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Key drivers for the development of tax policies around the globe

Fiscal policy objectives

- ► Control inflation
- Increase revenue / tax collection
- ► Reduce budget deficits
- ▶ Reduce national debts

Compliance with international tax standards

- Pressure to adopt international tax standards, e.g.,
 - Base Erosion and
 Profit Shifting (BEPS)
 2.0 Pillar Two rules
 - Exchange of information

 (automatic exchange of Country-by-Country Report Reporting (CbCR), financial account information)

Social and political goals

- Sustainability and climate change goals, e.g., net zero greenhouse gas emissions
- Federal elections
 occurring in various
 countries, e.g.,
 Mexico, United States
 (US)

Tax administration advancements

- Automation of tax administration (e.g., e-invoicing)
- Digitalization and modernization of tax compliance systems and processes (e.g., Egypt digitalized its tax refund application process)
- New e-Audits (tax audits based on electronic data processing and data analytics)

Source: 2024 EY Tax Policy and Controversy Outlook

Outlook on regional tax policy development trends



- ► Application of new technologies to strengthen tax administration, e.g., e-Invoicing in Malaysia, Vietnam and China
- Changing tax incentives and adopting non-tax incentives to remain competitive in response to Pillar 2
- Continued focus on tax governance as a way to risk-rate taxpayers and determine the level of review
- Sustainability incentive regimes E.g.,
 China released a set of guidelines outlining
 56 preferential tax policies to support green development



- ► European Union (EU) Carbon Border Adjustment Mechanism (CBAM) requirements to report "embedded emissions" in imported goods in every quarter.
- Changing tax incentives and adopting non-tax incentives remain competitive in response to Pillar 2
- Windfall taxes (mainly energy sectors and certain parts of the financial sector, e.g., Ukraine imposed a 50% windfall tax on the windfall profit of banks in the 2023 tax year retrospectively)



- Local tax reforms in countries such as Brazil, US, Chile and Ecuador.
- Increasing digitalization of tax administration including the use of artificial intelligence (AI)
- More frequent and intense audits with a focus on transfer pricing
- Continued focus on incentives related to climate change (e.g., Canada proposed five clean economy investment tax credits)

Commonalities

- ► Adoption and domestic implementation of Pillar 2
- ► Introduction of incentives and taxes to bolster the sustainability agenda
- ► Increase in tax audits and controversy



Asia-Pacific: Overview of Pillar Two implementation



Source: EY BEPS 2.0 – Pillar Two Developments Tracker as of 26 April 2024.

Legislation enacted / Expected to implement for 2024



South Korea

Legislation implemented

IIR effective 1 January 2024 and UTPR effective 1 January 2025 (subject to enforcement decree)



Japan

Legislation implemented IIR effective 1 April 2024



Vietnam

Legislation implemented IIR and QDMTT effective 1 January 2024



Australia

Draft legislation published
IIR and QDMTT effective 1 January 2024
and UTPR effective 1 January 2025



Indonesia

Draft legislation expected in 2024

Legislation enacted / Expected to implement for 2025



Malaysia

Legislation implemented IIR and QDMTT effective 1 January 2025



Hong Kong SAR

Announced implementation for 1 January 2025



Thailand

Announced implementation



Singapore

Announced implementation for 1 January 2025



New Zealand

Legislation implemented IIR and UTPR effective 1 January 2025

Abbreviation:

▶ Income Inclusion Rule (IIR);

Under-Taxed Profits Rule (UTPR);

► Qualified Domestic Minimum Top-up Tax (QDMTT)



Key incentive actions undertaken by ASEAN countries in response to Pillar Two

Jurisdictions are re-thinking tax incentives to remain competitive in a Pillar Two world, including but not limited to:-

- Potential to introduce Qualified Refundable Tax Credits ("QRTC") or convert existing incentives in QRTC
- Potential non-tax incentives, including cash grants, favorable loans and subsidized capital
- Potential improvements in infrastructure and the talent base
 - Set up taskforce and engaged in discussions with existing investors
 - Announced plans to allocate 50% to 70% of top-up taxes to the Competitiveness Enhancement Fund (matching fund for target industries), and to consider providing cash grants to qualifying investors.
 - ► Existing Board of Investment (BOI) promoted companies and new BOI applicants have the option to enjoy a 50% reduction on the normal corporate income tax rate, which effectively results in a reduced tax rate to 10% for a maximum period of 10 years.



Outlook on green tax policy development trends

Snapshot of green taxes, sustainability incentives and carbon regimes present in 68 jurisdictions, representing over 90%. of global GDP:-



2,000+ Sustainability incentives

1300 +Reduce

natural resource consumption

- Energy-efficient equipment
- Emission reduction technologies

900+ Switch

to renewable energy

- Alternative fuels
- Renewable energy generation

220+ **Innovate**

low-carbon products and processes

- R&D credits
- Funding rebates for green job training



70+ Carbon regimes

74 carbon pricing initiatives (CPIs) are implemented

- 37 emissions trading systems (ETS)
- 37 carbon taxes



Implemented or scheduled for implementation



Under consideration



No carbon regime in place

Source: The World Bank, Carbon Pricing Dashboard.



3,000+ Green taxes

- Fuel taxes
- Emissions and air pollution charges
- ▶ Plastics and packaging taxes ▶ Other taxes, charges and fees
- Water, pollution and effluent charges
- Recycling, waste and landfill fees
- Electronic waste fees



- ▶ The effectiveness of tax incentives diminishes due to Pillar 2
- ► Governments may instead emphasize new or increased use of targeted taxes to meet sustainability goals
- ▶ New climate-focused taxes could continue to emerge



Source: EY Green Tax Tracker

The digitalization and advancement of tax administrations

The digital transformation of tax administrations is driven by two broad themes:

Creating a 24/7 tax administration More than 60% of tax administrations offer virtual or digital assistants to help respond to taxpayer enquiries and support self-service. Use of AI to allow the system to cope with more complex questions and provide personalized answers.

Leveraging digital identity and verification

Digital identities are leveraged to not only give greater selfservice access to tax administration services, but also provide access to services from other government bodies or third parties.

Decentralizing tax administration services

- ➤ Systems of tax administrations and taxpayers are becoming more connected as tax administrations embed their services and processes in the natural systems used by taxpayers (through application program interfaces (API)).
- ► These serve as critical enablers for innovative services or digital transformation.

Sophisticated use and manipulation of data

Due to the increased availability of data (e-Invoicing, third party information), there is an increased use of analytics tools and techniques to improve risk management and help designin compliance.

Reducing taxpayer burdens

Harnessing leading-edge technologies

▶ Despite still being at an early stage, tax administrations are implementing technologies to exploit data in ways (e.g., automated systems) that reduces the need for human intervention and free up resources.

More personalized interactions

➤ Tax administrations are creating more tailored approaches to interact with taxpayers through data analytics (e.g., one-to-many channels or specific groups such as high net wealth individuals).



Supporting

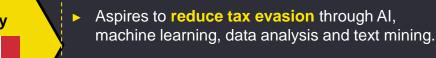
compliance

taxpayer

Global digital transformation trends of tax administrations

- Implemented "System of database analysis and e-invoice management" that applies Big Data and AI technology.
- ► The system helps to monitor and reconcile information declared by taxpayers and the number of issued einvoices to identify, prevent and handle illegal e-invoice usage.
- Revamped its national website and other digital initiatives to create an overall improved taxpayer experience, enabling efficient return processing and refunds.
- Improving Goods and Services Tax ("GST") efficiency and integrity through data analytics and AI (e.g., risk rating system of registrants and risk-based processing of refund applications).

- The Australian Taxation Office ("ATO") continues to invest in digital capacity and has a current strategy spanning 2022 2025 and aims to be fully digitalized by 2030.
- ► Transition to a new ATO data center and expansion of a robotic process automation program.



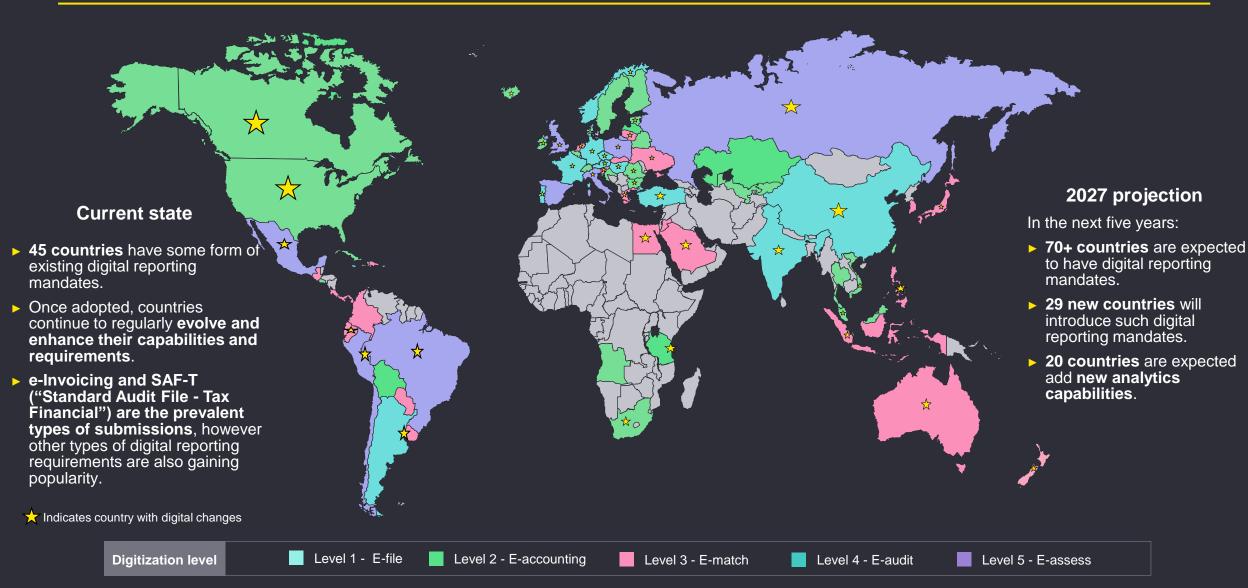
- Prevented the filing of rulings (in certain cases) through the request of opinions, which is managed through AI. Filing of a ruling is allowed only when the system is not able to provide the answer.
- ▶ Data profiling in risk assessments continue refining existing profiles used and creating more profiles to tackle any new areas of risk.
- Implementation of Making Tax Digital ("MTD") for income tax starting April 2026 (e.g., requiring businesses to keep digital records and use compatible software).



- Uses data analytics in tax audits.
- ► Flags out discrepancies across different tax types for reconciliation and explanation by taxpayers.



2027 Projection of digital tax administration footprints



^{*} Based on EY's research and analysis, this map shows the prediction of digital activities around the world by 2027.





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