CLIENT MEMORANDUM

6 May 2016

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.

Singapore companies which dispose of ordinary shares in another company (Singapore or elsewhere) during the period from 1st June 2012 to 31 May 2022 can obtain upfront certainty of non-taxation of gains on disposal of shares subject to the following conditions:

- the seller has held at least 20% of the ordinary shares in that other company; and
- the shares are held for a period of at least 24 months prior to the disposal.

1.1c Singapore adopts a single-tier tax system. Dividends paid by a 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).

For new start-up companies, the partial tax exemption scheme is further enhanced (subject to certain conditions being met) such that for the first three years of assessment, the effective Singapore tax rate on chargeable income not exceeding S$300,000 is 5.667%.

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 *Productivity and Innovation Credit ("PIC") Scheme*

The PIC scheme was introduced in the Singapore Budget 2010 to enhance and consolidate existing tax measures that encourage productivity and innovative activities. The PIC scheme is available to all businesses from YA 2011 to YA 2018. Businesses can make <u>additional</u> claims (up to 300%) on certain qualifying expenditure (subject to cap of S$400,000 per qualifying activity per YA and can be combined across 3 YAs). Under the PIC+ scheme introduced in Budget 2014, the expenditure cap for qualifying SMEs is increased from S$400,000 to S$600,000 for each qualifying activity per YA from YAs 2015 to 2018.

Alternatively, there is a choice of converting qualifying expenditure to cash at a rate of 60% (subject to a cap of S$60,000). It was announced in Budget 2016 that the cash payout rate will be lowered from 60% to 40% for qualifying expenditure incurred from August 1, 2016.

The PIC scheme will expire in YA 2018.

1.5b *Research & Development ("R&D") deductions*

R&D deductions are available for R&D carried out by the company or outsourced to R&D organization. Additional claims (up to 50%) are available subject to conditions.

In addition to the above, the tax deduction for qualifying R&D is further enhanced under the PIC scheme (subject to cap).

1.5c *Further Tax Deductions for Overseas Marketing and Business Development Expenses*

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.

It was announced in Budget 2016 that a new initiative, the Industry Transformation Programme will be introduced to provide a more targeted approach to create new value and drive growth. In addition to fiscal assistance to assist companies to automate and drive productivity, a new Investment Allowance ("IA") of 100% will apply to approved qualifying capital expenditure (capped at S$10 million) per project net of grants. This IA is in addition to the existing capital allowances for plant and machinery.

These programmes are generally administered by the Economic Development Board of Singapore ("EDB"), International Enterprise Singapore ("IE") and SPRING.

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 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% - 20%. With effect from YA 2017, the top marginal tax rate will be increased to 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.

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

An employee's remuneration package may be structured to include certain benefits- in-kind which are taxed at deemed values lower than their actual cash values.

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, 2015, the Form IR8A / Form 8E would have to be completed and provided to the employee by March 1, 2016. The employee would have to file his personal tax return by April 15, 2016 unless an extension for filing is granted.

2.4b *Cessation of Employment / Departure from Singapore*

If the employee is a non-citizen 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.

A Singapore Permanent Resident may provide a letter of undertaking to the employer if he intends to continue to reside in Singapore. The employer would not need to file the Form IR21 in this instance but prepare and give him his Form IR8A in the following year.

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 a company. The sole proprietorship may claim capital allowances on the capital assets purchased similar to a company.

2.6 Partnerships 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 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, 2015 will be subject to tax in YA 2016). 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 Taxpayer 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.

3 GOODS AND SERVICES TAX ("GST")

GST is a broad-based consumption tax levied on the import of goods (collected by 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%. Exports of goods and international services can be zero-rated

It is compulsory for businesses to come forward to register for GST when their turnover exceeds S$1 million per year. Businesses that do not exceed S$1 million in turnover may register for GST voluntarily.

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 IRAS. GST incurred on business purchases and expenses (including import of goods) are 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 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 IRAS.

<u>Suspension of Import GST</u>

Import GST will be suspended in the following circumstances:

(a) Storage of goods in Free Trade Zones (FTZs) *
(b) Storage of goods in Zero GST Warehouses and Licensed Warehouses *
(c) Importation of goods under Import Relief *
(d) Importation of goods under Major Exporter Scheme (MES) #
(e) Importation of goods under Approved Third Party Logistics (3PL) Company Scheme #
(f) Import GST Deferment Scheme (IGDS) #
(g) Approved Contract Manufacturer and Trader (ACMT) Scheme #
(h) Approved Import GST Suspension Scheme #

* *Administered by Singapore Customs*
\# *Administered by IRAS*

4 OTHER TAXES

4.1 Stamp Duty

Stamp duty is a tax on executed documents relating to immovable property, stocks and shares. The rate of stamp duty is 0.2% 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 and non-owner occupied residential properties in the exclusion list (e.g. serviced apartment) is 10%. Owner-occupied residential properties are taxed at progressive owner-occupier's tax rates ranging from 0% to 16% of the annual value. Non-owner occupied residential properties (other than those in the exclusion list) are taxed at progressive tax rates ranging from 10% to 20% of the annual value.

4.4 Others

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