Indirect Tax in 2010

A summary of significant upcoming indirect tax changes around the world in 2010

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Our thoughts on Indirect Tax

As we go into 2010, we anticipate a challenging year for indirect taxes around the world. As governments deal with fiscal deficits resulting from the economic downturn and the resulting reduction in tax receipts, they are increasingly looking to indirect taxes to help stabilize revenue collections in an environment where corporate profits are down. Indirect taxes are increasingly also being linked to "green" policies aimed at improving the environment. These trends are driving a dramatic rise in the importance of indirect taxes to governments. Global businesses need to be aware of these trends and how developments in indirect taxes have an impact on each stage of the tax life cycle — compliance, planning, tax accounting and controversy.

In the coming year, many businesses will need to adapt their indirect tax reporting systems and tax strategies to take into account major developments in value added tax (VAT), Goods and Services Tax (GST), excise duties, customs duties and environmental taxes around the world. 1 January brought the biggest shake up of the European Union (EU) VAT system since the introduction of the Single Market, with the introduction of the EU VAT package. VAT and excise rates have risen or are due to rise in several countries. Major indirect tax reforms are also being introduced in several jurisdictions, including India, Switzerland and Malaysia. Important customs agreements will have an impact on international trade in many parts of the world, including the adoption of free trade agreements and the introductions of customs unions in East Africa and between Russia, Belarus and Kazakhstan.

This Alert provides a high-level overview of significant developments in indirect taxation that may have an impact on global businesses, but it is not an exhaustive list. Please be aware that there may be other changes not listed in this publication but which may have an impact on your business. Detailed information about developments in indirect taxes may be found at ey.com and through our regularly updated eVA information service, now available to clients of Ernst & Young without charge, via the eyOnline service.

If you would like to discuss developments in indirect tax, or if you would like access to our eVA service, please contact one of the Ernst & Young Indirect Tax leaders listed in this Alert, or your usual Ernst & Young Indirect Tax contact.

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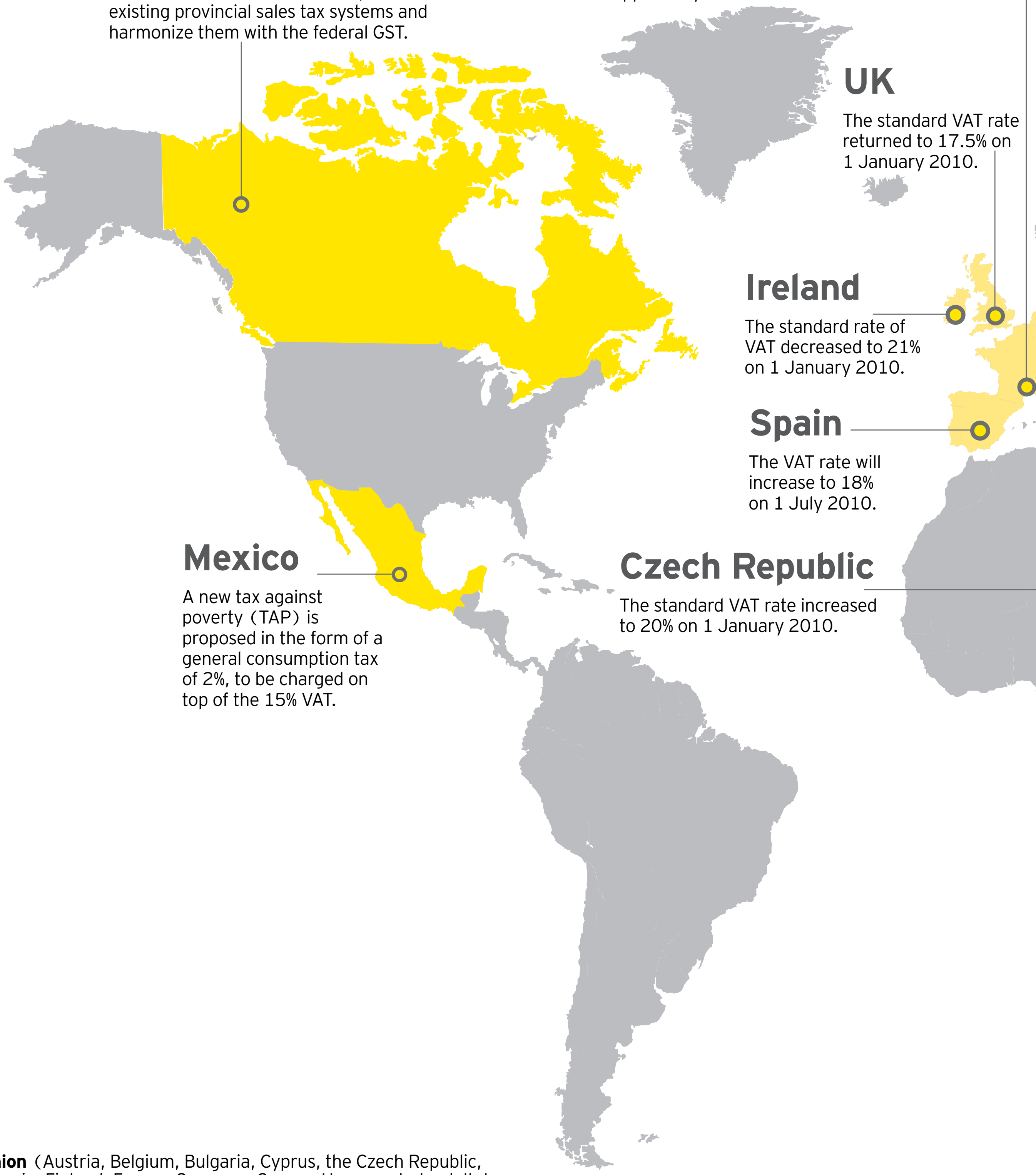
in 2010

Canada

A Harmonized Sales Tax (HST) is planned for 1 July 2010, when the provinces of Ontario and British Columbia replace their existing provincial sales tax systems and harmonize them with the federal GST.

European Union

The EU VAT Package is the most significant development in EU VAT in many years. New rules affect all businesses that trade internationally in services, whether as a supplier or purchaser.



UK

The standard VAT rate returned to 17.5% on 1 January 2010.

Ireland

The standard rate of VAT decreased to 21% on 1 January 2010.

Spain

The VAT rate will increase to 18% on 1 July 2010.

Mexico

A new tax against poverty (TAP) is proposed in the form of a general consumption tax of 2%, to be charged on top of the 15% VAT.

Czech Republic

The standard VAT rate increased to 20% on 1 January 2010.

European Union (Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.)

Recent updates globally for VAT/GST and Sales Taxes

Switzerland

A major reform of the Swiss VAT system came into force on 1 January 2010. Reforms include changes to the place of supply rules for supplies of gas and electricity and electronic services.

Finland

The standard rate will increase from 1 July 2010 to 23%.

China

A major revision to the VAT system is planned for 2013. The draft VAT law for the reform is expected in 2010.

Malaysia

A major indirect tax reform is proposed for 2011. Details of the reform are expected in 2010.

Indonesia

A long-awaited major reform of the VAT system is planned to come into effect on 1 April 2010.

India

A major indirect tax reform is expected in 2010. The new GST will replace a host of indirect taxes that currently apply at the federal and state levels. But its introduction may be delayed.

Pakistan

A draft VAT Act anticipates major changes including an expansion to the scope of input tax recovery, "reverse charge" taxation for imported services and fewer exemptions.

New Zealand

Amendments apply to to the Climate Change Act, including extending zero-rating to certain emissions units.

VAT/GST and Sales Taxes

European Union

New Value Added Tax (VAT) rules came into force in the 27 Member States of the European Union (EU) on 1 January 2010. The most significant development in EU VAT in many years, the new rules affect all businesses that trade internationally in services, whether as a supplier or purchaser. Referred to as "the EU VAT Package" these significant changes include:

- VAT on almost all business to business (B2B) services will be chargeable in the customer's EU Member State and not in the Member State of the supplier. The customer will account for VAT under the "reverse charge" procedure. Many more services will be subject to the reverse charge, including all management charges, freight transport, toll manufacturing services, and repairs, maintenance and processing of goods.
- Businesses will be required to file EC Sales Lists (ESLs) for services. Only taxable (not exempt) services subject to the reverse charge and supplied to a VAT-registered customer in another EU Member State will need to be reported.
- Each EU Member State will apply its own rules for filing ESLs in terms of frequency (monthly, or quarterly etc.) and filing deadlines.
- New "time of supply" rules will apply governing services from abroad) when a reverse charge liability is accounted for and (for suppliers of intra-EU services) when a transaction is to be included on an ESL.
- New "establishment" rules that could affect the charging of VAT between businesses with branches in different EU Member States.
- Wider "use and enjoyment" rules that could result in the retention of cross-border

VAT charges in some situations. This is one of the areas where the approach is not expected to be uniform across the EU.

- Less charging of cross-border VAT within the EU but when it is still charged, there will be faster, more efficient refund procedures: the Eighth Directive refund procedure is being streamlined and electronic filing introduced.
- Fewer situations where a company must register for VAT in more than one EU Member State.

On 17 December 2009, the EU Commission also put forward a proposed Regulation laying down implementation measures concerning practical issues relating to the adoption of the VAT package. These measures seek to clarify the place of supply rules including:

- The methods to be used to identify the status of a customer, particularly customers established outside the EU.
- Concepts related to the place of establishment of a business, the notion of fixed establishment and the notion of the intervention of a fixed establishment.

The individual EU VAT Package changes in each Member State are not covered in this Alert. The Member States of the EU are: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom.

Gulf Cooperation Council (GCC) States

It had been anticipated that a VAT may be introduced in the Gulf Cooperation Council (GCC) countries comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. However, in the last week of October 2009, the Director of the GCC Customs Union Department was reported as saying that VAT is not a possibility for 2010 for the GCC countries. He went on to say that the formulation of a VAT system throughout the GCC would take at least another two to three years, as the GCC states are gathering ideas on how to best implement a VAT system. He also suggested that higher taxes on tobacco and cigarettes are being considered, as GCC prices on tobacco and cigarettes are amongst some of the lowest in the world.

Australia

Amendments to the Australian GST Act were introduced into Parliament on 25 November 2009. The Bill contains six measures arising from the Board of Taxation Review into the Administration of GST. These measures relate to:

- A time limit on entitlement to input tax credits and fuel tax credits
- Refund collection systems
- Agency provisions
- Gambling supplies to entities outside of Australia
- Recovery of overpaid refunds
- The interaction of associated provisions

The date for the changes to come into effect will be either 1 July 2010 or from the date that the Bill receives Royal Assent.

Belgium

On 25 November 2009, the Belgian government presented Program Law 2009. The proposed law contains, among other measures, VAT changes related to supplies of new buildings. Currently, Belgian VAT law provides that supplies of new buildings made by taxable persons who regularly trade in real estate are subject to VAT. Supplies of new buildings made by other persons are exempt from VAT, unless the supplier opts for taxation. That option may be exercised in respect of the building, not the land on which it stands. Consequently, the new building and the land on which it stands may be treated differently for VAT purposes, which is incompatible with the decision of the European Court of Justice (ECJ). To align the Belgian VAT provisions with EU law, the option for taxation will apply to both the new building and the land on which it stands. If passed, the amendment will apply with effect from 1 January 2011 at the latest.

The proposed Belgian law also provides that the 6% VAT rate that applies for the building sector will continue to apply after 1 January 2010. In addition, from that date, the VAT rate for hotels, restaurants and catering services will be reduced to 12%.

Canada

Major changes are planned for Canada's Goods and Services Tax (GST). With effect from 1 July 2010, the provinces of Ontario and British Columbia (BC) are set to replace their existing provincial sales tax (PST) systems and harmonize them with the federal GST. The combined tax is referred to as the Harmonized Sales Tax (HST). The HST rate in Ontario will be 13%, consisting of an 8% provincial component and a 5% federal component while the HST rate in BC will be 12%, made up of a 7% provincial component and the 5% federal component.

The government has also announced proposed changes to electronic filing requirements for GST/HST registrants with effect from 1 July 2010. Currently, only GST/HST registrants who meet certain criteria have the option to use electronic filing. As a result of the proposed changes, restrictions will be removed so that all registrants will be able to file electronically.

China

The current scope of VAT in China covers the sale or importation of goods and the provision of repairs, replacement, and processing services. Non-VATable services provided in China and the transfer of real property and intangible assets are subject to Business Tax (BT). In 2008, the Chinese authorities approved a five-year plan for the VAT Law legislative process. It is contemplated that the VAT Law will replace the VAT and BT provisional regulations and become effective around 2013, if the development follows the timing laid out in the five-year plan. It is understood that, in order for the legislative process to meet with the targeted time line, the draft VAT Law would need to be ready and be available for comments and approvals in 2010. The features of the VAT Law are yet to be finalized but there are indications that the future Chinese VAT system would be likely follow that of a GST system.

Revisions to the VAT and BT regulations and implementation rules which came into force with effect from 1 January 2009 unveiled radical changes to these taxes. Since then, the Chinese authorities have issued a series of circulars aiming to clarify the new VAT and BT policies and address taxpayers' uncertainties. For instance, Caishui [2009] 112 was issued to provide transitional arrangements for service contracts and sales contracts for immovable properties and intangible assets signed on or before 31 December 2008, but completed afterwards. However, although well intentioned, some of the circulars issued in 2009 have created further doubts rather than providing clarification. For example, Circular [2009] 113 indicates that ancillary equipment and supporting facilities attached to a building or structure are to be treated as part and parcel of the building or structure.

China
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The input VAT incurred on purchases of ancillary equipment and supporting facilities of building or structures is not creditable, regardless of the accounting treatment. The list of ancillary equipment and supporting facilities appears to reflect the Chinese authorities' view of the items that are commonly found in or that are considered as essential parts of buildings or structures. However, the announced list has created potential problems because certain equipment and facilities fall into grey areas of interpretation. We expect the Chinese authorities to issue more circulars in 2010 addressing VAT/ BT uncertainties.

During 2009, the Chinese authorities announced a number of stimulus packages, some of which have mentioned indirect tax incentives but without providing implementation details. For instance, Guofa [2009] 19 has set out the State Council's intention to establish an international financial and shipping centre in Shanghai. We understand that the relevant authorities are studying implementation measures to crystallize the indirect tax benefits and further announcements on this issue will likely be made in 2010.

Croatia

Amendments to Croatia's VAT Act came into effect from 1 January 2010. The changes aim to bring the Croatian VAT rules more into line with the EU VAT regulations. Changes include:

- Foreign companies will be permitted to register for Croatian VAT.
- Foreign companies that incur Croatian VAT will be permitted to request a VAT refund (if the claimant's country of residence provides reciprocal VAT refunds to Croatian businesses).
- Supplies made by financial institutions will qualify as VAT exempt based not on the supplier's status as a "financial institution" but based on whether the services themselves qualify as "financial services".
- Companies that make or receive cross border services should be aware that, as the place of supply rules for services contained in the EU VAT Package are not included in the Croatian proposals; different VAT treatments may apply to cross-border services supplied between EU Member states and Croatia with effect from 1 January 2010.

Czech Republic

With effect from 1 January 2010, the Czech standard VAT rate increased from 19% to 20% and the reduced rate increased from 9% to 10%.

From the same date, the taxable base for certain supplies made between related parties is the arm's length price. This change has an impact, for example, on the taxable base for goods and services provided to employees under advantageous conditions, e.g. meals, discounted transport, the sale of products, etc.

Egypt

Since 2005, the Egyptian Government has been discussing a draft for a new Value Added Tax Law which was intended to replace the existing GST Law. While it had been expected that the new VAT Law would be issued in 2010, the head of the Egyptian tax authority recently announced that this will not be the case. Due to the current global economic crisis, the introduction of the new VAT Law has been postponed. However, certain amendments will be made to specific items within the currently applicable Sales Tax Law. Details of these amendments will be forthcoming in 2010.

Finland

A new "tax account" procedure came into force in Finland with effect from 1 January 2010. Major changes will apply regarding the payment of VAT, the VAT reporting procedure, the VAT refund procedure and the collection of VAT. Under the new rules, taxpayers must file one periodic tax return that contains VAT information and information regarding other taxes. VAT refunds may be allocated in one of several ways: any VAT that has not been used for the payment of VAT due during the tax period may be set off against other taxes due or it may be refunded to the taxpayer after the tax period; alternatively the taxpayer can allocate the amount of VAT into the tax account against payment of the VAT due in the future.

With effect from 1 July 2010, the Finnish standard rate will increase from 22% to 23%, and the reduced rates will increase from 8% to 9% and 12% to 13% respectively. The VAT rate for foodstuffs sold and served in restaurants will be reduced from the standard VAT rate to 13%.

Hungary

Taxpayers have until 20 October 2010 to submit claims to the Hungarian tax authorities for refunds of input VAT disallowed for deduction in the years 2004 and 2005 on the grounds that it was related to the acquisition of goods or services financed in part from state aid. Claims may be made pursuant to the judgment of the ECJ against the Hungarian state, which was delivered on 23 April 2009.

India

India is contemplating a major indirect tax reform involving the introduction of a new goods and services tax (GST). The originally stated date of introduction of GST in India was April 2010, but this date is not realistic any more. There is no official word on any revised date of implementation, but indications are that it could be considerably delayed. The new GST will replace a host of indirect taxes that currently apply at the federal and state levels. Key features of the current proposals include:

- A dual GST model consisting of a federal level GST (CGST) and state level GST (SGST).
- CGST and SGST to apply to all goods and services unless specifically exempted or the transactions fall below threshold limits.
- Place of taxation based on place of consumption not the place of production.
- Exports of goods and services from India to be zero rated.

India
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- CGST and SGST to be imposed on the import of goods and services.
- Credits between CGST and SGST will not apply.
- With the introduction of GST, several federal and state level indirect taxes are due to be consolidated into the GST. Taxes to be replaced include: Central Excise Duty, Additional Customs Duty (CVD) and Special Additional Customs Duty (SACD), Service Tax, Surcharges and Cess, VAT, Sales Tax, Entertainment Tax (not levied by local bodies), Luxury Tax, taxes on lottery, betting and gambling, State cesses and surcharges relating to supply of goods and services, and Entry Tax.
- Exemptions, if any, to be restricted to public services of the Government, transactions between employer and employee, unprocessed food articles covered under the public distribution system, education and health services.
- Inter-state transactions of goods and services will be effectively zero rated.

Indonesia

A long-awaited amendment of the VAT Law was signed into law by the President on 15 October 2009. The changes will come into effect on 1 April 2010. Changes include:

- Exports of intangible taxable goods and taxable services will be zero-rated. The law defines an export of intangible taxable goods as the utilization outside Indonesia of intangible goods from Indonesia. An export of services is defined as an activity of supplying taxable services outside Indonesia. The Minister of Finance is empowered to provide thresholds of activities and types of services to be categorized as exports of services.
- Deliveries of taxable goods under shariah financing arrangements are deemed to be deliveries of goods from vendors to end customers. Thus, it appears that the new VAT law has acknowledged that shariah-based banks and financial institutions provide financial assistance in transactions, not deliveries of goods.
- Transfers of taxable goods in connection with a merger, business consolidation, expansion, spin off and acquisition will no longer be considered VAT events. However, the law limits the exemption to cases where the companies transferring and receiving the assets are VAT-able firms. Thus, the rule does not seem to cover VAT on a similar transfer if either one or both of the companies transferring and receiving the assets is a non VAT-able firm.

- Additional services exempted from VAT have been introduced, including rental of parking spaces, public coin-operated telephone services, money order services, and catering. Non-taxable services have also been extended to include financial services. This appears to broaden coverage of non-VATable services from the previous banking services exemption. The financial services qualifying for the exemption include fund raising and placement, financing services including shariah-based financing (financial lease, factoring, credit card and consumer financing), underwriting, and mortgages.
- The new VAT law provides a more detailed list of goods that are exempted from VAT compared with the previous law.
- A VAT refund can only be requested at the end of a financial-year, except for certain VAT-able entrepreneurs including exporters of taxable tangible/intangible goods or taxable services, entities transacting with VAT collectors, entities engaged in deliveries of taxable goods or services from which the VAT is not collected, and entities that are in a pre-production stage. An accelerated refund may apply for those qualifying as low risk businesses.
- VAT-able companies are allowed to claim input tax credit from VAT charged by vendors at the pre-production stage. This is limited to capital goods. The Input VAT is to be credited as prepaid VAT that is to be either carried forward to the following period or claimed for refund (if eligible).
- The new VAT law contains provision on timing for issuance of tax invoices and it no longer includes provisions for issuance of simple tax invoices. Thus, it would appear that all tax invoices must now be issued in accordance with the formal requirements described in the law.
- Under the new VAT Law, a VAT-able entity may choose to centralize the VAT reporting and payment settlement in a business location.
- The new VAT Law reintroduces the joint and several liability approach that holds buyers of taxable goods or recipients of taxable services to liability for payment of the VAT on transactions if they cannot demonstrate any evidence of payment of the VAT.
- Non-residents purchasing taxable goods in Indonesia will be able to claim a refund of the VAT, subject to certain requirements.
- The highest rate of sales tax on luxury goods will be 200% (the current VAT rate is 75%).

Ireland

The standard rate of VAT has decreased by 0.5% to 21% with effect from 1 January 2010.

A new VAT scheme applies for sales of second-hand motor vehicles. In Ireland, dealers in second-hand goods, works of art, antiques and collectors' items pay VAT only on their profit margin. The government had proposed that this treatment be extended to dealers in second-hand means of transport (e.g., agricultural machinery, motor vehicles etc.) acquired on or after 1 January 2010. Currently VAT is recoverable in full by car dealers on the acquisition of qualifying vehicles and the full sales price is subject to VAT. VAT will not be recoverable on the acquisition of vehicles (subject to some phasing out provisions during a six month transitional period until 30 June 2010) but VAT will only be charged on the dealer's margin when the vehicle is sold.

A new VAT scheme also applies with effect from 1 January 2010 to services supplied in Ireland by tour operators and travel agents. Known as the Tour Operators Margin Scheme (TOMS), the new scheme provides for the taxation of margin scheme services supplied by tour operators and travel agents, acting as principals.

Israel

With effect from 1 January 2010, businesses with an annual turnover in excess of NIS 4 million must provide periodic VAT reports online. The reports contain a range of information about supplies made and received. The online report must be submitted in addition to the periodic VAT return. Businesses will need to make major changes to their VAT software and accounting to comply with the requirements of the new online report. It is anticipated that the changes will have a significant impact on foreign companies operating in Israel e.g., airline companies and foreign companies with branches or subsidiaries in Israel that are registered for VAT.

Jordan

On 29 December 2009, the Jordanian Government issued a new law that amends the existing General Sales Tax Law. These amendments are effective from 1 January 2010. The main changes are in the tax administration area and relate to various procedures and dates which have been changed in order to unify them with the new Income Tax Law that was also issued on 29 December 2009. In addition, the new law has added fuel and airline tickets to the table of goods and services subject to the special sales tax. The government will issue new regulations in due course to determine the rates of special tax on these two items.

Latvia

With effect from 1 January 2010, VAT returns in Latvia must be submitted electronically. However, exceptions apply until 31 December 2010 for specified regions where no Internet connection is available. Latvian taxable persons must generally file VAT returns on a monthly basis. With effect from 1 January 2010, reports listing sales and purchases made with traders elsewhere in the EU (ESLs and EPLs) must also be submitted electronically together with the VAT return. From that date, the deadline for the payment of VAT due is extended from 15 to 20 days after the end of the tax period.

The reduced 10% VAT rate that applies to newspapers, journals, news sheets and other periodic publications has been extended until 31 December 2011.

Latvia has been granted permission to continue to apply the reverse charge to timber transactions in the territory of Latvia, if both the supplier and the recipient are taxable persons for the period from 1 January 2010 to 31 December 2012.

Lithuania

The application of the reduced VAT rate of 9% has been extended temporarily in the case of some supplies of goods and services. The reduced rate will continue to apply until 31 December 2010 to supplies of books and printed materials other than periodicals (e.g. encyclopaedias, dictionaries, children books, and maps) and until August 31, 2010 for supplies of thermal energy used to heat dwellings, and related supplies.

Malaysia

Malaysia plans to carry out a major indirect tax reform, with a likely date of introduction in July 2011. It is proposed that a new GST system will replace the current Sales Tax and Service Tax system. It seems that the new Malaysian GST will operate similarly to other VAT and GST systems around the world. It is proposed that the standard GST rate will be 4% and that a zero rate will apply to exports and some goods, such as basic food-stuffs. GST exemptions are expected to apply to most financial services, including Islamic financial products, life insurance and investment linked insurance, the lease, rental or sale of residential real estate, mass domestic public, education services and health services.

New Zealand

Amendments have been made to the New Zealand GST Act to reflect the original policy intention of the GST amendments made in the Climate Change Act, particularly in relation to emissions units transferred by the government under schemes outside the Climate Change Act. Amendments have also been made to extend zero-rating to certain emissions units that are not New Zealand units, Kyoto-compliant emissions units or approved overseas units.

Norway

A new Norwegian VAT Act came into force on 1 January 2010. The new Act does not contain material changes to the Norwegian VAT system. However, on 13 October 2009, the Norwegian government did put forward new rules concerning services supplied by museums, amusement parks, galleries, bigger sport events, fitness studios, swimming pools, and bowling halls and certain other services. These services currently fall outside the scope of Norwegian VAT. However, with effect from 1 July 2010, VAT will apply to these services at a rate of 8%.

Mexico

A new tax against poverty (TAP) has been proposed in the form of a general consumption tax of 2%. This tax would function as a VAT in that it would be creditable by businesses and would be imposed on top of the existing VAT, which is currently charged at 15%. As the name implies, the proceeds of this tax would be destined for social and welfare programs. One of the more controversial aspects of this tax is that activities that are generally entitled to a zero VAT rate would be taxed (e.g., food and medicines.). Certain exemptions have been proposed, including certain financial services transactions and sales of gold, land, currency, shares and other securities. In addition, qualified export activities would be exempt, including activities under Maquiladora programs, under the same terms as under the VAT law. However, the proposed TAP exemptions are not as broad as the exemptions under the VAT law. As a result, many transactions that are not currently subject to VAT would be subject to the TAP.

Morocco

The Moroccan government will publish the 2010 budget shortly and it is expected that this will introduce changes to the current VAT legislation. The expected changes are likely to relate to the following:

- Petroleum gas, other gaseous hydrocarbons, refined or untreated petroleum and schist oil are expected to be subject to a 10% rate of VAT (instead of 7% currently).
- The deadline for filing the monthly VAT declarations is expected to be reduced to 20 days from the previous month end. Previously, the deadline for filing was within one month of the prior month end. Therefore, if the changes are introduced as expected, January 2010 VAT declarations should be filed with the authorities no later than February 20, 2010. For taxpayers who file VAT declarations on a quarterly basis, the deadline for filing is now also 20 days from the end of the quarter (previously one month from quarter end). Therefore, VAT declarations for the first quarter of 2010 should be filed no later than April 20, 2010.
- It is expected that transactions (interest and commission etc.,) related to advances and loans granted to local authorities (collectivités locales) will no longer be exempt from VAT. Instead, such transactions are expected to be subject to VAT at the rate of 10%.
- Changes to the customs duty rates are also expected.

Pakistan

Pakistan has issued a draft VAT Act, which is expected to be debated by the National Assembly in early January. Proposals include the following:

- An expansion to the scope of input tax recovery. New tax adjustment provisions are also proposed for dealing with changes in the taxable amount that arise after the original time of supply (e.g., because the supply is cancelled or there is a change in the price etc.), for bad debts, for goods supplied to a taxable person that are taken into private use and tax incurred on purchases made before registration and deregistration.
- The import of services will be subject to "reverse charge" taxation.
- Exemptions will be restricted to essential commodities, charities, books and international or sovereign guarantees.
- Zero rating will continue for exports, including retail exports, It will also apply to supplies of goods made in the course of repairing, maintaining, cleaning, renovating, modifying, treating, or otherwise physically affecting other goods that are temporarily imported into Pakistan and the repair or replacement of goods under warranty if the supply is provided under an agreement with, and for consideration given by, the warrantor, who is a non-resident and is not a registered person, and the goods under warranty were previously subject to tax when imported.

Romania

With effect from 1 January 2010, amendments apply to the mandatory information to be included in a VAT invoice. One significant change is that, if no tax is due, a reference must be included in the invoice details indicating the applicable provisions under the Romanian Fiscal Code or EU Directive (or any other reference) indicating why the supply of goods or services is VAT exempt or that it is subject to the reverse charge mechanism.

St. Lucia

The government of St Lucia has confirmed the implementation of a VAT system from 1 April 2010. The government has sought to reassure investors and citizens about the new VAT, saying it will clarify the island's tax system and will not increase the tax burden because various other indirect taxes will be replaced, such as the state consumption tax.

South Africa

The compulsory VAT registration threshold in South Africa for the year 2010 is the making of taxable supplies in excess of R 1 million in any 12-month period. A business with turnover below the compulsory registration threshold may register for VAT on a voluntary basis. The voluntary registration threshold will be increased to R 50,000 with effect from 1 March 2010.

South Korea

With effect from 1 January 2010, Korean registered corporate taxpayers must issue tax invoices under the electronic tax invoice (ETI) system. An ETI is a tax invoice that is transmitted electronically to the information network of the tax authorities through an accredited certification system that can confirm information, such as a supplier's identification and the details of tax invoices if changed. Taxpayers must also submit a statement of delivery to the tax authorities by the 10th day of the month following the month of issuance of the ETI.

Spain

The Spanish Government has announced VAT rate increases with effect from 1 July 2010. The standard VAT rate will increase from 16% to 18%, and the reduced VAT rate will increase from 7% to 8%. The super-reduced VAT rate will remain at 4%.

Switzerland

A new Swiss VAT Law came into force on 1 January 2010. This new law contains significant changes to the Swiss VAT system, including the following:

- There is no longer a minimum annual turnover threshold needed for VAT registration. However, for enterprises with a turnover below CHF 100,000 (CHF 150,000 for certain non-profit organizations) a voluntarily exemption from the duty to register applies.
- The place of supply for most supplies of services is now in the customer's country (this is the fall-back rule) and no longer in the country of the supplier. In a cross-border situation, the customer will have to account for VAT under the "reverse charge" procedure. Exceptions to the fall -back rule apply to medical services, travel agencies, education, science, sports, art and culture, passenger transport, accommodation, services in connection with real estate, international development cooperation.
- The place of supply at the domicile of the recipient now applies to supplies of electricity power or natural gasoline in pipes, even if those supplies are treated as supplies of goods and not services.
- The reverse charge mechanism will apply in the case of electronic services, supply of electricity power or natural gasoline in pipes and telecommunication services only if the Swiss service recipient is a VAT registered business. As a consequence, foreign businesses that provide electronic supplies of services to persons who are not registered for VAT will be required to register for VAT in Switzerland and charge Swiss VAT, if their turnover in Switzerland exceeds the annual threshold of CHF 100,000. For all other services, the reverse charge mechanism applies regardless of whether the recipient of the services is VAT registered or not.
- As a result of the new rules regarding acceptance of all means of proof, the compliance risk for VAT taxpayers is significantly reduced (this also applies in connection with formal requirements for invoices).

- The acquisition, holding and sale of participations is now considered to be a business activity, which means that even pure holding companies can register for VAT. Dividends no longer lead to a reduction in input VAT deduction.
- Taxpayers are permitted to deduct input VAT on transaction costs (costs in relation to the acquisition or sale of participations if the taxpayer's share of capital is greater than 10%).
- The VAT rates in Switzerland will increase with effect from 1 January 2011 The standard rate will increase from 7.6% to 8.0%, the special rate for hotel accommodation will increase from 3.6% to 3.8% and the reduced rate will increase from 2.4% to 2.5%.

Tunisia

The Tunisian Finance Law 2010 introduced several adjustments to the VAT law with effect from 1 January 2010, including the following:

- A VAT taxable person may be entitled to an exemption from VAT on local purchases of material and equipment used for a contract outside of Tunisia provided that the amount of the contract is not less than 3 million Tunisian dinars. This provision applies regardless of the percentage of the exports of the annual total revenue of the taxable person.
- This exemption is subject to the approval of the tax department. Therefore, a VAT taxable person who wishes to benefit from this exemption must file an application with the Tunisian tax department and should attach a copy of the contract for the work to be performed outside Tunisia to the application. After obtaining the approval of the tax department for the VAT exemption, the taxable person must provide the tax department with documents that support the export of the local purchases outside Tunisia, within one month from the date of export.
- Companies that have financial statements audited by an external auditor (and that have been operating VAT for six successive declarations), may recover 50% (previously 35%) of the balance of the VAT overpaid in advance of a tax audit being carried out by the tax authorities. This VAT may be recovered within 60 days (previously 90 days) from the date of filing the request to the tax department.

Ukraine

Ukraine has introduced a requirement for some tax invoices to be registered in the General Register of tax invoices. This requirement was introduced on 1 September 2009 for tax invoices related to sales of goods with a VAT amount exceeding UAH 1 million per invoice. This provision is extended with effect from 1 January 2010 for invoices with a VAT amount exceeding UAH 500,000 and from 1 April 2010 for invoices with a VAT amount exceeding UAH 100,000. If the seller violates the registration procedure, the tax authorities may review its tax liabilities to verify the buyer's right to include the VAT charged as a tax credit. If discrepancies are found between the tax invoice and the General Register, the tax authorities may perform a tax review of the buyer and the seller.

Ukraine
(cont'd.)

The law further states that the buyer of the goods in not entitled to VAT credit if the VAT invoice amount is not reflected in the buyer's VAT return or the seller did not fully settle his tax liabilities.

Ukraine has passed a law that provides, amongst other things, for the introduction with effect from 1 January 2010 of temporary import duty and VAT exemptions for certain goods that cannot be sourced in the local market. The law also provides for corporate profit tax exemptions for some enterprises related to production and sale of biological types of fuel and the equipment for working on such fuel. These benefits are established for a 10 year period, starting from 1 January 2010.

United Kingdom

The UK standard VAT rate returned to 17.5% on 1 January 2010 (from 15%).

With effect from 1 April 2010, the UK tax authorities are introducing a requirement that VAT registered businesses must submit their periodic VAT returns online. Changes are also planned for the penalty for late VAT registration. If the liability to register for VAT arises before 1 April 2010, the penalty rate depends on the length of the relevant period, rising from 5% to 15% of the VAT underpaid. With effect from 1 April 2010, if the liability to register arises that date, the penalty rate that applies may range from 30% (in most cases) to 100% (with respect to deliberate and concealed acts) of the VAT due. However, the penalty may be mitigated if the business discloses the failure to register to the VAT authorities.

United States

The United States does not impose a national-level sales or value-added tax. Rather, sales taxes, and complementary use taxes, are imposed and administered at the state (sub-national) and local (sub-state) levels. Sales and use taxes are not applied uniformly. Nevertheless, in recent years, a number of trends have begun to develop as state and local governments face increased budgetary pressures. Most notably:

- In 2008 and 2009, New York, North Carolina, and Rhode Island each adopted laws that require non-resident online retailers to collect tax on sales to in-state customers if the retailer contracts with a New York resident to refer potential customers, via a link on an Internet website or by other means, to the seller. Similar measures were considered, but did not take effect, in California, Connecticut, Hawaii, Illinois, Maryland, Minnesota, Tennessee, and Wisconsin. Taxpayers should expect to see more states attempt to expand their sales and use tax jurisdiction over remote sellers in 2010.
- Several states increased their sales and use tax rates in 2009, including California (7.25% to 8.25%), Massachusetts (5% to 6.25%), and Minnesota (6.5% to 6.875%). In 2010, more states can be expected to increase their rates as a quick means of raising revenue.

- Several states, including California, Florida, and Michigan, expanded or considered expanding their sales and use tax base to cover a broad range of transactions, including the transmission and distribution of electricity (Maine), digital goods and services (Kentucky, North Carolina, and Washington), and most professional and personal services (Michigan). In 2010, more states are expected to extend their sales and use tax bases to transactions that historically have been excluded from the tax.
- At least seven states, including Illinois, Michigan, and Pennsylvania, are planning or considering sales and use tax amnesties for 2010. Under a typical state tax amnesty program, taxpayers that owe past taxes are allowed to register and satisfy their outstanding liabilities with reduced penalty and/or interest rates.

Ireland

A new "car scrappage" scheme applies from 1 January 2010 to 31 December 2010.

Hungary

Excise duty rates on certain fuels, heating fuels, tobacco products, and alcoholic products increased on 1 January 2010.

Mexico

Proposed changes include a new excise tax of 4% on cell phone and land line services, cable TV services and satellite services and increases to the excise tax rates on alcohol and cigarettes.

Recent updates globally for

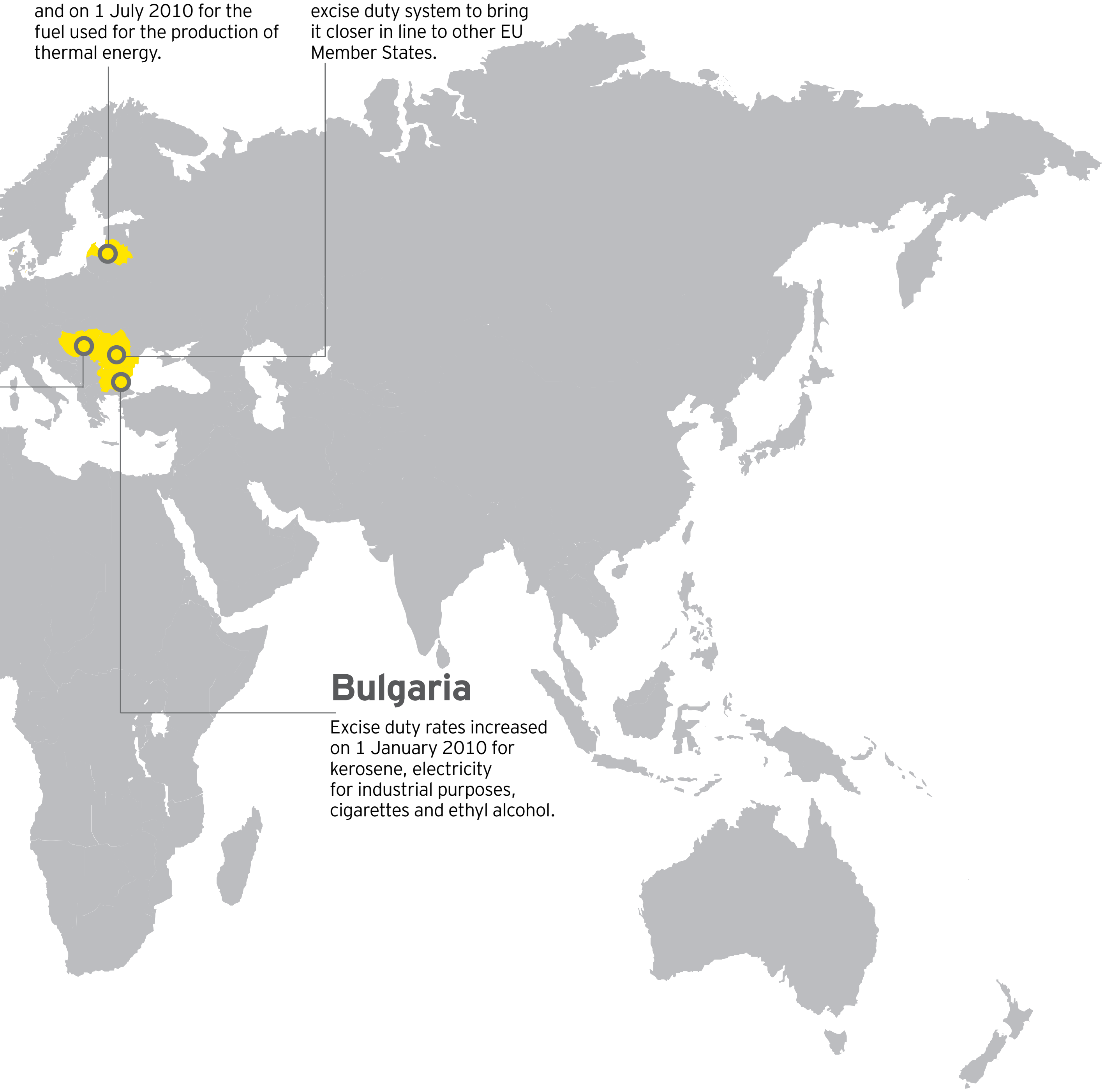
Excise and other taxes

Latvia

Excise duty changes apply to cigarettes, and alcohol product. Changes are anticipated on 1 May 2010 for natural gas and on 1 July 2010 for the fuel used for the production of thermal energy.

Romania

Romania has revised its excise duty system to bring it closer in line to other EU Member States.



Bulgaria

Excise duty rates increased on 1 January 2010 for kerosene, electricity for industrial purposes, cigarettes and ethyl alcohol.

Excise and other taxes

Bulgaria

The excise duty rates for the following goods are to be increased effective 1 January 2010:

- Kerosene BGN 565 per 1000 litres BGN 600 per 1000 litres
- Electricity for industrial purposes BGN 1.40 per megawatt hour BGN 2.00 per megawatt hour
- Cigarettes:
    - BGN 41 per 1000 cigarettes plus 40.50% of the sales price
    - BGN 76 per 1000 cigarettes plus 36% of the sales price
- Ethyl alcohol BGN 1,100 per 1 hectolitre BGN 1,265 per 1 hectolitre
- Ethyl alcohol (brandy) BGN 550 per 1 hectolitre BGN 633 per 1 hectolitre

Rules implementing the EU Directive on the movement of excise goods are proposed to enter into force on 1 April 2010, including:

- Adoption of EMCS (a computerized system for monitoring movements of excise goods between Member States under excise duty suspension) to replace the paper documents that currently accompany shipments
- Introduction of the concepts of "registered consignee" and "registered consignor" – persons who can receive/dispatch goods under duty suspension. Currently, such dispatches are allowed only to licensed warehouse keepers
- Improved control procedures

Hungary

With effect from 1 January 2010 the excise duty rates on certain fuels, heating fuels, tobacco products, and alcoholic products increased by 8-9% in addition to the increases previously implemented from 1 July 2009. The tax rate for coal increased by HUF 350 per ton (17.2%), for electricity it increased by HUF 43 per MWh (17.1%), and for natural gas by HUF 12.9 per GJ (17.1%).

Ireland

Ireland has announced a "car scrappage" scheme to run from 1 January 2010 to 31 December 2010. Under the scheme, vehicle registration tax (VRT) relief of up to €1,500 is available to purchasers of new cars who scrap their old vehicles. The scheme is restricted to the purchase of low emission cars, specifically those with CO2 emissions of 140g/km or less. To qualify for the scheme, the scrapped vehicle must be at least 10 years old, have been registered to the owner for at least 18 months prior to being scrapped and have been insured for use for at least 12 months in the 18 months prior to its being scrapped.

Latvia

With effect from 1 January 2010, a minimum excise duty applies to cigarettes at a rate of LVL 48 per 1,000 cigarettes.

A 12.5% increase applies in the excise duty applied to wine and fermented beverages, and a 7.1% increase in the excise duty on intermediate alcohol products with an absolute alcohol content of up to 1%% with effect from 1 February 2010.

Latvia
(cont'd.)

With effect from 1 May 2010 natural gas will be taxed at a rate of LVL 15.60 per 1,000 cubic meters for gas used for heating and a rate of LVL 70 per 1,000 cubic meters for gas used for fuel. The refund rules for excise duty paid for fuel used for the production of thermal energy will be cancelled.

With effect from 1 July 2010, excise duty will also be applied to the fuel used for the production of thermal energy.

Mexico

In addition to the proposed tax on poverty (TAP), Mexico has proposed the introduction of an excise tax of 4% be imposed on cell phone and land line services, cable TV services and satellite services. Increases to the excise tax rates on alcohol and cigarettes have also been proposed.

Romania

With effect from 1 January 2010, Romania is removing certain products from the scope of excise duties to bring its excise taxes more into line with other EU Member States. The change relates to all the excisable products for which the excise duty was established as a percentage rate, which are eliminated from the scope of non-harmonized excise duties. The only products that remain subject to the non-harmonized excise duties are green, roasted and soluble coffee. Excise duties for other products, including natural fur confections, gold/platinum jewellery, perfumes and yachts are eliminated.

Customs and International Trade

Association of Southeast Asian Nations (ASEAN)-China Free Trade Agreement (FTA)

The ASEAN-China Free Trade Area (ACFTA) is fully effective with regard to the original ASEAN six members with effect from 1 January 2010 (other ASEAN members have until the end of 2015). Under the ACFTA, 90% of the products traded between ASEAN and China will be duty free. In addition, it will provide other preferences for trade and investment.

ASEAN-India Trade in Goods Agreement

The ASEAN-India Trade in Goods Agreement was scheduled to become effective on 1 January 2010. However, effective implementation may be delayed because of the 10 ASEAN member states only Brunei, Malaysia, Myanmar, Singapore, and Thailand have so far made notable ratification progress, and only Malaysia has formally ratified the agreement.

ASEAN-Australia-New Zealand FTA (AANZ-FTA)

The AANZ-FTA was signed in early 2009 and went into effect on 1 January 2010. The agreement covers 12 countries with over 600 million people and applies to goods, services, investment, intellectual property, e-commerce, temporary movement of business people and economic cooperation. In addition, Malaysia and New Zealand have signed a comprehensive bilateral free trade agreement in October 2009, which is also expected to become effective in January 2010.

East African Community Customs Union

The East African Community (EAC) became a complete customs union on 1 January 2010. The customs union became partially operational in 2005 and has been phased in over a five year graduated period. EAC includes Burundi, Kenya, Rwanda, Tanzania and Uganda.

India-South Korea Trade Agreement

The India-South Korea Comprehensive Economic Partnership Agreement went into effect on 1 January 2010. The agreement, concluded in August 2009, covers trade in goods and free flow of services and investment between the countries. Duties will be eliminated or reduced by 90% for Indian goods and by 85% for South Korean goods in stages over 10 years, beginning 1 January 2010.

Russia, Belarus, and Kazakhstan — Single Customs Tariff

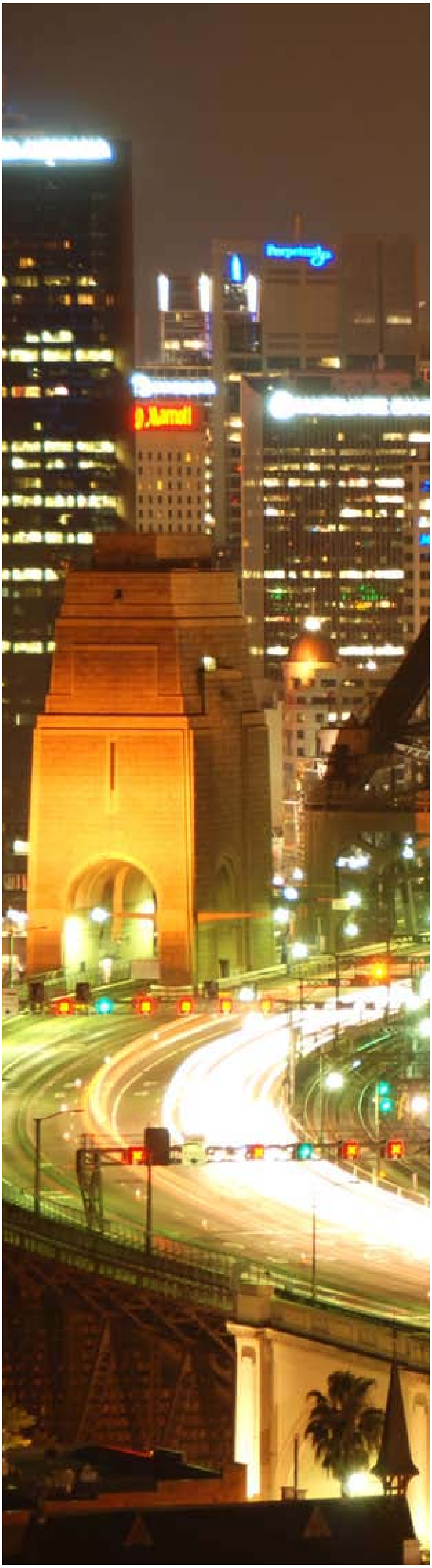
Russia, Belarus, and Kazakhstan have agreed to form a customs union, nominally starting 1 January 2010. While the details of the arrangements are changing weekly, the parties have agreed to a number of implementation steps beginning in January 2010, including an approved single customs tariff as well as tariff quotas on beef, poultry and pork imports. A uniform customs code is scheduled to become effective 1 July 2010. By that date, customs checkpoints along the border between Belorussia and Russia are to be closed, as will checkpoints along the border between Kazakhstan and Russia a year later.

European Union issues 2010 Combined Nomenclature

A new version of the Combined Nomenclature came into effect in the EU on 1 January 2010. The Combined Nomenclature is a common nomenclature of goods, it was originally established in 1987 and it is updated yearly to meet the requirements of the Common Customs Tariff, the external trade statistics, and other policies concerning the importation and exportation of goods. The 2010 version has been published together with the autonomous and conventional rates of duty resulting from measures adopted by the Council or by the Commission.

Japan-Switzerland Free Trade Agreement

The Agreement on Free Trade and Economic Partnership between Japan and the Swiss Confederation entered into force on 1 September 2009. This agreement is particularly valuable because Japan and the EU have yet to reach a similar agreement. Under the agreement, it is possible to produce components and subassemblies in Japan for further manufacturing in Switzerland, perform sufficient processing in Switzerland, and then import the finished items from Switzerland into the European Union at preferential rates pursuant to the EC Switzerland Free Trade Agreement. The production of electronics may be particularly suited for this arrangement.



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