

# **INTERNATIONAL TAX PLANNING**

## **Singapore Domestic Law And Treaties**

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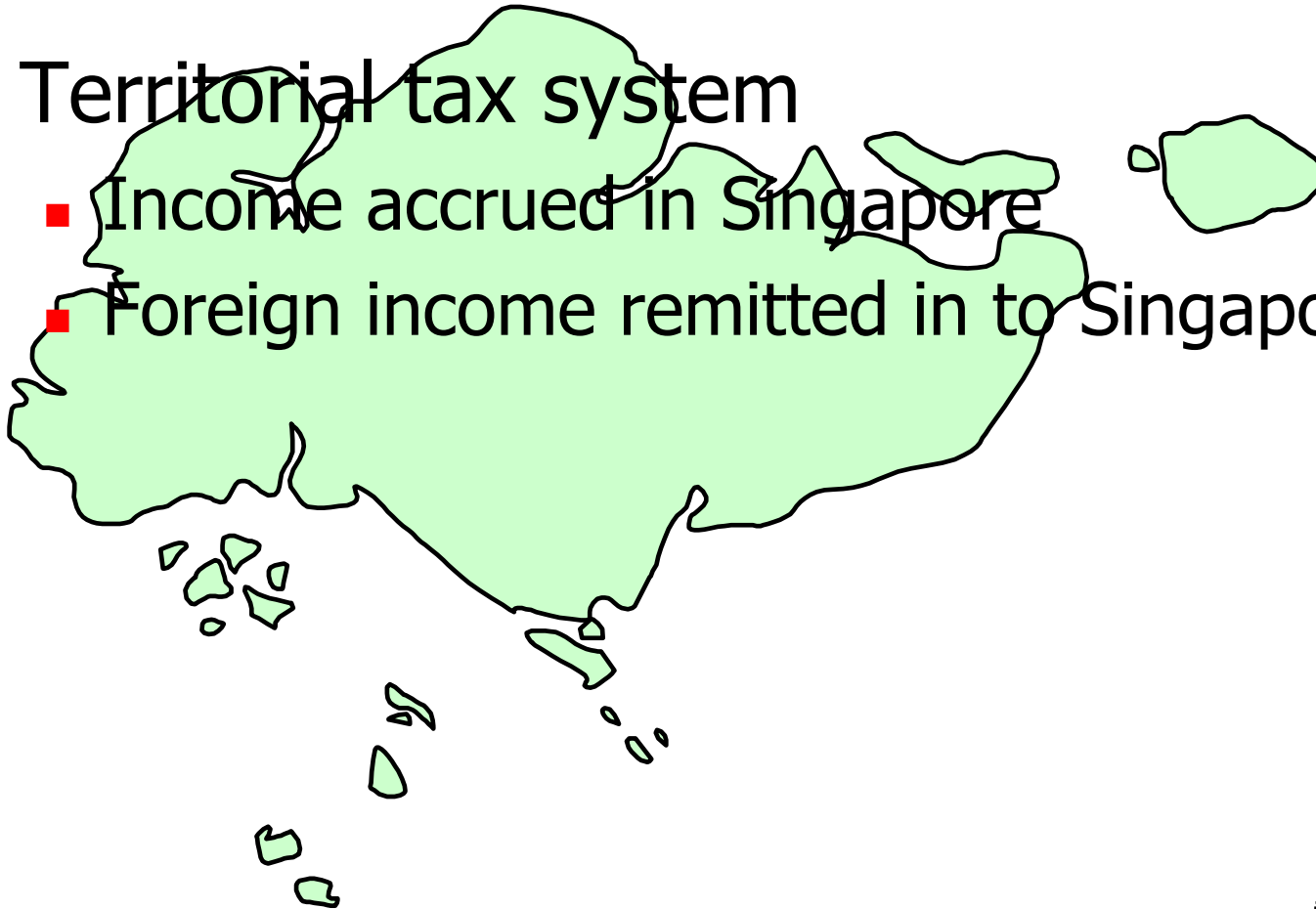
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- Singapore Tax System
  - Corporate & personal
- Recent tax developments
- What makes Singapore an attractive centre for International business
  - Tax factors
  - Non-tax factors
- Conclusion



# Singapore Tax System

- Territorial tax system
  - Income accrued in Singapore
  - Foreign income remitted in to Singapore





# Corporate Tax Rates

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- Corporate tax rates
  - Years of Assessment 2003 & 2004 – 22%
  - Year of Assessment 2005 – Government has intention to reduce to 20%
  
- Exemption from tax on:
  - For first S\$10,000 – 75% tax exempt
  - For next S\$90,000 – 50% tax exempt



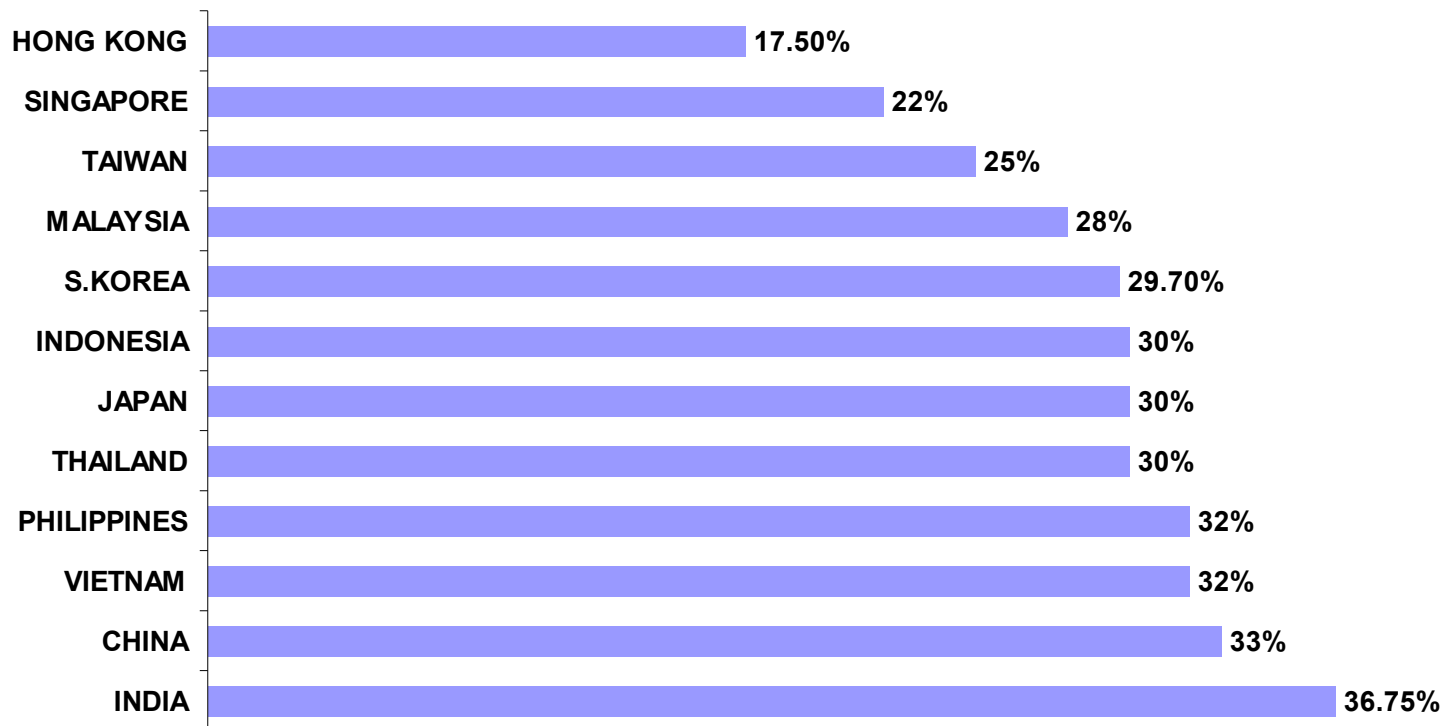
# Residency for Companies

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- Company is Singapore resident if control and management of its business is exercised in Singapore.
- Country of incorporation is irrelevant.



# Corporate Tax Rates



**Comparison of Asia-Pacific corporate tax rates (for income year 2003)**

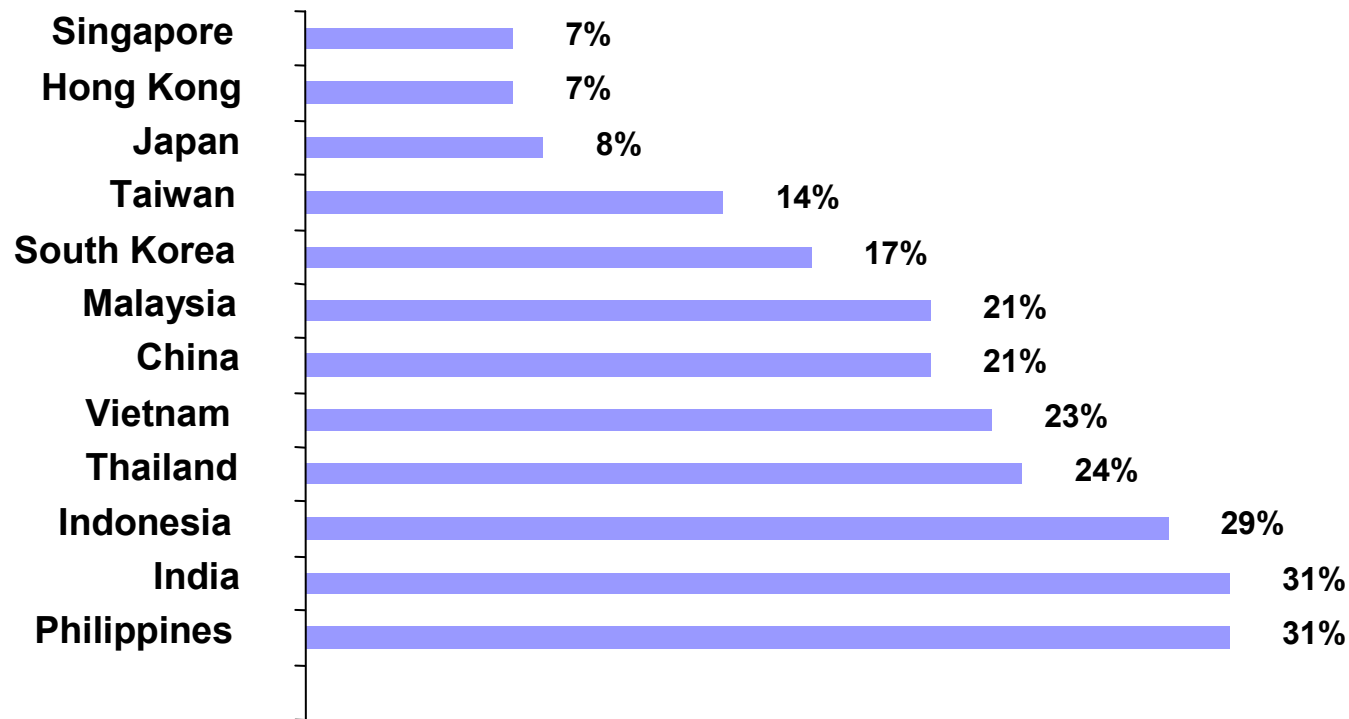


# Personal Tax Rates

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- Resident tax rates
  - Marginal rates from 4% to 22% (wef Year of Assessment 2003)
  - Non-resident tax rates
    - Higher of 15% or resident rates

# Personal Tax Rates



**Comparison of Asia-Pacific effective personal tax rates  
(for income year 2002)**





# Residency

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- Individual is Singapore resident if:
  - Physically present or exercised employment in Singapore for at least 183 days in any tax year
  - Stay in Singapore covers 3 or more consecutive years



# Recent Tax Developments

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- Major tax changes
  - Exemption of foreign income
  - One-tier corporate tax system
  - Group relief
  - Intellectual property incentives
  - Estate duty exemption for non-domiciled individuals
  - Not ordinarily resident (NOR) taxpayer scheme

# Foreign Income Exemption



- All foreign income in the form of dividends, branch profits and services income will be exempt from tax
- Remittance on or after 1 June 2003
- Conditions
  - Foreign income has been taxed overseas
  - From a foreign jurisdiction whose highest corporate tax rate is at least 15%



# One-Tier Tax System

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- Effective 1 January 2003
- Tax payable on normal chargeable income is final tax
- Dividends declared will be tax exempt in shareholders' hand



# Group relief

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- Company can set off its current year losses, excess capital allowances and donations against the profits of its associates (subject to certain conditions)
- Only companies that are incorporated in Singapore can form a group
- With effect from Year of Assessment 2003



# Intellectual Property (IP)

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- Patent application deduction
- Automatic writing down allowance on the acquisition of IP
- Royalty income earned from non-treaty countries qualifies for unilateral tax credit
- Tax exemption on foreign sourced royalties and interest income for R&D
- Payments made by end-users to non-residents for on-line information and digitised goods



# Estate Duty relief for non-domicile

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- All movable assets of non domiciles are exempt from estate duty
- With effect from 3 May 2002



# Not Ordinarily Resident (NOR)

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- If qualified, accorded for 5 consecutive years
- Tax concession:
  - Time apportionment of Singapore employment income
  - Tax exemption
    - Pre-assignment income remitted to Singapore
    - Employers' contributions to non-mandatory overseas pension fund or social security scheme
- Minimum tax payable of 10% of total employment income



# What makes Singapore an attractive centre for international activities?



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- Tax factors
- Non-tax factors



# Tax factors

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- Withholding tax
- Double taxation agreements
- Tax credit system
- Grants and tax incentives
- Transfer pricing
- Goods & Services Tax



# Withholding Tax

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- Payments to non-residents unless exempted or reduced under tax treaties
  - Interest, royalties, rent for the use of movable property, professional fees to individuals — 15%
  - Technical fees, management fees, directors' remuneration — 22%



# Double Taxation Agreements

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- Singapore has an extensive treaty network
- Concluded tax treaties with 50 countries



# Unilateral Tax Credit System

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- Tax relief can be claimed for the following income derived from non-treaty countries
  - Income from any services rendered outside Singapore
  - Foreign sourced dividend
  - Income from employment exercised outside Singapore
  - Profit of a foreign branch
  - Royalties (effective Year of Assessment 2004)



# Grants and Tax Incentives

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- Range of Government Grants
  - Tax holidays for pioneer / high value adding / growth industries
  - Incentives includes:
    - Pioneer enterprise
    - Headquarters programme \*
    - Global trader programme \*
- (\* For detailed conditions, please refer to handout)*



# Transfer pricing requirements

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- No specific tax legislation nor practical guidelines on transfer pricing
- Two provisions (S33 and S53(2A)) in the Singapore Income Tax Act which can be used to apply to transactions between related parties



# Goods and Services Tax (GST)

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- Current GST (VAT) rate is 4%
- Registration Threshold SGD 1M
- Will increase to 5% from 1 January 2004 onwards
- Major Exporter Scheme (MES) where no GST is incurred upon importation by qualified importer





# Non-tax factors

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- Free trade agreements
- Exchange controls
- E-filing of documents
- Immigration rules
- Company law reform relevant changes
- Custom duties
- Others



# Free Trade Agreements

Singapore has concluded / is negotiating FTAs with the following

<b>Concluded</b>	<b>Under negotiation</b>
✦ Australia	✦ ASEAN and the People's Republic of China
✦ European Free Trade Association	✦ Canada
✦ Japan	✦ South Korea
✦ New Zealand	✦ Mexico
✦ United States	✦ India
	✦ Chile
	✦ Jordan



# E-filing of Documents

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- E-filing can be used for the following:
  - Personal tax returns
  - Registration and filing of documents to the Registry of Companies and Businesses
  - Business incorporation



# Immigration Rules

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- Expatriates require employment pass to work in Singapore
- Normal processing time is only two weeks



# Company Law Reform Relevant Changes

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- Audit exemption for following companies with financial year beginning on or after 15 May 2003
  - Dormant
  - Small exempt private companies
    - Private company with no corporate shareholder and not more than 20 shareholders
    - Annual revenue not exceeding S\$2.5m (will be increased to S\$5m after one year)
- No requirement to appoint professionally qualified company secretaries for private companies



# Conclusion

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- Benefits of using Singapore as a regional/holding/headquarter company
  - Tax factors
    - Low corporate tax rate of 22%
    - Extensive tax treaty network
    - Tax exemption of foreign dividends, foreign branch profits and foreign-sourced service income (subject to certain conditions)
    - Dividends distributed to shareholders tax exempt
    - Group relief
    - Tax incentives including headquarters incentive etc



# Conclusion (...cont'd)

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- Non-tax factors
  - FTA with various countries
  - Removal of legal requirement for audit for small exempt private companies
  - E-filing of documents
  - Immigration rules
  - Political stable and excellent business infrastructure and skillful workforce etc

**The End**

