

# VAT newsletter

## Introduction

Welcome to the seventh issue of Ernst & Young LLP's 2013 *VAT Newsletter* for the US. These newsletters cover a variety of topics, as VAT can impact businesses in many ways. Approximately 150 countries around the world now have a VAT, goods and services tax (GST), consumption tax, service tax or similar VAT, and the laws and regulations are constantly changing. We use this newsletter as a way of informing you of significant changes taking place.

At the end of this newsletter you will find contact details for the senior members of our team who can help answer any questions you may have about the articles in this newsletter, or any other VAT questions.

We are interested in your feedback on the items covered and what topics you would like to see covered in the future. Please provide any feedback to Howard Lambert at [howard.lambert@ey.com](mailto:howard.lambert@ey.com).

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working world**

## Global

### EY launches Issue 8 of our Indirect Tax Briefing

In addition to our regular “snapshot” overview of recent and upcoming indirect tax changes around the globe, this issue contains articles on the 2015 changes for businesses that supply e-services in the EU, an update report on the OECD’s International VAT/GST guidelines, the challenges facing tax departments in dealing with large volumes of complex tax data, the EU Financial Transaction Tax and managing indirect taxes in rapid growth markets. The briefing can be accessed by clicking [here](#).

## Americas

### Brazil – Federal Revenue Service rules on whether software products should be viewed as industrialized products and therefore subject to tax

On 12 June 2013, the Federal Revenue Service (Revenue Service) provided an opinion regarding IPI (*Imposto Sobre Produtos Industrializados*) on software creation and electronic transfers in response to a consultation filed before the 9th Region, which involves the states of Paraná and Santa Catarina.

The Revenue Service was asked whether IPI could be charged on electronic transfers, or creation of software, which would occur where it is considered an effective industrialization by the manufacturer.

According to article 46 of the Brazilian Tax Code, a product is considered “industrialized” when its nature is altered, or when it is improved for consumption.

Taking the above into consideration, the Revenue Service stated that software creation and electronic transfers are not considered industrialized operations and are, therefore, not subject to IPI. In addition, the Revenue Service stated that software would also not be considered merchandise.

However, the Revenue Service did state that media containing software should be subject to IPI.

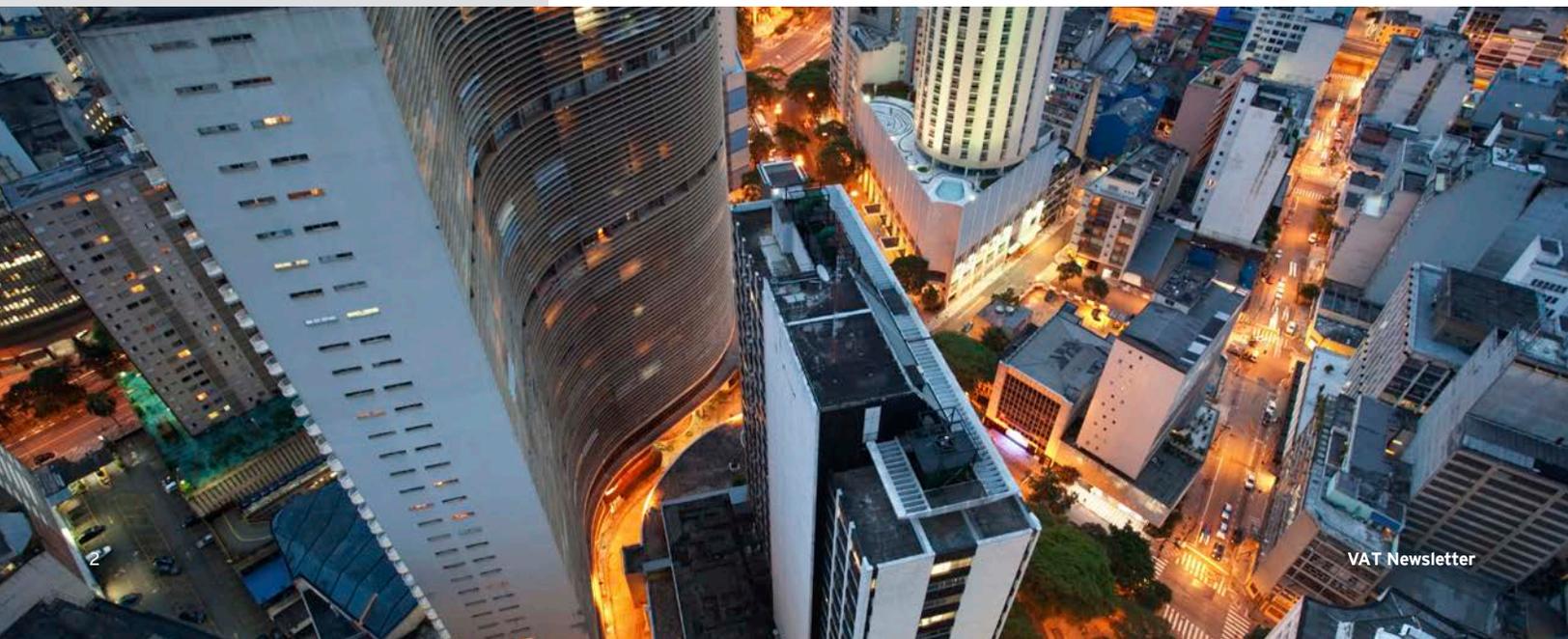
### Brazil – IPI rates modified for certain building materials, furniture and appliances

The Brazilian Government published Decree 8,035/2013 in the Official Gazette of 1 July 2013. This Decree modified the rate of IPI (*Imposto Sobre Produtos Industrializados*) for some building materials, furniture and appliances.

The new regulations can be summarized as follows:

From 1 July 2013 to 30 September 2013, the following IPI rates will be applied, depending on the product:

- ▶ Laminated polyvinyl chloride (PVC) and polyethylene terephthalate (PET), and plates, sheets, foil or strips made of melamine-formaldehyde resin: 3%



- ▶ Oriented strand board and wafer board made of wood or other ligneous materials, and wood fiber panels or other ligneous materials: 3%
- ▶ Wall paper and similar wall coverings: 15%
- ▶ Kitchen stoves: 3%
- ▶ Refrigerators, freezers, washing machines and dryer machines for domestic use: 8.5% – from 1 October 2013, the IPI rate on these products will be increased to 10%
- ▶ Seats convertible into beds and parts thereof: 3%
- ▶ Rigid laminates for use in upholstery: 5%
- ▶ Chandeliers and other electric lighting devices: 10%

### Mexico – VAT reform proposal

On 8 September 2013, Mexico's President Peña Nieto presented the long-awaited tax reform proposal (the Proposed Reform) to the Mexican Congress. The proposal must be debated and approved by the two houses of Congress before becoming law.

In addition to increasing the tax rate and eliminating certain deductions, the Proposed Reform includes anti-abuse provisions. The Proposed Reform is lengthy and eliminates some taxes, while creating new ones.

Some of the VAT reforms affecting businesses in Mexico include the following:

- ▶ The VAT rate of 11% for the border zone would be eliminated. As such, the 16% VAT rate would apply in all areas.
- ▶ Most temporary imports would be subject to VAT upon import into Mexico. Provisions are established to avoid a second layer of VAT if the import regime changes from temporary to permanent.
- ▶ VAT will be applied to certain previously exempt or 0% items including, pets, pet food, interest on mortgages, gum and other processed foods.
- ▶ The exemption from VAT on sales between nonresidents of goods physically in Mexico but imported on a temporary basis under a qualified regime would be eliminated under the Proposed Reform.
- ▶ The VAT exemption for primary residences would be eliminated under the Proposed Reform.

### Peru – VAT amendments introduced to promote stock market

The Peruvian Stock Market Promotion Law (30,500) was published in the Official Gazette on 26 June 2013. This Law has introduced several tax amendments. The amendments to the VAT Law, effective from 1 July 2013 are as follows:

Exemptions include:

- ▶ Interest derived from securities issued through public or private offerings by legal persons constituted or established in Peru, even if such securities are entirely issued on international markets
- ▶ Interest derived from securities acquired through a centralized mechanism provided by the Stock Market Law

Previously, exemptions relating to interest derived from securities only included:

- ▶ Securities issued through a public offering by legal persons constituted or established in Peru
- ▶ Securities issued through a private offering when such securities were acquired through a centralized mechanism provided by the Stock Market Law





- ▶ Securities issued on international markets when such securities were partially issued in the Peruvian market

Note: The amendments introduced to the VAT Law have expanded the VAT exemption to all private offerings and international security issues. These private offerings and international security issues were previously subject to certain requirements in order to obtain exemption.

Also, previous exemptions were included in Appendix II of the VAT Law (exempt services), and subject to a time limit (31 December 2015); however, amendments as introduced by Law 30,500 have made these exemptions permanent, so these have no expiration date.

### **Turks and Caicos Islands – Charge on freight and insurance of imported goods and other proposed changes**

In a press release of 31 May 2013, the Turks and Caicos Islands (TCI) Government announced that effective as of 1 July 2013, a charge of 15% on the cost of insurance and freight of goods imported to the islands (pre-paid or post-paid) is applicable. Gasoline and diesel are exempt from the 15% charge.

The charge is a temporary charge and will stay in place pending certain recommendations of the Blue Ribbon Commission on Taxation to be appointed later this year.

While the UK Government did not enforce TCI to introduce a VAT, it did require the TCI Government to:

- ▶ Implement certain measures to ensure that the Fiscal and Strategic Policy Statement showed a credible surplus
- ▶ Identify new revenue streams and control costs
- ▶ Take the necessary steps to ensure that the TCI rebuilds its credibility in the international market to the extent that it could refinance without a UK loan guarantee by 2016

Interestingly, the UK Government did not instruct the Governor to repeal the bill to implement VAT, but rather, directed him not to sign the Commencement Notice that would have brought VAT into effect.

The UK Government is also trying to introduce a number of other taxes, including:

- ▶ 1% increase in accommodation tax
- ▶ 6% sales tax
- ▶ Cable and internet tax
- ▶ Temporary driver's license fee of US\$30

However, there appears to be some disagreement between the parties as to whether these taxes should be passed.

## Venezuela – Changes to the VAT withholding regime

By way of background, for some years, Venezuela has had a VAT withholding regime in place.

Under the Venezuelan VAT withholding regime, Tax Payers (that have been appointed as Special Tax Payers) are designated as Withholdings Agents and are required to withhold 75% of the VAT due on their purchases and pay the withheld VAT directly to the Venezuelan Tax Administration.

VAT withholdings can have a significant impact on a Venezuelan company's cash flow position, as most affected companies' input VAT is much higher than the 25% output VAT payable. It can take companies in Venezuela two years or more to claim refunds. Such refunds can be obtained either by offset against a company's corporation tax, or if the company has insufficient corporation tax to offset against the VAT refund, it can trade the VAT refund to other corporations in Venezuela.

Administrative Order No. SNAT/2013/0030, issued by the National Integrated Service of The Customs and Tax Administration (SENIAT), was published in Official Gazette No. 40.170 on 20 May 2013. Such Order provides for the appointing of Special Tax Payers as VAT withholding agents.

The main changes incorporated by this Order include the elimination of item 7 of article 3 of Administrative Order No. 0056, regarding "Exclusions," which provided for an exemption from the obligation of applying withholdings on transactions paid for by debit or credit cards held by withholding agents.

In addition, article 14 establishes that the tax withholding shall apply to payment or credit to account, whichever occurs first, adding that it shall be made regardless of the payment means used. In addition, article 22 as to the "Update of RIF information," and article 24 on "Exemption from Liability" were also eliminated.

The Order will become effective on the first day of the second calendar month after its publication in the Official Gazette, and will be applicable to any taxable event occurring on or after its effective date. Administrative Order No. SNAT/2005/0056, published in Official Gazette No. 38.136, of 28 February 2005, is thereby repealed.



## Asia-Pacific

### South Korea – Customs audits to increase along with financial exposure from import VAT

Due to shortfalls in customs revenue collections over the past year, compared to previous years, South Korea Customs has announced its intention to increase the number of customs audits in 2013. It is expected that company-level audits will increase by over 50% this year, affecting up to 130 companies. Overall, it is expected that the total number of companies audited this year could more than double the amount that was audited last year.

#### More focus on multinationals and related party pricing

South Korea Customs has also announced that it will be focusing on multinational corporations that have large volumes of related party sales with their local South Korean entities. South Korea Customs claims that roughly 70% of total customs assessments arise from multinational companies and that this percentage shows that multinationals represent a higher risk of underpaying import duties and related taxes.

Related party pricing is a common issue for multinationals and a common focus in their audits. South Korea Customs' highly developed customs system allows the authorities to track inflows and outflows of

goods and capital on a transaction-level basis down to the line item on the invoice. In turn, South Korea Customs can quickly spot "outliers" and anomalies, such as fluctuations in import prices and transfer pricing adjustments, which may indicate an area where the importer is not compliant. South Korea Customs has also announced they will increase their scrutiny of import/export process compliance through these audits as well.

Also on the radar for audit are companies that have not been audited in the past four years and/or that have import levels of greater than US\$50 million. Companies with high duty rates or high-value luxury goods are also likely to be selected for audit.

#### Increased financial exposure due to changes to VAT Enforcement Decree

Additionally, proposed changes to South Korea's VAT Enforcement Decree mean that import VAT payable under an audit assessment will no longer be recoverable. This change would increase the financial exposure of companies importing goods into South Korea when under audit.

Specifically, article 56 of the decree would specify that VAT paid as a result of the following three reasons will no longer be credible to the importer: 1. VAT paid as the result of an audit assessment from South Korea Customs. 2. VAT paid as a result of an error found by



South Korea Customs. 3. VAT knowingly underpaid by the importer and assessed by South Korea Customs in a manner similar to points 1 and 2.

With an average duty rate of 8% in South Korea, the VAT portion of many audit assessments generally account for 45% to 55% of the total assessment value. These changes would prevent an importer assessed as the result of an audit from recovering this amount, thereby significantly increasing the potential financial exposure. As the VAT regulatory changes were scheduled to be implemented on 1 July 2013, it is recommended that companies move quickly to mitigate the risk of customs assessments going forward.

#### **What should importers do?**

Given the current aggressive audit environment and potential for increased financial exposure due to the VAT changes, importers need to be proactive

in mitigating their potential customs risks in South Korea. For multinationals, in particular, customs valuation needs to be reviewed and any compliance gaps addressed. This entails reviewing all aspects of business operations that impact the dutiable amount. Royalty payments, buying commissions, cost sharing agreements or other similar payments should be carefully reviewed from a customs perspective. Additionally, it is also important to understand how the company's import prices compare with industry pricing, and to ensure that the company has solid support for their related party pricing from a customs perspective.

Also, keep in mind that along with corporate-level audits, South Korea Customs will continue to conduct ad hoc audits (i.e., audits with little notice), free trade agreement (FTA) origin audits, foreign exchange investigations and other aspects of its compliance review programs. Accordingly, an internal customs compliance review should address all potential risk areas to mitigate any financial exposure.





## Vietnam – Law on amending and supplementing a number of articles to the Law on VAT

On 19 June 2013, the National Assembly ratified the Law to amend and supplement a number of articles to the Law on VAT No. 13/2008/QH12.

The amended Law on VAT clearly states and formulates certain issues and practices that have been resolved by rulings over time. Some noticeable changes in the amended Law can be summarized as follows:

### Goods and services not subject to VAT

The amended Law contains a few groups of goods and services that are not subject to VAT, including:

- ▶ Salt products
- ▶ Insurance services covering health insurance
- ▶ Other insurance relating to human beings
- ▶ Other agriculture insurance services
- ▶ Insurance of ships, boats, facilities and other necessary equipment served in catching activities
- ▶ Financial, banking and security services
- ▶ Loan provision services provided by taxpayers who are not credit organizations
- ▶ Debt factoring
- ▶ Foreign exchange trading
- ▶ Sale of assets used to secure loans of 100% capital state-owned enterprises established by the government to finance bad debts of the credit organizations in Vietnam

In respect of tax-exempted goods and services provided by individual or household businesses, the criteria of businesses with monthly average income lower than the common minimum wage applied to domestic businesses will be replaced by an annual revenue of less than VND100 million (USD4,700 approximately).

### Taxable value

Rules on taxable income for goods and services subject to environmental tax have been added.

### Tax rate

The amended Law recaptures the concept of “consumption overseas, or within non-tariff zones” in the definition of exported goods and services subject to the zero rate. This concept may cause some difficulties and different interpretations in the implementation of the Law.

The amended Law further provides for the application of a 5% tax rate with respect to sales, rents and hire-purchases of social housing pursuant to the Law on housing.

### Tax calculation methods

Tax credit method: the Law prescribes that the threshold of annual revenue is VND1 billion (USD47,000 approximately) for businesses, except those that are voluntarily registered for the tax credit method as well as individual and household businesses.

Organizations/individuals providing goods/services for petroleum exploration, exploitation and development have to declare and pay VAT under the tax credit method.

### **Method of VAT calculation directly based on added value**

With regard to activities of trading and processing of gold, silver and gems, a direct calculation on value added is applied, which equals to the value added multiplied by the tax rate.

With regard to others applying the direct method, VAT payable equals the prescribed percent multiplied by revenue.

### **Credit of input VAT**

The amended Law provides a more detailed provision for the case in which creditable and non-creditable input VAT are not accounted for separately, in which case creditable input VAT will be a percentage of revenue from VAT taxable goods and services to total revenue of goods and services sold. Accordingly, input VAT on fixed assets used for the production and trading of VAT taxable and non-taxable goods and services shall not be wholly credited as per the previous rule, but deducted according to the new rule.

According to the amended Law, businesses are allowed to supplement input VAT declaration any time before an announcement of a tax audit at their premises (in contrast to the timeline of six months as was previously the case).

### **Tax refund**

Under the amended Law, taxpayers can apply for a tax refund if they have non-credit input VAT accumulated for a minimum period of 12 months or four quarters, instead of the current three-month rule.

Enterprises that are in the construction stage of their new investment projects, or having exported goods/services within a month/quarter, with non-creditable input VAT of VND300 million (USD14,200 approximately) (instead of the current VND200 million (USD9,450 approximately)) can apply for a tax refund.

The Law shall be effective from 1 January 2014, except for the rules on sales and rentals, rental-sale of social housing in accordance with the Law on Housing. Particularly:

- ▶ The 5% tax rate shall be applied to sales, rentals, hire-purchases of social houses pursuant to Law on Housing, effective from 1 July 2013.
- ▶ 50% reduction in the tax rate from 1 July 2013 until 30 June 2014 to be applied to sales and rentals of a commercial apartment with a floor area of less than 70 square meters and with a selling price of below VND17 million per square meter (approximately USD800 per square meter).

### **Law on Enterprises**

The National Assembly (NA) has recently passed the Law on amending and supplementing Article 170 of the Law on Enterprises. According to the newly passed Law, Foreign Invested Enterprises established before 1 July 2006 still have the right to re-register, to organize and to operate in accordance with this law and other relevant laws.

Where an enterprise was established before 1 July 2006 and its Investment License expired, but the enterprise has not conducted dissolution procedures, the enterprise still has opportunity to continue its operation by re-registering before 1 February 2014.

In case the enterprise does not undergo a re-registration process, the enterprise can supplement its business activities, but cannot extend its operation duration beyond which is stated in its Investment License.





## Europe

### EU – Proposal for Council Regulation: 2015 changes

At the meeting of the Economic and Financial Affairs Council (ECOFIN) held in Luxembourg on 21 June 2013, the Council reached political agreement on a draft regulation aimed at amending VAT rules as regards the place of supply of telecommunications, broadcasting and electronic services, real estate services and the distribution of tickets for entry to cultural, sporting, entertainment and similar events, the majority of which will apply from 1 January 2015.

The Council press release of the ECOFIN meeting and the draft regulation can be accessed by clicking [here](#) and [here](#) respectively.

### EU – European Court of Justice – Judgment: C-273/12 – Harry Winston

The European Court released its Judgment on 11 July 2013 in this French case, C-273/12, *Directeur général des douanes et droits indirects, Chef de l'agence de poursuites de la Direction nationale du renseignement et des enquêtes douanières v Harry Winston SARL*.

The European Court released its judgment on 11 July 2013 in this French referral asking whether the Community Customs Code and the VAT Directive should be interpreted as meaning that the theft of goods held under customs warehousing arrangements triggers a customs debt on importation and a chargeable event for VAT purposes. This case proceeded to judgment without a written Advocate General's Opinion.

Following an armed robbery in October 2007, in the course of which items of jewelry placed under customs warehousing arrangements were stolen, the French tax authorities sought payment from Harry Winston SARL (HW) of the customs duties and import VAT applicable to those goods. In these circumstances, the referring court asked essentially whether HW was liable to pay the customs duties and VAT. The European Court answered this question in the affirmative. Specifically, the European Court held that the theft of the goods constituted an unlawful removal of those goods from customs supervision within the meaning of Article 203(1) of the Customs Code, giving rise to a customs debt on importation. Whereas Article 206 provided for relief from customs duties where goods placed under customs warehousing arrangements were irretrievably lost as a result of force majeure, this only applied in situations where the customs debt was incurred pursuant to Articles 202 or 204(1) (a), neither of which applied here. Having determined that the theft of the goods gave rise to a customs debt on importation, the European Court held that this automatically resulted in a liability to pay import VAT (although one might assume that this would be recoverable as input tax if the goods were intended to be used by HW in making onward taxable supplies).

The Court summary judgment reads:

- I. Article 203(1) of Council Regulation (EEC) No. 2913/92 of 12 October 1992 establishing the Community Customs Code, as amended by Council Regulation (EC) No. 1791/2006 of 20 November 2006, must be interpreted as meaning that a theft of goods placed under customs warehousing arrangements constitutes an unlawful removal of those goods within the meaning of that provision, giving rise to a customs debt on importation. Article 206 of that regulation is capable of applying only to situations in which a customs debt is liable to be incurred pursuant to Articles 202 and 204(1)(a) of that regulation.
- II. The second subparagraph of Article 71(1) of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax must be interpreted as meaning that the theft of goods placed under customs warehousing arrangements gives rise to the chargeable event and causes VAT to become chargeable.

The full judgment can be accessed by clicking [here](#).

## **EU – European Court of Justice – Judgment: C-155/12 RR Donnelley Global Turnkey Solutions**

The European Court released its judgment on 27 June 2013 in this Polish referral asking whether a complex service relating to the storage of goods constitutes a service connected with immovable property within the meaning of Article 47 of the VAT Directive (such that the place of supply is where the immovable property is located) or a “general rule” service within the meaning of Article 44 (such that the place of supply is where the customer is established). For completeness, the European Court released the Opinion of Advocate General Kokott on 31 January 2013.

RR Donnelley Global Turnkey Solutions (RR Donnelley), a Polish company, provides a complex service relating to the storage of goods for businesses in other EU Member States and in countries outside the EU. That service covers admission of the goods to a warehouse, placing them on the appropriate storage shelves, storing those goods, packaging the goods for customers and issuing, unloading and loading them and, in the case of certain customers repackaging the goods. The provision of storage space was only one of several elements of the logistics process which RR Donnelley managed. The Polish tax authorities contended that the service was connected with immovable property within the meaning of Article 47 and, therefore, subject to VAT in Poland where the warehouses were located. In contrast, RR Donnelley contended that the service was covered by Article 44 (i.e., outside the scope of Polish VAT where the customer was established outside Poland). Essentially, the referring court asked which approach was correct.

While ultimately a matter for the referring court to determine, based on the facts and circumstances of the present case, the European Court took the view that the complex storage service at issue constituted one single supply, the principal element of which was the storage of goods compared to which the other elements (i.e., their admission, placement, issuing, unloading and loading, but with the possible exception of their repackaging for certain customers) were ancillary. In finding for RR Donnelley, the European Court held that such a storage service will only have a sufficiently direct connection with immovable property, for the purposes of Article 47, where the recipient of that service is granted the right to use a specific property or a specific area of a property to store goods.





The Court summary judgment reads:

Article 47 of Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, as amended by Council Directive 2008/8/EC of 12 February 2008, must be interpreted as meaning that the supply of a complex storage service, comprising admission of goods to a warehouse, placing them on the appropriate storage shelves, storing them, packaging them, issuing them, unloading and loading them, comes within the scope of that article only if the storage constitutes the principal service of a single transaction and only if the recipients of that service are given a right to use all or part of expressly specific immovable property.

The full judgment can be accessed by clicking [here](#).

### **Macedonia – Mandatory use of e-Tax system for VAT payers**

From 1 July 2013, VAT payers must submit their quarterly VAT returns through the e-Tax system. Details (in English) of the new system can be found [here](#).

### **Russia – Software updates and upgrades – Exempt or subject to VAT**

IP holders and licensees have to apply the correct VAT treatment to software updates and upgrades. Determining what that treatment might be is not necessarily straightforward. This makes recent court practice on the issue particularly interesting.

Since 1 January 2008, a specific VAT exemption has existed for the transfer of rights to use intellectual property (IP) in the form of software. Taxpayers may apply this VAT exemption provided certain conditions are met. One of the main prerequisites for exemption is the existence of a satisfactory licence or sub-licence agreement, in particular:

- ▶ The agreement should provide for the transfer of IP rights rather than the provision of services
- ▶ The agreement should be put in place at the moment of transfer of IP rights and it should be treated as a license agreement under Russian Civil Law

The exemption does not cover the performance of any services. The wording does not address the possibility of applying the exemption to any subsequent updates or upgrades of the software made available by the licensor to licensees.

A case concerning the possibility of applying the VAT exemption to software updates and upgrades was recently considered by the Federal Arbitration Court (FAC) of the Moscow Region. Notably, this is the first time when the applicability of the VAT exemption to updates and upgrades has been the subject of a dispute between a tax authority and the taxpayer which has been considered in court.



According to the background provided in the ruling, the taxpayer applied the above-mentioned VAT exemption and did not charge output VAT on updates of the software which were envisaged by licence and sub-licence agreements. The tax inspectorate argued that VAT should be charged on such transactions. Per tax inspectorate, the nature of the supply was the taxpayer rendering software updating services rather than transferring IP rights to software, and, consequently outside the scope of the exemption. The tax inspectorate pointed out that the rendering of services and the transferring of IP rights are regulated by different chapters of Civil Code and so should not be treated as similar transactions for VAT purposes.

The FAC did not support the tax inspectorate's technical position. It stated that under licence and sub-licence agreements the taxpayer transferred IP rights to use software, including updates and upgrades of such software. The FAC opined that updates and upgrades being treated as software, the creation of updates or upgrades should not be viewed as the provision of services. The FAC also analyzed the provisions of the Civil Code stipulating the definition of a software update. Based on this analysis, the FAC concluded that updated and modified software could be viewed as separate software subject to individual legal protection (even if such software was created using pre-existing software and under the terms of a licence or sub-licence agreement already concluded with a licensee).

Based on its analysis of Russian civil and tax legislation and the facts of the case, the FAC supported the taxpayer's position and stated that transfer of software updates should be treated as a transfer of IP rights to use software, which is VAT exempt.

We believe that this court case will be of interest to many IP holders and licensees providing software updates and upgrades in Russia. The reasoning applied should be helpful in supporting the treatment of such operations as exempt from VAT.

# Middle East, India and Africa

## Bangladesh – Budget for 2013-14

The Budget for the fiscal year 2013-14 was presented on 6 June 2013. Some of the more significant taxation proposals are detailed below.

### Customs duty

Customs duty rates stand as 0%, 5%, 10% and 25%. In a few cases, a concessional rate of 3% will be applied. In other cases, rates have been increased, or decreased, on certain items compared to the previous year.

The 3% customs duty rate on importation of capital goods and the 12% rate on intermediate raw materials are reduced to 2% and 10% respectively. The present 5% regulatory duty on goods will be chargeable at 25% to preserve domestic industry interests. At the same time a 5% regulatory duty is introduced on a few items that, by nature, are not intermediate goods, on which 10% customs duty is chargeable.

The present full exemption of customs duties applicable to essential goods, such as rice, pulse, wheat and onion; agricultural inputs like fertilizer, insecticides and seeds; life-saving drugs; industrial raw materials of primary nature like cotton; and also the concessionary facility of a 10% VAT at import point on edible oil are introduced.

### Export duty

A 10% duty is imposed on tobacco export.

### VAT

The VAT rate remains at 15% with some reduced rates prescribed on certain services.

The turnover tax, in lieu of VAT, has been revised as follows:

The continuation of the 3% turnover tax on annual turnover not exceeding BDT8 million (USD 100,000 approximately).

### Supplementary duty

Supplementary duty has been rescheduled in 10 tiers, namely, 10%, 20%, 30%, 45%, 60%, 100%, 150%, 250%, 350% and 500%.

The rate of supplementary duty has been increased or reduced in some cases.



## Tanzania – Budget for 2013-14

The Finance Act 2013 was passed by Parliament on 28 June 2013 and is effective from 1 July 2013 as communicated in the Government Notice, published on 5 July 2013.

The main VAT changes are as follows:

### VAT

- ▶ The VAT exemption on tourist services such as tour guiding, tourist charter services and ground transport is abolished.
- ▶ Special relief of VAT on locally produced textiles:
  - ▶ 100% relief from VAT on importation by, or supply to, a local textile manufacturer, of goods or services, which are exclusively used in the manufacturing of textiles using locally grown cotton.



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## EY newsletters and Alerts

If you would like a copy of a green paper, newsletter or alerts covering some of the topics mentioned below, please contact Howard Lambert at [howard.lambert@ey.com](mailto:howard.lambert@ey.com).

Croatia: *Alert on new VAT Act*

EU: *Financial Services Overview*

Germany: Amendments relating to vouchers and intra EU supplies from 1 October 2013

Hungary: *Tax Express* June 2013

Hungary: *Tax News* June 2013

Slovakia: June 2013 *Tax News*

UK: *VAT News* – Weeks ending 14, 21 and 28 June and 8 July 2013

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