EXPATLAND SINGAPORE CORPORATE TAXATION

Boon Tan
Director
CST Tax Advisors

Singapore is regarded as one of the easiest countries to do business and ranks second on The World Banks measure for the ease of doing business in 2018. Given its location in South East Asia has often been regarded as a gateway to Asia.

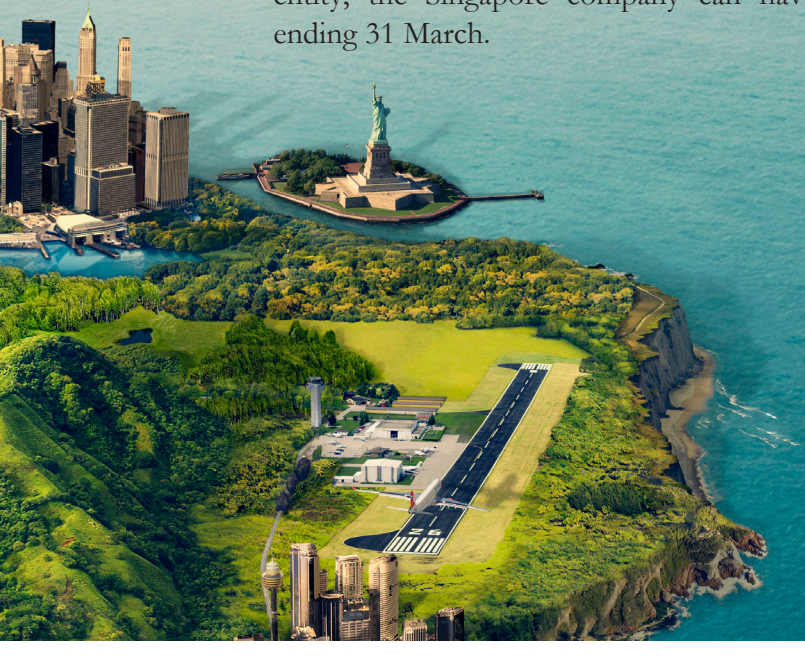
Singapore has a territorial tax system which means that it generally only taxes income which is sourced from Singapore. However, foreign income may still be taxable if it is received in Singapore – more on this shortly.

Other features of the corporate tax system in Singapore are:

- No capital gains tax;
- No Controlled Foreign Corporation ("CFC") legislation;
- Double tax agreements and limited treaties with over 90 countries.

The annual tax year in Singapore is called the Year of Assessment and generally follows the calendar. It is possible for a company to elect to have a different tax year which allows for alignment with related entities in other jurisdictions.

Thus, if you have an Australian parent company with a subsidiary in Singapore, you will be able to synchronise the subsidiary's Year of Assessment to end at 30 June. Or if there is a Hong Kong parent entity, the Singapore company can have a Year of Assessment ending 31 March.



The headline rate of taxation in Singapore is currently 17% and there is no tax-free threshold in Singapore for companies. There are several exemptions and rebates which reduce the effective rate of taxation – however these exemptions and rebates only apply to companies which are regarded as tax resident of Singapore.

Tax residency in Singapore for companies

During the planning stage, it is important to understand what is required to ensure that the Singaporean company is regarded as a tax resident of Singapore as this impacts on how the company is treated for tax not just in Singapore but around the world.

To be regarded as a tax resident of Singapore, a company needs to have its control and management based in Singapore. Control and management is a factual test and includes strategic decision making, operation of bank accounts, the entering of contracts and day-to-day management of affairs.

Only a company which is regarded as tax resident of Singapore can benefit from the following:

- Income tax rebates which reduce the effective rate of tax are only available to companies which are tax resident of Singapore;

- Tax resident companies have a tax exemption on foreign-sourced dividends, foreign branch profits, and foreign-sourced service income; and

- Double tax agreement or limited treaty between Singapore and a foreign jurisdiction can only be applied if the company is a tax resident.

We often meet shareholders and directors of companies who have not considered the issue of tax residency. These companies have directors residing outside of Singapore who control the company – making all the decisions and operating the bank accounts. The result of this poor planning is that the Singapore company is treated as a non-resident for tax purposes in Singapore and is denied access to rebates and concessions.

In addition and more detrimental is the fact that often the company is regarded as a tax resident of the jurisdiction where the directors reside. This is the case for directors who live in Australia, the UK, and New Zealand where the concept of central management and control is used to define corporate tax residency.

For example, if the directors of the Singapore company resided in the UK and operated the company from a London based office, then it is likely that the HMRC will treat the Singapore company as being a resident of the UK and impose UK corporate tax on the income.

To ensure that tax residency lies in the Singapore, it is important to consider what kind of activities the Singapore based company will conduct and how to establish the infrastructure to demonstrate that control and management lies in Singapore.

If it is an operating company, such as a regional office, then consideration needs to be given as to how to structure the business such that there are sufficient people authorised and based in Singapore to run the company independently from people located in other countries. Board meetings for the company should also be conducted in Singapore.

If it is a global holding company which simply holds investments in other entities, then it is important to ensure that all board meetings are held in Singapore to demonstrate where management and control lies.

Corporate tax exemptions and rebates

Whilst the headline tax rate for companies is 17%, there are several tax rebates and exemptions which a Singapore company can apply when calculating its final tax position.

The exemptions are applied first and then the rebate. This results in a lower effective rate of corporate tax than the 17% which we shall illustrate below.

Corporate Tax Exemptions

The corporate tax exemptions are applied against the taxable income of the company.

For years up to 31 December 2018, the exemption is calculated as:

- 75% of the first $10,000 of taxable income; plus

- 50% of the next $290,000 of taxable income.

From 1 January 2019, the exemption is calculated as:

- 75% of the first $10,000 of taxable income; plus

- 50% of the next $290,000 of taxable income.

Corporate Income Tax Rebate

The corporate tax rebate applies to all companies filing a company tax return in Singapore – the rebate reduces the income tax payable by the company. The rebate is in place until 31 December 2018 and is calculated as of 20% of the tax payable up to a cap of $10,000.

To illustrate how the rebates and exemptions work, assume that we have two Singapore resident companies with taxable incomes of $1,000,000 and $100,000 respectively.

Financial year ended 31 December 2018

	Company A	Company B
Taxable income at end of the year	**1,000,000**	**100,000**
Corporate tax exemption: - 75% of $10,000 = $7,500 - 50% of $290,000 = $145,000 - 75% of $10,000 = $7,500 - 50% of $90,000 = $45,000	(152,500)	(52,500)
Adjusted taxable income	**847,500**	**47,500**
Tax at 17%	144,075	8,075
Corporate tax rebate: - 20% of $144,075 = $28,815 (capped at $10,000) - 20% of $8,075	(10,000)	(1,615)
Final tax payable	**134,075**	**6,460**
Effective tax rate	**13.4%**	**6.5%**

Financial year ended 31 December 2019

	Company A	Company B
Taxable income at end of the year	**1,000,000**	**100,000**
Corporate tax exemption: - 75% of $10,000 = $7,500 - 50% of $290,000 = $145,000 - 75% of $10,000 = $7,500 - 50% of $90,000 = $45,000	(152,500)	(52,500)
Adjusted taxable income	**847,500**	**47,500**
Tax payable at 17%	**144,075**	**8,075**
Effective tax rate	**14.4%**	**8.1%**

Tax Exemption for Newly Incorporated Companies

There is a third exemption which applies to new companies which are incorporated in Singapore. These exemptions apply for the first three taxable years before reverting to the standard tax exemptions noted above.

For all years up to 31 December 2018, the exemption is calculated as follows:

- 100% of the first $100,000 of taxable income; plus
- 50% of the next $200,000 of taxable income.

To illustrate how this exemption works, assume that we have a Singapore resident company which sells widgets in Singapore.

This company was incorporated on 1 July 2018 and has taxable income in the first three years of:

2018	2019	2020
250,000	750,000	1,000,000

	2018	2019	2020
Taxable income at end of the year	**250,000**	**750,000**	**1,000,000**
Corporate tax exemption: - 100% of $100,000 = $100,000 - 50% of $200,000 = $100,000 - 75% of $100,000 = $75,000 - 50% of $100,000 = $50,000	(200,000)	(125,000)	(125,000)
Adjusted taxable income	50,000	625,000	875,000
Tax at 17%	8,500	106,250	148,750
Corporate tax rebate: - 20% of $8,500	(1,700)	-	-
Final tax payable	**6,800**	**106,250**	**148,750**
Effective tax rate	**2.7%**	**14.2%**	**14.9%**

As illustrated above, this concession exempts $450,000 of the total taxable income of $2M across the first three years of operations.

Overall, the tax paid in the first three years was $261,800 which is an effective rate of 13%.

In order to apply this exemption, the company must meet all of the following conditions:

- Incorporated in Singapore; and
- Derive income from trade or business (cannot be from holding investments or real property; and
- Regarded as a tax resident of Singapore; and
- Fall into one of the following two statements regarding its share capital
    - i) Have no more than 20 individuals owning the company; or
    - ii) Have at last one individual owning at least 10%of the company

The requirement for the share capital of the company adds another important part of planning ahead of setting up a Singapore company.

Generally, the 10% shareholding by at least one individual is the easiest threshold to meet.

However you should also consider what personally owning the shares could mean from a tax perspective in your home jurisdiction. If new shares are issued, be aware that you may need to issue more shares to the individual shareholder to maintain the 10% requirement.

It is also worth noting that after the concession concludes, there is nothing to stop the individual from transferring their shares to a related entity if that is the preferred approach.

As a jurisdiction free of capital gains tax, the transfer of shares would not result in a taxable event in Singapore – again though, thought is needed on whether there is a tax issue arising from the transfer of shares in the home jurisdiction.

The transfer of shares will result in stamp duty payable based on the market value of the company at a rate of 0.2%.

To illustrate, assume that your 10% of the company was 100,000 shares which you paid $1 each for. After three years you decide to transfer these shares to a related holding company - the shares are now worth $2 each.

In our example, the stamp duty will be 0.2% of $200,000 which equates to $400.

Foreign Income

As noted earlier, Singapore's tax system is territorial based which means that foreign income is not taxed in Singapore unless it is remitted into Singapore.

The concept of remittance is more than just receiving payments into a bank account located in Singapore.

Examples of transactions which are regarded as the remittance of income to Singapore include:

- The receipt of proceeds from the sale of inventory in Thailand into a Singapore bank account.

- Using income generated from sales in Hong Kong to purchase an industrial printer from the US for use in Singapore.

- Paying Australian based suppliers for raw materials used in the assembly process based in Singapore from profits generated from sales made in Europe.

In all of the above situations, the income generated from Thailand, Hong Kong and Europe would all need to be declared in the annual tax return for the Singapore company.

Notwithstanding the above, foreign income which has been remitted to Singapore may still be exempt from taxation in Singapore if that foreign income is able to meet all of the following points:

- The foreign income is subject to income tax in the country of origin; and
- The headline rate of the income tax in the country of origin is at least 15%; and
- The Inland Revenue Authority of Singapore ("IRAS") is satisfied that the tax exemption for this foreign income is beneficial to the company.

One key point to highlight here is that the foreign income does not have to be actually taxed at the headline rate.

This is important where countries have special trade zones – Shenzhen in China, Labuan in Malaysia are examples – which may provide full or partial exemption from tax for corporate income.

As long as the income is from a country which has a headline rate of at least 15%, this is enough to meet the requirement.

To illustrate how the foreign tax system works, let's assume that a company which is tax resident of Singapore has income deposited into it Singapore bank account from the following sources:

a) Sales in Singapore of $250,000;
b) Sales from an Australia permanent establishment of $500,000; and
c) Dividend income received from a subsidiary based in Dubai of $250,000.

The total taxable income in Singapore based on the above is $500,000 comprising of the sales in Singapore and the dividend income from the Dubai subsidiary.

The $500,000 income from Australia is exempt from tax even though it is remitted to Singapore because the permanent establishment has paid Australian income tax on this income which is greater than 15%.

The dividend income from the subsidiary in Dubai is taxable in Singapore because it is from a jurisdiction that has a headline rate of taxation which is less than 15%.

Annual Lodgement Requirements

All companies operating in Singapore must file two reports to IRAS each year relating to income tax.

The Estimated Chargeable Income ("ECI") form is due within three months of the end of the Year of Assessment for the company and results in a prepayment of corporate tax. The ECI form reports the total revenue and the estimated taxable income for the company for the Year of Assessment.

The annual company tax return must be lodged with IRAS by 30 November of the year following the Year of Assessment. For example, where the year-end for the company is 30 June 2017, the tax return is due for lodgement by 30 November 2018.

After crediting ECI the payment against the tax payable on the annual company tax return, there will either be an amount refundable or a final amount payable for the Year of Assessment.

Goods and Services Tax

The Goods and Services Tax ("GST") is currently levied on all items other than financial services and the sale or lease of residential properties at a rate of 7%. If your company has taxable turnover of $1M or more during a 12 month period, it will be required to register for GST.

The threshold test is conducted at the end of each quarter starting from 31 March. Where the aggregate taxable turnover for the preceding 12 months is at least $1M, the company must register. This testing period is illustrated below:

Quarter	Period 1 Turnover	Period 2 Turnover	Period 3 Turnover
March 2017	$150,000		
June 2017	$275,000	$275,000	
September 2017	$200,000	$200,000	$200,000
December 2017	$235,000	$235,000	$235,000
March 2018		$210,000	$210,000
June 2018			$415,000
Total Turnover	**$860,000**	**$920,000**	**$1,060,000**

In the above illustration, as the company has exceed the $1M threshold for the preceding 12 months in June 2018 quarter, it is required to immediately register for GST.

Given that the company was close to the turnover as of March 2018 quarter, it may have been prudent to voluntarily register knowing that it was likely to pass the $1M mark the net quarter.

Businesses who have turnover below this amount may also apply to voluntarily register for GST.

Once registered a business is required to file a GST return on a monthly, quarterly or bi-annual basis. When reporting the GST, companies must report the amount of GST collected and the amount of GST paid for goods and services used in the generation of taxation income.

The net amount of this calculation will determine whether the business is required to make a payment or can expect to receive a refund of GST.

AT A GLANCE

- Engage a tax specialist to advise you on what is required to establish a Singapore tax resident company.
- Always consider what you need the Singapore company to do and how it may interact with existing entities (if any).
- Think about whether the company can have resources and people in place to run independently from your home jurisdiction
- Be conscious of the foreign income rules to ensure that income sourced from outside Singapore does not become taxable in Singapore.
- Be aware of the requirements for the newly-incorporated tax exemptions.
- Once you have a strong performing company monitor the 12 month turnover to ensure you register for GST at the right time.