

Appendix IV
Working Group Reports
and Resolutions

WORKING GROUP DISCUSSION

TOPIC 1

IFRS – Issues and Concerns

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1 INTRODUCTION

1.1 Overview of the Accounting Systems /Financial Reporting Framework

Most members have in place accounting systems administered locally to facilitate reporting entities in the preparation of financial statements as required by domestic law. Formulation of accounting systems is the responsibility of the local accounting standards council. Some members have professional accounting bodies to monitor application of the accounting standards.

The Financial Reporting Framework of most members are based on Generally Accepted Accounting Principles (GAAP).

1.2 Changes to the Financial Reporting Framework in Recent Years

With the advancement in global economic activities, there is a growing need for higher quality reporting, transparency and harmonization of financial statements. As a result members are adhering to either converging or adopting International Financial Reporting Standard (IFRS).

The vast majority of members have already opted for full adoption since 2005 whereas the balance favours gradual convergence due to the political and economic environment in the respective regions. However, timelines set by most members for full convergence is between 2012- 2019.

Many members have recognized the difficulties of IFRS for small and medium entities and have made concessions for them.

2 IFRS

Members recognize the global move to adopt or consider adopting harmonized IFRS over the long term as a means of improving the use of financial reports.

2.1 Responses to IFRS

There were considerable efforts by members to gain an understanding of IFRS. There were many discussions and initiatives with stakeholders about the potential impact of IFRS. Some members established teams (including taxpayers in some cases) to develop their responses and assess the impact of IFRS. Some members developed a design concept blueprint for analyzing the tax implications.

The accounting standards bodies in many members regions exempted or simplified the IFRS requirements for small and medium sized entities. The increased complexity and disclosure requirements of IFRS were recognized by the business community and the tax bodies.

Various matters concerning the training of staff and the implementation of adequate systems and procedures were addressed. The risk profiling system of many members was updated for IFRS matters. Advice and interpretative products were provided to taxpayers where IFRS was adopted.

The accounting standards bodies of some member regions had to translate the IFRS standards into the relevant languages. The up skilling of both the accounting profession and tax authority's staff

was a significant requirement for all members who have converged or are converging.

Some members use US GAAP and are impacted by the harmonized process between US GAAP and IFRS which requires additional resources.

Many members were very active in consulting and cooperating with other nations about the development of the IFRS standards and the impact on business financial reporting. Some members were also very active in bi-lateral and multi-lateral consultations with other countries around the world about the impact and development of IFRS standards.

2.2 The Adoption Process

The adoption process was usually staggered over a number of years but in a few cases there was full adoption in one step. While this was necessary, it also created some uncertainty for users of financial statements during the adoption periods.

Some members' adoption process applied in a staggered basis for different types of businesses. In some cases an overall road map was used to develop and implement the convergence of IFRS standards. The final convergence for some members is a long process and some may only adopt a reduced number of IFRS standards.

Large one-off adjustments for many assets and liabilities were necessary to transition to IFRS and some new assets and liabilities were created.

Cooperation and discussions with relevant academic institutions and other parts of government were necessary in some cases to ensure the smooth adoption of IFRS.

Some members have adopted modified IFRS at this time to cater for appropriate needs and may become fully convergent at a later time. For some members the large international accounting firms have driven the adoption process because of their knowledge of the standards.

2.3 The Tax Implications

2.3.1 Many members mentioned that the potential tax implications of IFRS are vast and the following is a summary.

- thin capitalization rules, especially the impairment of many assets;
- transfer pricing rules, notably affecting comparability between jurisdictions;
- financial instruments, especially the requirement to fair value many of them;
- tax consolidation rules especially the business combination standards;
- errors in financial statements which are corrected in later periods (during the adoption periods many errors occurred)

2.3.2 Some members do not use accounting standards concepts as the primary basis for tax and use legal form or a code instead. For these members the tax implications are not as significant. Other members noted that tax rules will then modify the accounting result. The overall computations for business profits are significantly impacted by IFRS where

general purpose financial statements are the basis for tax for the relevant members.

- 2.3.3 Taxpayers in some member jurisdiction are requesting the reflection of IFRS methods in the tax laws for some matters. This would reduce compliance costs for both taxpayers and revenue agencies which have increased considerably. Tax returns and forms required amendments in many cases. But any decisions needed to be made as a trade - off with the collection of tax. The minimization of problems and costs of transitioning was mentioned as issues by some members
- 2.3.4 The recognition of many income and expenses items in the income statement has changed considerably and may affect the taxation of these items. Revaluations and impairment of assets and the treatment of intangibles are impacting some members.
- 2.3.5 Some members mentioned the treatment of start-up costs are as being an impact. For long term construction contracts the percentage of completion method used in IFRS is attractive to many taxpayers.
- 2.3.6 Some members noted that the objectives of financial reporting are very different from taxation objectives and therefore the tax implications should be minimal on their tax system using historical costs or based strictly on taxation regulations or codes.
- 2.3.7 A few members have accepted the IFRS rules as being appropriate for tax in some areas; e.g., financial instruments (except shares) and trading stock. That meant there were large one-off tax adjustments required to convert to the new IFRS taxation treatment.

2.3.8 Many members required additional information disclosures and reconciliations between IFRS reported income and taxable income statement.

2.3.9 Some members recognized there will be an increased possibility of disputes as a result of the adoption of IFRS.

2.4 ISSUES AND CONCERNS

Members have many on-going issues and concerns regarding the accounting treatment of certain items which they are addressing. They can be summarized as follows;

2.4.1 Concerns about inappropriate restructuring of items where IFRS accounting has been accepted for tax, e.g., financial instruments.

2.4.2 The on-going and rapid changes being made to IFRS standards and the particular effect of changes to certain IFRS standards e.g., leases and insurance.

2.4.3 The use of fair value concepts may impact on the reliability of financial statements. The inclusion of fair value and some other items in the statement of comprehensive income rather than the profit and loss was particularly noted.

2.4.4 Financial instrument provisions for losses based on expected losses and changes to revenue recognition principles used for the long term construction industry were noted.

2.4.5 The phase-in period for adopting IFRS causes comparability problems for many financial indicators e.g., debt paying ability.

- 2.4.6 Where legal form is used by members for tax the compliance costs for tax increased significantly.
- 2.4.7 The increased tax disputes for some members for tax about how profits are derived are a real concern for some members. More timing differences can an impact on revenue collection.
- 2.4.8 Some IFRS transitional adjustments may not be taxable unless amendments are made to the tax rules. IFRS recognizes new and different expenses which cause issues for tax e.g., retirement provisions and share based payments schemes. The taxation of undistributed retained earnings was mentioned as an on-going issue in one case.
- 2.4.9 The effect of changes in foreign exchange rates is causing problems for some members.
- 2.4.10 IFRS accounting for extractive industries may not comprehensively address assets and expenditure in those industries.
- 2.4.11 IFRS accounting for on-going related party transactions was mentioned as causing issues for transfer pricing.

2.5 FUTURE PLANS

- 2.5.1 Some IFRS standards are to be significantly revised by all members and their tax implications are being monitored, e.g., leases, financial instruments, hedge accounting. Some members are moving to further simplify their accounting standards for SMEs which will significantly ease compliance for this sector.
- 2.5.2 Some members are closely monitoring the changes in the market economy and social and economic improvements.

The impact on the system of accounting laws and regulations will flow from these changes.

- 2.5.3 There is an on-going emphasis in all members on significantly improving the training and expertise of accounting professionals and the revenue staff.
- 2.5.4 Improving the international convergence of IFRS and participating in its formulation were mentioned by many members. Many members mentioned learning from and liaising with other international partners and members to keep up with IFRS developments.
- 2.5.5 Members with translation issues are actively seeking solutions together with stakeholders.
- 2.5.6 Where a member does not currently recognize accounting standards as a basis for taxation any change will require a macro level policy response followed by amendments to the tax law.
- 2.5.7 Where members have not yet adopted IFRS accounting the appropriate reporting and tax law will need to be amended.
- 2.5.8 Some members are already contemplating changes to existing tax law to reflect IFRS standards. Some members will retain existing working groups established to monitor IFRS developments (which involve external stakeholders). Some members need to closely monitor the convergence of IFRS and US GAAP.

3 CONCLUSION - THE WAY FORWARD

- 3.1 Many members recognize that convergence with IFRS will help their businesses in an increasingly globalized world. Many members are also changing financial reporting law as it relates to businesses.

- 3.2 Most members intend to manage issues related to IFRS through consultation with all the relevant stakeholders, especially taxpayers. Some members have refined their risk management and engagement approaches with large businesses to incorporate IFRS matters.
- 3.3 Other members at an early stage of implementing or converging towards IFRS are improving the accounting laws and regulations and training the accounting profession. These members are also strengthening relationships with other regions to improve accounting practices and standards.
- 3.4 Future changes to IFRS standards will need to be considered for tax implications by all IFRS convergent members. Those members who are not currently IFRS convergent are moving to implement some form of IFRS accounting in the foreseeable future.
- 3.5 Many members may at least give future consideration to the use of IFRS accounting for taxation of some items. In these cases there is a need to monitor any impact of IFRS on the recognition of income and expenditure for tax which comes from case law.
- 3.6 All members who have or are converging to IFRS accounting recognize the increased cost and complexity for taxpayers and the revenue agencies and are presented to consider bridging the gap between tax and accounting.
- 3.7 Members recognize that it is important to participate in the development of IFRS accounting standards to ensure they keep up with all developments on a real time basis.
- 3.8 All members recognize the importance of training and education for their staff which is a key on-going requirement.
- 3.9 Members recognize the importance of acting on a collaborative and consultative basis with all stakeholders in dealing with IFRS and related tax matters.

- 3.10 Finally members acknowledge the benefit of working together with others SGATAR members and learning from their experiences. Sharing such knowledge and expertise builds true bilateral tax cooperation.

TOPIC 2

Information and Communication Technology (ICT): Maximising its usage and all aspects of tax administration at a minimum cost

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1. INTRODUCTION

- 1.1 Information and Communication Technology (ICT) has become a key pillar of many tax administrations today. ICT facilitates all aspects of tax administration, including taxpayer services and tax revenue collection. However, ICT implementations usually involve significant capital and on-going operational expenditures. With governments pushing for a more cost-effective public sector that is both high-performing and responsive, it is imperative that tax administrations find ways to maximize the usage of ICT while minimizing ICT costs.
- 1.2 This report presents a summary of the key points from the discussion of the working group. It also highlights the main learning points from experiences shared by the working group members.

2. ICT GOVERNANCE

- 2.1. Given the strategic importance of ICT, many members have put in place ICT governance structures and practices to ensure proper functioning and control of ICT operations and implementations in their organizations. Common ICT governance practices among members include:
- **Decision-making structures** – members have clear, well-defined decision-making and approval structures, such as ICT steering committees, technical assurance committees and risk assurance committees, to oversee and approve ICT plans, budgets, process improvements, and project implementations at the organization level. In terms of ICT budget approval, some members have greater autonomy while others may need to escalate approval to the Ministry/Parent Department level depending on the quantum.

- **Strategic ICT planning** – members typically develop strategic ICT plans that cover a 3 to 5 year horizon. These ICT plans are closely aligned with and support the overall business strategies and objectives. For some members, their ICT plans also took into consideration ministry-level or nation-wide plans and objectives. A few members formed dedicated departments to centralize ICT planning within the organization. The strategic ICT plans are used to drive the identification and implementation of ICT projects to meet business needs, as well as to derive the ICT budgets needed.
- **Project and portfolio management** – many members have adopted project management best practices to ensure proper governance and of ICT projects and to manage ICT project costs, with well-defined project management processes and clear project reporting structures. Some members have implemented enterprise project portfolio management to optimize ICT investments enterprise-wide.

3. ICT USAGE IN TAX ADMINISTRATIONS

3.1. While some members are more advanced in the usage of ICT than others, all members have leveraged on ICT to different extent to enhance various aspects of their tax administration functions. There is a clear trend among members to move away from multiple system silos and databases into consolidated, integrated information systems to improve accuracy, consistency and lower ICT costs. The following paragraphs summarize how various members have harnessed ICT in their work functions and services.

3.2. Internal processes

3.2.1 Taxpayer Identification and registration – Many members provide online registration services to their taxpayers. A few members have information linkages and data matching with external parties and are able to fully automate taxpayer registration and information updates at the backend by obtaining information directly from source.

3.2.2 Return generation and processing – Most members have ICT systems that facilitate the issuing, lodging, and status monitoring of tax returns. Some provide software and applications to help taxpayers prepare and submit their tax returns. Others make use of information linkages with external parties to obtain information from source to pre-fill tax returns, making tax filing easier for taxpayers. By capturing all necessary information needed for assessment, one member implemented a No-Filing Service where individual taxpayers need not even file a tax return. Many members are turning to electronic filing and document imaging to automate capturing of data from tax returns.

3.2.3 Assessment – Increasingly, many members are moving towards a risk-based model where tax returns are processed first and audited later. Rules and criteria are built into ICT systems so that tax computation can be automated, failing which returns will be sent for manual computation. One member was able to automatically pre-calculate the tax payable and send tax notices and tax bills directly to taxpayers who met pre-requisite criteria.

3.2.4 Collection – most members offer electronic payment options to provide convenience to taxpayers for tax payment, such as internet banking, electronic funds transfer, mobile payment, and direct payment services online. Members' ICT systems also facilitate the monitoring and processing of tax payments. One member has an Electronic Tax Reserve Certificates

(TRC) Scheme where taxpayers can pay their taxes through a fund maintained with the tax administration. Many have also leveraged on ICT to automate refund processing, and to maintain updated taxpayer accounts across different tax types.

3.2.5 Enforcement – To better deal with non-compliant taxpayers, members also use ICT to assist with non-filer management and debt management. Through ICT, various enforcement actions are automated, including sending warning letters, raising estimated assessments, imposing penalties and summons, and reclaiming unpaid taxes from refunds due in other tax types.

3.2.6 Audit and investigation – ICT is used to assist with the identification and selection of audit and investigation cases to improve tax recovery. Some members have computerized case management systems to track the progress of these audit/investigation cases to closure. More are turning to data analytics and data warehouses so that they can harness statistical analysis, data mining as well as risk profiling to better identify high risk cases. One member has also invested in computer forensics technology to strengthen its capability to detect fraud and nail down tax evaders.

3.3. Taxpayer Services

3.3.1 Electronic Services – Members have implemented electronic services and online portals to allow taxpayers to self-serve in fulfilling their tax obligations. Other than online return filing and payment, other online services offered by members include electronic stamping of documents, online particulars update, online viewing of tax account, e-consultation, feedback/complaint submission, and tax agent services.

3.3.2 Corporate Websites and e-Engagement – Members also make extensive use of their websites as a means of taxpayer engagement and education. Besides publishing useful tax information, members also offer e-Learning, online videos, web Tax-TVs, Tax Learning Corners, Mail Magazines, and e-Seminars through their websites. A few members have dedicated sections to communicate and manage relationships with tax intermediaries and tax agents.

3.4. Other aspects of tax administration

3.4.1 Staff workspace – ICT tools such as office automation tools, workflow management tools, CRM tools are used to improve work efficiency and staff productivity.

3.4.2 Knowledge management – ICT is used to implement shared knowledge repositories, knowledge-based systems, and office collaboration tools to facilitate staff sharing build up knowledge capital in the organization.

3.4.3 Administrative and corporate functions – ICT is used to automate administrative and corporate functions such as HR, finance and logistics to bring down operating costs and improve productivity.

4. MANAGING ICT COSTS

4.1. Members generally agree that ICT costs are multi-faceted and require holistic control measures to manage them effectively. The following are some common methods members used to bring down ICT costs.

4.2. Adopt cost-effective sourcing strategies

- 4.2.1. Members have used different sourcing strategies to deliver ICT systems cost-effectively. Some use in-house development and maintenance for their core systems and outsource consultancy or advisory services as it is cheaper for them to do so. In-house development is also most suitable when familiarity with business domain or existing systems is paramount and expertise is available in-house.
- 4.2.2. Some members use outsourcing selectively for non-core ICT systems where the market is able to provide more cost-effective solutions. Others rely more extensively on outsourcing for application development and maintenance, as they lack resources and expertise in-house and it is cheaper to outsource.
- 4.2.3. Co-sourcing or joint development is another common strategy used by members for the provision of manpower or services. Such arrangements allow supplementation of resources and expertise that are lacking in the organization while facilitating knowledge transfer and capability enhancement.

4.3. Use commercial-off-the-shelf (COTS) products

- 4.3.1. Commercially available software packages can be cheaper and faster to implement as long as they meet business requirements. COTS software saves on ICT costs and improves time-to-market, as custom development is minimized and effort is focused on configuration and integration instead. The COTS products used range from office automation products, to tax processing packages, to software development tools. In using COTS software, minimizing product customization is key to ensuring low maintenance costs in the long run.

4.4. Reduce infrastructure costs

4.4.1. One major component of ICT cost is infrastructure cost. Most members outsource their data centres as it reduces government ownership of ICT assets and in doing so bring down ICT costs. A few members are turning to server and storage virtualization technology to further bring down infrastructure costs, and to provide better flexibility and agility in catering to various peak business demands. Others have started looking at green ICT implementations and private cloud computing to better optimize usage of server and networking resources and lower the long-run operating costs of their data centres.

4.5. Reduce ICT manpower costs

4.5.1. ICT manpower cost is another significant component of the overall ICT cost. Some members have sought to reduce manpower costs by having flexible manpower arrangements that allow them to augment manpower from the market based on specific demand and needs. A few members reviewed and optimized their organization structure to consolidate functions and reduce excessive manpower, while others have frameworks in place to enhance the skills and capacity of their staff to improve work productivity.

4.6. Automate or streamline work processes

4.6.1. One common way in which members aim to reduce both manpower and operational costs is to automate their existing work processes with ICT tools. Examples of such automation tools include desktop patch management where software patches are automatically pushed down to individual PCs, reducing the need for manpower support. Others have

implemented software testing automation tools to reduce effort and manpower needed to test ICT software and applications.

4.6.2. In implementing ICT systems, members have also proactively looked at streamlining or simplifying their business processes so as to avoid heavy customization, which could lead to long term maintenance issues. Many members see process streamlining as essential to designing and developing cost-effective ICT solutions for their tax administration.

4.7. Leverage on shared or whole-of-government services

4.7.1. Leveraging on shared services removes the need to develop new ICT solutions from scratch and eliminates duplication of functions, and is another effective way to lower ICT costs. Examples of such shared services include data centre hosting services, common government applications and services, as well as software-as-a-service offerings from the market. In using common government services, usability and convenience is greatly enhanced for taxpayers as they need not furnish the same information multiple times to different government departments.

4.8. Leverage on centralized procurement

4.8.1. Some members are able to tap on centralized procurement services where they can engage services from a pre-selected panel of preferred suppliers for government departments. Such centralized procurement are usually more transparent and have pre-determined pricing schedules, which in turn allows members to compare and optimize ICT implementation costs.

4.9. Other measures to minimize ICT costs

4.9.1 Reuse existing ICT assets – One member has set out an approach where existing ICT assets shall be reused wherever possible, and buying from the market takes place only when existing assets are not able to meet requirements. Others have adopted modular and reusable system designs such as Service-oriented Architecture and web services to simplify ICT development and lower ICT implementation costs.

4.9.2 Effective project and vendor management – Members agree that ICT projects need to be well managed and controlled to minimize budget and schedule overruns. For example, establishing clear project scope and requirements upfront and minimizing changes downstream will lower the overall implementation costs. In terms of vendor management, some members ensure that they specify service levels based on their actual needs to avoid overpaying for excessive service options.

4.9.3 Reduce reliance on proprietary software – Many members are moving away from proprietary software to open architectures and commercially-available software to reduce over-reliance on specific vendors, improve the flexibility and agility of their ICT systems, and lower the long-run maintenance costs of their systems.

4.9.4 Tune ICT system performance – Some members have monitoring processes and controls to regularly monitor the performance of their ICT systems, which allows them to identify performance issues early and tune for improvements. In doing so, these members are able to optimize the utilization of their existing ICT assets and “do more with the same”.

5. KEY CHALLENGES IN MINIMIZING ICT COSTS

5.1. While members strive to minimize ICT costs during ICT planning, the actual expenditure can still fluctuate or deviate during implementation due to unexpected complexities, such as vendor bankruptcy, technology obsolescence during long-running projects, and unexpected policy changes. Other than the need to have measures to control costs when the unexpected happens, members would also need to have a good understanding of the impact on the business value so as to be able to decide on the most cost-effective resolution strategies.

5.2. ICT costs have an inverse relationship with risk tolerance. Generally, the lower the risk tolerance, the higher the ICT costs. Members acknowledge that they need to understand the levels of risk they are willing to bear, which will influence the design and cost of their ICT systems. However, there are areas such as ICT security where risk adversity is generally high and would therefore continuously require significant outlays in terms of expenditure. To this end, members would need to devise appropriate strategies to control expenditure and justify their spending.

6. CONCLUSION

6.1. There is general consensus that, while ICT is a key enabler in enhancing taxpayer service quality and improving cost-efficiency of tax administration, it is very costly. To maximize ICT investments, some members recommend that tax administrations develop ICT strategies and plans based on their needs and maturity levels, and harness appropriate technology to avoid overspending. To counter rising ICT costs, many members have measures in place to minimize ICT costs while expanding or improving their ICT capabilities. Where cost minimization is not possible

or restricted, strategies to control cost escalation would be required instead.

- 6.2. While ICT costs constitutes a significant portion of the overall operating expenditure, tax administrations will need to look at cost management in other areas as well so as to have a holistic cost management strategy for the enterprise. In many ways, this SGATAR meeting has facilitated the sharing of various members' experience in maximizing ICT usage while minimizing ICT costs. The learning points from this meeting will prove to be invaluable when members design and implement future ICT initiatives.

TOPIC 3

E-Commerce: Taxation challenges and legal issues

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1. Introduction

- 1.1 Members recognize that globalization, geographical expansion, economic development, and technological advancement have increased the number of e-commerce transactions. Members have enjoyed a leap of technological advancement in internet usage in their jurisdictions in the last two decades with the number of internet users increased significantly. It has signified a new wave of economic activities and expanded the tax base for tax administrations but also poses challenges of how to tax them.
- 1.2 Members agree to the OECD definition that e-commerce is “an economic transaction using an electronic network – usually, but not exclusively, the Internet”.
- 1.3 It was recognised that e-commerce is a fast growing area of all economies but there is a lack of consistent regulatory frameworks amongst participating jurisdictions, resulting in the creation of potential for e-commerce transactions to avoid being taxed.
- 1.4 Difficulties in taxing e-commerce transactions are due to the e-commerce characteristics, among others: the absence of physical location, high anonymity and mobility, intangibility, easy setup, difficult access to data and information due to its storage, cross-border transactions, and rapid development of technology.
- 1.5 Nevertheless, all members agree that the taxation of e-commerce should be based on the widely established principles of neutrality, efficiency, certainty and simplicity, effectiveness and fairness and flexibility. Members also agree to the continued promotion of the use of internet and to ensure adequate consumer protection.

2. Legal Basis

- 2.1 Most members do not have specific legal basis in relation with tax for e-commerce. While other information and technology related laws exist in

some administrations, in taxation, e-commerce transactions abide by the provisions in the existing tax laws.

- 2.2 For some members, framework and recommendations for e-commerce taxation have been provided which dates back to the late 1990s while the others started in early 2000s.
- 2.3 Some members point out a need for tax treaty and international consensus in taxing e-commerce transactions. The concept of permanent establishment, for example, may not apply to the e-commerce transaction as e-commerce does not require physical presence in a tax administration jurisdiction.
- 2.4 Tax treaties are needed to avoid double taxation. Where a treaty does not exist there is potential for double taxation, particularly where a jurisdiction seeks to tax on a worldwide basis, as this preserves the right to tax based on residence. Tax treaties also provide a mechanism for appropriate taxing rights in respect of permanent establishments.

3. Taxation Challenges

- 3.1 E-commerce poses challenges to tax administrations, one of the basics is the issue of how to identify who does the business, where it takes place, and when the transaction is done. In addition, most e-commerce transactions do not maintain traditional bookkeeping records and it is difficult to get the proof of transactions.
- 3.2 Although some members have been empowered by law to access records and information kept by the taxpayers, the access remains an issue to overcome due to the nature of e-commerce with high anonymity and mobility. Members' experience shows that the power may be ineffective in enforcing compliance and exchange of data and information is impractical and near impossible due to the data being stored in a virtual environment, for example cloud computing.

- 3.3 Rapid advancements in technology pose challenges to tax administrations. Legal frameworks need to be flexible to deal with this environment.
- 3.4 Additionally, tax officers need to be equipped with sufficient capability to be able to collect e-commerce data, be able to analyse it and be able to tax the transactions.
- 3.5 It is also important that tax officers have an in-depth understanding of the types of business that engage in e-commerce and the various e-commerce business models.
- 3.6 One jurisdiction questioned on how we are able to distinguish between a hobby and carrying on a business, particularly in e-commerce environment where traditional concepts of what is carrying on a business is less clear.

4. Experiences on E-commerce Taxation

- 4.1 Members are in different stages of response to the e-commerce trends. Some members are yet to establish a sound legal framework to address the activities in e-commerce; others have established framework regarding the e-commerce activities as it has been an important part of their economy.
- 4.2 Understanding the business models in e-commerce transactions is essential as to understand the nature of the business and what measures are needed. Some members have shared that it is more difficult to identify and tax e-commerce transactions on Business to Consumer (B to C) and Consumer to Consumer (C to C) compared to B to B transactions. However, B to C and C to C business transactions imply a potential tax revenue sources due to its general features, which although is relatively small in value, is high in volume and still increasing.
- 4.3 The advancement of technology also enables the emergence of new types of business. A lesson from some members' experience is that

understanding these trends and the types of the businesses that emerge is important.

- 4.4 One challenge in particular is the technology that enables storage of data in servers outside the country such as the cloud computing. Cloud computing users are provided with access to servers, software, applications and storage over the internet but the location of the server is not disclosed.
- 4.5 In response to increasing e-commerce trends, some members establish a special team dedicated to deal with the taxation of e-commerce business transactions. The team's tasks are mostly on audit and intelligence, specifically on collection of data and information related to e-commerce activities. The establishment of such team greatly help in handling e-commerce transactions.

5. The Way Forward

- 5.1 Some members state the need for amendment and more flexible laws and regulations, and supporting policy on dealing with e-commerce.
- 5.2 All members agree on suggestion to adopt the use of a standardized registration number, like single business number for individuals and businesses in order to make it easier to identify and trace taxpayers in e-commerce transactions across borders.
- 5.3 Further study on royalty payments and its characterization as well as its tax consequences is recommended in order to understand royalty in e-commerce transactions and to tax it appropriately, especially in territory based tax administration.
- 5.4 It was also recognised that further study on ability for tax treaties to address some of the issues raised at this forum, in respect of the ability to exchange information between the parties to the treaty. E-commerce further complicates these unresolved issues as it is difficult to know where relevant data is stored.

- 5.5 Most members agree that tax administration capacity needs to be enhanced to deal with the e-commerce challenges. In this regard, training is important to enhance professional skills of tax officers.
- 5.6 Consideration has been given to mandating that suppliers issue electronic tax invoices.

6. Conclusion

- 6.1 With the increasing trends of people doing business in e-commerce , tax administrations need to strengthen capacity of their resources including ICT system and human resource professional skills dealing with e-commerce.
- 6.2 It was agreed that there needs to be agreement as to tax concepts amongst participating jurisdictions. For example, there needs to be agreement as to the proper characterisation of the transmission of digitised products. Is it a royalty, provision of a good or the provision of a service?
- 6.3 Access to data and information of taxpayers doing e-commerce transactions is important. Tax administration needs to build data exchange relationship with other institutions as well as among tax administrations.

