

Using Singapore as an Investment Platform in ASEAN

Koh Puay Hoon
19 January 2018

Disclaimer

While utmost care has been taken to ensure content accuracy at the time of writing, no person should rely on the contents in this presentation without first obtaining advice from a qualified professional. These presentation slides are issued on the terms and understanding that (1) the author is not responsible for the results of any actions taken on the basis of information in these slides, nor for any error in or omission from these slides; and (2) the author expressly disclaims all and any liability and responsibility to any person, whether a reader of these slides or not, in respect of anything, and of the consequences of anything, done, or omitted to be done by any such person in reliance, whether wholly or partially, upon the whole or any part of the contents of these slides. Information contained herein is proprietary to RSM Tax Pte Ltd and no part should be reproduced without prior permission and due acknowledgement.



WHY CHOOSE SINGAPORE?

Singapore's attractiveness

Non-tax reasons

- Strategically located
- Stable political environment
- Low risk of labour/strikes
- Excellent infrastructure
- Pro-business Government policies
- Excellent connection to ports and airport logistics hub
- Highly skilled multi-lingual workforce
- Sound regulatory and commercial law environment

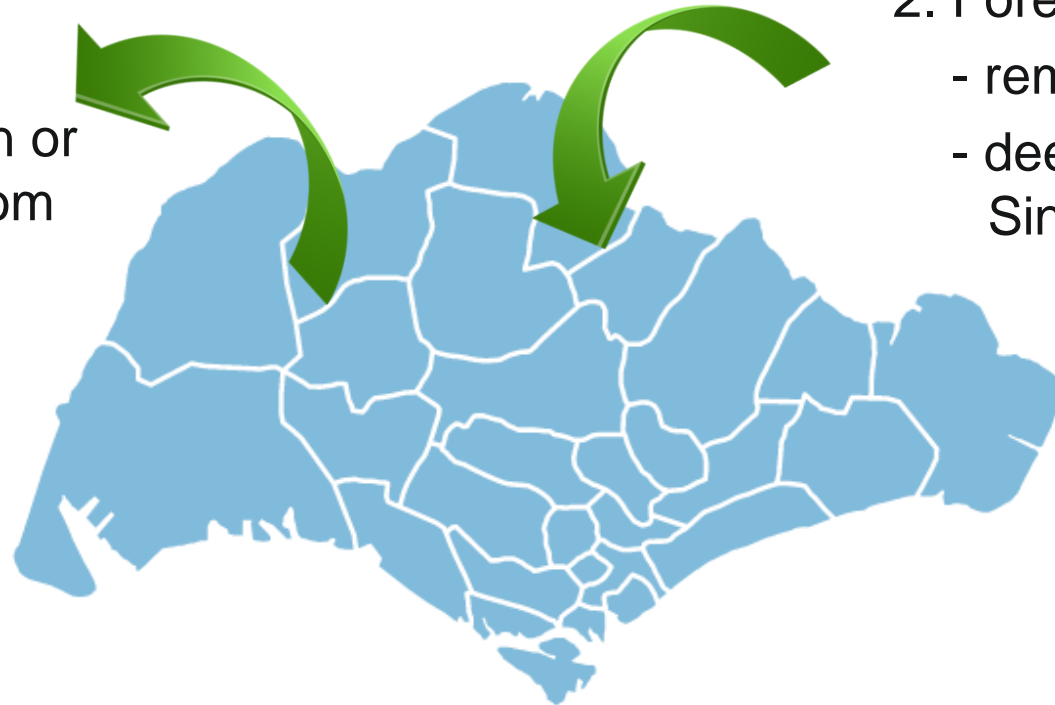
Tax reasons

- Territorial and not worldwide tax system
- Low corporate and individual tax rates
- Extensive tax treaty network
- No dividend withholding tax
- No capital gains tax
- Attractive tax incentives for favoured industries and activities that would lower effective tax rate for the group
- No controlled foreign corporation regulations
- Attractive tax deductions/allowances for R&D activities and IP
- Trade losses and unabsorbed capital can be carried forward indefinitely so long as there is no substantial shareholding change
- No thin capitalisation rules but restriction on interest expense claims if there are non-income producing assets

Scope of Singapore taxation

Singapore adopts a territorial concept of taxation. Therefore, Singapore imposes tax on 2 sources:

1. Income accruing in or derived from Singapore



2. Foreign-source income
- remitted or
- deemed remitted into Singapore

Singapore imposes tax on income and does not have a capital gains tax. Important to distinguish between revenue and capital receipts.

Type of taxes in Singapore

	Type of taxes	Tax rate	Remarks
1	Corporate income tax	17%	Partial tax exemption on first \$300,000 chargeable income
2	Personal income tax	0 - 22%	Personal tax relief such as child relief, course fee relief, etc are deductible
3	Goods and Services Tax (GST)	7%	Local consumption and chargeable on goods and services sold in Singapore, importation of goods into Singapore
4	Withholding tax	10%, 15% or 17%	Royalties: 10% Interest: 15% Service/ technical fee: 17%
5	Property tax	0% - 20%	Residential property: Owner-occupied: 0% - 16%, Others: 10% - 20% Commercial property: 10%
6	Customs and import taxes	1. S\$8 - S\$113 per litre 2. S\$299 - S\$388 per kilogram 3. 12% - 20% of the customs value 4. S\$0.10 - S\$0.71 per litre/kilogram	1. Intoxicating liquors 2. Tobacco products 3. Motor vehicles 4. Petroleum and biodiesel blends

Singapore stamp duty

Stamp duty			
Transfer of property	Residential property	Individual	Buyer - 1% to 3% Additional buyer stamp duty - 7% to 15% Seller - 0% to 16%
		Entity	Buyer - 1% to 3% Additional buyer stamp duty - 15% Seller - 0% to 16%
	Commercial property	Individual	Buyer - 1% to 3% Seller - 0% to 15%
		Entity	Buyer - 1% to 3% Seller - 0% to 15%
Share transfers	Company does not own any properties	0.2% of the purchase price or the value of the shares	
	Company owns property	Buyer - 0.2% of the purchase price or the value of the shares, plus Additional Conveyance Duties for Buyer Additional buyer stamp duty - 15% Additional seller stamp duty - 12%	
Mortgage	0.2% or 4% of the loan amount granted on the mortgage, capped at S\$500		
Rental	0.4%		

Exemption of foreign income – Section 13(8)

**Tax exemption for Singapore tax-resident person
under Section 13(8) [received in Singapore on or after 1.6.2003]**

Dividends

Branch profits

Service income

Exemption of foreign income – Section 13(8)

Conditions:

The foreign income is subject to tax (withholding and/or underlying taxes inclusive) in the foreign jurisdiction from which they were received

In the year the foreign income is received in Singapore, the headline tax rate of the foreign jurisdiction from which the income is received is at least 15%

Headline tax rate refers to the highest corporate tax rate of the foreign jurisdiction

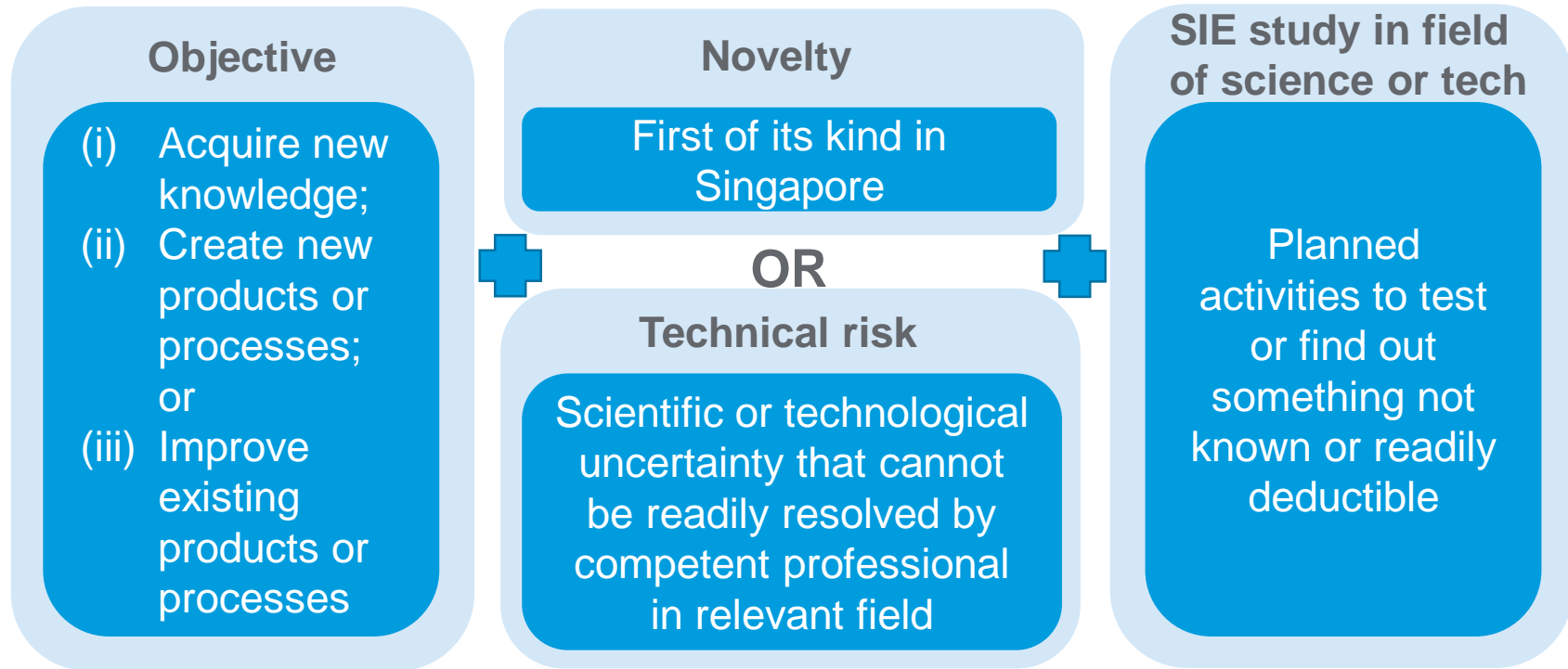
Need not be the actual rate of tax imposed by the foreign jurisdiction on the foreign income

The tax exemption must be beneficial to the Singapore resident recipient

Tax incentives

	Tax incentive	Concessionary tax rate	Applicable industries	Administering agency
1	Global Trader Programme (GTP)	5%, 10%	Companies engaging in global trading	IE Singapore
2	Maritime Sector Incentive (MSI)	0%, 5%, 10%	Shipping, container management and leasing	Maritime and Port Authority of Singapore (MPA)
3	Development and Expansion Incentive	5%, 10%	Manufacturing, services, R&D, HQ	Economic Development Board (EDB)
4	Pioneer Incentive	0%	High-end manufacturing	Economic Development Board (EDB)
5	Double tax deduction for internationalisation			IE Singapore

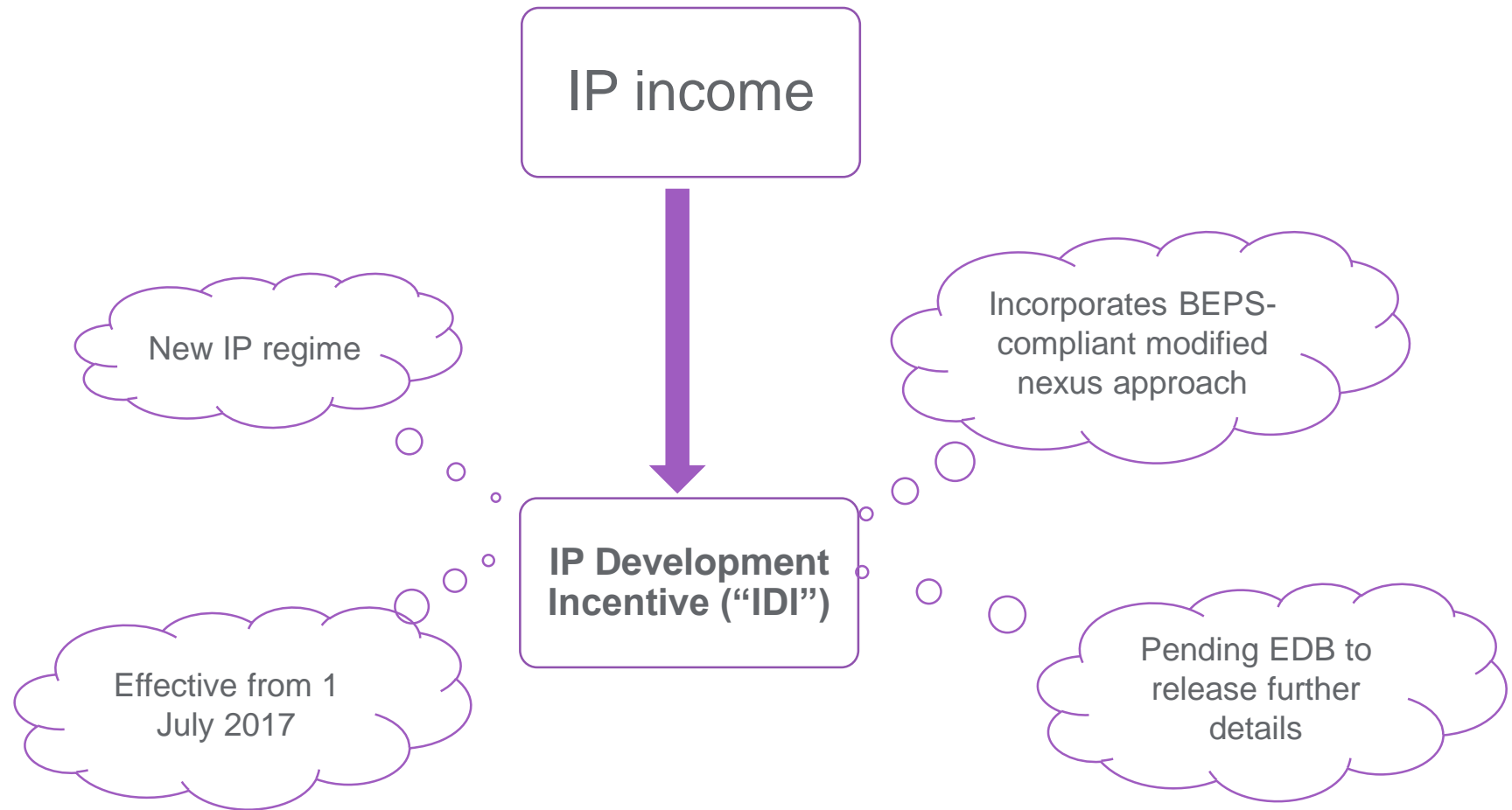
Research and Development activities



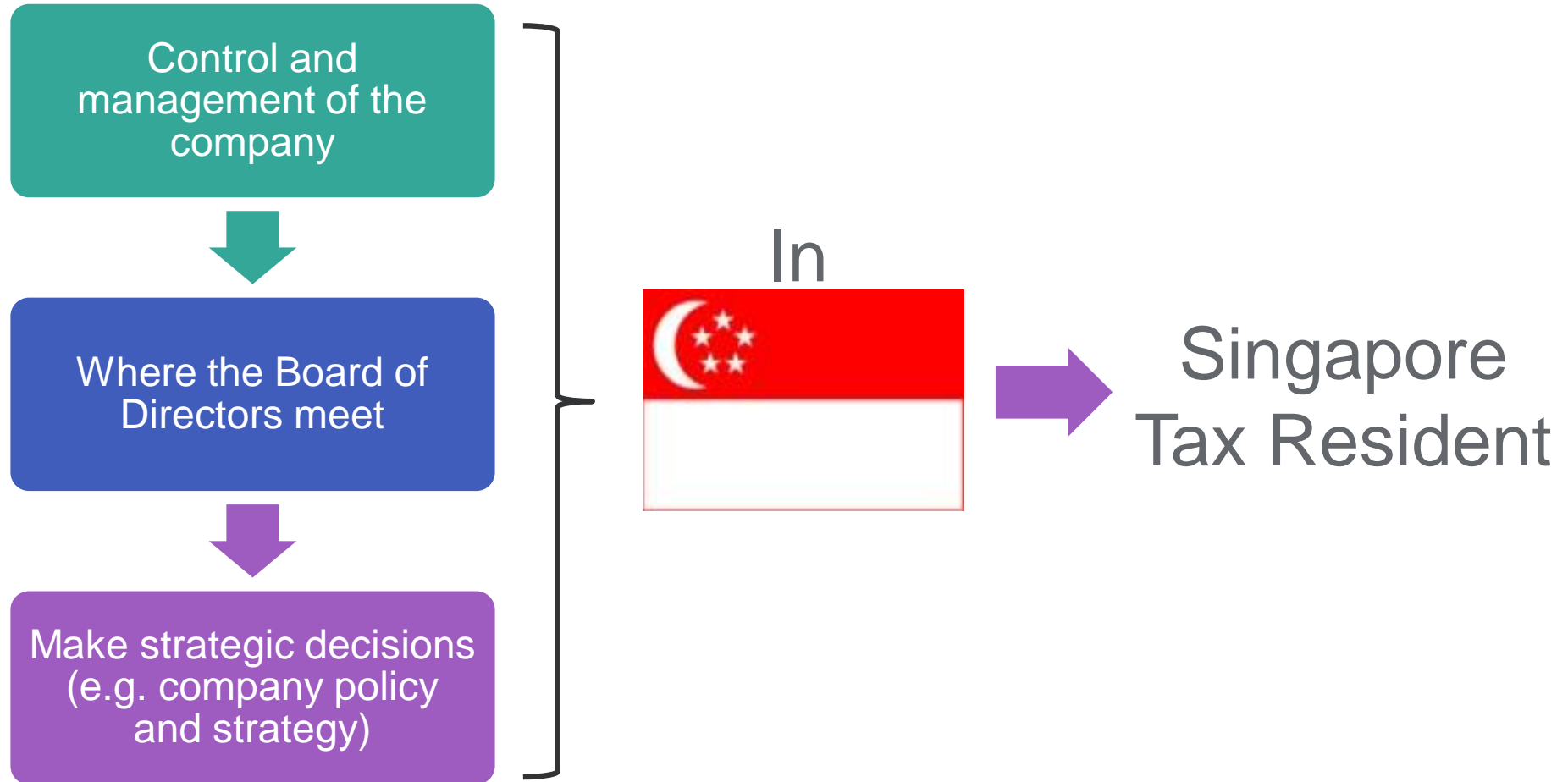
Source: R&D e-guide

- Enhanced deductions on qualifying expenditure incurred on qualifying R&D activities

New IP regime to encourage exploitation of IP arising from R&D projects



Tax Residency of a Corporation



Certificate of Residence (COR)

IRAS have clarified that the following does not qualify as a tax resident of Singapore and therefore a Certificate of Residence (COR) would generally not be issued

1. A nominee company as it is not the beneficial owner of the income derived from the foreign treaty country
2. A foreign-owned investment holding company (i.e. 50% or more of its shares are owned by foreign companies / shareholders) in receipt of only passive sources of income or foreign-source income only

That said, in practice IRAS may still issue COR if the following conditions are satisfied:

- a) Control and management of the company is exercised in Singapore
- b) There are valid reasons to set up in Singapore
- c) Company could demonstrate that decisions on strategic matters are made in Singapore (i.e. Board meetings held in Singapore)







Certificate of Residence (COR) - continued






Other factors considered by IRAS include the company in question:

- i) has related companies who are tax resident in Singapore or have business activities in Singapore; or
 - ii) receives support or administrative services from a related company in Singapore; or
 - iii) has at least one director based in Singapore who holds an executive position and is not a nominee director; or
 - iv) has at least one key employee (e.g. CEO, CFO, COO) based in Singapore
3. IRAS typically will not issue COR to a non-Singapore incorporated company or a Singapore branch of a non-Singapore incorporated company since the control and management is vested with the overseas parent. That said, a COR may be issued if IRAS is satisfied that:
- a) The control and management of the non-Singapore incorporated company or the Singapore branch is fully exercised in Singapore; and
 - b) There are valid reasons for not incorporating in Singapore






Additional details may be requested by IRAS to support the above stand taken

Domestic withholding tax rates






Types of income derived by non-resident from	 Singapore	 Taiwan	 Brunei	 Cambodia	 Indonesia	 Laos
Dividends	0%	20%	0%	14%	20%	10%
Interest	15%	15% / 20%	15%	14%	20%	10%
Royalties	10%	20%	10%	14%	20%	5%
Capital gains on share sales	0%	17%	0%	20%	20% on the deemed income	10%

Types of income derived by non-resident from	 Malaysia	 Myanmar	 Philippines	 Thailand	 Vietnam
Dividends	0%	0%	15% / 30%	10%	0%
Interest	15%	15%	30%	15%	5%
Royalties	10%	10% / 15%	30%	15%	10%
Capital gains on share sales	30% on gains derived from disposal of shares in real property companies	40% to 50% for entities in the oil and gas industry; 10% for other industries	5% / 10%	20%	20%






Singapore – Reduced tax rates under tax treaties provision

Types of income derived by Singapore resident from	 Taiwan	 Brunei	 Cambodia	 Indonesia	 Laos
Dividends	Withholding tax on dividends and the corporate income tax payable on the profits of the payer may not exceed 40% of the total taxable income of the payer out of which the dividends are paid	0% (per domestic rate)	10% (14%)	10% if recipient is a corporate entity with at least 25% ownership in payer; 15% in all other cases (20%)	5% if recipient is a corporate entity with at least 10% ownership in payer; 8% in all other cases (10%)
Interest (Note: Have not considered interest paid to the Government)	Follow domestic law	5% if paid to bank or financial institution; 10% in all other cases (15%)	10% (14%)	10% (20%)	5% (10%)
Royalties	15% (20%)	10%	10% (14%)	15% (20%)	5%
Capital gains on share sales	Follow Taiwan domestic law	Follow Singapore domestic law	Gains from sale of shares deriving more than 50% of value from immovable property in Cambodia may be taxed in Cambodia, otherwise Singapore domestic law applies	Follow Indonesia domestic law	Follow Singapore domestic law

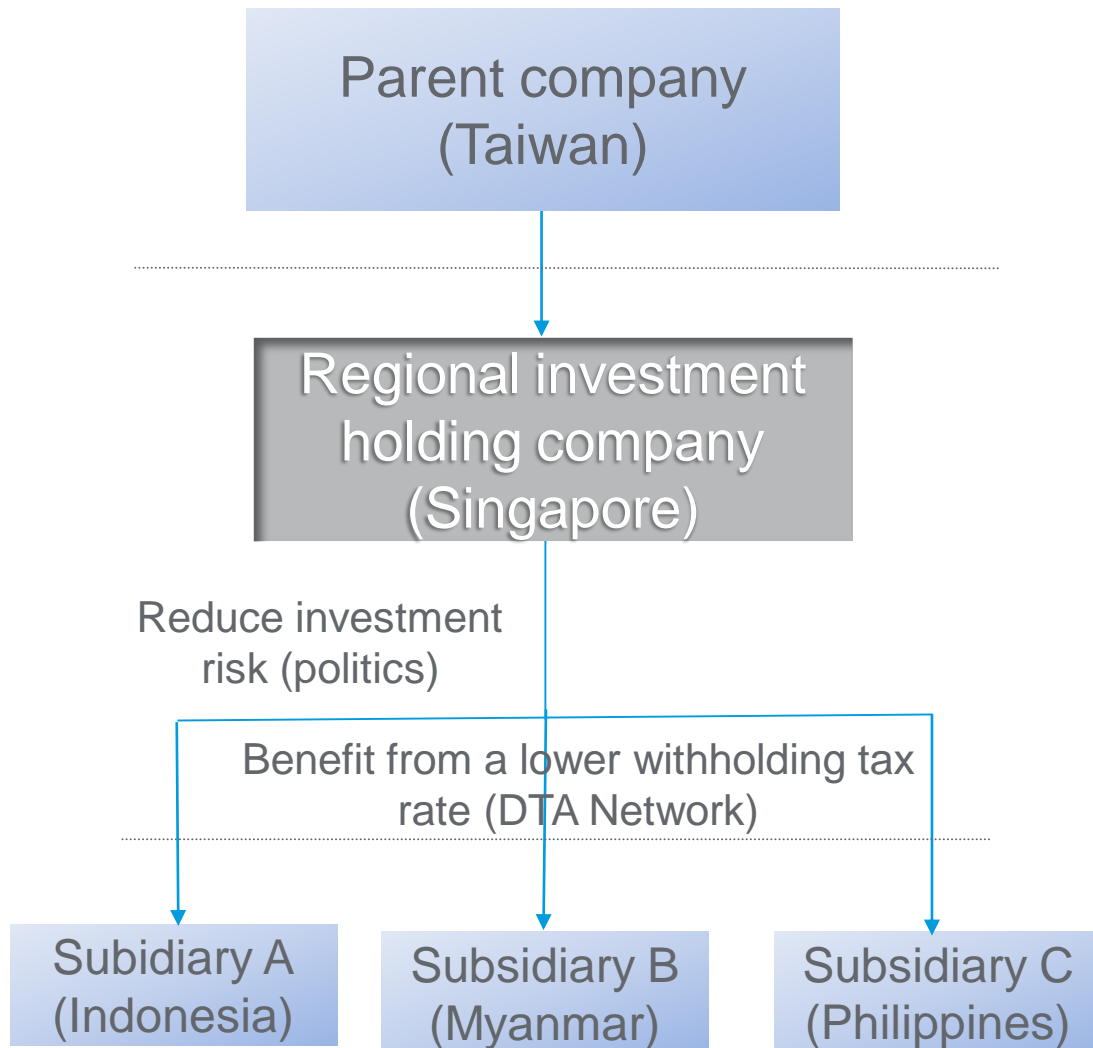
Singapore – Reduced tax rates under tax treaties provision

Types of income derived by Singapore resident from	 Malaysia	 Myanmar	 Philippines	 Thailand	 Vietnam
Dividends	0% (per domestic rate)	0% (per domestic rate)	15% if recipient is a corporate entity with at least 15% ownership in payer; 25% in all other cases (15% / 30%)	10%	0% (per domestic rate)
Interest (Note: Have not considered interest paid to the Government)	10% (15%)	8% if paid to bank or financial institution; 10% in all other cases (15%)	15 % (30%)	10% on trade credits and those paid to financial institution or insurance company; 15% in all other cases (15%)	5% (per domestic rate)
Royalties	8% (10%)	10% / 15%	15% / 25% (30%)	5% / 8% / 10% (15%)	5% / 10% (10%)
Capital gains on share sales	Follow Malaysia domestic law	Gains from sale of shares of company which holds primarily immovable property in Myanmar may be taxed in Myanmar; 0% if seller holds at least 35% in Myanmar company; 10% on gains applies in all other cases (10% / 40% / 50%)	Gains from sale of shares of company which holds primarily immovable property in Philippines may be taxed in Philippines; otherwise follow Singapore domestic law (5% / 10%)	Gains from sale of shares of company which derives at last 3/4 of its value in immovable property in Thailand may be taxed in Thailand ; otherwise follow Singapore domestic law	Follow Singapore domestic law

Taiwan – Reduced tax rates under tax treaties provision

Types of income derived by Taiwan resident from	 Singapore	 Indonesia	 Malaysia	 Thailand	 Vietnam
Dividends	Withholding tax on dividends and the corporate income tax payable on the profits of the payer may not exceed 40% of the total taxable income of the payer	0%	0% (per domestic rate)	5% if beneficial owner directly holds at least 25% of the capital of the company; 10% in all other cases	0% (per domestic rate)
Interest (Note: Have not considered interest paid to the Government)	Follow domestic law	10%	10%	10% if paid to financial institution; 15% in all other case	0% (per domestic rate)
Royalties	10% (per domestic rate)	10%	10%	10%	15%
Capital gains on share sales	Follow Taiwan domestic law	Follow Taiwan domestic law	Follow Taiwan domestic law (exclude sale of shares in real property companies)	Follow Taiwan domestic law	Follow Taiwan domestic law

Investment structure



1

Foreign source dividend income is exempted from tax, subject to conditions

2

No dividend withholding tax

3

No capital gains tax

4

Benefit from more than 80 DTAs that Singapore has entered into

5

Benefit from the Investment Guarantee Agreement that Singapore has signed with more than 30 countries



SINGAPORE TRANSFER PRICING

Singapore Transfer Pricing Guidelines

- IRAS endorses the arm's length principle as the standard to guide transfer pricing (TP). The guidance on the application of the arm's length principle is broadly consistent with the OECD guidelines
- Section 34D of the Singapore Income Tax Act deals with and addresses transactions with related parties which are not arm's length
- TP Guidelines include a requirement for taxpayers to maintain contemporaneous TP documentation. Submit upon request within 30 days

Singapore TP: Safe Harbour Rules and Exemptions

Taxpayers are **exempted** from the requirement to prepare TP documentation under the following situations:

Category of Related Party Transactions	Safe Harbour Limit or Threshold Per Financial Year SGD
Purchase of goods from all related parties	15 million
Sale of goods to all related parties	15 million
Loans owed to all related parties	15 million
Loans owed by all related parties	15 million
All other categories of related party transactions *	1 million per category of transactions

* Examples - service income, service payment, royalty income, royalty expense, rental income, rental expense, guarantee income and guarantee expense. Aggregation should be done for each category of related-party transactions.

Related party loans

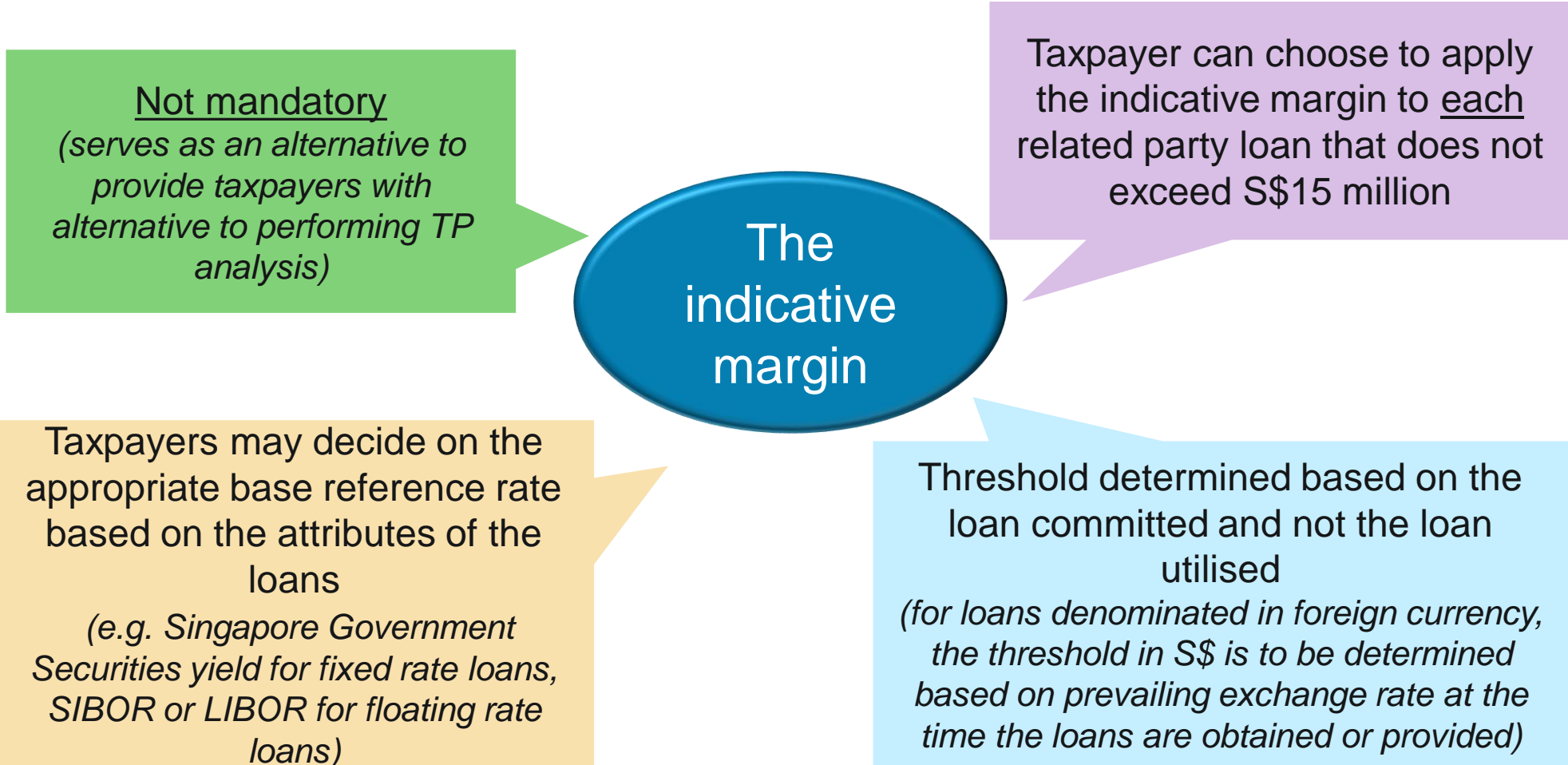
Related party loan
 \geq S\$15 million

- Prepare TP documentation

Related party loan
 $<$ S\$15 million

- Apply the indicative margin
- Year 2017 indicative margin: + 250 basis point (2.5%)
- Year 2018 indicative margin: + 175 basis point (1.75%)

Indicative margins for cross-border intercompany loans



Transfer Pricing - new Related Party Disclosure form

- Completed form must be lodged together with the company's tax return Form C with effect from Year of Assessment 2018, i.e. financial year 2017, for taxpayers with value of related party transactions ("RPT") exceeding S\$15 million.
- For the S\$15 million threshold determination, it is the aggregate of the following value of RPT as disclosed in audited financial statements:
 - All amounts of RPT as reported in the Income Statement but excluding compensation paid to key management personnel and dividends; and
 - Year-end balances of loans and non-trade amounts due to/from all related parties.
- The purpose of introducing this new Form is to enable IRAS to better assess companies' transfer pricing risks and improve on their enforcement of the arm's length pricing requirement.

Transfer Pricing - new Related Party Disclosure form

Part 3 - Details of Related Party Transactions			
		Income/Receipt S\$	Expense/Payment S\$
3a.	Sale of goods to or purchase of goods from all related parties		
3b.	Services rendered to or received from all related parties		
3c.	Royalties, licence fees and other receipts/payments for intellectual property rights from/to all related parties (See Note 3)		
3d.	Interest from or to all related parties		
3e.	Other transactions with all related parties not falling under Boxes 3a to 3d		
3f.	Total of Boxes 3a to 3e	auto total	

Part 4 - Information on Sale of Goods and Provision of Services				
Sale of goods and provision of services to the top 5 (based on total value) related parties <u>outside</u> Singapore:				
	Name of related party	Country Code (See Note 2)	Relationship Type Code (See Note 4)	Amount S\$
4a.				
4b.				
4c.				
4d.				
4e.				

Part 5 - Information on Purchase of Goods and Services				
Purchase of goods and services from the top 5 (based on total value) related parties <u>outside</u> Singapore:				
	Name of related party	Country Code (See Note 2)	Relationship Type Code (See Note 4)	Amount S\$
5a.				
5b.				
5c.				
5d.				
5e.				

Part 6 - Information on Loans and Non-Trade Amounts			
		Opening balance S\$	Closing balance S\$
6a.	Loans and non-trade amounts due from all related parties		
6b.	Loans and non-trade amounts due to all related parties	S\$	S\$

Income Tax (Amendment) Bill – passed in Parliament on 26 October 2017

Section 34F – Transfer Pricing Documentation (“TPD”) w.e.f. YA 2019

- Mandatory to prepare TPD if gross revenue > S\$10 million (unless exempted by under Section 7 → No details as yet)
- Retain TPD for 5 years from the end of the basis period in which the transaction took place
- Failure to submit TPD within 30 days upon request or knowingly provides documentation which is materially false or misleading → A fine not exceeding S\$10,000



THANK YOU FOR
YOUR TIME AND
ATTENTION



Ms Koh Puay Hoon
Partner, International Tax
6594 7820
phkoh@RSMSingapore.sg