DFK INTERNATIONAL

Doing Business in Singapore

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Singapore.

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Background

Country Overview

Singapore is a small city state located at the southern tip of the Malaysian Peninsula in Southeast Asia.

Singapore is a Republic with a parliamentary system of government consisting of an elected President as head of State, a Prime Minister and a Cabinet.

Singapore's population comprises of Chinese, Malays, Indians and several other minorities. There are four official languages: English, Chinese, Malay and Tamil which reflect Singapore's multi-cultural and multi-lingual society. English is used as the working, education and business language.

Economic overview

Singapore is often ranked as being amongst the most open and competitive economies.

Singapore is also seen as stable with regards to macroeconomic factors with no foreign debt, and often runs a budget surplus.

Singapore's diversified economy is driven by exports and refining imported goods, financial services, tourism, port, and logistics services. Other emerging industries that are providing significant contributions to Singapore's economy are casinos, health-care, education, and media. Higher end manufacturing and the services sectors have become the main pillars of the Singapore economy. There is a wide range of businesses, with a particular focus on high value-added activities.

Singapore is a member of the several work bodies including the World Trade Organisation (WTO), Association of Southeast Asian Nations (ASEAN) and Asia Pacific Economic Cooperation (APEC).

Singapore's total labour force is around 3.67 million and has relatively full employment. The unemployment rate stands at 2.5%. Because of the relatively strong economy and low unemployment, hiring and retaining good people continues to be a challenge.

The Singapore dollar (SGD) is the official currency. Singapore is a high-income economy with a gross national income of US$70,828 per capita according to the Department of Statistics, Singapore.

Singapore has no significant restriction on foreign exchange transactions and capital movements. Laws and regulations have been strengthened recently with regards to money laundering and tax evasion.

Singapore has negotiated double tax treaties with almost all the world's major countries.

Transport infrastructure

Singapore has a well-developed transport infrastructure. As one of the world's busiest ports, Singapore serves 200 shipping lines with connections to over 600 ports globally.

The main airport, Changi Airport, is one of Asia's best-connected airports, with over 110 airlines flying to over 240 cities in about 60 countries and territories worldwide.

Singapore has a good and efficient system of public transport comprising of taxis, buses and the Mass Rapid Transit (MRT) rail system.

Internet access in Singapore is fast and reliable. Fibre is readily available for both homes and businesses. Mobile internet is served through many public Wi-Fi hotspots and via the telecos who provide nationwide 4G connectivity.

Choice of Legal Form

Limited liability company

A limited liability company is a company limited by shares and each shareholder's liability is restricted to their shares.

A Singapore limited liability company can be in the following form: -

- Exempt Private Company
  – 20 members or less and no corporation holds beneficial interest in the Company's shares.
- Private Company
  – 50 members or less.
- Public Company
  – can have more than 50 members.

The shareholders of a private limited company can either be individuals or corporate entities or both.

Limited liability company

Most of the private businesses in Singapore are incorporated as private limited companies. This is a legal entity separate and distinct from its shareholders and directors. A Singapore Company can own property in the Company's name. The members of a company are not personally liable for the debts and losses of the Company.

The Company, as a separate legal entity, does not cease to exist if one or more of its shareholders pass away. Its corporate existence lasts as long as its shareholders decide it should.

General partnership

A general partnership can be formed with at least two partners up to a maximum of 20 partners. The partners have unlimited personal liability and are personally responsible for paying off the debts and liabilities of the business. The partners are held responsible for the actions of another partner. A general partnership is not a legal entity.

Limited liability partnership

A limited liability partnership (LLP) is a partnership where the individual partner's own liability is generally limited.

It is owned by at least two partners and there is no maximum limit and the partners can be individuals or body corporate (company or other LLP).

An LLP is a separate legal entity from its partners and partners have limited liability. It can own property in its own name. These features allow it to enjoy the benefits of a company although it operates in the form of a partnership.

The partners of an LLP are not personally liable for debts and loses of the LLP incurred by other partners. However, the partners are personally responsible for debts and losses resulting from their own wrongful actions.

Limited partnership

A limited partnership (LP) is a partnership consisting of two or more persons, with at least one general partner and one limited partner and there is no maximum limit for number of partners. An LP is not a separate legal entity.

The general partner has unlimited liability and is personally liable for debts and losses of the LP. The limited partner has limited liability and is not personally liable for the debts or obligations of the LP beyond amount of his agreed contribution.

Branch / Representative office

A foreign company can set up a branch in Singapore to carry on business in Singapore. A branch is considered an extension of the foreign company and is not a separate legal entity.

A Singapore branch is required to file its audited accounts for the Singapore operations with ACRA and its Tax Returns with IRAS on an annual basis.

A representative office (RO) is usually set up when a foreign company wishes to establish a business presence in Singapore but does not intend to carry on business operations in Singapore. A RO has no legal status and is not a business entity and hence not allowed to perform any activity with the purpose of generating profits. A RO is only permitted to conduct market research, feasibility studies, supervise the activities of its main head quarters' local agents and distributors. It can also act as a liaison office and provide customer support.

Sole-proprietorship

A sole-proprietorship is not a separate legal entity and therefore the owner and business are the same. The owner has unlimited liability and is personally liable for the debts and losses of the business.

A sole-proprietorship can own property if individual has legal capacity.

Trust

A trust is an arrangement whereby a person (trustee) holds property as its nominal owner for the benefits of one or more beneficiaries.

The trust arrangement may be held for public purposes such as charitable trusts or for private purposes such as a private family.

A private family trust is usually designed to help a high net-worth individual preserve assets and facilitate the transfer of assets to future generations.

Audit Requirements

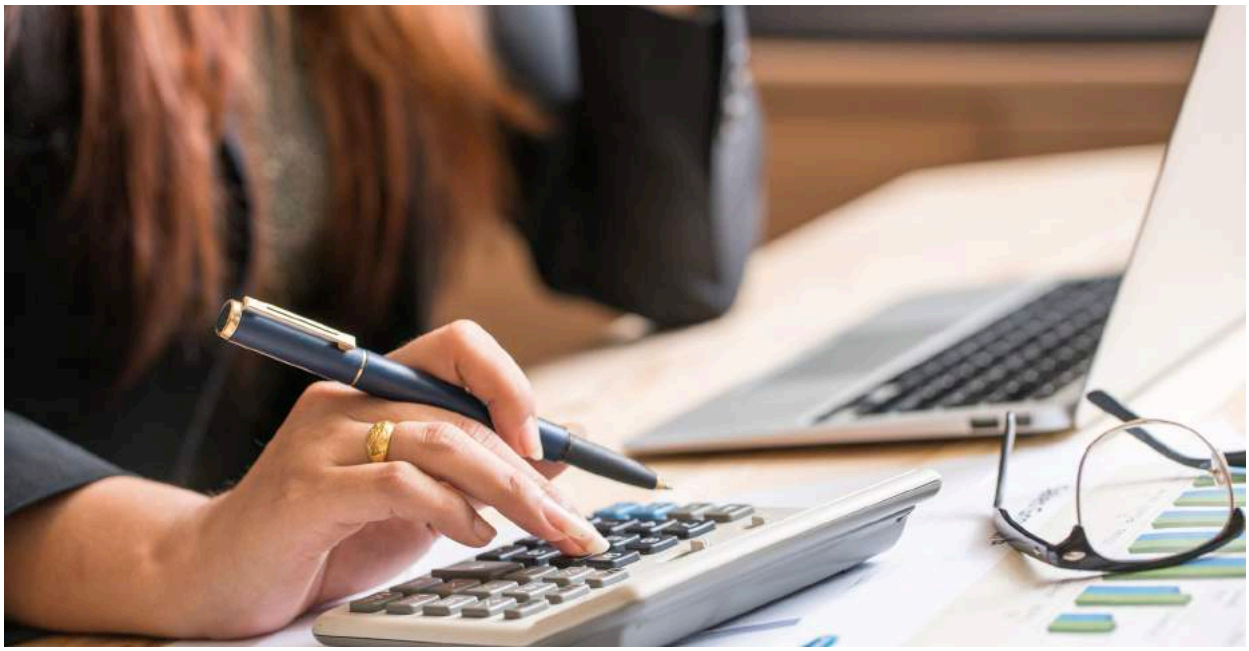
A company shall appoint an auditor within three months from the date of incorporation, unless it is exempted from an audit. A company must be classified as a small company and be part of a small group to be exempted from audit requirements.

A small company or small group is defined as meeting at least 2 out of the 3 criteria:

- Less than 50 employees
- Less than $10mil in turnover
- Less than $10mil in assets

Dormant companies may also be exempted from audit. A company must keep accounting and other records (such as register of shareholders, directors and corporate secretaries), to allow preparation of true and fair financial statements in accordance with the Singapore Financial Reporting Standards. These standards are substantially the same as IFRS. The accounting records must be kept for at least 5 years after the completion of the transactions or operations to which they relate.

Taxation



Corporate tax

Tax jurisdiction in Singapore reflects both the territorial and remittance bases of Singapore taxation.

A company is subject to Singapore income tax on its income accruing in, or derived from Singapore, or received in Singapore from outside Singapore. Therefore, foreign income is only taxable in Singapore if it is received in Singapore.

Even if the foreign income is remitted to Singapore, a Singapore tax resident company can enjoy tax exemption on its specified foreign income that is remitted into Singapore.

Specified foreign income is foreign sourced dividends, foreign branch profits and foreign-sourced service income, and such income is exempted from Singapore tax under certain conditions.

A company is taxed at a flat rate of 17% on its chargeable income regardless of whether it is a local or foreign company.

However, the effective tax rate is much lower than 17% due to the full-tax exemption scheme and partial-tax exemption schemes available to companies.

a) All companies incorporated in Singapore qualify for partial tax exemption of the Chargeable Income as follows: -

Chargeable Income		Exemption Rate	Tax Exempt Amount (S$)	Taxable Amount (S$)	Tax Payable @ 17% (S$)
On the first	S$10,000	@ 75%	7,500	2,500	425.00
On the next	S$290,000	@ 50%	145,000	145,000	24,650.00
On the first	**S$300,000***		**152,500**	**147,500**	**25,075.00**
Above	S$300,000		NIL	(Taxable at 17%)	

Note: *The effective tax rate for the first S$300,000 of chargeable income is 8.36% [(S$25,075 / S$300,000) X 100%)].

b) For newly incorporated Singapore companies which meet the qualifying criteria *, the tax-exemption is as follows: -

Chargeable Income		Exemption Rate	Tax Exempt Amount (S$)	Taxable Amount (S$)	Tax Payable @ 17% (S$)
On the first	S$100,000	@ 100%	100,000	NIL	NIL
On the next	S$200,000	@ 50%	100,000	100,000	17,000.00
On the first	**S$300,000**		**200,000**	**100,000**	**17,000.00**
Above	S$300,000		NIL	(Taxable at 17%)	

The qualifying criteria are as follows: -

* The company must be tax resident in Singapore (i.e. the company must be controlled and managed in Singapore).

* The company should have no more than 20 shareholders throughout the basis period for the relevant Year of Assessment (YA) where: -

i) all the shareholders are individuals; OR

ii) at least one shareholder is an individual holding at least 10% of the issued ordinary shares of the Company.

New start-up companies exclude property and investment holding companies.

To further lower the tax payable and to help Small and Medium Enterprises (SME's), the Corporate Income Tax Rebate granted to all companies is 50% of the corporate tax payable for the Year of Assessment 2017. The rebate will be capped at S$25,000 for Year of Assessment 2017.

Companies will be granted a 20% Corporate Income Tax Rebate capped at S$10,000 for the Year of Assessment 2018. The rebate will not apply to income derived by a non-resident company that is subject to final withholding tax.

Dividend payments

Dividends paid by a Singapore resident company are under the one-tier corporate tax system. The corporate tax paid by the company is the final tax and the dividends are tax-exempt when received by the shareholders.

Branch profits tax

A Singapore Branch is subject to tax on its profits from the Singapore operations at the corporate tax rate of 17%. The effective tax rate is usually lower as a result of the partial tax-exemption on the chargeable income of the Branch.

Personal income tax

Individuals must pay personal income tax on all income earned in or derived from Singapore. Overseas income received in Singapore is not taxable except for foreign income received through a partnership by a resident individual.

An individual is regarded as tax resident in Singapore if he stays or works in Singapore:

a) for at least 183 days in a calendar year; or

b) for at least 183 days for a continuous period over two years (applies to foreign employees who have entered Singapore but excludes directors of a company, public entertainers or professionals); or

c) Continuously for three consecutive years.

Resident individuals are taxed at progressive rates ranging from 2% to 22% on their chargeable income (Total income less personal reliefs/donations). With

effect from Year of Assessment 2017, the top marginal tax rate has been increased to 22%. Non-resident individuals are taxed on their employment income at a flat rate of 15% or the progressive resident tax rates, whichever is the higher amount. A non-resident individual (except directors) who exercises employment in Singapore for less than 60 days in a calendar year is exempt from Singapore tax. Directors fees, consultation fees and all other income derived by non-resident individuals are taxed at 22%. With effect from Year of Assessment 2017, the tax rates for non-resident individuals (except certain reduced final withholding tax rates) will be raised to 22%.

The YA 2017 resident tax rates for individuals are as follows: -

	Chargeable Income ($)	Rate (%)	Gross Tax Payable ($)
On the first	20,000	0	0
On the next	10,000	2.0	200
On the first	30,000		200
On the next	10,000	3.5	350
On the first	40,000		550
On the next	40,000	7.0	2,800
On the first	80,000		3,350
On the next	40,000	11.5	4,600
On the first	120,000		7,950
On the next	40,000	15	6,000
On the first	160,000		13,950
On the next	40,000	18	7,200
On the first	200,000		21,150
On the next	40,000	19	7,600
On the first	240,000		28,750
On the next	40,000	19.5	7,800
On the first	280,000		36,550
On the next	40,000	20	8,000
On the first	320,000		44,550
Above	320,000	22	

Capital gains tax

Singapore does not have tax capital gains.

Property tax

Property tax is levied yearly on owners of immovable properties. The property tax for non-residential buildings such as commercial and industrial buildings and land is taxed at 10% of the annual value. Property tax for residential properties that are owner-occupied range from 0% to 16%. Property tax for residential properties that are not owner-occupied ranges from 10% to 20% depending on the annual value. The annual value is determined by the property tax department.

Goods and services tax

Goods and services tax (GST) in Singapore is a tax on domestic consumption. Generally, GST is chargeable at the prevailing rate of 7% by GST-registered businesses on all sales of goods and services made in Singapore including imports. For exports of goods and provision of international services, GST is charged at 0% (zero-rated). Similarly, the sale and lease of residential properties and the provision of financial services are exempted from GST.

Businesses that make taxable supplies are required to register for GST if the annual turnover exceeds SGD1 million.

Taxable supplies are the aggregate of the standard-rated supplies and the zero-rated supplies.

However, where taxable turnover is wholly or mainly from zero-rated supplies, businesses can apply for exemption from registration.

Customs and excise duties

Singapore is essentially a free port, although duties are levied on import of alcohol, tobacco products, petroleum products and motor vehicles.

Stamp duty

Stamp Duty is a tax on dutiable documents relating to immovable properties in Singapore and any stocks or shares. Examples of such documents are lease/tenancy agreements, acceptance to option to purchase/sale, and purchase agreements, mortgages, and share transfer documents.

Tax treaties

Singapore has concluded Avoidance on Double Taxation Agreements covering all types of income with 82 countries and Limited Treaties covering only income from shipping and/or air transport with 8 countries. Credit method and exemption method are the two ways of eliminating double taxation burden.

The scope of Singapore's DTAs is always limited to residents of Singapore and those of the treaty partner. Non-residents of either jurisdiction do not qualify for the concessionary treatment provided under the DTA.

The provisions of the DTA shall apply only to taxes on income. Therefore, taxes like GST, customs and excise duties are outside the scope of Singapore's DTA's.

Transfer pricing rules

The Inland Revenue Authority of Singapore (IRAS) endorses the arm's length principle as the standard to guide transfer pricing. IRAS subscribes to the principle that profits should be taxed where the real economic activities generating the profits are performed and where value is created.

IRAS expects all related parties' transactions to be carried out on an arm's length basis. For tax purposes, a transaction will be considered at arm's length if the transaction price would have been the same had the transaction been with an unrelated party. If a transaction is not at arm's length or the fee charged for the services rendered does not commensurate with the level of services provided, the Comptroller will ignore the transaction price and deem the transaction at the market price in arriving at the assessable income of the Company. In such an event, if the related parties are Singapore companies, corresponding deduction will be allowed. However, if the related parties are located overseas, this adjustment may result in double taxation.

A person shall be deemed to be related to another where one person, whether directly or indirectly, has the ability to control the other, or where both of them, whether directly or indirectly, are under the control of a common person.

The arm's length principle is found in all of Singapore's Double Taxation Agreements.

IRAS generally takes guidance from the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

Allowances

Depreciation

Expenditure incurred on the purchase of fixed assets is not deductible for tax purposes as it is capital in nature. Instead, capital allowances can be claimed as a deduction based on tax prescribed rates against the adjusted profit.

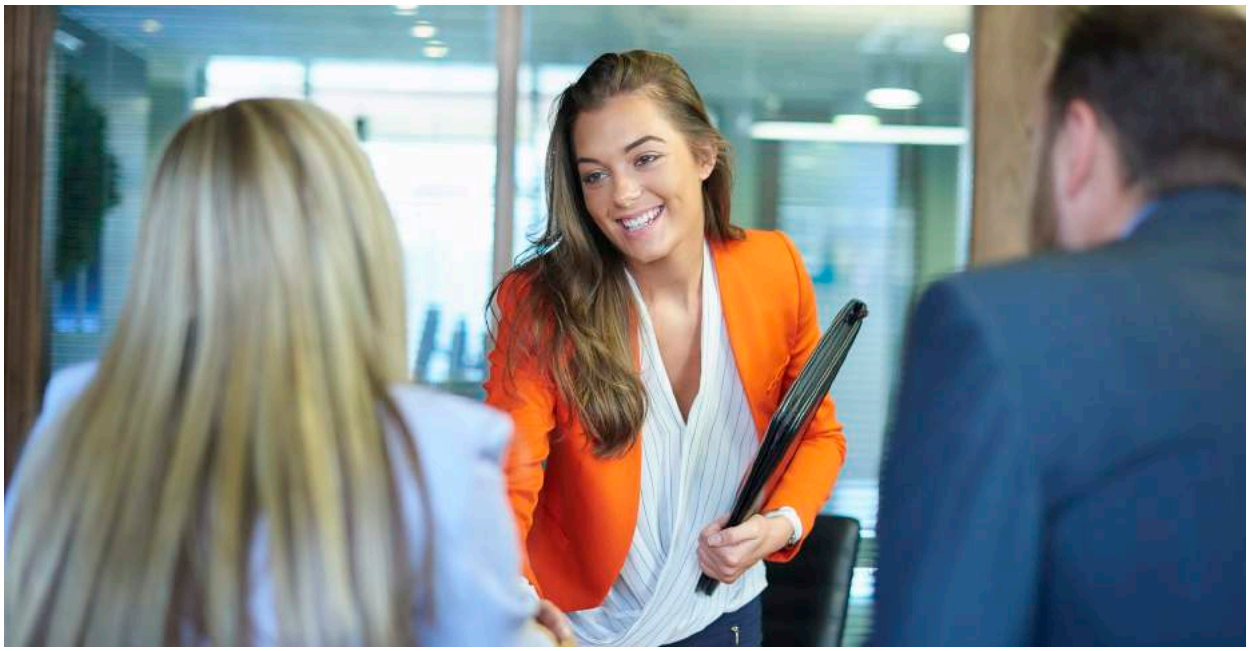
Companies can claim Productivity and Innovation Credit (PIC) enhanced allowances at 300% of the cost of qualifying IT and Automation equipment. The PIC Scheme has been extended up to YA 2018.

The expenditure Cap is S$400,000 per YA and the combined expenditure Cap will be S$1.2 million for the YA's 2016 to 2018. The combined expenditure cap for qualifying SME's will be S$1.8 million for YA's 2016 to 2018.

Investment allowances

A company may apply for investment allowance in respect of fixed capital expenditure for approved projects. Under the investment allowance scheme, a company is granted an investment allowance in addition to the capital allowances based on an approved percentage of the fixed capital expenditure incurred on plant, machinery and factory building for an approved project.

Employment



Social Security

In Singapore, the Central Provident Fund (CPF) is a compulsory savings plan for working Singaporeans and permanent residents primarily to fund their retirement, healthcare, and housing needs. Both employers and employees must make monthly contributions to CPF according to the rates prescribed by the CPF Board. The CPF is like a defined contribution scheme.

Employment of Foreign Personnel

A foreigner who wants to work in Singapore requires a valid work pass/ permit. Until the pass/permit is issued, the foreigner cannot commence employment in Singapore.

Medical

Singapore has excellent health care facilities. Singapore citizens and permanent residents are entitled to subsidised healthcare services provided through government healthcare facilities. For non-Singaporeans, private healthcare facilities are available.

In Singapore, the employers may provide for healthcare insurance and cover the medial cost of the employee.

Payroll taxes

Employers must contribute a Skills Development Levy for all employees (including full-time, casual, part-time, temporary, and foreign employees rendering services wholly or partly in Singapore) up to the first $4,500 of each employee's total monthly wage at a levy

rate of 0.25%, subject to a minimum of $2. The total monthly wage includes any salary, commission, bonus, leave pay, overtime pay, allowance and other payments in cash.

Withholding Taxes

Interest

Payment of interest to a non-resident is subject to withholding at 15%, or a reduced rate subject to tax treaties.

Royalties

Payment of royalties to a non-resident is subject to withholding tax at 10%, or a reduced rate subject to tax treaties.

Dividends

Singapore does not impose withholding tax on dividends paid.

Technical assistance and service fees / management fees

Payment of technical assistance and service fees and management fees to a non-resident for services rendered in Singapore is subject to withholding tax at prevailing corporate tax rate of 17%. For payments to non-resident individuals, tax is to be withheld at 22%.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This document is provided by DFK JKMedora & Co LLP as a general overview of matters to be considered when setting up an overseas business in Singapore. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided in this publication.

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