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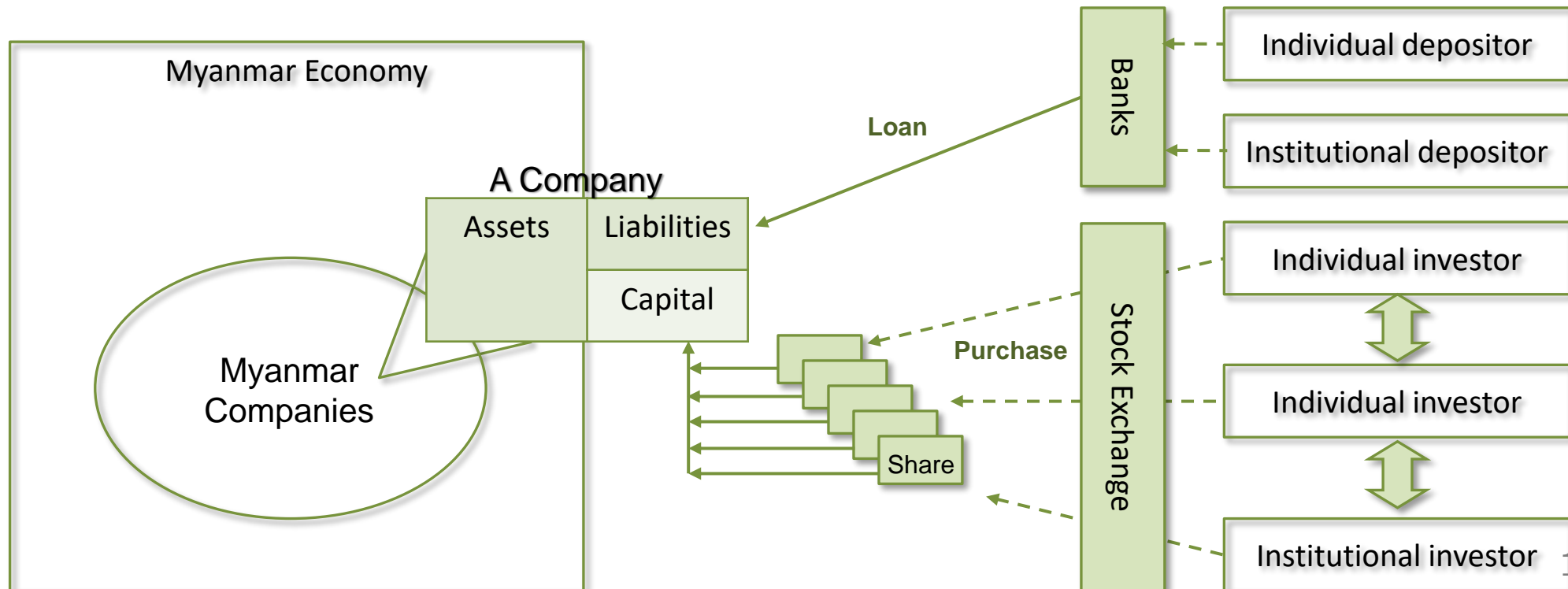
ISSUES ON SECURITIES TAX SYSTEM

What is the Role of Stock Market?

Stock market is an integral part of capital market that matches financial needs among people including individuals and companies/institutions as well as government.

Stock market provide;

- FOR COMPANIES/ENTREPRENEURS: long-term money for companies' growth while banks provide shorter term money through lending.
- FOR INVESTORS/CITIZENS: investment opportunities for ordinary citizens



How Does A Stock Market Work?

Stock market works with 1) sound market infrastructure and 2) large number of transactions among as many participants as possible.

- Sound Market Infrastructure includes **A)** regulations for issuers of shares (companies), investors (trading participants), and intermediaries (securities companies etc), **B)** trading and settlement platform, and **C)** other relevant regulation on taxation and money transfer.
- Large Number of Transactions Among As Many Participants As Possible is integral for sufficiently reduce each transaction cost. The more issuers of shares and more investors in various types, the less cost for finding respective buyers and sellers of shares to be sold and bought.



What Differentiates Stock Market from Other Market?



An important characteristic of stock market is **LIQUIDITY**.

Liquidity is a term for the degree of easiness to sell and buy certain assets. Equity of a company is divided into **identical units of shares which shall have same prices**. Creation of enough identical assets enables many people to participate in trading of the same asset and it will result in fairly-valued price of a share. On the other hand, traditional immovable or movable assets are not identical by nature even if the assets are same kinds (such as land(in size, location, quality) or car (year, type, quality)).

The higher is the liquidity, the fairer valuation of the asset and can invite more issuers (or companies) and investors (or citizens, institutional investors). This create **a virtuous cycle** of the market development.

Ordinary Asset (land, etc)

- Land: once or a few in a lifetime
- Rights for future income: each right may be different each other. Identical units of assets are not provided
- Unlisted shares: not supposed to trade frequently

Listed Shares

- Individual investors: supposed to have several kinds of shares at any time. Need to buy and sell at any timing with in a year.
- Institutional Investors: supposed to have many kinds of shares. Need to buy and sell frequently to serve customer needs.

Why Liquidity is Important?

Stock Exchanges in the world have successfully increased Market Capitalization and Turnover which have resulted in giving greater opportunities for companies to raise funds and for ordinary citizens to invest. The amount of shares transacted will be HUGE in order to ensure participants opportunities to sell/buy immediately at fair value.

Stock Exchange	Market Capitalisation		Average daily turnover value		Annual Turnover Value (%GDP)
	(USD millions)	(%GDP)	(USD millions)	(%GDP)	
NYSE	20,679,477	101	77,055	0.4	94
Nasdaq - US	9,756,836	48	66,892	0.3	82
Japan Exchange Group	5,296,811	107	25,676	0.5	129
Shanghai Stock Exchange	3,919,420	29	24,844	0.2	46
Hong Kong Exchanges and Clearing	3,819,215	1,052	9,513	2.6	655
Shenzhen Stock Exchange	2,405,460	18	30,858	0.2	58
Korea Exchange	1,413,717	87	10,281	0.6	159
Indonesia Stock Exchange	486,766	48	442	0.0	11
Singapore Exchange	687,257	190	884	0.2	61
The Stock Exchange of Thailand	500,741	103	1,584	0.3	81
Bursa Malaysia	398,019	112	563	0.2	40
Hochiminh Stock Exchange	124,345	52	185	0.1	19
Yangon Stock Exchange	355	0.5	0.029	0.00004	0.01

Current Securities Taxation in Myanmar?

- 10% capital gains tax whereas no tax on dividends income
- 0.1% stamp duty for purchase consideration

Capital Gains Tax

	Resident	Non-Resident
Individual	<ul style="list-style-type: none"> ✓ For asset sales, file and pay the capital gains tax amount <u>within one month</u> from the date of sale. (ITL 16(a)) 	
Company	<ul style="list-style-type: none"> ✓ Transactions taxed only if, within a year, the total transaction amount exceeds 10 mil. MMK. (UTL 28) ✓ Capital gains / losses <u>cannot be</u> offset with each other or other taxable income. 	
Individual/Company in business of buying and selling securities	<ul style="list-style-type: none"> ✓ For asset sales as a business as performed repeatedly in a year as an economic business, subject to 25% income tax (ITL 11(a)) ✓ Capital gains / losses <u>can be</u> offset with taxable income. 	

How to Tax on Securities Transaction?

Theoretically correct idea is to tax on capital gains. However, in practice only developed countries have introduced capital gains tax (CGT) because of the complexity and cost to calculate each CGT payable for individual.

➡ *Instead, ASEAN countries have introduced tax exemptions or transaction tax for listed shares transaction aiming to reduce cost and burden for participants and foster their developing stock markets.*

Burdens for participants in case of CGT

➤ Storing All Historical Data of purchasing prices:

each investor must hold all historical purchasing prices of assets. For some investors, it is quite common to hold certain shares for several years. In case of withholding tax, withholding tax agents (for example, securities companies) must store data for several years possibly several decades.

➤ Calculation of CGT for each selling:

CGT shall be calculated at each time when an investor sells an asset or shares. If an investor wants to sell assets or shares in several timing that deemed appropriate for selling, then they shall calculate CGT so many times. Offsetting and carry-over of loss requires additional calculation.

➡ *✓ Enforcement remains weak and undermine the rule of law*
✓ These burdens will squeeze transactions as well as tax amount

Securities Tax System in ASEAN Countries

	Capital gains tax or transaction tax (deemed capital gains tax)	Dividend income tax	Stamp duty
Singapore	<i>Tax exempt</i>	Tax exempt	Tax exempt
Malaysia	<i>Tax exempt</i>	Tax exempt	0.1% of trading value
Indonesia	<i>0.1% of sales proceeds An additional 0.5% applies if founder sells shares.</i>	Individuals (Resident): 10% Company (Resident): 15% Non-resident: 20%	Tax exempt
Philippine	<i>0.5% of sales proceeds (Listed shares)</i>	Individuals (Resident): 10% Individuals (Non-resident): 20% - 25% Company (Resident): Tax exempt Company (Non-resident): 30%	Tax exempt
Thailand	<i>[Resident] Individuals: Listed shares: Tax exempt Company: Tax on overall income including capital gains [Non-resident] Individuals: Listed shares: Tax exempt Company: 15% of capital gains</i>	10%	Tax exempt
Vietnam	<i>[Individuals: (Resident)] 0.1% of sales proceeds or 20% of annual capital gains [Individuals: (Non-resident)] 0.1% of sales proceeds [Company] Tax on overall income including capital gains</i>	Individuals: 5% Company: 0%	Tax exempt
Laos	<i>0.5% of sales proceeds for listed shares</i>	Tax exempt	Tax exempt
Cambodia	<i>Individuals: Tax exempt Company: Tax on overall income including capital gains</i>	Individuals (Resident): Tax exempt Company (Resident): Tax exempt Non-resident: 14%	Tax exempt

(Ref) Calculation of CGT on A Securities Trading

Purchasing and Selling of Share A

TRADING		PRICE	VOLUME	AMOUNT	RELEVANT COST
1	Initial Purchase	800	20	16,000	240* = Brokerage commission*2 + stamp duty
2	Additional Purchase	700	30	21,000	315* = Brokerage commission*2 + stamp duty
3	Partial Selling	900	20	18,000	270* = Brokerage commission*2 + stamp duty

*Note: Tentative numbers

Calculation of CGT on the sale of Share A

Total Consideration Received

= 900 × 20 = 18,000

MINUS

Total Adjusted Cost

= $\frac{(16,000 + 21,000 + 240 + 315)}{(20 + 30)} \times 20 + 270 = 15,282$

EQUAL

Capital Gain/Loss

= 18,000 – 15,282 = 2,718

Weighted Average of Cost paid to acquire one unit of Share A at the Partial Selling 3

×

Volume of Selling at the Partial Selling 3

+

Relevant Cost of Partial Selling 3

*2: Notification No.(1/2018) concerning Brokerage commissions

Trading amount	Brokerage Applicable (Both Side)
Below K 500,000	1% of Trading Amount
Between K 500,001 to 1,000,000	1% of Trading Amount
Between K 1,000,001 to 10,000,000	0.7% of Trading Amount
Between K 10,000,001 to 100,000,000	0.5% of Trading Amount
Above 100,000,001	0.4% of Trading Amount

(Ref) Simplified Estimation of CGT and Transaction Tax

- Estimated 10%-CGT possibly collected is within the range of **20 to 204 million Kyats** in FY2018-2019 even though the market capitalization increased by 18% during the period.
- In case of transaction tax instead of CGT, taxing **0.3-0.5% on sales proceed** can collect estimated total CGT above. Annual total sales were 21 billion and 14 billion in FY2018-19 and in FY2017-18 and the collected tax would have been 63 million and 42 million if the tax rate was 0.3%.

Simplified Estimation of Possible Net Capital Gains from Listed Share Trading for FY 2018-2019

A) Market Cap. (end of September 2018)	570,824 million Kyats
B) Market Cap. (end of September 2019)	672,994 million Kyats
C) Total value of listed companies increased during 6 months	102,170 million Kyats
D) Floating stocks ratio for daily trading (Estimated range) (Share held by ordinary small investors excluding owners, business partners etc.)	(10 - 40 %)
E) Active securities account ratio (Estimated range)	(2 - 5%)
F) Estimated possible net capital gains ($C * D * E$)	204 million Kyats to 2,043 million Kyats
G) Estimated possible amount of CGT ($F * 10\%$)	20 million Kyats to 204 million Kyats

(Caution) The calculation might not be accurate mainly due to the following reasons: 1) some shares sold in the year must have been bought before the year at lower or higher prices, and 2) Capital gains is not allowed to be offset by capital loss.

(Note) Following the same calculation, the estimated possible amount of CGT for 2017-2018 is zero because the market had shrunken during the period.

How to Tax on Securities Transaction?


Securities taxation should be competitive with ASEAN peers to attract non-resident investors. Tax on listed securities transaction needs different treatment with other tax on other assets, because LIQUIDITY must be ensured for market growth.

Referring ASEAN countries practice, solutions for Myanmar would be following:

Priority 1. Provide tax exemption for capital gains from trading of listed shares.

However if it is difficult, as an option,

Priority 2. Tax on a fixed amount (n%) of sales proceeds from selling listed shares, which is withheld by securities companies



Developing taxation with simple calculation and easy payment system is beneficial for both 1) improving the convenience and confidence of investors and 2) increasing tax amount through the expansion of capital market and transactions.

(Note)

➤ Purchase and transfer of shares not traded at YSX remains subject to CGT:

Same treatment as in other countries. Foreign direct investment does not require LIQUIDITY. Therefore, it is advisable that those transactions are subject to 10% CGT same as before

➤ Necessary to consider actual investment incentive for investors:

Company investor will invest as individual if companies are subject to higher rate. Foreigner will invest as locals if foreigners are subject to higher rate.

Steps and Effects of Securities Taxation

	Now in Myanmar	Mid-term	Long-term
Market Cap.	0.5% of GDP	50% of GDP (Vietnam in 2018)	Over 100% of GDP (Thailand in 2018)
Annual Turn-over Value	0.01% of GDP	20% of GDP (Vietnam in 2018)	Over 80% of GDP (Thailand in 2018)
Tax on Listed Securities Transaction	CGT exemption	CGT exemption Dividend tax and stamp duty may be reconsidered	Full-scale CGT may be introduced considering the capacity of Tax authority and Securities industry
Effect on Tax Revenue	No effect as currently no CGT for Listed securities transaction is collected (also negligible Market Cap.)	Tax revenue increases through expansion of transparent and taxpaying companies on YSX	Significant amount of CGT collection can be expected because Market Cap. and turnover are large enough.
Effect on Companies	Increase number of listed companies because of CGT incentive and more investors	More companies become transparent and good taxpayers through YSX and public examination	-
Effect on Investors	Inclusive investment opportunities for citizens. More foreign investor. Large shareholders benefit more	More citizens will benefit from the Union's growth.	Temporally selling just before the CGT introduction may occur