



Doing Business in Singapore

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At a Glance

A vibrant city located in the heart of Asia, Singapore offers global entrepreneurs and investors unparalleled access to the Asia Pacific markets, one of the world's fastest-growing regions. Singapore's robust legal infrastructure, trade linkages and pro-business and investment environment means it is a major international player for business expansion as banks, hedge funds and family offices are increasingly choosing to base their operational headquarters in Singapore.

Singapore's being ranked second in the world for ease of doing business (Doing Business 2018, World Bank Group report) is underpinned by the following key attributes:

- Common law legal framework and regulated trust law;
- Excellent infrastructure;
- Economic, social and political stability;
- Growing investment in the strong pool of local talent;
- Corporate legal structure that is conducive to business;
- Strategic geographical location;
- World class regulation;
- Tax treaties in place with many of its Asian neighbours as well as internationally; and
- Attractive corporate tax rates;
- Tax and other incentives (eg 13X).

This briefing paper provides an overview of the corporate structuring options available in Singapore and the related requirements. Additionally, we provide an overview of the corporate tax implications of operating in Singapore, along with an insightful summary of the incentive schemes administered by the Singapore Government to encourage business. Specific tax briefings are published on our website including "Tax incentives for Funds in Singapore" and "Singapore Variable Capital Companies". Note that the productivity & innovation credit scheme lapsed in YA 2018 and is therefore not considered here.

Trusts
Accountancy
Advisory
Tax

The structure

Local company

The Singapore Companies Act provides for registration of four types of companies:

Company limited by shares

- 1) **Private Company** - A locally incorporated company limited to maximum of 50 shareholders, which can either be individuals or corporate entities.
- 2) **Exempt Private Company (EPC)** - Restricted to maximum of 20 shareholders, EPC must not have any corporate shareholders and the annual revenue must not exceed \$5 million. Once these conditions are met, the company will be exempt from statutory annual audit.
- 3) **Public Company limited by shares** - This is a locally incorporated company in which the number of shareholders exceeds 50. The company may raise capital by offering shares, debentures and bonds to the public.

A company (considered on a group wide basis) may be exempted from the annual audit requirement even though it is not an EPC, if it meets at least two of the following criteria for the immediate past two consecutive financial years:

- Annual revenue is not more than \$10 million;
- Total assets are not more than \$10 million;
- Number of employees is not more than 50.

A private company can raise capital by issuing shares to new shareholders or issuing additional shares to existing shareholders through private and exempt offerings subject to compliance with certain governing legislation. The company name must be suffixed with 'Private Limited' or 'Pte. Ltd.'. This is the most common type of company set up in Singapore.

Any company other than a private company is called a public company. It must register a prospectus with the Monetary Authority of Singapore (MAS) before getting listed to raise capital from the public. The shares issued by a public company are freely transferable and the company name must be suffixed with 'Limited' or 'Ltd.'

Company limited by guarantee

This type of company carries out non-profit making activities that have some basis of national or public interest, such as the promotion of art or charity. The amount of guarantee by the members will be stated in the Constitution. The amount is usually nominal. The Minister may approve the registration of the company without the addition of the word "Limited" to its name.

Company officers and registered address

Director - A company must have at least one director who must be ordinarily resident in Singapore, i.e. a Singapore citizen, a Singapore permanent resident or holders of Singapore work visas (such as EntrePass or Employment Pass) but subject to restrictions regulated by the Ministry of Manpower ("MOM"). Such services can be provided by Rawlinson & Hunter.

Shareholder - A company can have anywhere between one to fifty shareholders who may or may not be directors. Shareholders can consist of both local and non-local individuals or companies, and 100% non-local shareholding is allowed.

Company Secretary - A company must appoint at least one professionally qualified company secretary who is ordinarily resident in Singapore within six months of the company's incorporation. Such services can be provided by Rawlinson & Hunter.

Registered address - A company must provide a physical Singapore address as its registered address, this can be residential or commercial but not a P.O. Box. Such services can be provided by Rawlinson & Hunter.

Limited Liability Partnership (LLP)

An LLP is a structure which integrates the features of both partnerships and companies. Like a company, an LLP has a legal identity of its own and the partners are not personally liable for the debts and losses of the LLP. However, the partners may be personally liable for claims from losses resulting from their own wrongful act or omission. But a partner shall not be personally liable for such wrongful acts or omissions of any other partner of the LLP. Like a traditional partnership, the partners share profits according to the partnership agreement and the LLP is not subject to tax, the liability to tax falls to the individual partners.

An LLP can be the owner of a business, a partner of another LLP or a shareholder in a company. A partner of an LLP can be an individual, corporation or another LLP. Two or more partners must enter into an agreement to conduct business under specific terms and conditions that are mutually agreed by all partners. The partnership name must be suffixed with the words "Limited Liability Partnership" or with "LLP".

Business Firm

Business firms do not have a separate legal identity of their own and the owner or partners are personally liable for the business' debts and losses. Business firms consist of the following:

- 1) **Sole-proprietorship** - Owned by one individual.
- 2) **Partnership** - Formed by a minimum of two to a maximum of twenty partners.

Foreign company

There are four entry options to Singapore for foreign companies:

- 1) **Singapore Branch Office** - Foreign companies may set up a branch office in Singapore which would not be considered as a separate legal entity, however, is likely to create a taxable presence in Singapore. Whether the profits allocated to the Singapore branch and therefore fall to be taxable in Singapore are taxed in the foreign country of residence of the company, depends on the applicable double taxation treaty. The branch office is required to appoint at least one person who is ordinarily resident in Singapore as their authorised representative.

- 2) **Singapore Subsidiary** - Foreign companies may set up a subsidiary in Singapore. The entity being a Singapore tax-resident would be entitled to Singapore tax exemptions and incentives. The subsidiary company must appoint at least one person who is ordinarily resident in Singapore as their authorised representative.
- 3) **Representative Office** - Foreign companies may set up a representative office for the purposes of conducting market research and feasibility studies. It does not have a legal persona thus unable to enter into contracts or engage in trading. Representative offices have no tax-residence status as they do not operate any profit-making activities. A chief representative staff from the parent company is required to relocate to Singapore to oversee the activities of the representative office.
- 4) **Re-domiciliation** - The Companies (Amendment) Act 2017 introduced an inward re-domiciliation regime which permits foreign incorporated companies to re-register as Singapore companies but is subject to the company meeting certain specific requirements. When a company changes its domicile to Singapore, it ceases to have its place of incorporation in its home country and becomes a Singapore-registered company instead, with access to Singapore tax exemptions and incentives. Its legal identity remains the same. Not all countries allow outward re-domiciliation, including Singapore.

Singapore variable capital company (VCC)

A VCC is a new form of legal structure to be introduced in Singapore which is to improve the operation of funds in Singapore. It can be used for open and closed ended funds and can be stand-alone or an umbrella structure. The VCC will benefit from the fund tax incentives set out below and requirements are similar, this includes having a Singapore based fund manager and 100% of investors not being Singapore based. It also carries certain standard requirements of a company, including Singapore resident director(s), registered office and company secretary and it requires an audit in Singapore. Benefits include the option for the VCC to avail itself of the US check the box election, there is no need to publicly file the financial statements of the company, a fund can be re-domiciled into Singapore as a VCC, requirements including the ownership requirement, size of fund requirement and minimum spend requirement consider the VCC as one and therefore the sub funds under the umbrella structure do not multiply these thresholds. We await further announcements from the Singapore Government, please refer to our "Singapore Variable Capital Companies" publication for more detailed information as it is announced.

General tax system

The Singapore corporate tax rate is 17%. A company is tax resident in Singapore if its management and control are exercised in Singapore. The place of incorporation is considered secondary to the control and management.

Taxable Income

A company is liable to pay tax on income accrued in or derived from Singapore or foreign sourced income which is remitted into Singapore. Taxable income refers to:

- gains or profits from any trade or business;
- income from investment such as dividends*, interest and rental;
- royalties, premiums and any other profits from property;

- and
- other gains that are revenue in nature.

*Under the one tier corporate tax system, tax at the corporate level is the final tax. Accordingly, dividends paid by Singapore resident companies are exempt from further Singapore tax in the hands of the shareholder. Dividends received from foreign companies may be exempt from tax subject to certain conditions.

Deductions such as business expenses, capital allowances and tax exemptions can be claimed to reduce taxable income.

Non-Taxable Income

Certain types of income are specifically exempted from tax under the Singapore Income Tax Act (SITA), subject to conditions. Examples of these are:

- Certain shipping income derived by a shipping company under Section 13A and Section 13F of the SITA;
- Foreign-sourced dividends, branch profits and service income received by a resident company under Section 13(8); and
- Company's gains on disposal of equity investments under Section 13Z.

YA 2019

Companies will be granted a corporate income tax rebate at 20% of tax payable capped at \$10,000.

Capital Gains Tax

There is no Capital Gains Tax in Singapore. However, gains which are revenue in nature will be treated as taxable under the corporate tax regime, based on a consideration of the factors drawn from established case law principles known as the Badges of Trade. The difference between a company holding investments and a company trading in investments is significant for tax purposes in Singapore, advice should be sought.

Withholding Tax

The following types of payments attract Singapore withholding tax when paid to non-resident companies in respect of operations carried out in Singapore:

- Interest, commission, fee in connection with any loan or indebtedness;
- Royalty or other payments for the right to use any movable property;
- Payments for the right to use scientific or technical, industrial or commercial knowledge and associated services;
- Management fees;
- Rent;
- Payments to non-resident public entertainers;
- Payments for the purchase of real property from a non-resident property trader; and
- Distribution of real estate investment trust (REIT).

The rate of withholding tax varies depending on the nature of the payment, but is generally between 10% and 17%. Withholding tax rates apply on gross payments. There is no withholding tax on dividends.

Where the recipient of the income is resident in a jurisdiction which has an Avoidance of Double Taxation Agreement (DTA) with Singapore, the rates specified in the DTA would apply. Treaties may also allow for a foreign tax credit to be set off against the tax payable on the profits locally

Double Taxation Agreements

Singapore has signed over 80* comprehensive Double Tax Treaties with jurisdictions including UK, Germany, Indonesia, China, Japan, Malaysia, Australia, and Russia.

Singapore has also signed limited DTAs with countries such as Hong Kong and the USA which cover only income from shipping and / or air transport activities.

Tax relief and exemption

Tax Exemption Scheme for New Start-Up Companies

Under the tax exemption scheme for new start-up companies, a newly incorporated company that satisfies certain qualifying conditions (as set out below) can claim the following exemptions in each of its first three consecutive YAs which fall in YA 2019 and before:

- full tax exemption on the first \$100,000 of normal* chargeable income;
- a further 50% exemption on the next \$200,000 of normal chargeable income.

From YA 2020, newly incorporated companies can claim the following exemptions in each of its first three consecutive YAs which fall in or after YA 2020:

- 75% tax exemption on the first \$100,000 of normal* chargeable income;
- a further 50% exemption on the next \$100,000 of normal chargeable income.

To qualify for the start-up tax exemption, the company must:

- 1) Be incorporated in Singapore (including a company limited by guarantee);
- 2) Be tax resident in Singapore for that YA;
- 3) Have no more than 20 shareholders throughout the basis period for that YA where:
 - all of the shareholders are individuals who “beneficially and directly” hold the shares in their own names; or
 - at least one shareholder is an individual who “beneficially and directly” holds at least 10% of the issued ordinary shares of the company; and
- 4) The company’s principal activity must not be that of investment holding or one which undertakes property development for sale, for investment, or both.

*Normal chargeable income refers to income to be taxed at the prevailing corporate tax rate.

Partial Tax Exemption (PTE)

All companies including companies limited by guarantee can enjoy PTE unless they have already claimed the Tax Exemption Scheme for New Start-Up Companies.

For YA 2019 and before, companies may claim 75% tax exemption on the first \$10,000 of normal chargeable income and a further 50% tax exemption on the next \$290,000 of normal chargeable income in each YA.

For YA 2020 onwards, companies may claim 75% tax exemption on the first \$10,000 of normal chargeable income and a further 50% tax exemption on the next \$190,000 of normal chargeable income in each YA.

Other Available Tax Deductions

Capital allowances are given in place of depreciation of fixed assets which is not a deductible expense for corporate tax purposes. Qualifying fixed assets are referred to as plant and machinery and include carpets, machinery and office equipment. Companies that carry on a trade or business may claim capital allowances on expenditure incurred on the assets in use in the trade or business.

Renovation or refurbishment expenditure – certain qualifying capital expenditure (up to a cap of \$300,000) incurred for the renovation or refurbishment works done to the business premises can be claimed as a tax deduction against the income derived from that business. The deduction is given over a period of three consecutive years on a straight line basis, starting from the YA for which those expenses were incurred.

Unutilised losses and capital allowances – can be carried forward to offset against future profits indefinitely, or carried back to offset against profits arising in the preceding YA, subject to cap of \$100,000. The carry forward relief could be restricted where there is a substantial change in shareholder, for example.

Incentive Schemes

There are incentive schemes for onshore and offshore funds which are managed in Singapore, the detail is provided in our publication “Tax incentives for Funds in Singapore” updated in August 2018. The onshore and the enhanced tier funds require advanced approval from the MAS. The incentives are all subject to restrictions which should be carefully considered before entering into such an arrangement.

Offshore fund regime – Section 13CA

Specified income from designated investments derived by an **offshore fund managed by a Singapore-based fund manager** can be tax exempted if the fund is a prescribed person i.e. not resident in Singapore and not 100% owned by Singapore investors. If exempted, all income and gains in respect of designated investments such as stocks, shares, securities, derivatives etc. will not be taxable (except if the income is included in the exclusion list such as immovable property)

Investors need to be “qualifying” to avoid suffering a penalty (which is in effect a tax charge). Investors are non-qualifying if they are Singapore based non-individuals owning more than 30% (50% in some cases) in the fund.

Singapore resident fund scheme – Section 13R

Singapore government also provides similar tax exemption to **an onshore fund** to encourage fund managers to base their fund in Singapore. As with the offshore fund regime, the **fund manager must be Singapore-based** and the ownership cannot be 100% owned by Singapore investors.

The main advantage of using a Singapore fund compared to countries without a tax regime such as Cayman Island is the access to Singapore's tax treaty network.

As above, non-qualifying investors do suffer a tax penalty.

Enhanced-tier fund scheme – Section 13X

Another available tax exemption is the Enhanced-Tier Fund Scheme which is **applicable to both Singapore based funds and offshore funds**.

The key advantage of this scheme is that there is **no restriction on the percentage of Singapore investors** in the fund, and no financial penalty. Additionally, this scheme is more flexible in terms of restrictions over the choice of fund entity or its place of constitution or residence.

A key requirement is that the fund must be a minimum size of SGD 50 million, a sunset clause is in place to 31 March 2019.

Fund management incentive

The Financial Sector Incentive for fund managers, the FSI- FM award, is also available for fund management activities in Singapore.

The award gives a concessionary tax rate of 10% for fund management and investment advisory activities if certain criteria are met.

Enterprise Singapore

Formed in 2018, Enterprise Singapore addresses the needs of Singapore companies by streamlining assistance programmes for companies.

Enterprise Development Grant (EDG)

EDG will integrate support for enterprises to internationalise and develop capabilities across the following three key business areas to help them compete better locally and abroad:

- Market & Business Development;
- Innovation & Productivity; and
- Core Function & Capability.

The grant defrays up to 70% of qualifying project costs such as consultancy, software and equipment costs and incremental internal manpower costs.

Productivity Solutions Grant (PSG)

The Productivity Solutions Grant (PSG) promotes automation to enhance productivity. PSG targets local companies enthusiastic on adopting IT solutions and equipment to augment business processes.

Sectors such as retail, food, logistics, precision engineering, construction and landscaping has sector-specific solutions whereas adoption of solutions is supported by PSG for industries across the board in areas such as customer management, data analytics, financial management and inventory tracking.

Companies would be able to make long-term technology investment with up to 70% funding support.

* source from IRAS

About Rawlinson & Hunter International

Rawlinson & Hunter is an international grouping of professional firms, specialising in financial and taxation advice. Our skill lies in maximising the rewards that prosperity can bring. For the private client, we can take the strain, safeguarding their assets, leaving them to enjoy the benefits, not suffer the burdens, of wealth.

The international structure of Rawlinson & Hunter is unique, both in the way that it operates and in the extensive scope of the financial services that it provides. Our structure gives the client the best of both worlds - an organisation that encourages a close working relationship between client and partner and one that gives immediate access to eleven international offices.

This special relationship stems from the partners in the various offices having worked very closely together over a considerable number of years and from each believing that their clients must be given the best possible service. This enables transactions involving more than one Rawlinson & Hunter office to be effected more quickly, efficiently and professionally than by many other, larger organisations.

Our unique structure allows clients access to the individual advantages and specialist services available in ten different international offices and every office can draw on the expertise and specialist resources available in the rest of the group. All our offices have excellent relationships with leading lawyers, bankers and investment managers in most of the world's major financial centres

Internationally, our network of offices include: Australia, Bermuda, the British Virgin Islands, the Cayman Islands, Guernsey, Jersey, New Zealand, Switzerland, Singapore and the United Kingdom.

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