under a specific law other than the Companies Ordinance 1984.

The meaning of “amalgamation” has been extended to include companies engaged in providing services other than trading companies.

Furthermore, on amalgamation the business loss other than speculation loss of an amalgamating company was available for set-off against the business profits and gains of an amalgamated company for 6 tax years. This set-off has been withdrawn for amalgamation taking place on or after 1st July 2007.

3. GROUP TAXATION

The concept of “Group Taxation” has been introduced. The salient features of the regime are as follows:

- (i) 100% owned group of companies locally incorporated under the Companies Ordinance, 1984 will be taxed as a single fiscal unit, provided an irrevocable option is exercised to be taxed as a group.
- (ii) Losses incurred by the group company will be off-set against income of other group companies.

(iii) Consolidated group account as required under the Companies Ordinance, 1984 will form -
(a) the basis of computation of income; and
(b) tax payable by the group.

(iv) the relief under group taxation will not be available to losses prior to the formation of the group;

(v) any income derived, on or after 1st July 2007, from inter corporate dividend within a group companies, entitled to group taxation shall be exempt.

4. REVIEW OF LAW RELATING TO HOLDING COMPANIES

The salient features of the changes brought in the taxation scheme of holding companies are as follows:

(i) a subsidiary company may surrender its assessed losses (excluding capital loss or brought forward losses) for the tax year in favour of its holding company or between the subsidiaries of the holding company or between another subsidiary of the holding company;

(ii) holding company shall be a public company listed on a registered stock exchange in Pakistan or a private limited company;

(iii) holding company being a public company, should directly hold 55 percent or more of the share capital of the subsidiary company. Where none of the companies in the group is a listed company, the holding company shall hold directly 75% or more of the share capital of the subsidiary company;

(iv) losses surrendered by the subsidiary company can be claimed by the holding company or a subsidiary for set-off

against its “income from business” in the tax years in which losses have been surrendered and the following two tax years;

(v) there should be a continued ownership of prescribed shareholding for five years. In case of disposal of shares in a year bringing the ownership below the prescribed threshold, the holding company shall be required to offer for tax the amount of profit on which taxes have not been paid due to set off of losses surrendered by the subsidiary company;

(vi) a company within the group engaged in the business of trading shall not be entitled to avail group relief;

(vii) a private limited company, being a holding company, should get listed within 3 years from the year in which loss is claimed;

(viii) group companies should be locally incorporated companies under the companies Ordinance, 1984;

(ix) loss surrendered and claimed should have approval from the Board of Directors of the respective companies;

(x) subsidiary company should continue the same business during the period of 3 years;

(xi) all the companies in the group shall comply with such corporate governance requirements as may be specified by the SECP from time to time and are designated as companies entitled to avail group relief;

(xii) subsidiary company shall not be allowed to surrender its assessed loss for set-off against income of the holding

company for more than (consecutive) 3 tax years;

(xiii) any unadjusted surrendered loss after the period of 3 years, shall be available to the surrendering subsidiary company to carry forward according to statute of limitation;

(xiv) loss claiming company, with the approval of Board of Directors shall transfer cash to the loss surrendering company equal to the amount of applicable tax rate on the profits to be set off against the acquired loss. The transfer of cash would not be taken as a taxable event in the case of either of the 2 companies;

(xv) transfer of shares between companies and shareholders in one direction, would not be taken as a taxable event if the purpose is to hold share capital for formation of group and approval of;

(a) Securities and Exchange Commission of Pakistan; or

(b) State Bank of Pakistan whichever, applicable, has been obtained. However, sale and purchase from third party would be taken as taxable event and after acquiring shares for purpose of group formation, if sold in the open market or to a third party shall attract tax on the capital gains, if any, arising from such sale.

5. MERGERS AND ACQUISITIONS

No gain or loss shall arise on disposal of assets by one company to another company under a Scheme of Arrangement and Reconstruction under the Companies Ordinance, 1984 or of the Banking Companies Ordinance, 1962.

The other salient features of the Scheme are as follows:

(i) No loss or gain shall be taken to arise on disposal of asset from one company to another company by virtue of Scheme of Arrangement and Reconstruction as approved by;

(a) the High Court;

(b) State Bank of Pakistan; or

(c) the Securities and Exchange Commission of Pakistan, as the case may be;

(ii) No loss or gain shall be taken to arise on issue, cancellation, exchange or receipt of shares as a result of Scheme of Arrangement and Reconstruction;

(iii) In case of disposal of shares issued and vested under Scheme of Arrangement and Reconstruction, the cost of the shares shall be the cost prior to the operation of the scheme; and

(iv) Scheme of Arrangement and Reconstruction, approved on or after 1st July 2007 is eligible for the benefits available under this section.

7. SEPARATE SCHEDULE FOR BANKING COMPANIES

For computation of income of the banking companies, a separate schedule has been provided as “**Rules for computation of the profits and gains of a banking company and tax payable thereon**”. The salient features of scheme as provided in the Seventh Schedule are as under:

(i) a banking company’s income as disclosed in the annual accounts furnished to the State Bank of Pakistan, subject to specified adjustments, shall be taken as “Income from Business”;

(ii) deductions for depreciation, initial allowance and amortization of intangibles shall be available in accordance with law;

(iii) deductions shall be inadmissible if covered under section 21 of the Ordinance;

(iv) gain or loss on disposal of depreciable asset shall be computed in accordance with law;

(v) provisions of law relating to disposal and acquisition of asset shall be applied to make adjustments;

(vi) provision for classified advances and off balance sheet items shall be allowed as claimed in the accounts, provided a certificate from the external auditors is furnished by the banking company to the effect that such provisions are in line with the requirements of Prudential Regulations;

(vii) expense charged in the accounts in respect of a debt classified as 'substandard' under Prudential Regulations shall not be allowed as deduction. However, if such debt is re-classified as 'doubtful' or 'loss' subsequently, a deduction shall be allowed for the amount disallowed being 'substandard'. Further, reversal of provision in respect of a substandard debt, which was disallowed earlier, shall not be taken as income;

(viii) adjustments made in the accounts due to application of International Accounting Standards 39 and 40 and consequently any gain or loss arising, shall be excluded while computing the income of the banking companies;

(ix) liabilities, against which deduction was allowed, if remain unpaid for 3 years shall be added in the first tax year following the end of the 3 tax years. Payment of such liability shall however be allowed as deduction in the year of the payment;

(x) gain or loss on sale of shares of listed securities shall be dealt separately:

(a) loss on sale of shares of listed companies, disposed of within one year of the date of acquisition, shall be adjustable against business income of the tax year;

(b) where such loss is not fully set-off against business income during the tax year, it shall be carried forward to the following tax year and set-off against capital gain only; and

(c) no loss shall be carried forward for more than 6 years immediately succeeding the tax year for which the loss was first computed;

(xi) any special treatment for 'Shariah Compliant Banking' approved by the State Bank of Pakistan shall not be provided for any reduction or addition to income and tax liability. A statement, certified by the auditors of the banking company, shall be attached to the return of income to disclose the comparative position of transaction as per Islamic mode of financing and as per normal accounting principles. Adjustment shall be made to take into account treatment under normal accounting principles;

(xii) foreign banks shall be allowed deduction for head office expenditure in the ratio of gross receipts of permanent establishment to world gross receipts, provided that expenditure is:

(i) charged in the books of accounts of the permanent establishment; and

(ii) a certificate from the external auditors is provided to the effect that the claim of such expenditure:

(a) has been made in accordance with the provisions of this rule; and

(b) is reasonable in relation to the operation of permanent establishment in Pakistan.

(xiii) Federal Government has been empowered to amend, or modify or omit any entry in this schedule.

(xiv) Special provisions relating to banking business shall apply to the profit and gains of the banking companies relevant to tax year 2009 and onward.

8. MANDATORY ELECTRONIC FILING OF RETURNS AND STATEMENTS OF WITHHOLDING TAX

Corporate taxpayers are required to file returns of income and withholding tax statements electronically.

9. WHT ON INTER CORPORATE DIVIDEND MADE ADJUSTABLE

Inter Corporate dividend was liable to withholding tax @ 5% which was final tax liability in the case of a company. Amendments have been made in sections 8, 169 and in the First Schedule of the Income Tax Ordinance, 2001 to;

(i) exclude dividend received by a company from the ambit of PTR; and

(ii) provide for an adjustable uniform rate of 10% applicable for transactions made on or after 1st July 2007.

10. EXEMPTION TO MICRO FINANCE BANKS (MFBs)

Income of MFBs has been exempted for 5 years, starting from first day of July 2007 subject to following conditions.

These banks will –

(i) not issue dividends to their shareholders; and

(ii) utilise their profits and gains for Micro Finance Operations only.

11. EXEMPTION TO PRIVATE EQUITY AND VENTURE CAPITAL FUND

Income Tax Ordinance provides exemption to profits and gains of Venture Capital Companies and Venture Capital Funds up to June 2014. Venture Capital Funds have since been replaced with Private Equity and Venture Capital Funds and new rules to this effect have been framed by SECP being a regulatory authority. Since exemption to venture capital funds is already available in the law, it has been decided that this exemption may also be extended to Private Equity and Venture Capital Funds.

12. EXTENSION OF EXEMPTION ON CAPITAL GAINS

The existing exemption on capital gain tax was available up to 30th June 2007. The period of exemption has been extended up to tax year ending on 30th June 2008. Likewise this exemption is also extended for insurance companies.

13. EXEMPTION OF GAINS ON TRANSFER OF CAPITAL ASSET DUE TO DE-MUTUALISATION OF STOCK EXCHANGES

Demutualisation is a process through which stock exchanges will convert into profit making public limited companies. As a result, capital assets of present stock exchanges will be transferred:

(i) to new corporatised stock exchanges; and

(ii) members of an existing stock exchange for:

(a) acquisition of shares; and

(b) trading and clearing rights acquired in the new corporatised stock exchanges.

In order to facilitate the process of demutualization and corporatisation of Stock Exchanges any gain on transfer of capital assets of the existing stock exchanges to new corporatised stock exchange has been exempted under newly inserted clause (110A). Similarly, any gain on transfer of a capital asset, being a membership right held by a member of an existing stock exchange for acquisition of shares or trading rights by such member in a newly corporatised stock exchange has also been exempted.

SINGAPORE

Country Correspondent:
Ms Sunita Kapoor

GST Advance Ruling System

An advance ruling system for GST has been introduced to provide certainty to taxpayers on the GST treatment of transactions. The GST Act has been amended to provide for this advance ruling system. A new section 90A, together with a new Fifth Schedule, has been enacted. An advance ruling issued in accordance with these provisions will bind the Comptroller of Goods and Services Tax on the ruling made.

IRAS has issued an Electronic Tax Guide titled “GST Advance Ruling System” at www.iras.gov.sg. This E-Tax Guide explains the GST advance ruling system and the application procedures.

Claim for one year write off for new diesel driven goods vehicles and buses registered on or after 15 Feb 2007

With effect from 1st October 2006, all new diesel-driven vehicles are required to comply with the Euro-IV emission standard. The standard for diesel vehicles prior to 1st October 2006 was the Euro II emission standard.

To encourage owners of pre-Euro diesel driven goods vehicles and buses that are registered on or after 1st January 1991 but before 1st October 2006, to replace them with new vehicles meeting the Euro IV emission standards, a one year write off is allowed to such owners in respect of the capital expenditures incurred.

IRAS has issued an Electronic Tax Guide titled “Claim for One Year Write Off for New Diesel Driven Goods Vehicles and Buses Registered on or after 15 Feb 2007” at www.iras.gov.sg. This E-Tax Guide sets out the conditions that must be met before a claim for the one-year write off can be made under the new scheme and the obligations of a taxpayer who makes such a claim.

Tax on Gross Income Derived from Singapore by Non Resident Public Entertainers

Currently, a non-resident public entertainer is subject to tax at the concessionary tax rate of 15% on his income derived in respect of services performed in Singapore. A local agent or sponsor of the public entertainer referred to as the “local payer” is appointed under Section 57 of the Singapore Income Tax Act to collect the tax due. A Notice of Assessment will subsequently be issued to the public entertainer and the local payer will then be required to pay the tax amount.

To ease the tax compliance for the non-resident public entertainers and reduce the administrative requirements for local payers, the Singapore Ministry of Finance has decided that with effect from 1st January 2008, non-resident public entertainers would be subject to a withholding tax at 15% of their gross income. The local payer would thus be required to withhold the tax due, notify and remit the tax withheld to the Comptroller of Income Tax. No tax assessments will be issued to the non-resident public entertainers. Instead, a confirmation letter of withholding tax payment will be issued to the local payer.

IRAS has issued an Electronic Tax Guide titled “ Tax on Gross Income Derived from Singapore by Non-Resident Public Entertainers-Clarification on Obligations of Local Payer to Withhold Tax” at www.iras.gov.sg. This E-Tax Guide provides details on the changes to the filing and payment procedures and also clarifies what constitutes date of payment of income.

Tax Deduction For Borrowing Costs other than Interest Expense

It is a common commercial practice for financial institutions to require the borrower to bear many types of fees such as guarantee fees, prepayment fees, extension fees, bank option fees and premium on redemption of notes or bonds, besides interest.

In recognition of the prevalence of these other borrowing costs, a tax deduction will be granted to align the tax treatment of interest expenses with such other borrowing costs and to reduce business costs.

IRAS has issued an Electronic Tax Guide titled “Tax Deduction for Borrowing Costs other than Interest Expenses at www.iras.gov.sg. This E-Tax Guide provides the scope of the tax deduction for the other borrowing costs and details of such costs that will be granted tax deduction.

Singapore’s Avoidance of Double Taxation Agreements Network

A revised agreement between the Government of the Republic of Singapore and the Government of the People's Republic of China for the Avoidance of Double Taxation was signed by both governments on 11th July 2007. The revised Agreement will enter into force after ratification by both countries. The provision of the revised Agreement will apply to income arising in the year after its entry into force.

Singapore has in place 54 Comprehensive Avoidance of Double Taxation Agreements

and 7 Limited Agreements. The full text of the Agreements can be found at the IRAS website (www.iras.gov.sg).

ZAMBIA

**Country Correspondent:
Mr. Pumulo Akapelwa**



Legislative Changes

The following are the main legislative changes proposed to take effect from 1st April 2007 announced by the Minister of Finance and National Planning, Mr. Ng`andu P. Magande in the 2007/2008 Budget speech:

- ❖ Increasing the first band of taxable income at nil per centum from K3, 480,000 to K6, 000,000 per annum and a reduction of the tax rates for all the other three bands for individuals as shown below:

2006/2007 Income Tax Year	2007/2008 Income Tax Year
First K3, 480,000 @ 0%	First K6, 000,000 @ 0%
Next K9, 858,240 @ 30%	Next K8, 400,000 @ 25%
Next K54, 768,000 @ 35%	Next K48, 000,000 @ 30%
Balance at 37.5%	Balance at 35%

- ❖ **Increase the exempt portion of terminal benefits from K10 million to K20 million.**

The first K20 million received as terminal benefits is exempt from tax and the balance

is taxed at 10%. This exemption threshold was previously increased from K5 million to K10 million with effect from 1st April 2005. Terminal benefits include compensation for loss of office or employment including redundancy or early retirement, accrued service bonuses, repatriation, severance pay paid as part of package but excludes salary, leave pay and salary in lieu of notice of termination of employment.

The measure is in line with Government's commitment to provide relief to retirees by ensuring that employees retire with sufficient resources at the end of their working life.

- ❖ **Increase tax credit applicable to persons with disabilities from K36, 000 to K72, 000 per annum.**

The tax credit for persons with disability was K36, 000 per annum, which was last reviewed with effect from 1st April 2005.

This measure is intended to provide further relief to persons with disabilities in addition to the relief granted under PAYE.

- ❖ Increase the allowable pension contribution amount of K15, 000 per month to K135, 000 per month.

This measure is intended to provide adequate relief to workers so as to encourage savings in pension funds.

- ❖ Exclude income that is liable to tax under Turnover Tax from PAYE regime

Previously if an individual was in receipt of income from emoluments and from business the two sources would be aggregated and taxed as one income. This measure now provides that the two sources of income are treated separately and are taxed according to the tax rates applicable to the respective source.

Turnover tax is applicable on turnover not exceeding K200 million per annum at 3 percent.

- ❖ Reduction of the Thin capitalisation debt-equity ratio for mining companies from 2:1 to 3:1.

This measure is intended to relax the debt equity ratio for mining companies to encourage further investment in the sector.



COMPENSATING MEASURES

- ❖ **Increase the corporate tax rate for large-scale mining from 25 percent to 30 percent**

This measure is intended to increase the general applicable rate in the large-scale mining sector from 25 percent to 30 percent.

- ❖ **Withholding tax on interest arising from Government bonds received by companies non-final**

The measure aligns the withholding tax treatment on interest from Government bonds earned by companies with the treatment of interest arising from deposit accounts, which is not final.

- ❖ **Increase mineral royalty rate from 0.6 percent to 3 percent of gross value of base metals**

This measure is meant to increase mineral royalty rate applicable to base metals.

- ❖ **Revision of the withholding tax on payments made by large-scale mining companies to 15 percent for interest payments, management fees and all payments to subcontractors.**

Previously the withholding on interest payments, management fees or all payments to sub-contractors was nil.

- ❖ **Introduce a 3 per cent advance income tax on commercial imports**

This measure is intended to broaden the tax base by capturing unregistered taxpayers who make commercial imports at the port of entry.

Advance rules are in place.

HOUSE KEEPING MEASURES

- ❖ Amendment of definition of “management or consultancy fee”

The amendment seeks to broaden the definition of management or consultancy fees so as to capture activities under the information communication technology (ICT) sector.

- ❖ Introduce the definition of finance and operating lease

The amendment seeks to introduce the definition of finance lease and operating lease so as to provide more clarity on tax treatment of leases.

VALUE ADDED TAX

CONCESSIONS

- ❖ Exempt interest component of the finance lease for VAT purposes so that it no longer attracts tax.

The measure is intended to change the current VAT treatment for finance leases by exempting interest paid on finance leases.

- ❖ Amendment of VAT Act to allow businesses claim 20 percent of input tax on petrol.

Previously VAT paid on the purchase of petrol was not allowed as a claim or credit. This measure is intended to give relief to some businesses claim back some of the VAT.

COMPENSATING MEASURES

- ❖ Standard rate the supply of magazines – which is 17.5 percent

The measure is aimed at harmonizing the tax treatment of magazines with items of like nature.

- ❖ Remove the requirement to legislate minimum taxable values (MTVs) product prices and add airtime for mobile phone services and bottled mineral water to the Schedule.

The rationale of the measure is to ease the administration of minimum taxable values by doing away with the requirement to issue statutory instruments each time there are price changes of the specified products. Only the Schedule of the specified products will be legislated by statutory instrument. The measure will apply to supplies which are currently on the MTV schedule including airtime for mobile phones services and bottled mineral water.

- ❖ Amendment of the VAT Act to allow suppliers who register on time after becoming eligible to continue benefiting from the incentive of claiming back input tax incurred three months prior to the effective date of registration (EDR) and not to allow those who register late to benefit from this same incentive.

House Keeping

- ❖ Allow compliant suppliers with turnover of less than K200 million to register under voluntary registration category upon fulfilment of prescribed conditions.

The objective is to allow compliant suppliers with turnover of less than K200 million to register for VAT.

The VAT turnover threshold is K200 million and above.

- ❖ Introduction of guidelines on the treatment of sole proprietorships, like other types of businesses, in the VAT Act.

Administrative Changes

APPOINTMENT OF COMMISSIONER GENERAL

The Republican President Mr Levy Mwanawasa recently appointed Mr

Chriticles Mwansa as the new Chief Executive Officer of the Zambia Revenue Authority. Mr Mwansa replaces Mr Berlin Msiska.

Prior to his appointment as Commissioner General, Mr Mwansa was Director in the Tariff and Trade Affairs Directorate of the World Customs Organisation (WCO) in Brussels, Belgium.

Mr Mwansa is not new to the ZRA as he had worked for the Authority in different capacities as Training Officer in 1994 and a year later to Chief Training Officer. In 1996 he was appointed Assistant Commissioner at Lusaka International Airport. Subsequently in, 1998 he was appointed Deputy Commissioner – Support. Thereafter he was appointed as First Secretary at the Zambian

Mission in Brussels where he served for a while before being recalled to take over from Mr Daryn Jenkins as Commissioner - Customs and Excise. He left the ZRA to join the World Customs Organisation in 2003.

Corporate Structure

There have been changes to the corporate structure of the Zambia Revenue Authority effective 2007 with the merging of the Value Added Tax Division with the Direct Taxes Division into the Domestic Taxes Division.

The Domestic Taxes Division is charged with the responsibility of administering the Income Tax Act, Property Transfer Tax Act, part of The Mines and Minerals Acts, Medical Levy Act and VAT Act