

MACAU

RECENT MAJOR TAX DEVELOPMENTS IN MACAU

Tax Incentives for Financial Year 2008

The Legislative Assembly has approved certain tax incentives proposed by the Chief Executive of the Macau SAR in his Policy Address for financial year 2008 including the following key measures:

1. The tax free income threshold for Macau Complementary (Corporate) Tax is increased from MOP32,000 to MOP200,000 for income derived in financial year 2007. Taxable profits between MOP200,000 and MOP300,000 are taxed at 9 %, and taxable profits over MOP300,000 are taxed at 12%.
2. The tax free income threshold for Macau Professional Tax is increased from MOP95,000 to MOP120,000 for income derived in financial year 2008. Taxable income between MOP120,000 and MOP400,000 is taxed at progressive rates scale ranging from 7% to 11%. Taxable income above MOP400,000 is taxed at 12%.
3. There is a 25% reduction in the Macau Professional Tax liabilities. Together with the standard 25% deduction on the taxable income granted by the Macau professional tax Law, the effective tax rate for Macau Professional Tax is below 7%.
4. There is a standard MOP3,500 reduction in the Property Tax liabilities assessed in financial year 2008.
5. Macau Industrial Tax is fully exempt for financial year 2008.
6. Tourism Tax is exempt for restaurants for financial year 2008.

The overall aim of the tax incentives is to lessen the burden of small and medium-sized enterprises (SMEs) and to improve the livelihood of the general public in Macau. Whilst it is generally believed that the direction of the Macau Government policy would remain stable for at least several years, the extension of the above-listed tax incentives beyond financial year 2008 is subject to approval by the Legislative Assembly on an annual basis unless such amendments are written into the relevant tax laws.

Macau Offshore Companies

In addition to having very low corporate and individual tax rates, profits derived by approved offshore institutions from prescribed offshore service-related activities are exempt from all forms of taxes, such as Complementary Tax, annual Industrial Tax (currently exempt for all taxpayers), and stamp duties. The executives and/or staff at supervisory level are exempt from Professional Tax for the first three years of operation by application.

At present, there are eight permissible offshore activities:

1. Hardware consultant.
2. Software consultant.
3. Data processing.
4. Database-related activities.
5. Back office activities.
6. Research and development activities.
7. Tests and technical analysis activities.
8. Management and administration of ships and aircraft.

Hence it might be worthwhile exploring the possibility of setting up a Macau offshore institution for companies in the relevant industries or, where it is commercially viable, relocating some of the above-listed back office and support functions to Macau. Although trading is no longer approved as a permissible offshore activity, consideration can be given as to whether a Macau offshore institution (which is approved to provide back office activities) can provide all the requisite services, such as procurement, quality control, marketing, and liaison services pertaining to trading transactions, to support another trading entity within the group, such that an arm's length service fee can be charged to the trading entity to reduce the trading profits.

Compulsory Adoption of the Macau Accounting Standards

Macau entities are required to adopt Macau Accounting Standards (MAS) for accounting periods beginning on or after 1 January 2007 on a compulsory basis. MAS are comprised of Macau Financial Reporting Standards (MFRS) and General Financial Reporting Standards (GFRS).

MFRS is a sub-set of International Financial Reporting Standards (IFRS) - March 2004 edition, and it contains the Framework for the Preparation and Presentation of Financial Standards and 16 accounting standards. GFRS is a set of simplified accounting standards specifically designed for SMEs based on the basic principles of IFRS. It contains the Framework for Financial Reporting and 15 accounting standards.

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Adoption of MFRS is compulsory for concessionaires, financial institutions, Macau offshore institutions and companies limited by shares in Macau. Other types of Macau companies not mentioned above could elect to adopt either MFRS or GFRS. In general, MFRS is more suitable for large or multinational corporations while GFRS should be more welcomed by those SMEs established in Macau.

To deal with the compulsory adoption of MAS in 2007, a set of new tax forms has been issued by the Macau Finance Bureau (MFB), in which a registered auditor or accountant is obligated to opine on whether the taxpayer entity has prepared its accounts in accordance with MAS and that they are free from any material departure.

Although the mandatory adoption of MAS has become effective since 1 January 2007, discussion on the amendments to the Complementary Tax Law is still ongoing within the MFB and no definite time table has been set by the MFB yet for promulgation of a revised Complementary Tax Law. Apart from possible revision of the Complementary Tax Law which is still in progress, we understand that the MFB is also reviewing the Property Tax Law. Other related tax regimes, such as the Industrial Tax Code, the Stamp Duty Law, and/or the Professional Tax Law, may also be subject to review and amendment.

