NEWSLETTER

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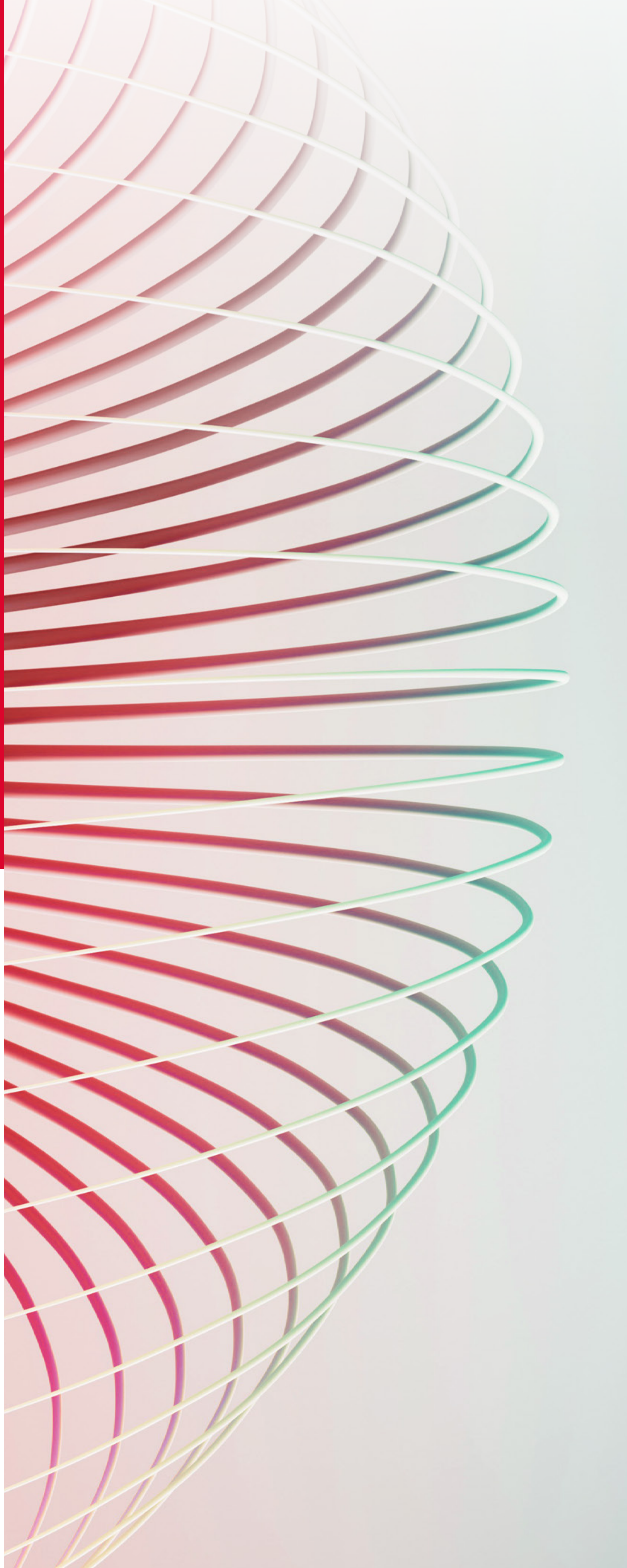

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HONG KONG FINTECH WEEK 2024: ILLUMINATING NEW PATHWAYS IN FINTECH

Hong Kong FinTech Week 2024, held on 28 and 29 October, reaffirmed the city's role as a rising global fintech hub. The event brought together industry leaders, regulators, and innovators to discuss the latest advancements and challenges in financial technology.

This year's focus was on fostering innovation while maintaining a strong regulatory framework, ensuring that Hong Kong remains a leader in the evolving fintech landscape. With over US$2.4 billion in investments by foreign companies in the past year, Hong Kong is solidifying its position as a leading destination for business and innovation.

The event offered a platform for significant announcements and forward-looking discussions, all aimed at integrating technology and finance to drive growth and innovation.

Keynote Insights:
Bridging Gaps and Pushing Boundaries

The opening remarks set a dynamic tone for the event and underscored Hong Kong's strategic position as a gateway between China and the global financial market. Paul Chan, Financial Secretary of the Government of the HKSAR, highlighted the substantial influx of over 60 foreign companies establishing their presence in Hong Kong through InvestHK in the past year, reinforcing the city's appeal as a global business hub. He also emphasized the city's outreach to the Middle East for cross-border collaborations and the ongoing efforts to harness blockchain and AI technologies.

Christopher Hui, Secretary for Financial Services and the Treasury of the Government of the HKSAR, introduced a policy framework for responsible AI application in finance, focusing on promoting development while addressing cybersecurity, data privacy, and intellectual property challenges. The framework is designed around a “3Ds” approach - Data-driven, recognizing AI as a Double-edged sword, and adopting a Dynamic regulatory stance.

Regulatory Innovations Shape the Future Landscape

Mr Hui then announced a new law to be enacted by the end of this year that will extend Hong Kong’s tax concessions to a wider range of assets, including virtual assets, reinforcing Hong Kong’s commitment to fostering a conducive environment for digital innovation. Additionally, new regulations for stablecoins are planned by 2025 to ensure market stability and investor protection.

The Generative AI Sandbox, launched by the Hong Kong Monetary Authority (HKMA) in March 2024, was spotlighted by Eddie Yue, Chief Executive of the HKMA. This Sandbox supports tokenization and CBDC initiatives within the HKMA to explore asset tokenization use cases. The initiative provides a controlled environment for financial institutions to experiment with AI applications, paving the way for future innovations in banking.

Panels and Discussions: From Payments to SME Lending

1. **Next-Gen Digital Payments:**
   The discussions centered around creating an interconnected ecosystem where platforms, payment solutions, and merchants operate seamlessly across jurisdictions. Real-world examples, such as Malaysian merchants accepting WeChat Pay, showcased the potential of cross-border payment integration. AI was highlighted as a game-changer, significantly reducing operational costs and increasing efficiency.

2. **E-commerce & Consumer-Centric Payments:**
   Key themes included addressing consumer pain points like speed, cost, and friction in transactions. The consensus was clear: partnerships between banks and merchants are essential to deliver seamless, multi-platform experiences. The ongoing debate about whether global payment solutions are converging or diverging underscored the importance of building trust to create a frictionless network.

3. **Innovative SME Lending:**
   Blockchain and AI are revolutionizing access to finance for small and medium enterprises. By leveraging AI, banks can better predict funding needs and evaluate SMEs beyond traditional creditworthiness metrics. This shift promises a more inclusive and tailored approach to SME lending, provided there is robust data sharing across borders.

eMPF Platform

The launch of the eMPF platform in the summer of 2024 is set to revolutionize Hong Kong’s pension system by centralizing and digitalizing the administration of Mandatory Provident Fund (MPF) accounts. This new platform aims to streamline operations, reduce administrative costs by 36% within the first two years, and have direct benefits for users. With features like automated notifications for payments and a user-friendly interface, the eMPF platform will simplify fund management, enhance transparency, and improve user experience. The goal is to achieve a 90% digital adoption rate among employers within five years, a substantial increase from the current rate of less than 50%.

Expanding the Hong Kong-GBA Fintech Horizon

Hong Kong's strategic position within the Greater Bay Area (GBA) is pivotal for fostering fintech innovation and integration. The GBA, comprising major cities like Shenzhen and Guangzhou, is set to become an economic powerhouse, blending Hong Kong's financial acumen with the technological prowess of mainland China. This synergy is expected to attract top talent and fintech startups, creating a vibrant ecosystem where traditional banks and fintech companies collaborate to drive innovation.

Cross-border payment solutions are a key focus, with initiatives like the acceptance of e-CNY and e-HKD by merchants on both sides of the border already in place. Such developments are reducing friction in cross-boundary transactions and enhancing consumer convenience.

Furthermore, the growth of cashless payments and e-commerce in the GBA is propelling the region towards a more integrated financial system, offering vast opportunities for businesses and consumers alike.

Continuous dialogue between regulators, traditional financial institutions, and fintech innovators is crucial to building a robust regulatory environment that supports sustainable growth and innovation across the GBA.

Conclusion

As Hong Kong continues to advance its fintech ecosystem, collaboration, adaptive regulation, and technological integration will be key drivers of its future success. The insights and initiatives discussed during the event provide a roadmap for the next phase of fintech development, reinforcing Hong Kong's position as a pivotal player in the global financial landscape.

At Fidinam, we assist fintech-related projects from our offices in Switzerland, Hong Kong, Singapore and the UAE. Our experienced professionals support clients to develop and scale-up their businesses in a compliant and tax-efficient way. Contact us at info@fidinamgw.com for more information.

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FISCAL POLICY UPDATE CHINA

On October 12, 2024, Finance Minister Lan Fo'an announced a new round of fiscal policies at a press conference held at the State Council Information Office of the People's Republic of China. These policies aim to utilise tools such as deficits, special bonds, and tax incentives to promote economic recovery and mitigate risks associated with local debt.

This initiative is part of the Finance Ministry's commitment to implementing the Central Economic Work Conference's directives, maintaining an active fiscal stance, enhancing spending efficiency, supporting manufacturing and technological innovation, safeguarding key sectors, managing economic risks, and promoting sustainable economic growth.

Six Core Measures

1. **Expanding Fiscal Expenditure**
   The fiscal deficit for 2024 is set at 4.06 trillion CNY, with a new local government special debt limit of 3.9 trillion CNY and the issuance of 1 trillion CNY in special bonds. The total public budget expenditure will reach 28.55 trillion CNY, providing substantial financial backing for high-quality development.

2. **Optimising Tax Incentives**
   The government will continue to implement tax incentives such as R&D expense deductions and VAT credits. From January to August, tax reductions exceeded 1.8 trillion CNY, further alleviating the tax burden on businesses.

3. **Boosting Domestic Demand**
   The government will utilise newly issued bond funds to support disaster recovery and consumer goods upgrades. From January to September, 3.6 trillion CNY in special bonds has been issued, supporting over 30,000 projects.

4. **Strengthening Basic Guarantees**
   The central government has allocated over 10 trillion CNY in transfer payments to localities, focusing on supporting basic livelihood guarantees, technology, rural revitalisation, and environmental protection.

5. **Enhancing Social Security**
   The central government has allocated 66.7 billion CNY for employment support, with education spending reaching 3 trillion CNY and increases in pensions and medical insurance subsidies.

6. **Mitigating Local Debt Risks**
   The central government has allocated 1.2 trillion CNY to address local debt issues, particularly in high-risk areas, and to clear overdue payments to enterprises.

Strategies for Enterprises

In light of the new fiscal policies, enterprises can adopt the following strategies to seize opportunities and optimise operations:

1. **Assess Fiscal Support Projects**
   Enterprises should actively identify applicable fiscal support projects, particularly those related to R&D and manufacturing. Evaluating potential subsidies and tax reductions can significantly lower costs and enhance competitiveness.

2. **Optimise Fund Allocation**
   With increased fiscal spending, enterprises should consider financing through special bonds or long-term special bonds. This strategic funding allocation can accelerate project timelines and improve market resilience.

3. **Identify Investment Opportunities**
   Enterprises should monitor investment opportunities in technology and manufacturing sectors benefiting from policy support. Conducting market research and data analysis can help uncover high-return projects, enriching the investment portfolio.

4. **Utilise Tax Advisory Services**
   Engaging in comprehensive tax planning and compliance consultations can assist enterprises in understanding the nuances of the policies. This approach enables the development of tax optimisation strategies that align with the regulations, ultimately leading to a reduction in tax liabilities.

5. **Diversify Financing Channels**
   Enterprises should explore various financing avenues, including bank loans, government grants, and equity financing. Adjusting the financing structure in line with fiscal policy changes ensures timely capital availability to support enterprise strategies.

6. **Adapt to Market Changes**
   In a rapidly evolving market, enterprises must remain agile in their strategies to fully capitalise on the opportunities arising from fiscal policies, maintaining a competitive edge.

Conclusion

The new fiscal policies present businesses with both challenges and opportunities. By adapting strategies in response to these changes, companies can achieve growth. Fidinam, leveraging years of industry expertise, offers tailored financial planning and investment strategies to help businesses navigate this new environment and seize opportunities for sustainable growth.

For expert advice and strategic guidance, contact Fidinam to manage these changes effectively and ensure your business' compliance. Email us at info@fidinamgw.com.

By William Jin
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SIMPLIFYING YOUR ACCOUNTING PROCESSES IN SINGAPORE WITH GST INVOICENOW

In 2024, the Inland Revenue Authority of Singapore (IRAS) announced a new requirement for voluntary GST-registered businesses to transmit invoice data using InvoiceNow solutions via the InvoiceNow network. This requirement will eventually extend to all GST-registered businesses progressively.

This move aligns Singapore with international trends and standards, as governments worldwide are promoting the adoption of e-invoicing for tax administration. E-invoicing aims to reduce the need for manual processing and recording of invoices in accounting systems.

Implementation Timeline

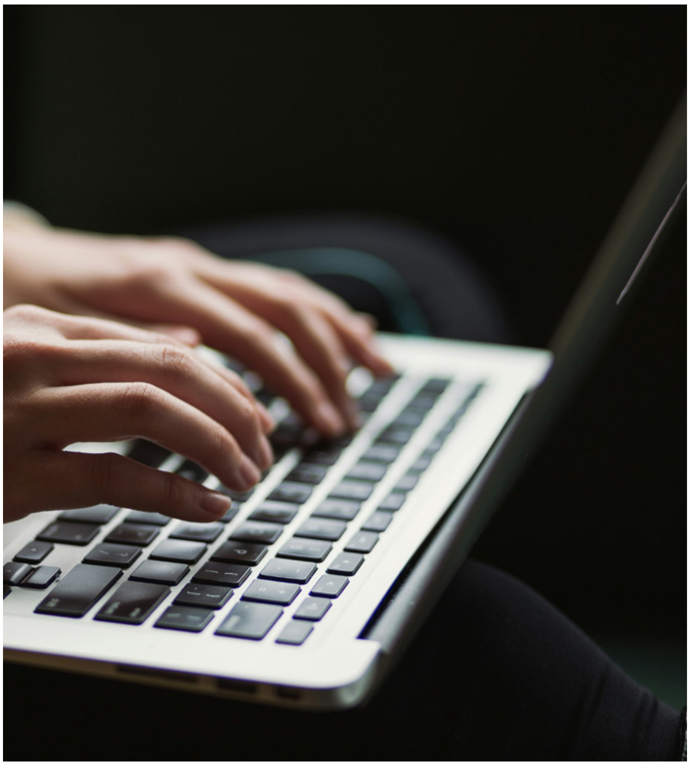
To give businesses sufficient lead time to prepare, the adoption of GST InvoiceNow will be implemented in a calibrated and progressive manner from 2025 to 2026:

- Newly incorporated companies that register for GST voluntarily **must** do so **by November 1, 2025**.
- All new voluntary GST registrants, regardless of incorporation date or business constitution, must register **by November 1, 2025**.
- All businesses that voluntarily apply for GST registration are required to send invoice data to IRAS using InvoiceNow solutions by **April 1, 2026**.

What is InvoiceNow?

Launched in 2019, InvoiceNow is a nationwide e-invoicing network based on the international standard, 'Peppol'. InvoiceNow aims to connect all active businesses and encourage digitalization by facilitating the direct transmission of invoices in a standard digital format between suppliers and customers, from one finance system to another.

This allows suppliers to exchange invoices with their partners who may not be using the same accounting platforms but are on InvoiceNow. Invoices can be digitally and directly transmitted to the accounting system without human intervention, speeding up invoice processing and improving efficiency.



Benefits of Using InvoiceNow Solutions

- **Streamlined Process**: Direct transmission of e-invoices in a structured data format across different finance systems eliminates the manual work involved in sending, receipting, and recording invoices.
- **Reduced Errors and Costs**: Reduces manual processes and associated errors and rectification costs. Electronic storage and maintenance of invoices reduce storage and retrieval costs.
- **Improved Cash Flow Management**: Facilitates quicker invoice processing and payment, helping businesses effectively manage their cash flow.

Digitalization for Efficiency

This implementation leverages the digitalization of documentation processes, eliminating manual work and facilitating the direct transmission of e-invoices in a structured data format across different finance systems. The electronic storage of documents provides businesses with a cost-effective solution for reducing storage and retrieval costs while improving cash flow management.

For GST-registered businesses, maintaining good record-keeping controls and accounting processes is crucial. Digitalizing these processes allows companies to focus on core priorities like growth and innovation. These businesses can also benefit from reduced compliance efforts when preparing data for submission to IRAS.

With IRAS's enhanced risk analysis capabilities, fewer businesses are likely to be selected for GST audits. Those selected for audits may experience shorter audits and faster resolution of audit issues. Businesses claiming GST refunds may also receive refunds earlier if assessed to be of lower risk.

Requirements for Businesses to Onboard GST InvoiceNow

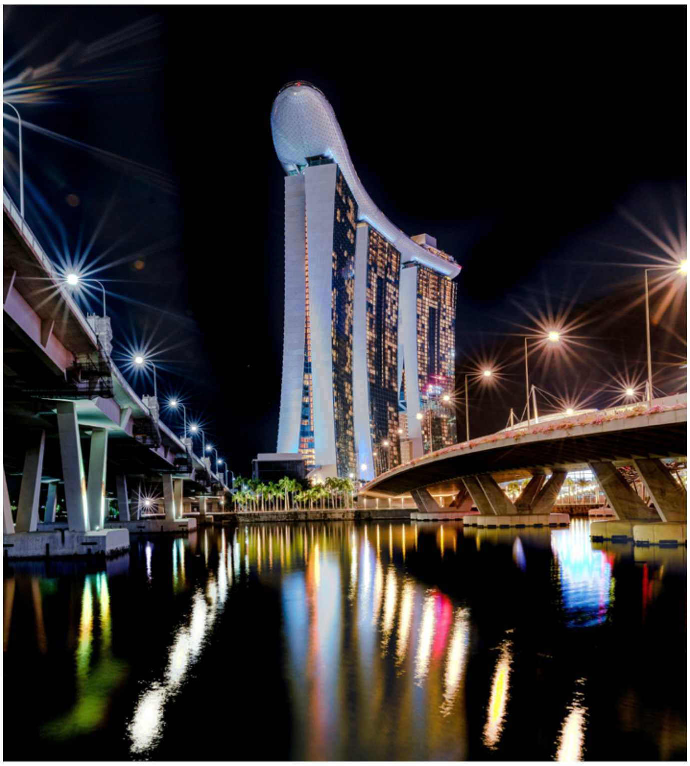
As part of the digitalization effort, all GST-registered businesses (whether suppliers or customers) will need to submit invoice data pertaining to their GST supplies (“Sales Data”) and purchases (“Purchase Data”) to IRAS using InvoiceNow solutions and via the InvoiceNow network. Invoices that are not using InvoiceNow (for businesses not on InvoiceNow or for sales made on point-of-sale systems) should also be sent to IRAS when they are recorded in the accounting system.

Phased Adoption

- A soft launch will commence on May 1, 2025, allowing early adopters to start using InvoiceNow solutions and transmit invoice data to IRAS.
- Newly incorporated companies that voluntarily apply for GST registration are required to submit invoice data to IRAS using InvoiceNow solutions.
- All businesses that voluntarily apply for GST registration are required to send invoice data to IRAS using InvoiceNow solutions.

Conclusion

As Singapore solidifies its position as a global business hub, maintaining accurate and up-to-date accounts is crucial for companies. The recent update allows businesses to experience seamless cross-border transactions. Adopting InvoiceNow not only ensures a cost-effective and efficient accounting system but also provides a reliable, globally recognized solution for streamlined financial management.



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By Marta Giordano
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HONG KONG'S NEW PATENT BOX REGIME

The Hong Kong Government has recently introduced a "patent box" tax regime, providing a concessionary profits tax rate of 5% on certain Hong Kong-sourced intellectual property ("IP") income derived by taxpayers in Hong Kong.

This new regime, which applies retrospectively from the year of assessment 2023/24, extends beyond patents to include plant variety rights and copyright subsisting in software.

Companies investing in R&D that produces qualifying software – and the subsequent exploitation of that software to generate profits – can benefit from the patent box regime.

Understanding the Key Requirements

Eligible Person

An **Eligible Person** refers to anyone entitled to derive income from an "eligible intellectual property" (IP). This includes IP owners as well as others, such as licensees, who have the right to earn income from the IP. For example, a licensee who sub-licenses an eligible IP and earns a fee qualifies as an eligible person. To benefit from tax concessions, the licensee must have incurred eligible R&D expenditures related to the IP and meet other prescribed conditions.

Eligible Intellectual Property

Eligible IPs are defined to mean patent, plant variety rights or copyrighted software that is generated from an R&D activity. In Hong Kong, this definition is broader, also covering applications for patents and plant variety rights, as well as those patents and plant variety rights granted in Hong Kong or elsewhere.

Eligible IP Income

There is a broader scope of eligible income under the Hong Kong's patent box regime. "**Eligible IP income**" primarily includes:

1. Income derived from an eligible IP for the exhibition or use of the property or the imparting of knowledge connected with the use of the property (e.g. royalties).
2. Disposal gain arising from the sale of an eligible IP (which is not capital in nature).
3. The portion of income arising from the sale of a product or service attributable to the value of the eligible IP.
4. Amount of insurance, damages, or compensation arising in connection with an eligible IP.

The OECD's Nexus Approach: A Key Condition

Under the legislation, the amount of profit eligible for the concessionary tax rate of 5% is determined based on the OECD's approach - nexus approach.

The **nexus approach** ensures that only income from a qualifying intellectual property asset qualifies for preferential tax treatment. This is determined by a nexus ratio, which is defined as the qualifying expenditures as a proportion of the overall expenditures incurred by a taxpayer to develop the IP asset. The proportion of R&D expenditures serves as a proxy for substantial economic activities, ensuring a direct nexus between the income receiving benefits and the expenditures contributing to that income.

The portion of profits for the concessionary tax rate (concessionary portion) is determined by the **nexus ratio** as follows:

$$\textbf{Concessionary portion} = \text{Eligible IP income } \textit{(less relevant outgoing and expense)} \times \frac{\text{Eligible R\&D expenditure} \times 130\%}{\text{Eligible R\&D expenditure} + \text{Non-eligible expenditure}}$$

R&D Activity Expenditure

Expenses incurred for R&D activities include:

- Activities undertaken by the taxpayer in or outside Hong Kong.
- Activities outsourced to non-associated parties and undertaken in or outside Hong Kong.
- Activities outsourced to Hong Kong resident associated parties and undertaken in Hong Kong.

Our team of experts can guide you through the eligibility requirements, help optimize your R&D expenditures, and ensure that you maximize the benefits available under this new tax regime.

Whether you need support with the registration of intellectual property, calculating the nexus ratio, or any other aspect of tax compliance, Fidinam offers tailored solutions to meet your needs. Contact us now via info@fidinamgw.com.

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NAVIGATING NEW OFFSHORE LOAN REGULATIONS: KEY INSIGHTS FOR BUSINESSES

Effective from July 1st, 2024, the State Bank of Vietnam (SBV) introduced new regulations under Circular No. 19/2024/TT-NHNN. These regulations amend and supplement various Articles of Circular No. 08/2023/TT-NHNN, dated June 30th, 2023. The new regulations introduce significant changes to the management of offshore loans, impacting both foreign banks and resident letter of credit (LC) applicants.

Offshore Loans for Resident LC Applicants

Resident LC applicants now have the opportunity to apply for offshore loans to finance their LCs under the contract to import goods on deferred payment to serve their implementation of an investment project, a production and business plan, or other projects. When proceeding with these offshore loans, several important characteristics come into play:

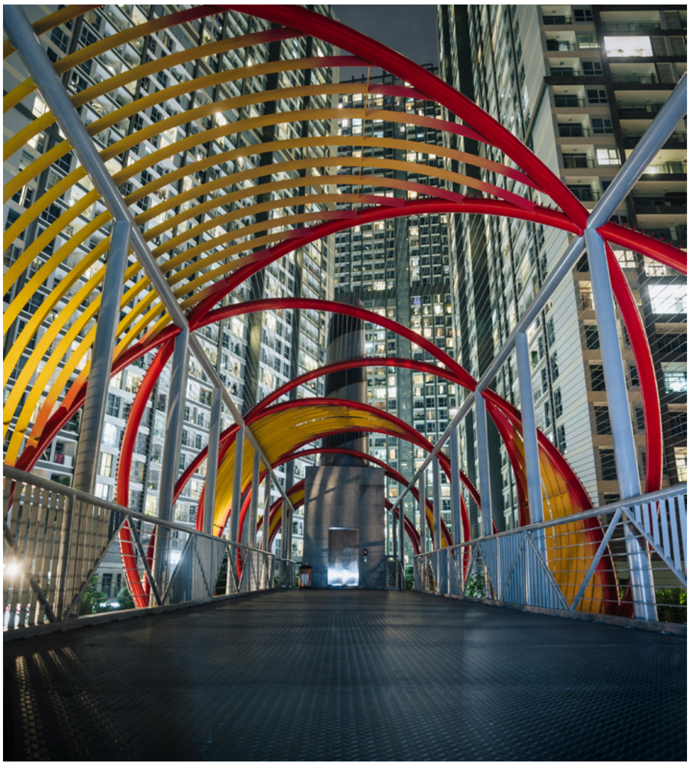
1. **Purpose Alignment:** The offshore loan must be for implementing investment projects, business plans, or other projects.

2. **Exemptions:**
   - **Medium-and-Long Term Loan Limit**: These loans are excluded from the medium-and-long-term offshore loan limit.
   - **Special Account Requirement**: There is no requirement for a special account.
   - **SBV Registration**: Registration with SBV is not required.
3. **Reporting Obligations:** Despite the exemptions, reporting the offshore loan to SBV is still required.

Offshore Loans for LC Issuing Banks

The new regulations also address the reimbursement of domestic bank-issued LCs by foreign banks. The following points outline the key elements of this arrangement:

1. **Eligibility:** Debt arising from LCs issued by a domestic bank and reimbursed by a foreign bank qualifies as an eligible offshore loan.



2. **Plan of Loan Usage:** The medium-and-long-term debt from LCs issued by the domestic bank and reimbursed by a foreign bank does not necessitate a plan of offshore loan usage.
3. **Exemptions:**
   - **Short-Term Offshore Loan Limit**: This debt is exempt from the short-term offshore loan limit of the LC issuer.
   - **SBV Registration**: There is no requirement to register the medium-and-long term offshore loan with SBV.
4. **Prudential Ratio Compliance:** The LC issuer must comply with the prudential ratio requirement for three consecutive months prior to the date of the offshore loan agreement. Additionally, the issuer must adhere to other FX control regulations, including reporting obligations, special account requirements, and fund flow controls.

Understanding and navigating these new offshore loan regulations can be complex and challenging.

Our team of experts is ready to assist you in ensuring compliance and leveraging these regulatory changes effectively.

For support with offshore loan management, contact us today for tailored guidance and expert assistance. Please use the form below or email info@fidinamgw.com.

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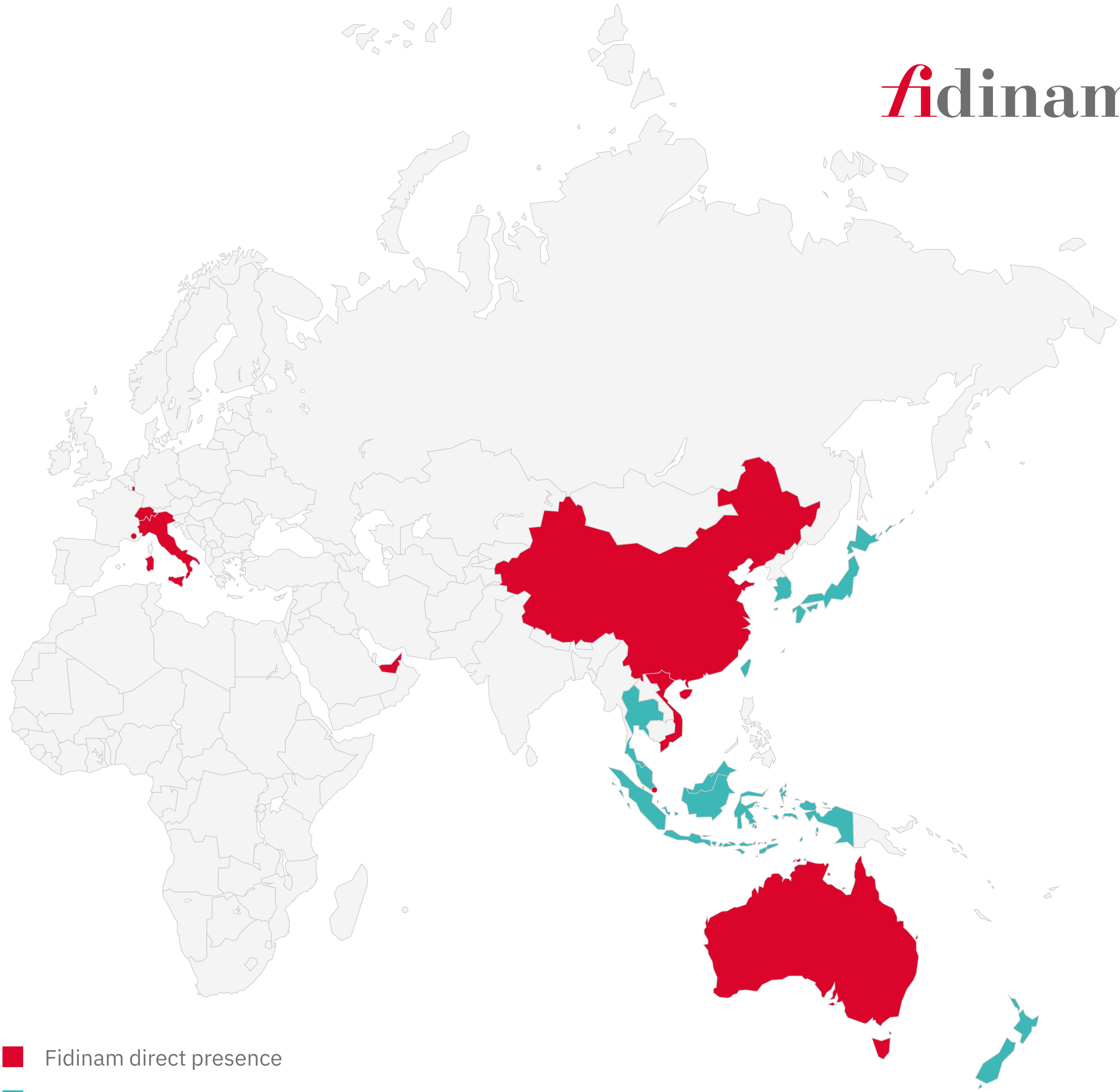

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