

# CLIENT MEMORANDUM

October 16, 2020

## TAXATION IN SINGAPORE

### 1 CORPORATE TAX

#### 1.1 Scope

- 1.1a Singapore adopts a territorial basis of taxation. Income accruing in or derived from Singapore is subject to Singapore tax. Foreign source income is not taxable unless received in or remitted into Singapore. If remitted, a tax credit is available for foreign tax suffered under the Double Taxation Relief System or Unilateral Tax Credit Relief System.

Alternatively, foreign income such as foreign sourced dividend, foreign branch profits and foreign sourced service income (“specified foreign income”) received in Singapore are tax exempt provided certain conditions are satisfied.

- 1.1b There is no capital gains tax in Singapore. However, whether a gain would be construed as a capital gain would be a matter of fact based on the surrounding circumstances, the length of period of ownership (of the asset), frequency of similar transactions and other factors.
- 1.1c Singapore adopts a single-tier tax system. Dividends paid by a tax resident Singapore company to its shareholders are tax exempt.

#### 1.2 Tax Residency

Companies that exercise their control and management in Singapore are treated as a tax resident of Singapore. Branches of foreign companies are generally treated as non-residents for tax purposes as their management and control is outside Singapore.

#### 1.3 Tax Rate

The current corporate tax rate is 17%, but the effective Singapore tax rate on chargeable income not exceeding S\$300,000 is 8.358%, as a partial tax exemption scheme is given to all companies on the first S\$300,000 of normal chargeable income (i.e. income taxed at the prevailing corporate tax rate). With effect from Year of Assessment (“YA”) 2020, the partial tax exemption is reduced to the first S\$200,000 of normal chargeable income and the effective Singapore tax rate on such income is 8.288%.

For new start-up companies, the partial tax exemption scheme applies for the first three YAs (subject to certain conditions being met) so that the effective Singapore tax rate on chargeable income not exceeding S\$300,000 is 5.667%. With effect from YA 2020, the tax exemption is reduced to the first S\$200,000 and the effective Singapore tax rate is 6.375%.

For YA 2020, companies will be granted a 25% Corporate Income Tax rebate capped at \$15,000.

## **1.4 Taxable Profits**

Corporate tax is imposed on a company's income for financial year which normally should not exceed a period of 12 months.

### **1.4a *Deductibility of expenses***

The general rule is that all outgoings and expenses wholly and exclusively incurred in the production of income are deductible. There are also specific rules which disallow the deduction of expenses such as private car expenses and medical expenses which exceed the capping.

### **1.4b *Capital Allowances and Trade Losses***

Current year capital allowances not fully utilized and current year trade losses may in the following order, be:

- (i) transferred under the Group Relief System (together with approved donations). Group relief is applicable to multi-tiered Singapore subsidiaries.
- (ii) carried back for offset against the profits (up to a limit of S\$100,000) of the year immediately preceding the year in which the capital allowances were granted / trade losses were incurred

The remaining unutilized capital allowances and trade losses (including prior year balances) may be carried forward indefinitely for offset against future taxable income provided the company meets the substantial shareholding test; and for capital allowances, provided the company also carries on the same trade or business in respect of which the allowances arose.

## **1.5 Enhanced deduction schemes**

We summarize below, some of the enhanced deduction schemes which allow additional claims (deductions/capital allowances) on qualifying expenditure incurred:

### **1.5a *Research & Development ("R&D") deductions***

R&D deductions are available for R&D carried out by the company or outsourced to R&D organization. This includes payments made under Cost Sharing Agreements. Additional claims (up to 50%) are available subject to conditions.

- 1.5b *Further Tax Deductions for approved trade fairs, exhibitions or trade missions, or to maintain overseas trade offices.*
- 1.5c *Further Tax Deductions for Overseas Marketing and Business Development Expenditure.*
- 1.5d *Further or double deductions for salary expenditure in relation to employees posted overseas.*

## **1.6 Withholding Tax Obligations**

A person making payments of a specified nature to a non-resident would have an obligation to withhold Singapore tax on the payments made. Such payments include interest, royalties, rent for use of movable property, technical and management fees for services rendered in Singapore etc.

## **1.7 Tax Incentives & Financial Grants**

There are several tax incentives and financial grants offered by the Singapore Government which focus on manpower development, technological and equipment upgrading, Research and Development, intellectual property and industry development. Examples of such programmes are the Regional / International Headquarters Award (“RHQ/IHQ”), the Development & Expansion Incentive (“DEI”) and Investment allowance.

These programmes are generally administered by the Economic Development Board of Singapore (“EDB”) and Enterprise Singapore.

There are also schemes such as the Media Education Scheme administered by the Media Development Authority of Singapore (on behalf of the EDB) which aim to build up media manpower capabilities in the television, radio, film, publishing and digital media sectors.

All incentives, schemes and programmes require application to the relevant authorities and are subject to conditions imposed.

We would be able to propose and assist in the application of the relevant incentives, schemes and programmes when detailed information on the business plan is made available to us.

## **2 PERSONAL TAX**

### **2.1 Overview**

An individual who is “resident in Singapore” is subject to Singapore tax on income sourced in Singapore. Foreign income received in Singapore from outside Singapore (excluding income received through a partnership) by a Singapore resident individual is exempt from Singapore tax. A non-resident individual is only liable on Singapore sourced income and not liable for foreign income remitted to Singapore.

An individual would generally be considered as a tax resident in Singapore if he or she resides in Singapore except for such temporary absences which are reasonable and consistent with a claim by such individual to be a resident of Singapore. This includes an individual who is physically present or exercises employment in Singapore (other than a director of a company) for 183 days or more in the calendar year.

In practice, the Inland Revenue Authority of Singapore (“IRAS”) will treat an individual as a tax resident if that individual’s period of stay in Singapore spans 183 days for a continuous period over 2 years or covers 3 consecutive years.

A resident individual is taxed at progressive rates ranging from 2% - 22%.

A non-resident who derives employment income is taxed at 15% of the employment income (without personal reliefs) or at progressive tax rates applicable to residents (with personal reliefs), whichever is the higher. Any other income is subject to tax at 22%.

Short-term employment income (i.e. 60 days or less) is exempt from tax. This exemption does not apply to fees paid to non-resident directors and non-resident professionals as such fees are subject to withholding tax.

## **2.2 Taxation of employees**

Employees are subject to income tax on Singapore employment income which includes salaries, bonuses, allowances, tax reimbursements, benefits-in-kind such as housing and stock options.

## **2.3 Benefits in Kind**

Generally, the provision of benefits- in-kind are taxable unless exempt under IRAS administrative concessions.

Stock options or restricted stock units are subject to tax if they are granted while the employee is working in Singapore. The taxing point is at the time of exercise or vesting and can be deferred to the time when sales restrictions cease, if applicable. The taxable value is the market value at the time of exercise or vesting less any amount paid by the employee. There are deemed gains which are taxable if employees cease Singapore employment and leave Singapore, unless such stock options or restricted stock units are forfeited on cessation of the Singapore employment.

## **2.4 Employer’s Reporting Obligations**

### **2.4a Annual Filing**

The employer is required to prepare the Form IR8A/Form 8E - Return of Employee’s Remuneration in relation to each employee by March 1 every year for the remuneration of the preceding year.

For example, for the return of the employee's remuneration for the year ended December 31, 2020, the Form IR8A/ Form 8E would have to be completed and provided to the employee by March 1, 2021. The employee would have to file his personal tax return by April 15, 2021 unless an extension for filing is granted.

#### 2.4b *Cessation of Employment / Departure from Singapore*

If the employee is a non-citizen or a Singapore Permanent Resident ceasing employment or leaving Singapore permanently, the employer is required to lodge the Form IR21 (re: Notification of a non-citizen employee's cessation of employment or departure from Singapore), at least 1 month before the date of cessation of employment or departure from Singapore.

The employer is also required to withhold any monies due to the employee until tax clearance is given by the tax authorities.

The IRAS will seek to recover the employee's tax from the employer if the employer fails to withhold the monies and/or file the Form IR21 within the stipulated time frame.

#### 2.5 **Sole Proprietors**

The self-employed are liable to income tax on their profits as adjusted for tax purposes in broadly the same way as profits are adjusted for corporate tax on company. The sole proprietorship may claim capital allowances on the capital assets purchased similar to a company.

#### 2.6 **Partnerships, Limited Partnerships (LP") and Limited Liability Partnerships ("LLP")**

Partners in a partnership are taxed individually on their own share of income. The income of the partnership is first adjusted for tax purposes (i.e. taking into account all deductions and capital allowances) and then divided among the partners based on their profit-sharing ratios.

Where the partner is an individual, his share of income from the partnership will be taxed based on his personal income tax rate. Where a partner is a company, its share of income from the partnership will be taxed at the tax rate for companies.

For income tax purposes, an LP or LLP is treated as a partnership and not as a separate legal entity.

#### 2.7 **Other income**

Rental and other income sourced in Singapore are taxable. Dividends received from Singapore resident companies are generally considered Singapore source and are tax exempt.

Interest received from any deposit with approved banks and licensed finance companies in Singapore is tax exempt.

## 2.8 Individual Tax Filing Obligations

The individual is required to file a personal tax return (Form B1) which is due by April 15 each year (unless an extension is obtained up to June 30) in respect of income earned in the preceding calendar year (e.g. employment income earned up to December 31, 2020 will be subject to tax in YA 2021). The personal tax return can be filed electronically.

## 2.9 Expatriates

### *Not Ordinarily Resident (“NOR”) Scheme*

The NOR scheme will be available to an individual who is

- (i) not a Singapore tax resident in the three YAs before the year he first qualifies for the NOR Scheme; and
- (ii) a tax resident for the YA in which he wishes to qualify for the NOR Scheme.

For a period of 5 YAs, qualifying individuals will be subject to tax as follows if he meets prescribed conditions:

- (i) The remuneration which will be subject to Singapore tax will be the total remuneration apportioned based on the number of days spent in Singapore per calendar year (i.e. time apportionment of income) subject to a minimum effective tax rate of 10% on total Singapore employment income.
- (ii) The employer’s contributions to non-mandatory overseas pension funds or social security schemes will be exempt from income tax (subject certain conditions and a cap on the exempt amount) in the hands of the employee.

The NOR scheme will cease after YA 2020. Therefore, the last NOR status granted will apply from YA 2020 to YA 2024. Individuals who have qualified for the NOR status will be able to take advantage of the NOR tax concessions until their NOR status expires, if they continue to meet the conditions of the concessions.

## 3 GOODS AND SERVICES TAX (“GST”)

3.1 GST is a broad-based consumption tax levied on the import of goods (collected by the Singapore Customs), as well as nearly all supplies of goods and services made in Singapore. The only exemptions are for the sales and leases of residential properties and the provision of most financial services. The current rate of GST is 7%. It has been announced that the GST rate will increase gradually to 9% sometime between 2021 to 2025. Exports of goods and international services can be zero-rated

It is compulsory for businesses to come forward to register for GST if their taxable supplies exceed or is expected to exceed S\$1 million for a 12-month period. Businesses that do not exceed the S\$1 million threshold may register for GST voluntarily and if approval is granted, will be required to stay GST-registered for at least 2 years.

After registration, businesses must charge GST at the prevailing rate. This GST that they charge and collect is known as output tax, which has to be paid to the IRAS. GST incurred on business purchases and expenses (including import of goods) is known as input tax. Businesses can claim input tax if the conditions for claiming are satisfied.

A GST-registered business is required to submit GST return to the IRAS at the end of each prescribed accounting period (usually on a quarterly basis). The business will report its output tax and input tax for that prescribed accounting period in the GST return. The difference between output tax and input tax is the net GST payable to or refundable from the IRAS.

### 3.2 Import GST

Generally, all goods imported into Singapore are subject to 7% GST regardless of whether the importer is GST-registered. The exceptions are:

- i. When the goods are investment precious metals;
- ii. When the goods qualify for import relief;
- iii. When the importer is approved under a GST scheme (e.g. Major Exporter Scheme, etc);  
or
- iv. When the goods land in a Free Trade Zone or are imported directly into Zero GST/ Licensed Warehouse and do not enter into the customs territory.

Import GST is collected by the Singapore Customs and payable by the importer (i.e. owner of the goods) upon the importation based on the commercial value, which is the CIF value.

### 3.3 Taxing on imported services

To level the GST treatment for services consumed in Singapore regardless of whether they are procured from local or overseas suppliers, the following regimes have been implemented from 1 Jan 2020 to tax imported services:

- i. Reverse charge (“RC”) regime for Business-to-Business (“B2B”) supplies\* of imported services; and
- ii. Overseas vendor registration (“OVR”) regime for Business-to-Consumer (“B2C”) supplies\*\* of imported digital services.

\* *B2B supplies refer to supplies made to GST-registered persons, including companies, partnerships and sole-proprietors.*

\*\* *B2C supplies refer to supplies made to non-GST registered persons, which include individuals and businesses that are not registered for GST.*

### 3.3(a) *Reverse Charge (“RC”) Mechanism*

The RC will apply to GST-registered businesses if the taxpayer by itself or is part of a GST group that is not entitled to a full input tax credit e.g. the taxpayer makes exempt supplies in addition to taxable supplies (“RC Business”).

A RC Business will be required to:

- i. Account for GST on all services procured from overseas suppliers (i.e. imported services) as if it is the supplier;
- ii. Claim the corresponding GST as input tax at the same time, subject to the normal input tax recovery rules. As the RC Business makes exempt supplies or carries on non-business activities, a part of the GST incurred would be irrecoverable.

### 3.3(b) *Overseas Vendor Registration (“OVR”) regime*

The OVR regime applies to supplies of digital services made by Overseas Vendors to non-GST registered customers in Singapore. Broadly, digital services are services which are supplied over the internet or an electronic network and the nature of which renders their supply essentially automated with minimal or no human intervention, and impossible without the use of information technology.

An Overseas Vendor who supplies digital services will be liable for GST registration under the OVR on either the retrospective or prospective basis, if it satisfies the following conditions:

- i. Retrospective basis:
  - Its global turnover and value of digital services made to non-GST registered customers in Singapore for the calendar year (i.e. 1 Jan to 31 Dec) exceed S\$1 million and S\$100,000 respectively.
- ii. Prospective basis:
  - It reasonably expects the value of its global turnover and supplies of digital services to non-GST registered customers in Singapore to exceed S\$1 million and S\$100,000 respectively for the next 12 months.

The GST registered Overseas Vendor is required to charge GST on supplies of digital services made to non-GST registered customers belonging in Singapore and report only the value of supplies made and the GST collected in the relevant accounting period on a quarterly basis under a simplified GST return.

## **4 OTHER TAXES**

### **4.1 Stamp Duty**

Stamp duty is a tax on executed documents relating to immovable property, stocks and shares. This includes sale or mortgage of immovable property and shares as well as lease of immovable property. The rate of stamp duty varies according to the nature of the document and is computed based on the actual consideration or the market value, whichever is higher.

### **4.2 Customs duty**

Singapore is a free port with few excise and import duties. Such duties are mainly on motor vehicles, petroleum products, liquor and tobacco.

### **4.3 Property Tax**

Property tax is imposed on immovable properties and is payable yearly in advance. The tax payable in respect of a property is computed by applying the applicable tax rate to the annual value of the property.

Generally, annual value of a property (which includes the building) is the market rental value as determined by the Chief Assessor. The annual value of vacant land is determined at 5% of its estimated freehold market value.

The prevailing property tax rate for industrial, commercial is 10%. Let-out residential properties are taxed at progressive rates which range from 10% (first S\$30,000) to up to 20% (amounts in excess of S\$90,000) of the annual value. Owner-occupied residential properties are taxed at progressive owner-occupier's tax rates which range from 0% (first S\$8,000) to up to 16% (amounts in excess of S\$130,000) of the annual value.

### **4.4 Others**

Other taxes include Taxes on Motor Vehicles, Betting, Casino gaming revenue.