



Workshop 2 Indirect Taxes: VAT and Customs in Asia



International Fiscal Association
Hong Kong Branch

SPEAKERS

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PART I

OVERVIEW OF GST IN YOUR COUNTRY

JAPAN

Introduction - Japan

a. Speaker

- Naohito Suzuki, the National Tax Agency (NTA)

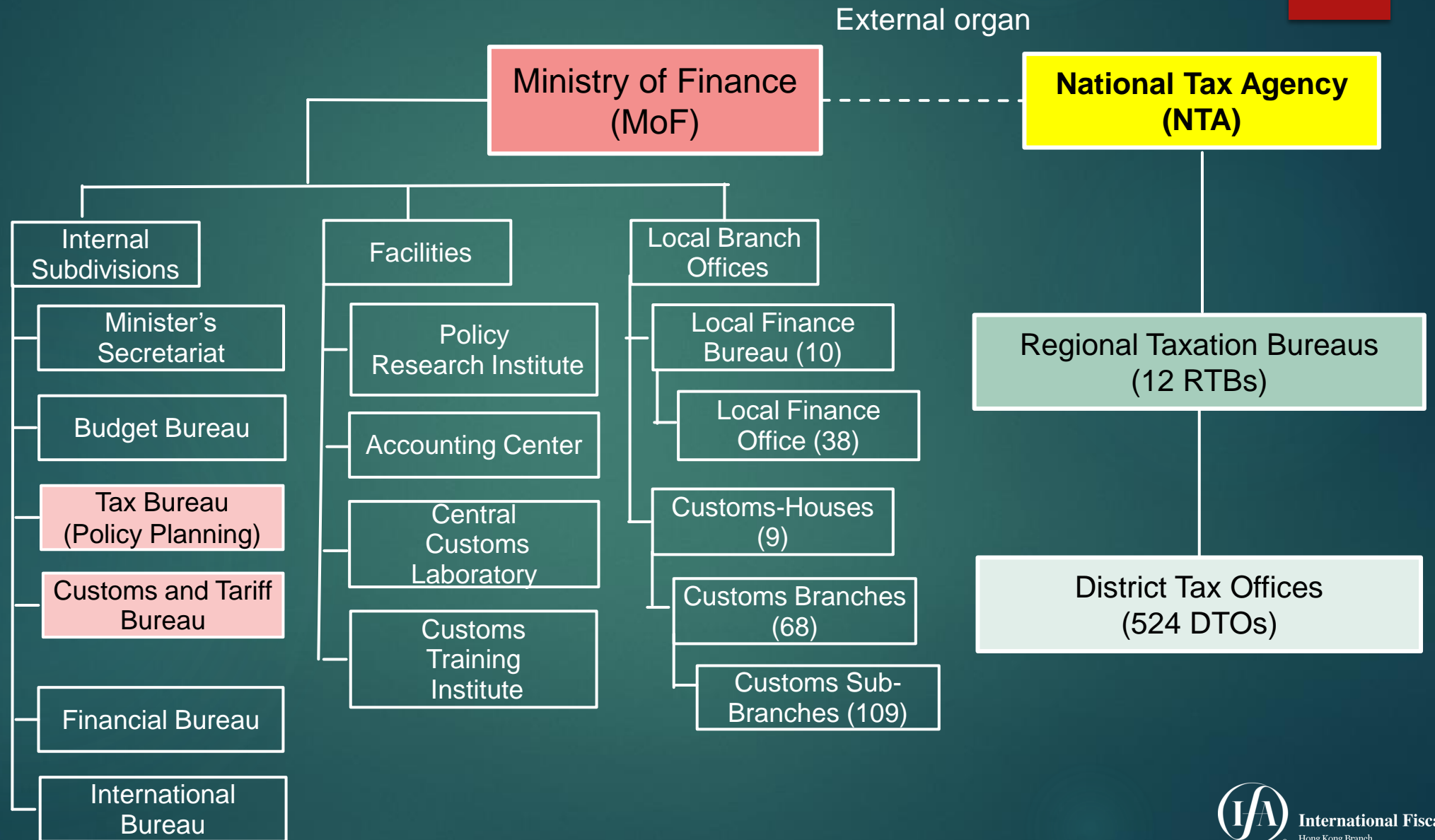
b. Indirect taxes

- Consumption Tax (VAT/GST), Liquor Tax, Gasoline Tax, Tobacco Tax
- Golf course Tax, Bathing Tax etc.

c. Laws

- Consumption Tax Act : enforced in 1989
- Customs Act : enforced in 1954 (originally in 1899)
- Customs Tariff Act : enforced in 1911

Organizational Structure of MoF and NTA in Japan



Japan's Tax Authorities & Division Roles

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	National Tax	Customs Duty	Local Tax	Social Insurance
Policy Planning	MOF	MOF	MIC	MHLW
Administration	NTA	Japan Customs	Municipality	JPS
				Municipality

MOF: Ministry of Finance

NTA: National Tax Agency

MIC: Ministry of Internal Affairs and Communications

MHLW: Ministry of Health, Labor and Welfare

JPS: Japan Pension Service

Direct Taxes & Indirect Taxes in Japan

Direct tax

Local Tax	National Tax	Personal Income tax	Corporate Income tax	Inheritance Tax	Gift Tax
	prefectural	Inhabitant Tax		Enterprise Tax	Automobile Tax
	municipal	Real property Acquisition Tax			
		Inhabitant Tax	Fixed Assets Tax	Light vehicle Tax	

Indirect tax

Local Tax	National Tax	Consumption Tax	Liquor Tax	Gasoline Tax	Tobacco Tax
	prefectural	Consumption Tax	Tobacco Tax	Golf course Tax	
	municipal	Tobacco Tax		Bathing Tax	

Ratio of Direct / Indirect Tax As of 2020					
	65 : 35	77 : 23	58 : 42	55 : 45	55 : 45

VAT/GST Trends in the World

- ▶ Since the mid-1980's, VAT/GST has become the main consumption tax around the world.
- ▶ Over 170 countries operate VAT/GST today, limited to less than 10 countries in the late 1960s.
- ▶ VAT/GST is seen as a broadly neutral tax towards the production process and international trade, and a relatively growth-friendly tax.

Source: OECD (2022) *Consumption Tax Trends 2022*

VAT/GST Trends in OECD Countries

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- ▶ Over the long term, OECD countries have relied increasingly on taxes on general consumption.
- ▶ Since 1975, the share of these taxes as a percentage of GDP in OECD countries increased from 4.1 % to 6.9% in 2020.
- ▶ They produced only 13.4% of total tax revenues in OECD countries in 1975 compared to 20.9% in 2020.
- ▶ 37 of 38 OECD countries have implemented VAT/GST, the United States being the only OECD country that does not impose a VAT.

Source: OECD (2022) *Consumption Tax Trends 2022*

Framework of VAT/GST in Japan - Consumption Tax

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Nature	Indirect tax imposed on consumption (VAT/GST)
Taxable Transactions	Domestic transactions & Import transactions
Taxpayer	<ul style="list-style-type: none">• Individual Proprietors & Corporations• Those who import goods from bonded areas
Rate	<ul style="list-style-type: none">• 10% (including 2.2% of local consumption tax)• 8% (on food etc., including 1.76% local consumption tax)
Tax Period	<ul style="list-style-type: none">• Individual proprietors: Calendar year• Corporations: Business year → may be shortened to one month or three months
Due Date of Filing & Payment	<ul style="list-style-type: none">• Individual proprietors: Mar. 31th of the next year• Corporations: 2 months after the end of business year• Importers: when receives goods from bonded areas



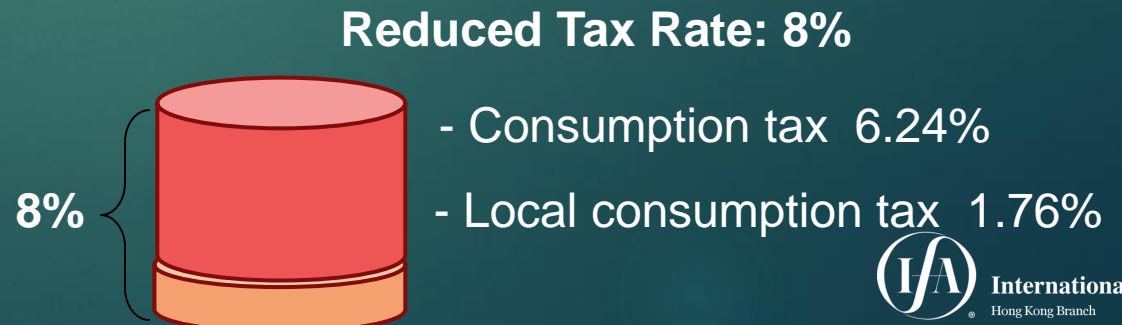
Exemptions under VAT/GST in Japan

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- ▶ Special Economic Zones: do not exist
- ▶ Exports: zero rate (not target of consumption tax)
- ▶ Exempted goods & services:
 - land, finance, social welfare, education, medical care etc.
- ▶ Small business:
 - a taxable sales amount **JPY10 million (USD 67,000) or less** during the base period

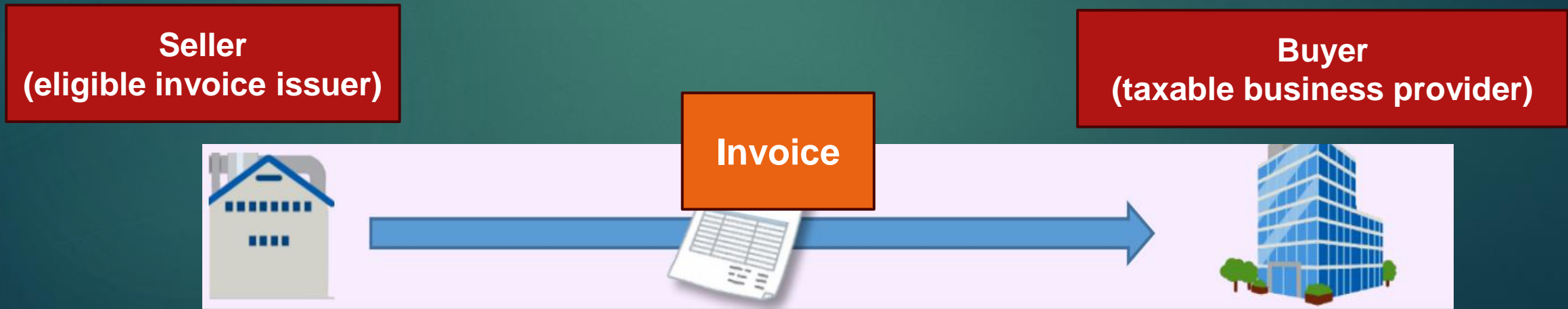
Introduction of Reduced Tax Rate (Oct. 2019)

Tax rate	Standard rate: 10% (including 2.2% of local consumption tax) → Reduced rate: 8% (including 1.76% of local consumption tax)
Items of Reduced tax rate	<ul style="list-style-type: none">• Food and beverages (excluding alcohol and dining out)• Newspapers (subscribed more than twice a week)
Notes	<ul style="list-style-type: none">• Separate accounting by issuing invoices and classifying by tax rate• Method of storing invoices with classified descriptions



Introduction of Invoice Credit System (Oct. 2023)

- Buyer must keep the invoice issued by seller (eligible invoice) in order to apply tax credit on purchase.
- In order to issue an invoice, Seller must be registered as an “eligible invoice issuer” in advance, and once registered, must file a consumption tax return as a taxable business provider.



Two Main Approaches for the Staged Collection Process 15

- ▶ **Invoice credit method** (transaction-based method):

 - each trader charges VAT at the rate specified for each supply and passes to the purchaser an invoice showing the amount of tax charged.

- ▶ **Subtraction method** (entity-based method):

 - the tax is levied directly on an accounts-based measure of value added, which is determined by subtracting the VAT calculated on allowable purchases from the VAT calculated on taxable supplies.

Source: OECD (2022) *Consumption Tax Trends 2022*

Japan's Reform to Invoice Credit Method

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- ▶ Japan was in a minority using **subtraction method** in 1989-2023.
- ▶ There was no incentive to purchase from taxable businesses, because the **deductible input VAT can include purchases from exempt suppliers**, such as unregistered small business.
- ▶ Under subtraction method (entity-based method), Japan's former consumption tax might look like, in some aspects, a **hybrid** of income-based direct tax and indirect tax.
- ▶ It is said that “**vested interests**” for small businesses were preserved for a long time because it was politically difficult to challenge them.

Source: Numata, Hiroyuki (2020) *New Mechanism of Consumption Tax under Invoice System*:
Graduate School of Professional Accountancy, Meiji University

MALAYSIA

The tale of SST, GST & SST 2.0



What's unique about Sales & Service Tax (SST)?



- No input tax credit
- Fewer registrants
- Narrow scope of taxable goods and services

Understanding Malaysia's Indirect Tax Composition

Indirect Tax

SST

Import
Duty

Excise
Duty

Sales Tax

Service Tax

Charged by
Manufacturers

Paid at
importation

Domestic
services

Foreign vendor
registration for
digital services

Imported
Service Tax by
Malaysian
businesses

INDIA

Introduction to GST in India

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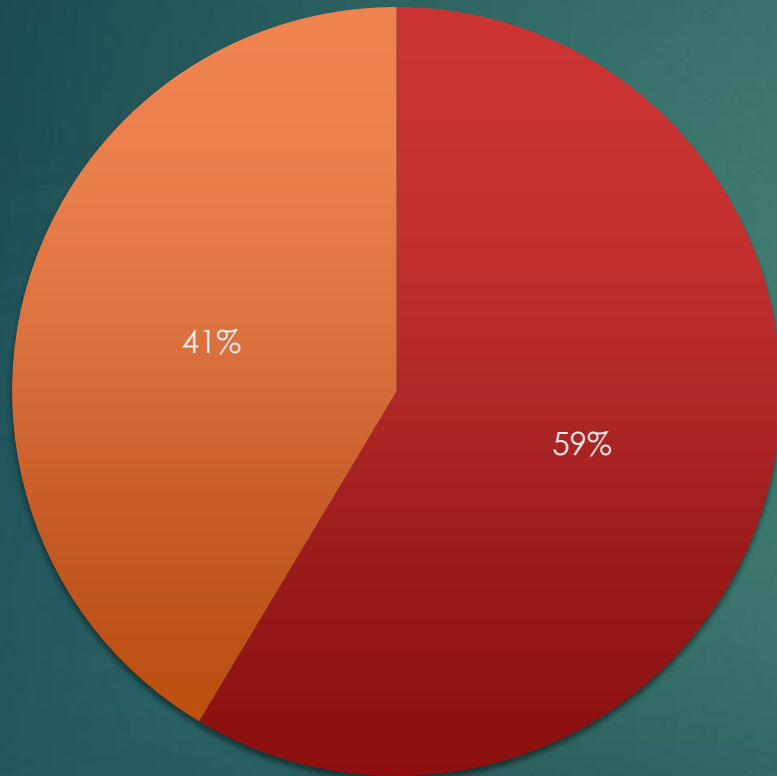
India has multiple indirect taxes including- Goods and Service Tax (GST), Customs Duty, Excise Duty, Electricity Duty and Entertainment Tax.

GST was rolled out in India from 1st July, 2017. GST revenues are shared by the central government and the state governments.

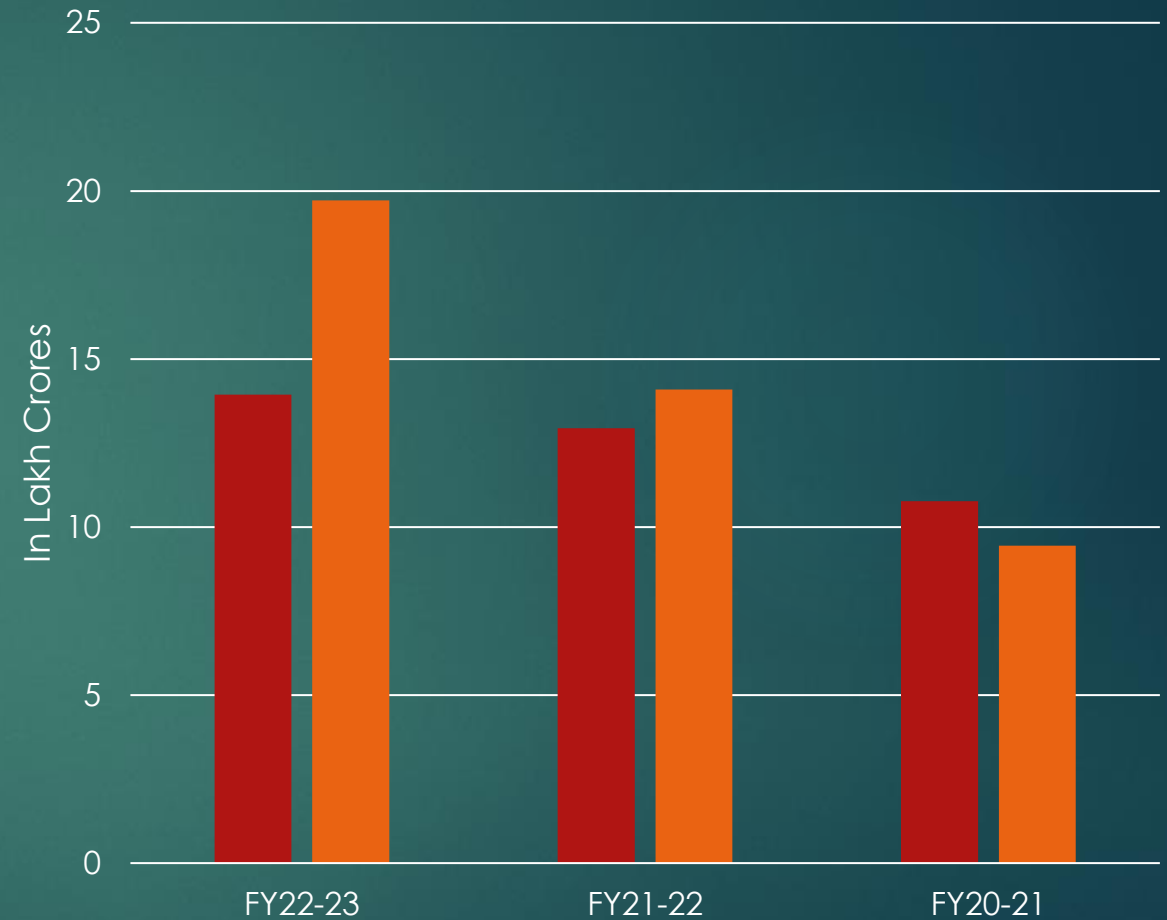
Over 15 indirect taxes were subsumed by GST which include:
Value Added Tax (VAT),
Service Tax;
Central Sales Tax (CST); and
Octroi.

Direct and Indirect Taxes in India

For FY 2022-23



■ Indirect Taxes ■ Direct Taxes



■ Direct Tax ■ Indirect Tax

Framework of GST in India

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- GST is covered under the following key legislations:
 - Central GST Act;
 - State specific GST Acts;
 - Integrated GST Act.
- Administration and Procedural Aspects of GST are administered by the Central Board of Indirect Taxes & Customs (CBIC) which is under the control of the Department of Revenue, Ministry of Finance.
- **Rates of GST-**
 - For goods: 0.25%, 3%, 5%, 12%, 18% or 28%.
 - For services: 5%, 12%, 18% or 28%



Input Tax Credit-

Mechanism for businesses to claim credit on GST paid on purchases of goods or services, which are used for furtherance of business.

Forward Charge Mechanism-

The supplier of goods or services or both is liable to register and pay GST.

KEY CONCEPTS

Reverse Charge Mechanism – The recipient of supply of goods or services or both is liable to pay GST.

Applies generally when the supplier is exempt from GST for example legal services or in case of services.

Cross Charge - Each office of an entity (like a head office and branch) is treated as a distinct entities for GST purposes.

Services provided by one to another are taxable.

Exemptions under GST

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Exports: Exports are zero-rated

Special Economic Zones (SEZs): Supplies entering an SEZ are treated as exports and are zero rated.

Exempted Goods: include fresh and dry vegetables, fish, egg, fresh milk etc.

Exempted Services include agricultural services, public transportation services etc.

Startups and Small Businesses having a turnover of less than Rs. 4 million and Rs. 2 million respectively are not required to obtain a GST registration.

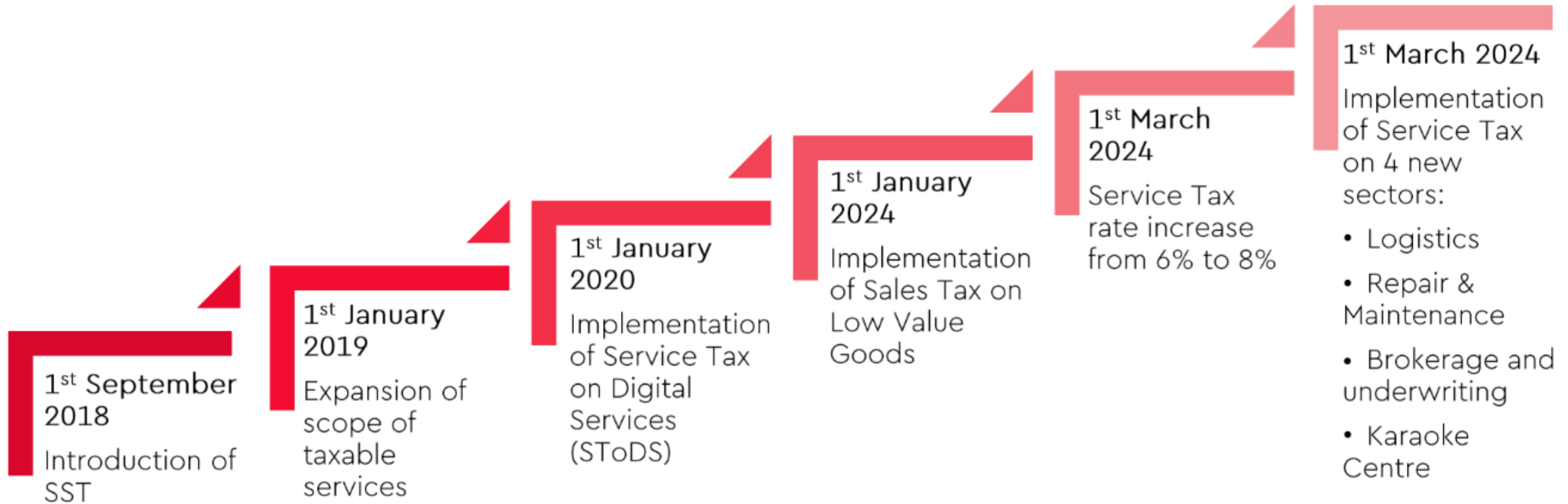
PART II

DIFFICULTIES AND PENALTIES



MALAYSIA

SST Journey So Far



INDIA

Difficulties Faced by Taxpayers and Tax Collectors

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Complex Laws

Navigating the intricate GST rules, including frequent amendments and notifications.

Compliance Burden

Filing multiple forms and returns periodically, maintaining detailed records, and adhering to strict compliance requirements.

Invoice mismatches and Fake Claims for Tax Credits

Mismatch in details filed by the supplier and recipient leads to difficulty in claiming ITC.
E-invoicing has been introduced to solve this problem.

E-Invoicing Requirements and Other Software and Technological Requirements

- **Technical Issues:** Tax authorities face glitches, slow processing, and connectivity problems on the GSTN portal, impacting efficiency.
- **Note:** Small businesses with a turnover of 50 million INR or less are exempted from mandatory e-invoicing (though not from payment of GST).

Inter-State Coordination

- GST involves both the central and state governments, necessitating coordination and cooperation between tax authorities at the central and state levels.
- Tax officers encountered challenges in inter-state coordination, data sharing, and resolving jurisdictional issues, which impacted the smooth implementation of GST across the country.

Penalties under GST

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- **Delayed filing of GST Returns** – Rs. 200 per day. Maximum late fees are prescribed depending on the type of return.
- **Committing Fraud** - up to 100% of tax due under GST (may include jail term for fraud cases of higher value)
- **Charging wrong GST rates (higher rate than actual)** – up to 100% of the tax amount due (applicable if excess tax is not submitted with the government).
- **Not issuing an invoice** – 100% of tax amount due
- **Not Registering Under GST (even though required to by law)** – 100% of tax amount due

Appeals under GST

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**Adjudicating
Authority**

**First
Appellate
Authority
(FAA)**

**Appellate
Tribunal**

High Court

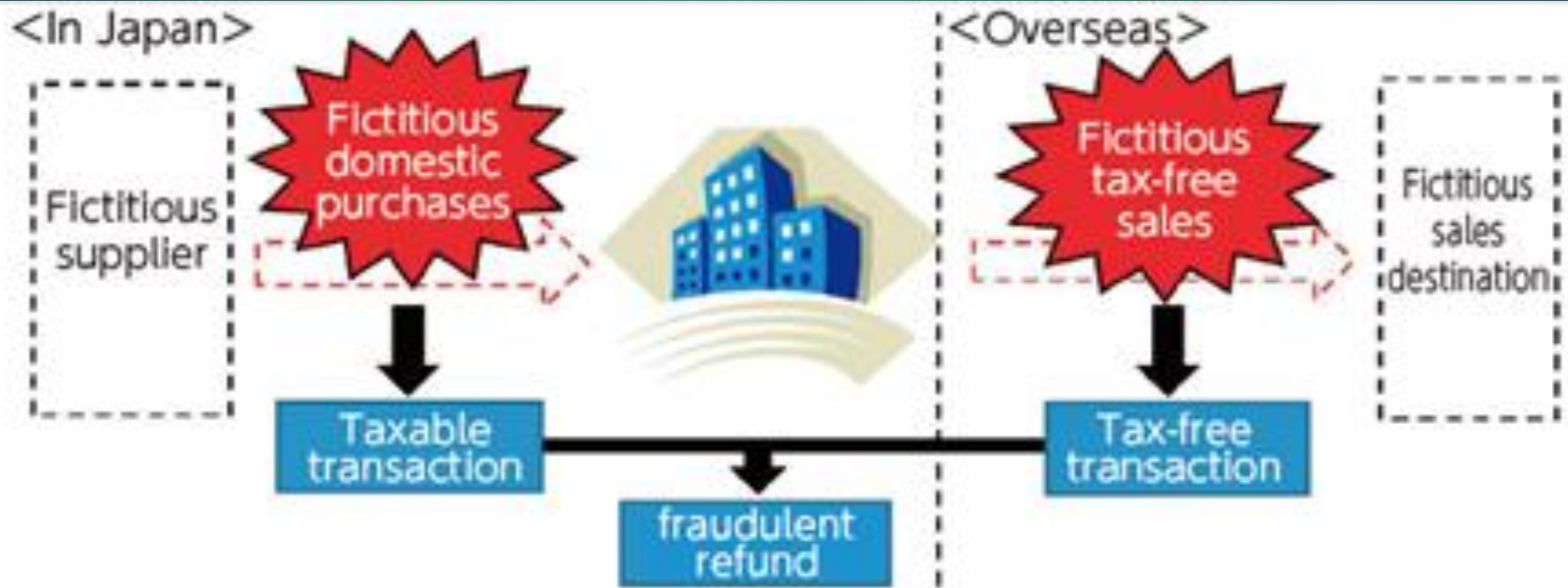
**Supreme
Court**

JAPAN

Difficulties for Taxpayers and NTA in Japan

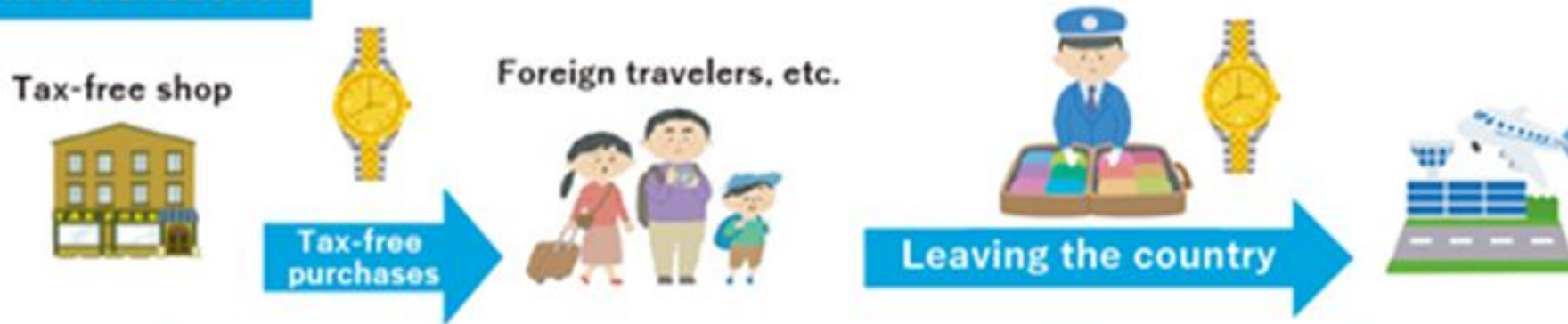
- ▶ Compliance burden:
 - new burden on small businesses under invoice credit method
- ▶ E-invoicing and technology requirements :
 - e-invoicing is not mandatory
- ▶ Fake claims :
 - enhance the assessment for refund returns
 - strengthen the examinations and prevention measures
- ▶ Inter-state coordination :
 - exchange of information (EOI) under tax treaties

Fraudulent Refund Cases of Consumption Tax (1)



Fraudulent Refund Cases of Consumption Tax (2)

Authentic transaction



Authentic transaction



※ Relevant acts prescribe that any tax-free goods purchaser is prohibited to resell them domestically without obtaining an authorization from the head of the relevant Tax Office.

NTA's Initiatives Against Fraudulent Refund Cases

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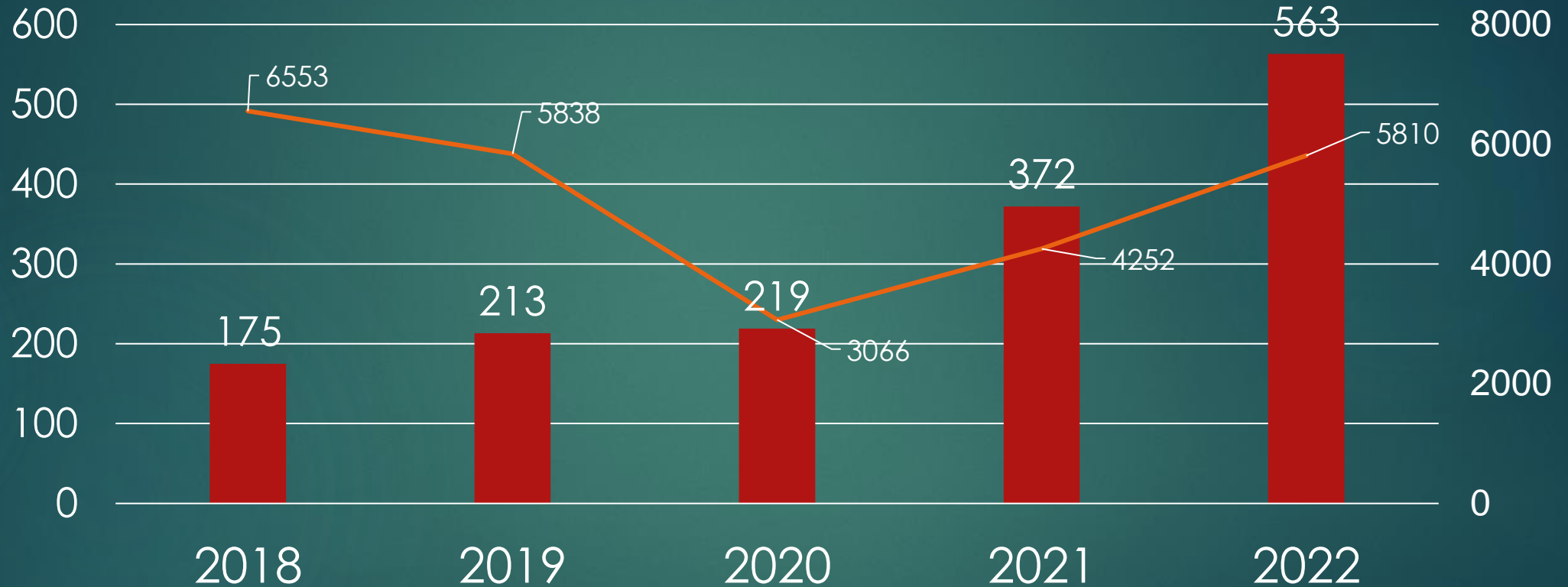
- ▶ Enhancing the assessment for refund returns
- ▶ Strengthening the examinations including EOIs
- ▶ Intensifying the organizational structure
- ▶ Reinforcing prevention measures through PR activities

Consumption Tax Examinations Against Corporations that Received Refunds in Japan

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(JPY100 million)

(Number of cases)



- Total amount of taxes additionally collected (JPY100 million)
- Number of examinations

Combat VAT/GST Refund Fraud in EU

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- ▶ In 1993, with the creation of the single market, barriers to intra-community trade were set aside in EU.
- ▶ Missing trader intra-community (MTIC) fraud and carousel fraud have become an increasing problem which is a large-scale organized criminal attack on the EU VAT system.
- ▶ MTIC fraud loss has been estimated at EUR 60 billion per year.
- ▶ In 2021, the European Public Prosecutor's Office (EPPO) started operations to conduct their own investigations and prosecutions.

Source: IMF (2023) *How to Combat Value-Added Tax Refund Fraud*

Combat VAT/GST Refund Fraud in Asia-Pacific

- ▶ Even though there are custom's boarder checks between countries, MTIC fraud and carousel fraud have become serious threat to the national budget across the regions.
- ▶ Similar to EU, transactions of small assets (gold, electronic devices etc.), intangibles and cross-boarder services are likely to be utilized for carousel fraud in the countries such as Australia, Canada and Singapore.
- ▶ China's State Taxation Administration (STA) has been tackling VAT refund fraud, effectively utilizing its information disclosure system and joint punishment by relevant authorities and institutions.

PART III

HOT TOPICS

INDIA

Online Information and Database Access or Retrieval Services (OIDAR)

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- ▶ Services delivered online: OIDAR refers to services delivered electronically over the internet or similar networks.
- ▶ Examples of OIDAR services: Online subscriptions, e.g. music streaming, cloud storage, downloading e-books or software, online advertising, and accessing online databases.
- ▶ Tax registration: Foreign OIDAR service providers supplying services to unregistered Indian recipients, must register under GST and pay GST on a forward charge basis. Services provided to GST registered recipients are paid on a reverse charge basis.

Gambling and Online Gaming

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- ▶ Gambling is not generally permitted in India and GST is payable at the rate of 28% on the face value of the initial amount wagered;
- ▶ Certain activities were classed as ‘games of skill’ which attracted a lower GST rate of 18%;
- ▶ Dream 11 has been classed as a game of skill as per rulings of 2 High Courts;
- ▶ Per amendments to the GST Acts in 2023, the government has:
 - ▶ Removed the distinction between ‘games of chance’ and ‘games of skill’; and
 - ▶ Made payment of GST at the rate of 28% on all ‘online real money games’ on the ‘face value of the amount wagered / spent on the platform’, the norm.
- ▶ The levy of GST at this rate (and on face amount wagered instead of the platform fee) has been challenged by multiple online gaming companies.
- ▶ The Supreme Court of India has transferred the cases challenging the amendment to itself.

JAPAN

1 Introduce Platform Taxation

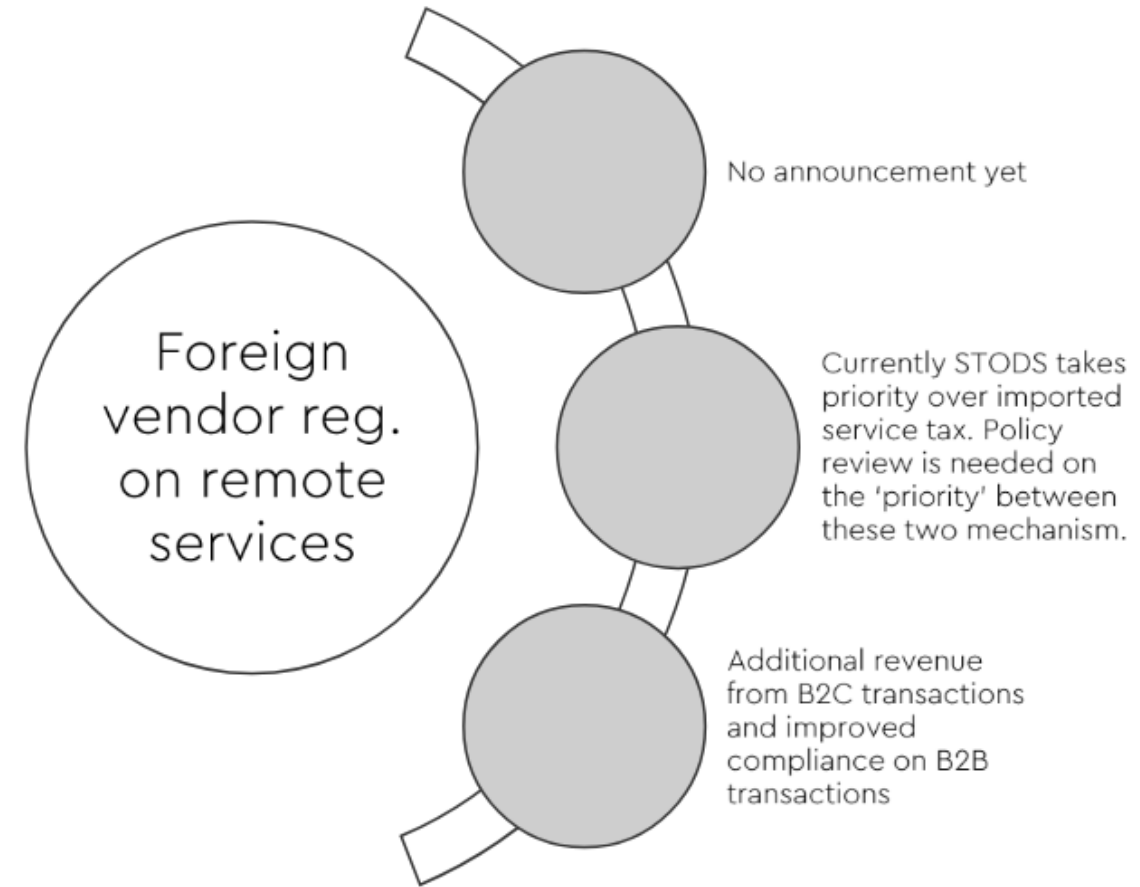
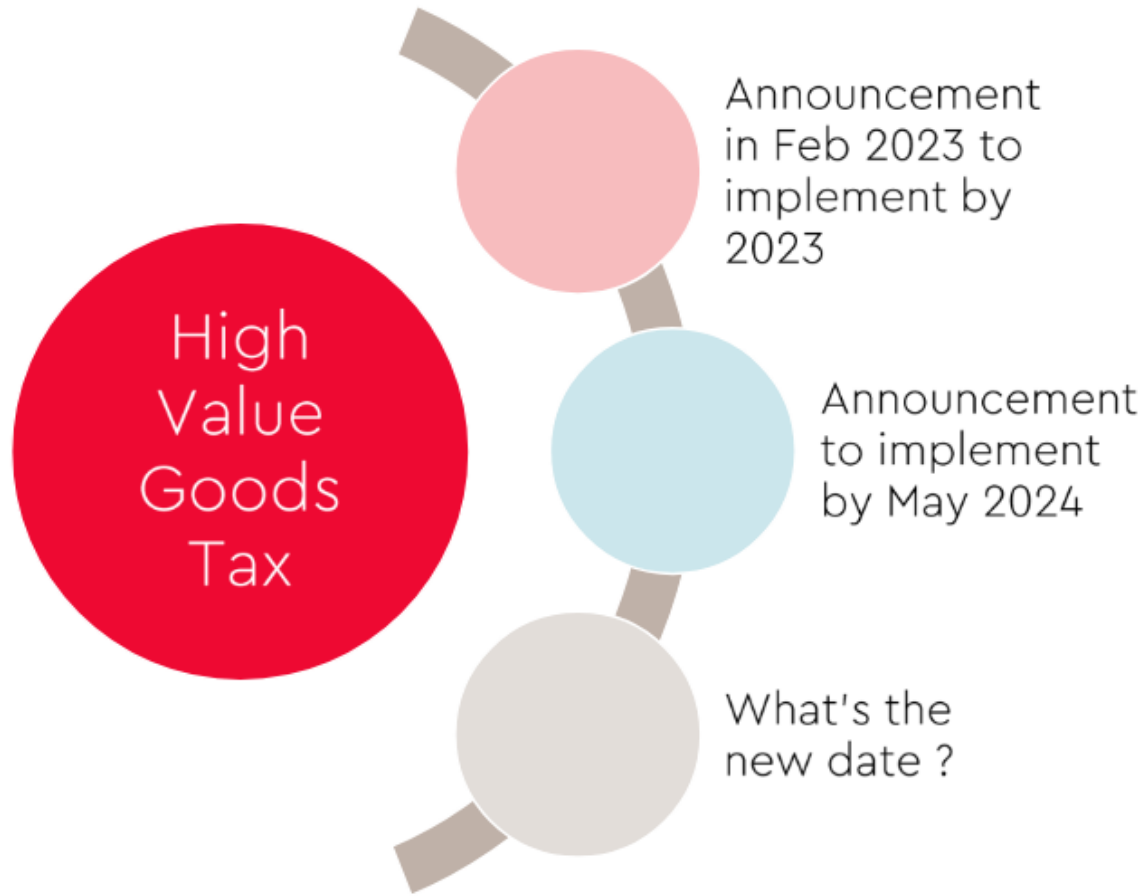
- ▶ to charge consumption tax on digital platform operators whose transaction value exceeds JPY 5 billion per taxable period, instead of charging on foreign suppliers when digital services are provided by foreign suppliers through the platforms.

2 Revise Tax-Free System for Foreign Tourists

- ▶ to prevent fraudulent resale, making consumption tax exempt conditional on confirmation that the purchased tax-free goods are to be taken out of Japan.
- ▶ details of the system will be designed in 2025 tax reform.

MALAYSIA

What's Next?



In the long term, Malaysia should decide whether to re-introduce a multi-stage tax system (GST/VAT), or to harmonise and improve the SST regime.

PART IV

CUSTOMS DUTY

JAPAN

Customs Duty - Japan

- ▶ The applied rate is the lower of the WTO rate, the EPA rate and the General / Temporary rate.
- ▶ Most of the customs duties are assessed at ad valorem rates, which are applied to the dutiable value of the imported goods.
- ▶ EPA / FTA and related initiatives in Japan:
 - In Force or Signed: 21 (Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, Philippines, Switzerland, Vietnam, India, Peru, Australia, Mongolia, TPP12, TPP11, EU, US, UK, RCEP)
 - Under Negotiation: 3 (Turkey, Colombia, Japan-China-ROK)
 - Negotiations Suspended: 3 (GCC, Korea, Canada)

Source: website of Japan's Ministry of Foreign Affairs

MALAYSIA

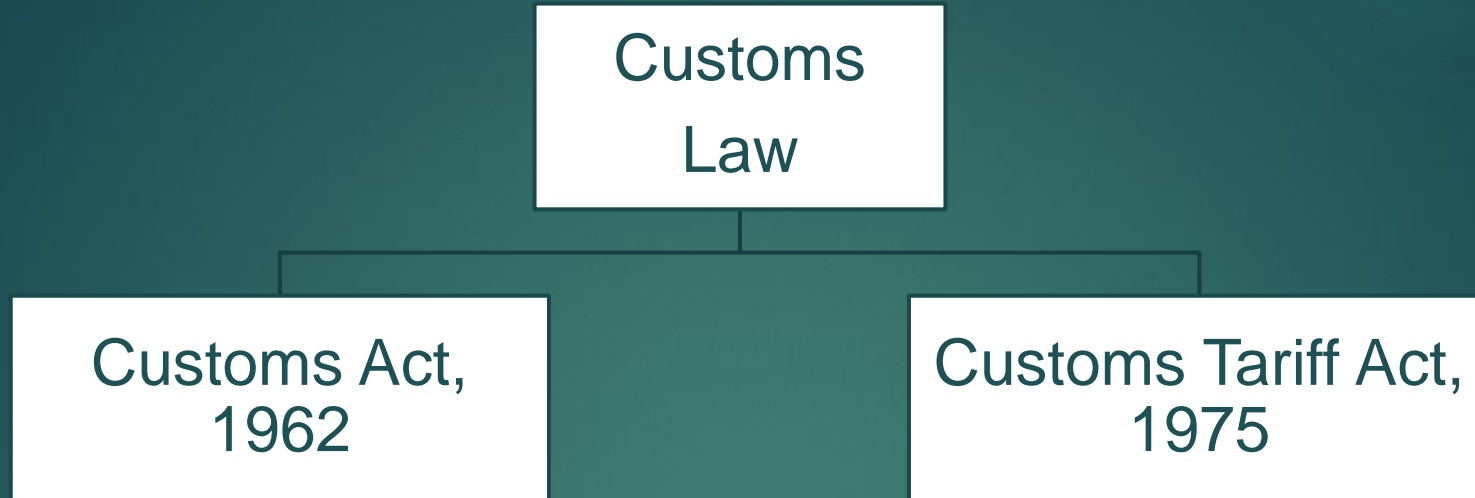
Custom Duty (Import)- Malaysia

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INDIA

Framework of Customs in India

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- The Customs Act is the basic statute which governs entry or exit of goods into or out of India and the levy of duty upon the same.
- The generally accepted HSN classification system is used.

➤ Components Of Custom Duty –

- Basic Customs Duty (BCD)
- Additional Customs Duty (ACD)
- Education Cess and Secondary and Higher Education Cess
- Anti-Dumping Duty

Important Points under Customs

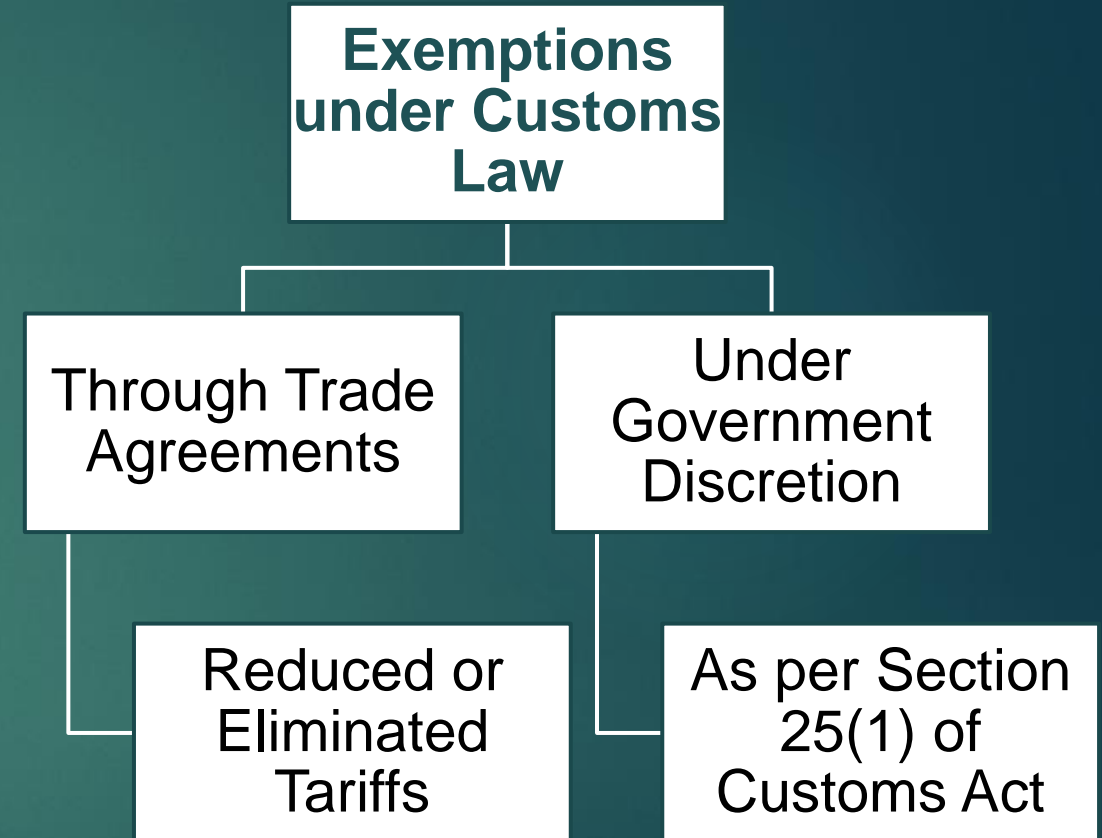
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Trade & Bilateral Agreements:

India is part of various trade groups that affect import/export customs procedures:

- ▶ Asian Trade Agreements (ASEAN, SAARC, BIMSTEC) reduce tariffs and aim to simplify customs procedures for some goods traded with member countries.
- ▶ Global Trade Agreements (APTA, GSTP) offer preferential tariffs and customs procedures for India with other developing countries.

India also has bilateral trade agreements with specific countries like UAE, Mauritius and Australia that eliminate or reduce tariffs on certain goods.



Important Points under Customs: Valuation Rules

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- ▶ Customs duties in India are based on the determined value of the imported goods, also known as the assessable value.
- ▶ **Between unrelated parties**, the value declared on the import documents is deemed to be the value of the goods unless the officials have a doubt on this.
- ▶ For a sale **between related parties** different valuation rules would apply.
- ▶ The transaction value would be accepted, whenever the importer demonstrates that the declared value of the goods being valued, closely approximates.
 - (i) the transaction value of identical or similar goods sold to unrelated buyers in India;
 - (ii) the deductive value for identical goods or similar goods;
 - (iii) the computed value for identical goods or similar goods:
- ▶ Further valuation rules have been prescribed if no comparative value can be obtained.



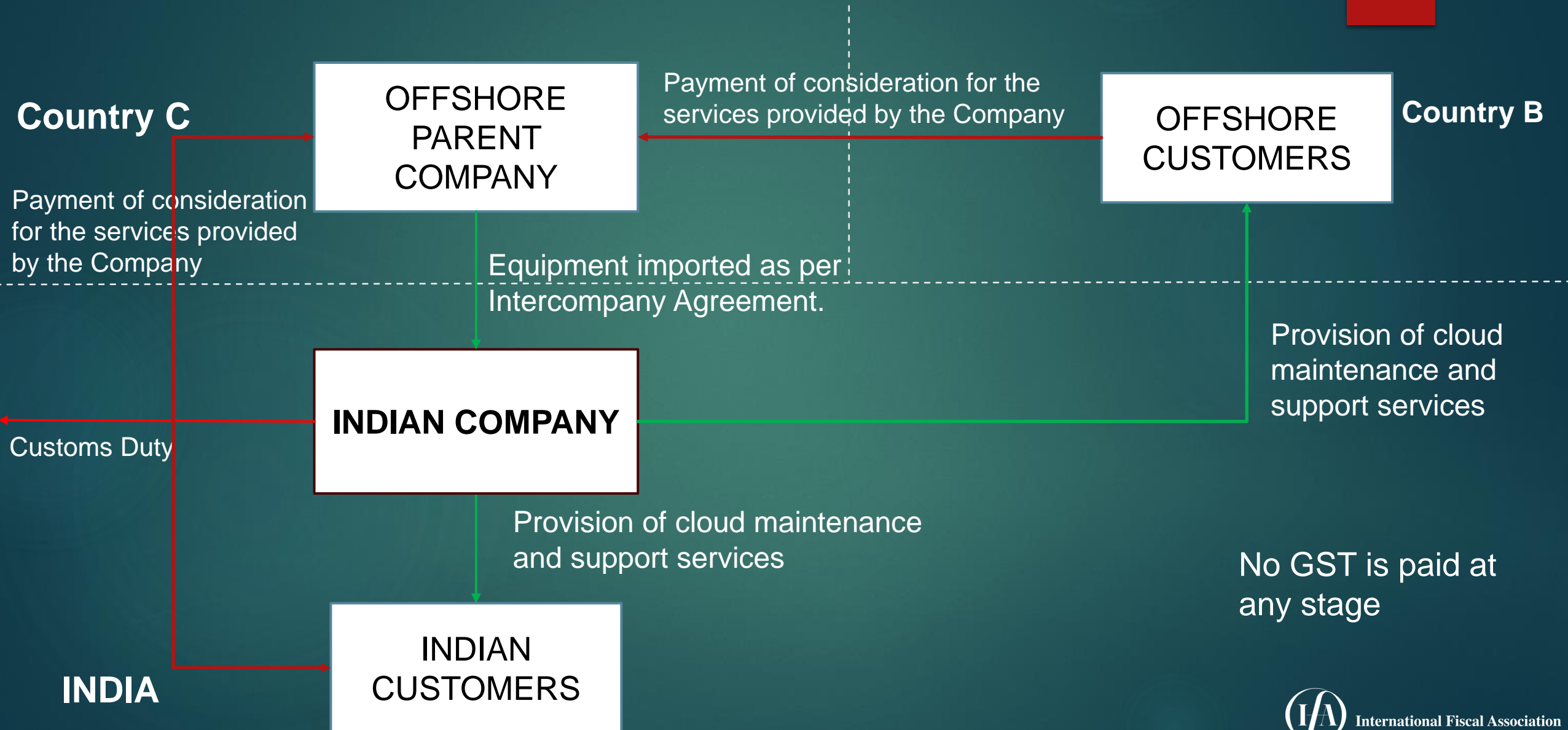
PART V

CASE STUDY

INDIA

CASE STUDY

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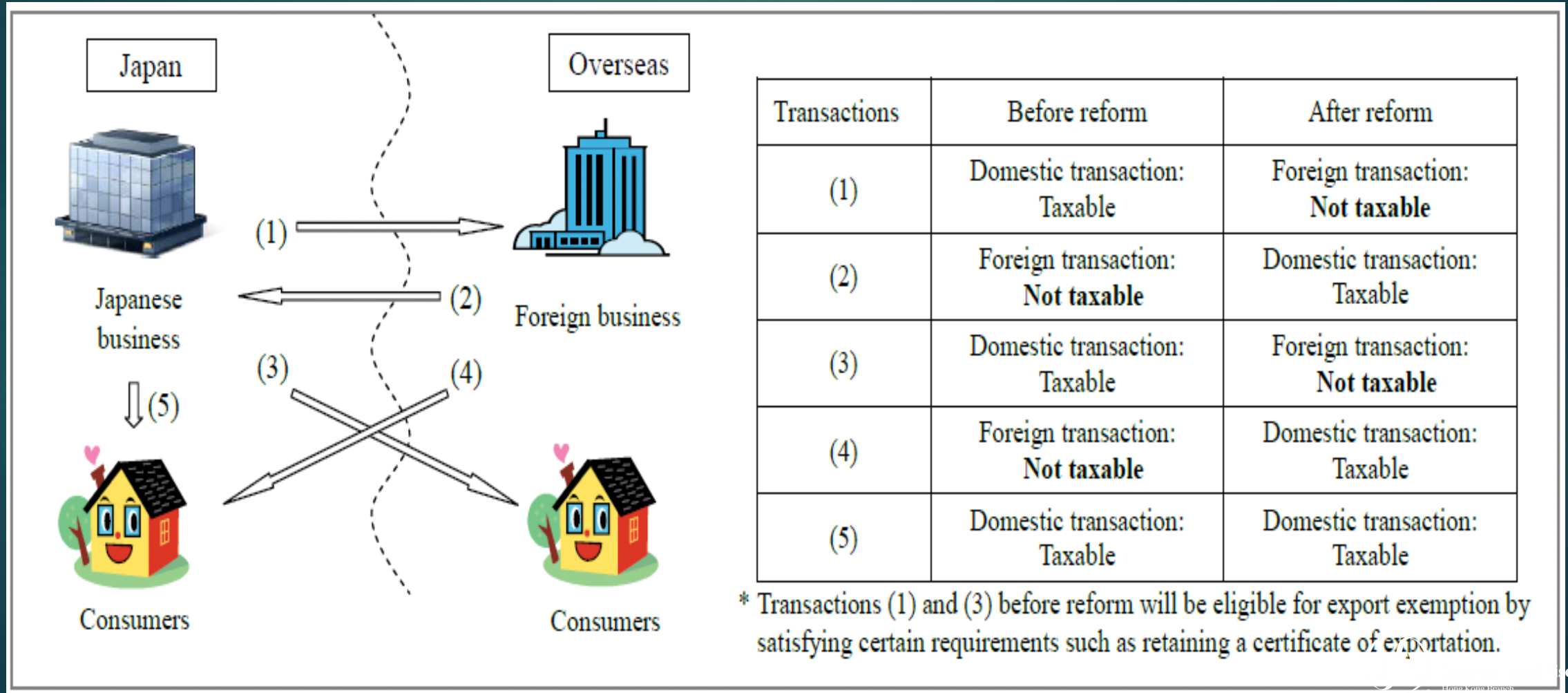


JAPAN

Case Study - Japan

Consumption Tax on Cross-border Service Suppliers (2015 Tax Reform)

Target: Services provided via electronic and telecommunication networks



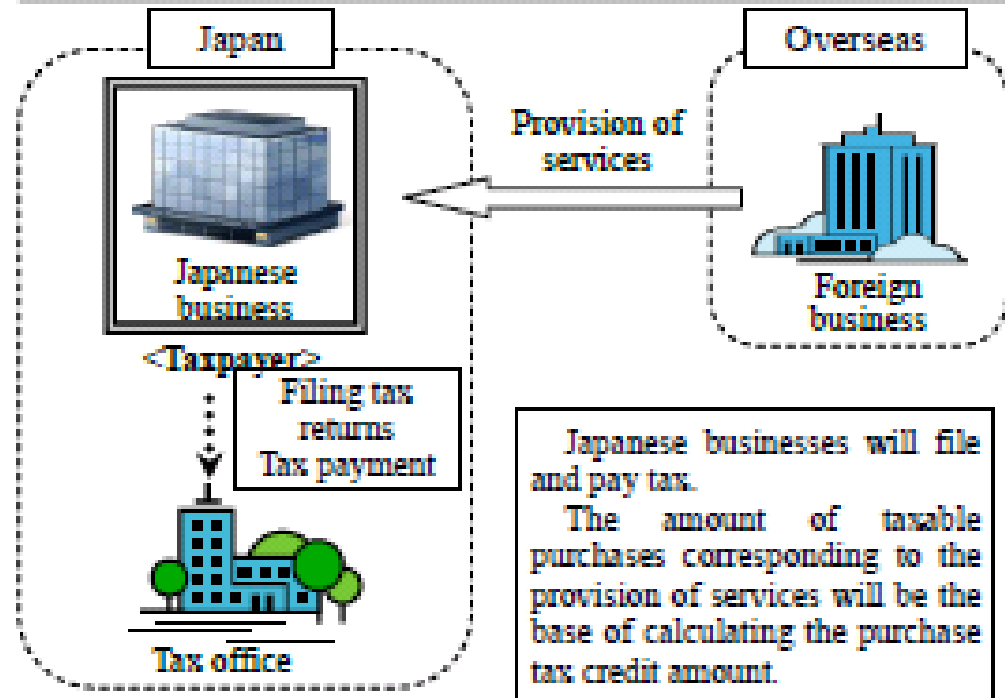
Reverse Charge for Digital Contents from Overseas (2015 Tax Reform in Japan)

Taxation scheme for the provision of B2B electronic services (Reverse charge mechanism)

Regarding the "provision of B2B electronic services" conducted by a foreign business, a Japanese business receiving the services provided is liable to file and pay tax in this scheme.

(An example of transactions: advertising services).

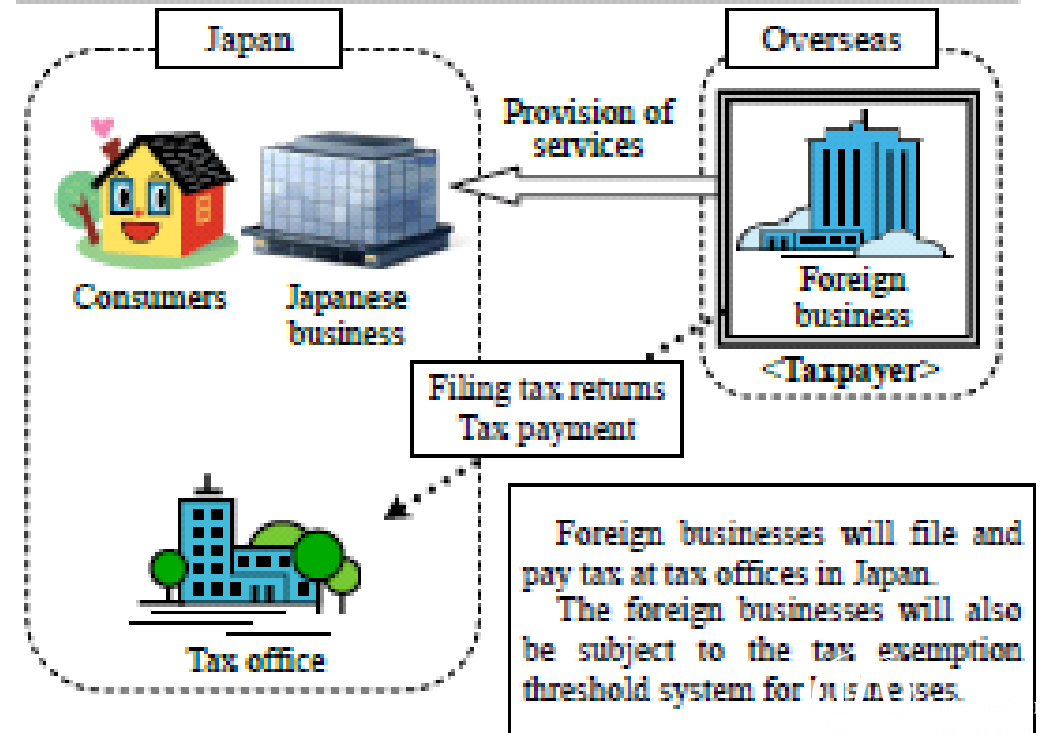
- * Provision of services that normally are limited to businesses, considering the nature of the services, or the terms and conditions relating to the provision of the services are classified as the "provision of B2B electronic services."



Taxation scheme for the provision of B2C electronic services (The scheme in which foreign businesses file and pay tax)

Among "provision of electronic services" conducted by a foreign business any transactions other than the "provision of B2B electronic services" obligate foreign businesses to file and pay tax in this scheme.

(An example of transactions: provision of e-books and music)



MALAYSIA

Malaysia Case Study

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QUESTIONS?

THANK YOU