

The Gateway to ASEAN

Doing Business in Singapore 2014

Second Edition



I. Investing in Singapore and ASEAN

II. Taxes and Double Taxation Agreements

III. Human Resources and Payroll



DEZAN SHIRA & ASSOCIATES

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Singapore: The Gateway to ASEAN

In a global economy dominated by industrial powers, the city-state of Singapore has carved out its competitive niche as a destination for regional headquarters, branch offices, and holding companies. Featuring one of the most stable and business-friendly legal and tax regimes in the world, Singapore has long been the preferred location for foreign investors seeking to establish a business presence in Asia to pursue investments throughout the ASEAN region, China, and India.

The city-state of Singapore offers foreign investors access to a highly skilled workforce, English-speaking business environment, immense logistics and transportation capacities, and over seventy double taxation avoidance agreements, among other advantages. Furthermore, the city-state has striven to align its laws and regulations with the international standards of the World Trade Organization, Organization for Economic Cooperation and Development, and issue-centric organizations such as the International Accounting Standards Board.

As ASEAN inches ever closer to economic integration in the ASEAN Economic Community next year, Singapore's imperative role as the de facto financial and commercial capital of Southeast Asia will be unassailable. Foreign investors should closely observe and anticipate Singapore and ASEAN's ascension to the forefront of economic progress and development in Asia.

This publication, designed to introduce the fundamentals of investing in Singapore, was compiled by Dezan Shira & Associates, a specialist foreign direct investment practice, providing corporate establishment, audit, business advisory, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals and small- and medium-sized enterprises investing in emerging Asia.



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About Dezan Shira & Associates

At Dezan Shira & Associates, our mission is to guide foreign companies through Asia's complex regulatory environment and assist with all aspects of establishing, maintaining and growing business operations in the region. With over 20 years of on-the-ground experience and a large team of professional advisers, we are your reliable partner in Asia. Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam, as well as liaison offices in Italy and the United States, and partner firms across the ASEAN region.



Dezan Shira & Associates Singapore

As a regional practice, we are not tied to any one nation. Rather, we specialize in the tax, accounting, and operational aspects of foreign direct investment throughout Asia. For businesses and investors seeking to conduct business in Singapore and the wider ASEAN region, our business consulting team in Singapore and partner firms across ASEAN are prepared to provide you with the tools and expertise necessary to succeed. Specializing in corporate establishment, tax advisory and planning, intellectual property, accounting and financial reporting, and business strategy, Dezan Shira & Associates Singapore is pleased to assist with any query pertaining to doing business in Singapore and the wider Asian region.



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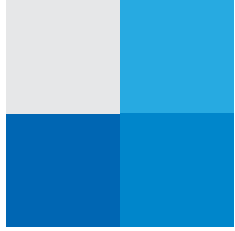
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The Singapore Edge

By David Lee, Regional Manager, Dezan Shira & Associates Singapore

According to Bank of America Merrill Lynch (BAML), ASEAN's FDI inflows in 2013 exceeded China's by more than US\$10 billion. With ASEAN's favorable demographics, competitive wages, and fast-growing domestic markets cited as potential reasons for this strong performance, foreign investors can expect ASEAN's economy to continue on a path of rapid expansion well into the future. With more than 50 percent of ASEAN's US\$128.3 billion total FDI attributable to Singapore, it is becoming increasingly evident that Singapore is, and will continue to be, the focal point for investing in the ASEAN Economic Community. Three specific factors make Singapore the ideal jurisdiction for foreign investors seeking to establish an investment vehicle capable of reaching ASEAN markets.

Regional and Bilateral Economic Agreements

Companies incorporated in Singapore have a unique opportunity to reap the benefits that accompany the city-state's extensive network of Free Trade and Double Taxation Agreements (FTA and DTA). Enabling Singapore-incorporated companies to reach emerging markets in ASEAN, India, and China with minimal tax and duty costs, Singapore's more than 70 comprehensive DTAs and more than 20 FTAs present tremendous opportunities to investors worldwide. Along with the other nine members of ASEAN, Singapore is a participating member in the Regional Comprehensive Economic Partnership (RCEP) and one of four ASEAN member states currently involved in Trans-Pacific Partnership (TPP) negotiations. No other country in Asia can match Singapore's treaty network, and ongoing FTA negotiations with several other states will only continue to increase its reach and potential.

Enhanced Tax Incentives

Singapore's 2014 Budget will extend and enhance the already-robust tax incentive schemes the city-state offers to foreign investors and companies. Extending the widely successful Productivity and Innovation Credit (PIC) Scheme for another three years to YA2018, and expanding benefits to cover training costs and centralized hiring arrangements, this year's budget will enable SMEs to reap the benefits of up to S\$600,000 worth of enhanced deductions and productivity and innovation costs. An additional Information Communication Technologies (ICT) for Productivity and Growth (IPG) program will provide additional tax incentives to companies investing in ICT or emerging solutions (80 percent of qualifying costs up to S\$1 million).

Close Connections

Singapore is well placed to enable foreign investors to navigate the numerous challenges and risks presented by emerging markets in ASEAN. Sharing a number of linguistic and cultural connections with its ASEAN and Asian neighbors, Singapore's Chinese, Malay, Indian and Eurasian roots enable companies basing their operations out of Singapore to draw from the wealth of cultural and human capital in the city-state. Singaporean staff have the multicultural and linguistic skills necessary to enable a company to operate as an intermediary for FDI into Asia and attract investment from China and the wider region.

Singapore's close proximity with, and diplomatic and economic connections to, the whole of Asia provide companies basing their operations out of the country with the necessary edge to compete with domestic firms and achieve success in the wider region. Establishing a business with "the Singapore edge" can be the solution for foreign investors and companies seeking to take their first step into the vast potential of Asia's marketplace, or expand their presence across the region or world.

Business Intelligence from Dezan Shira & Associates

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Investing in Singapore and ASEAN



- What Are My Options for Investment?
- Singapore Holding Companies: A Unique Edge
- Navigating Company Establishment

What Are My Options for Investment?

Entering the highly-developed Singaporean market entails significantly less risk than in many Asian countries. Despite this, investors should seek to acquire an awareness of the advantages and drawbacks presented by each avenue for investment. Determining the most appropriate route for market entry or expansion requires thoughtful consideration regarding the intended scope of investment, the nature of business activities, tax implications, and legal liability.

Direct export and working with distributors and other partners may be sufficient for firms seeking only to use Singapore as a springboard for accessing other ASEAN markets at low cost and risk (as an entrepôt trade destination). Establishing a local presence can also be a viable choice for companies at all stages of development as requirements are minimal, financial and legal risks are relatively minor, and investors can choose from a diverse range of establishment options.

Additional government incentives have made establishing a local presence an exceedingly popular choice for Western companies. Singapore is ranked fifth in the world in terms of ease of starting a business according to the World Bank (2012), and the World Economic Forum's Global Competitiveness Report 2011–2012 ranks Singapore as the second best country in the world for intellectual property protection. The advantages of establishing a local business presence in Singapore include greater control over its operations and financing, and the ability to utilize Singapore as a base for accessing or expanding operations into other regional markets.

For companies only seeking to establish a low-risk, exploratory presence in Singapore, establishing a representative office is typically the most common route for investment. This is also a popular option for companies entering Asia for the first time and seeking to research their options for expansion. Establishing a branch office or subsidiary company entails a more significant financial and strategic commitment, and accordingly is more popular among companies and investors anticipating a significant future business presence in the region.

In this introductory guide, we discuss the following business structures at length:

- a. Representative Offices
- b. Branch Offices
- c. Subsidiary Companies (Private Limited Companies)

a. Representative Offices

Representative offices can be established in Singapore for a maximum of three years to engage in market research or feasibility studies on behalf of a parent company. While representative offices are prohibited from engaging in commercial revenue-generating activities, this can be a good short-term option for companies seeking to gauge the profitability of the Singaporean market, or planning to later establish a greater business presence in the country. This option is also popular among companies entering Asia for the first time and still researching their options for expansion.

In order to be eligible to establish a representative office, a foreign company must have been established for at least three years and have a minimum sales turnover of US\$250,000. Research offices can be staffed by a maximum of five individuals, including at least one representative from the parent company's head office. The parent company bears liability for the activities of the representative office, and is responsible for financing its operations.

b. Branch Offices

Foreign companies are able to establish branch offices to conduct any type of business activity that falls within the scope of the parent company. Branch offices are not eligible for the tax exemptions and incentives available to local companies as ultimate control of the branch remains vested in an overseas parent company. The name of the branch office must be the same as the parent company and as a legal extension of the parent company, the parent company bears ultimate legal responsibility for all liabilities. Because of this, many foreign companies choose to establish subsidiary or private limited companies rather than branch offices.

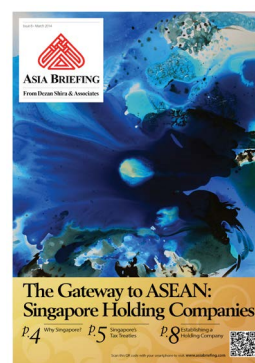
c. Subsidiary Companies (Private Limited Companies)

A Singaporean subsidiary company, also known as a private limited company, is by far the preferred structure among small and medium-sized foreign companies for establishing a local business presence in Singapore. Limited liability companies enable foreign companies to access the wider Asian market and ASEAN Free Trade Zone by utilizing the subsidiary as a holding company. As distinct legal entities, subsidiaries are also eligible to benefit from tax incentives available to local companies. Because the cost and requirements for establishing a subsidiary are minimal (a minimum paid-up capital of less than US\$1) many foreign companies utilize Singaporean subsidiaries as holding companies, and use them to establish larger manufacturing operations elsewhere in ASEAN. Similar to local private limited companies, the parent company's liability is limited to the share capital it has subscribed in the subsidiary.

Singapore Holding Companies

Since the mid-1990s, Singapore has earned a reputation for being the preeminent location for establishing a holding company in Asia. In essence, a holding company is a company or firm with ownership of other companies' outstanding shares or other assets, such as real estate or bonds. In other words, rather than conducting its own business activities, a holding company typically profits strictly from the activities of its assets, or holdings, via the generation of passive investment income—thereby protecting the parent company from the potential risks and liabilities of their holdings. In Singapore, holding companies are typically registered as subsidiary (private limited) companies and increasingly, holding companies based in the city-state are also carrying out commercial activities such as supply chain activities so as not to fall foul of tax avoidance rules.

As a banking and financial services hub, Singapore is the Association of Southeast Asian Nations' (ASEAN) de facto commercial capital, and has carefully forged its legal and tax regimes to be among the most business- and investor-friendly in the world. Offering investors access to one of the world's largest combined free trade zones via the ASEAN, ASEAN-China, and ASEAN-India Free Trade Agreements, the city-state of Singapore is the ideal headquarters location for pursuing investment holdings throughout the region. The table below shows the tax rates and reductions Singapore-incorporated companies receive across Asia and ASEAN.



The Gateway to ASEAN: Singapore Holding Companies

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March Issue, 2014

available here

Rates and Reductions for Select Asian Treaty Partners							
Country		Dividends		Interest		Royalties	
		Domestic Rate	Treaty Maximum	Domestic Rate	Treaty Maximum	Domestic Rate	Treaty Maximum
ASEAN Treaty Partners	Brunei	0%	10%	15%	10%	10%	10%
	Indonesia	20%	15%	20%	10%	20%	15%
	Malaysia	0%	10%	15%	10%	10%	8%
	Myanmar	0%	10%	15%	10%	20%	15%
	Philippines	30%	25%	20%	15%	30%	25%
	Thailand	10%	none	15%	25%	15%	15%
	Vietnam	0%	5 to 12.5%	5%	10%	10%	15%
Others	China	10%	10%	10%	10%	10%	10%
	India	0%	15%	5 to 20%	15%	10%	none

Note: this table lists the ordinary rates for payments to non-residents. In some cases, further reduced rates or exemptions may apply if certain conditions are met.

Singapore's status as a preferred holding company jurisdiction is primarily attributable to the city-state's favorable tax regime and close connection to emerging Asian markets. With more than 70 avoidance of double taxation agreements (DTAs), low effective corporate and personal tax rates, and no capital gains tax, controlled foreign corporation (CFC) rules, or thin capitalization regime, Singapore has one of the most competitive tax systems worldwide. As a holding company jurisdiction, Singapore offers three principal advantages:

1. Minimal requirements for establishing a holding company
2. Extremely favorable tax and legal systems
3. The ability to use a holding company as an entrepôt trade destination to access ASEAN, China, India, and other developing Asian markets

Later, this guide will explore Singapore's domestic taxes in addition to some of the advantages Singapore affords companies seeking to use the city-state as a headquarters to conduct business in the wider region. These include the city-state's favorable tax regime and comprehensive DTA and FTA network. The chart below provides an overview of how Singapore measures up in comparison to other popular holding jurisdictions worldwide.

	Singapore	Hong Kong	Taiwan	Mauritius	Netherlands	Luxembourg	Cayman Islands
Tax Rate							
Corporate	17%	16.5%	17%	3% - 15%	25%	29.22%	0%
Individual Income (IIT)	0% - 20%	2% - 17%	5% - 40%	15%	5.8% - 52%	0% - 40%	0%
Withholding Tax							
Dividends	0%	0%	5% - 20%	0%	0% - 25%	0%	0%
Interest	0% - 15%	0%	7% - 20%	0%	0%	0%	0%
Holding Company							
Dividends Tax	Exempt	Exempt	Exempt	Gross	Exempt	Exempt	None
Capital Gains Tax	Exempt	Exempt	Exempt	None	Exempt	Exempt	None
Tax on Share Disposal	None	None	Sometimes	None	None	None	None
CFC Legislation	No	No	No	No	No	No	No
Active DTAs	74	22	25	36	90	67	0

Navigating Company Establishment

The requirements for establishing a local business presence in Singapore are minimal and, according to the World Bank, setting up a business takes only two and a half days on average. While the establishment process varies slightly by business structure, seven common steps are outlined by Enterprise One, an arm of the Ministry of Trade and Industry:

- 1) Choosing the right business structure
- 2) Registering the business and company name
- 3) Obtaining working capital
- 4) Setting up an accounting system
- 5) Understanding tax obligations and incentives
- 6) Applying for relevant licenses and permits
- 7) Looking for business premises and beginning to hire employees

Self-incorporation without the assistance of a professional services firm is only permitted if all directors, the company secretary, and initial shareholders are holders of a Singapore National Registration Identity Card (NRIC), Employment Pass, or Dependant Pass. Otherwise, a professional services firm must be engaged to register on behalf of the company.

In the pages that follow, we outline the basic steps for registering and establishing a subsidiary company—by far the preferred business arrangement for small and medium-sized foreign enterprises operating in the city-state.

Requirements for Incorporation: Subsidiary Companies

Individuals and business entities seeking to establish a subsidiary (private limited) company must meet the following basic requirements:

- a. At least one shareholder
- b. At least one director who is a Singapore resident
- c. A company secretary who is a Singapore resident
- c. Paid-Up capital
- d. Registered address



“To establish a branch office or subsidiary company, foreign firms are usually required to hire a professional services firm to assist with setup, and register on the company’s behalf.”

Chris Devonshire-Ellis
Founding Partner
Managing Partner, Singapore Office

a. At least one shareholder

- A subsidiary company should have at least one shareholder, but no more than 50.
- The shareholder can be a person or other legal entity, and 100 percent foreign shareholding is permitted.
- New shares can be issued or transferred at any time after the Singaporean company has completed the incorporation process.

b. At least one director that is a Singapore resident

- A "resident" is defined as a Singaporean Citizen, Permanent Resident, or individual who has been issued an Entrepass, Employment Pass, or Dependent Pass.
- There is no limit on the number of additional foreign or local directors that can be appointed, but most companies will have at least two directors to fulfil requirements from banks and other financial institutions in the country.
- The shareholder and director are permitted to be the same person, and non-shareholders can also be appointed as directors.
- Directors must be at least 18 years old, and have no criminal record.

c. A company secretary who is a Singaporean Resident

- Within six months of incorporation, a company secretary must be appointed.
- For companies with a single director/shareholder, the same person is not permitted to also act as the company secretary.

d. Paid-Up capital

- The minimum paid-up capital (share capital) for the registration of a Singaporean company is S\$1.
- Paid-up capital can be increased at any time after incorporation, and there is no concept of authorized share capital for Singaporean companies.

e. Registered address

- A physical (residential or commercial) local address must be provided as the registered address of the company. The address may not be a Post Office Box, and must be approved by the Urban Redevelopment Authority. Residential properties can only be used under the Home Office Scheme.

The Incorporation Process

The incorporation process for a private limited company can typically be completed in less than three days. For companies eligible for self-incorporation without the assistance of a professional services firm, registration can be completed online via the BizFile Accounting and Corporate Regulatory Authority (ACRA) portal.

Once the decision has been made to move ahead with self-incorporation, the following steps should be taken to register a private limited company:

1. Name registration
2. Company registration

1. Name Registration

The first step in the registration process involves reserving the company's name. The name must not conflict with an existing name or contain any sensitive or offensive words, and can typically be approved in less than an hour. Existing company names can be searched on the UEN website. The following guidelines should also be kept in mind to expedite the name registration process:

- A private limited company name should have the word "Private" (or "Pte.") or Sendirian (or Sdn.), its Malay translation, as part of the name, inserted immediately before the word "Limited" or "Berhad" ("Ltd." or "Bhd.").
- Names including certain words (such as bank, finance, law, etc.) may require review by a relevant government authority and prolong the approval process.

After a name has been approved, it will be reserved for 60 days from the date of application. This period can be extended by filing an extension request.

2. Company Registration

After a company's name has been approved, a formal incorporation request can be filed on ACRA's BizFile with the following:

- SingPass
- Name application number or approved company name
- Company type
- Particulars of additional directors/shareholders/members
- Registered place of business
- Share capital details
- Memorandum and Articles of Association (pdf)



*Podcast: The Importance of
ASEAN for American Companies
by Chris Devonshire-Ellis
October, 2013*

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Companies can typically be incorporated within 15 minutes after the registration fee has been paid (between S\$50 and S\$600 for locals, and S\$300 to S\$1,200 for foreigners). For companies that require approval or review, the process can take between 14 days and 2 months. The Referral Authorities Table outlines situations in which referral is required, and the governmental authority to which the referral should be made.

Official Certificate of Incorporation and Company Business Profile

The Company Registrar will send an official email after successful incorporation that includes the company registration number, and can be treated as the official Certificate of Incorporation. In order to receive a hard copy of the certificate, an online request can be made along with a fee of S\$50. A business profile that contains the company's particulars can also be obtained for a small application fee. This and the Certificate of Incorporation are often sufficient for all legal and contractual interactions, including opening a corporate bank account, signing an office lease, and subscribing to telephone and internet services.

The holding company (in the form of a private limited company) is permitted to begin operating after these documents have been successfully obtained, and a Unique Entity Number (UEN) has been issued.

Annual Compliance: General Meetings and Annual Returns

Annual compliance requirements for private limited companies are also relatively minimal and include holding an annual general meeting and the filing of annual returns. Within 18 months of incorporation, the first annual general meeting of the company must be held with no more than 15 months elapsing between subsequent annual general meetings without Registrar approval. If a resolution calling for the disposal of annual general meetings is passed by all members with voting rights, however, this requirement can be avoided.

Within one month of the company's annual general meeting, an annual return must be made containing the particulars of the company officers, registered address, and auditors. Typically, companies engage a professional services firm to file an annual return on their behalf.

Tax Incentives

Singapore has a number of government assistance schemes administered by SPRING Singapore, an enterprise development agency under the Singaporean Ministry of Trade and Industry, and International Enterprise Singapore, the government agency responsible for promoting international trade. Many of these were extended recently in Singapore's 2014 budget.

2014 Tax Incentive Changes: General Industries

1) Extension of the Productivity and Innovation Credit Scheme (PIC scheme) – While the current scheme was due to expire in 2014 (for Year of Assessment, or YA, 2015), it will now be extended to YA 2018.

2) Introduction of the PIC+ Scheme – The PIC+ scheme raises the qualifying expenditure cap from S\$400,000 per year to S\$600,000 per year. Hence, small and medium-sized enterprises (SMEs) can claim total tax deductions of up to S\$1.8 million across three YAs instead of S\$1.2 million.

3) Final year of the Wage Credit Scheme – From YA 2013 to 2015, the Government of Singapore will co-fund 40 percent of the wage increase for Singaporean employees earning a gross salary below S\$4,000. These amounts are taxable in the YA of the pay-out. Pay-outs can be utilized to offset any tax arrears of the company.

4) Tax exemptions for new start-up companies – Qualifying newly incorporated companies can claim tax exemptions:

- a. 100 percent on the first S\$100,000 of normal chargeable income for the first three consecutive tax YAs.
- b. 50 percent on the next S\$200,000 of normal chargeable income for the first three consecutive tax YAs.

To qualify, a company must:

- a. Be incorporated in Singapore and a tax resident for the YA.
- b. Have no more than 20 shareholders throughout the basis period for the YA, where all shareholders are individuals beneficially, and directly holding shares in their own names; or at least one shareholder is an individual beneficially, and directly holding at least 10 percent of the issued ordinary shares.

2014 Tax Incentive Changes: Specific Industries

1) R&D related – Extension of an additional 50 percent tax deduction on qualifying R&D expenditures until 2025, and further tax deductions administered by the Economic Development Board until 2020.

2) Logistics and intensive land-use based industries – Land intensification allowance to be extended until June 30, 2020.

3) Information and Communications based industries and general users of such technology – Introduction of the ICT for Productivity and Growth program (IPG), entailing government subsidies on the costs of ICT products and services from YA 2016.

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Taking Advantage of Singapore's Tax Regime



- Taxation in Singapore
- The Singapore Advantage: Singapore's DTA Network

Taxation in Singapore

One of the key factors that make Singapore an attractive place for companies to invest is its favorable tax regime. This includes the granting of tax incentives, a comprehensive tax treaty network, and tax exemption for certain income—making Singapore's effective tax rate among the lowest in Asia.

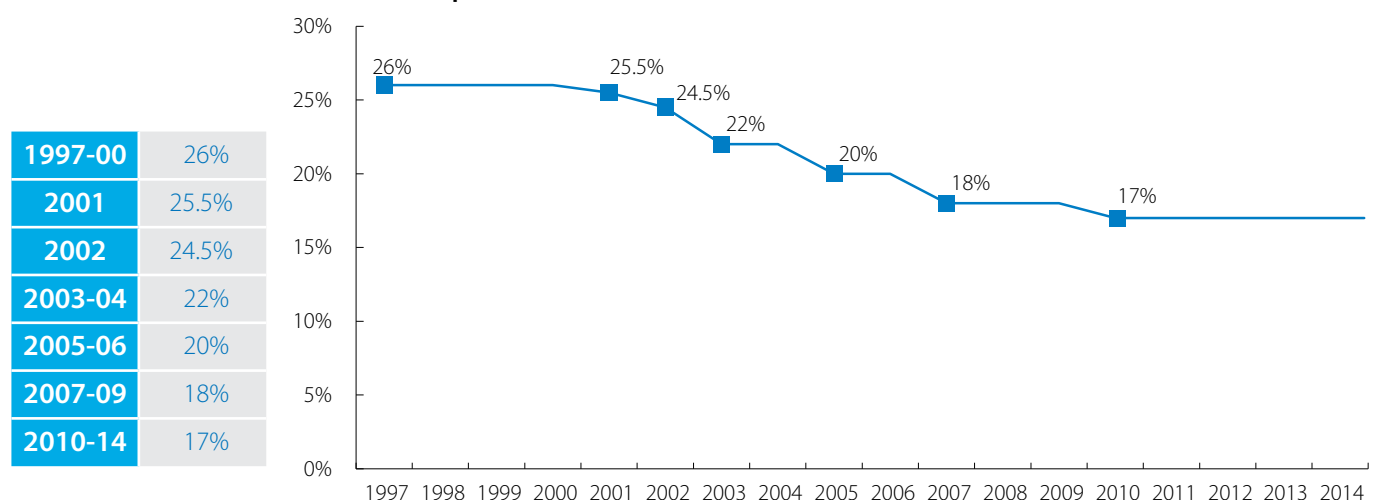
The Singaporean tax system operates on a territorial basis, meaning companies and individuals are taxed primarily on Singapore-sourced income. Foreign-sourced income (such as that from other ASEAN nations) is only taxed when it is remitted or deemed remitted into Singapore, unless the income has already been subject to taxes in a jurisdiction with a tax rate of at least 15 percent. Certain types of income remitted into Singapore are also exempt from Singapore income tax.

Below, we discuss individual income tax and some taxes directly applicable to companies establishing operations in Singapore:

a. Individual Income Tax (IIT)

Every taxpayer in Singapore must file an annual tax return with the Inland Revenue Authority of Singapore (IRAS). The basis period of assessment runs from April 1 through March 31 of the following year. Singapore's IIT rate can be between 0 and 20 percent depending upon income.

Corporate Income Tax Rate Over Time



b. Corporate Income Tax (CIT)

Singapore has a single-tier income tax system that does not tax both corporation and shareholder profits. Under this system, once a company has paid corporate tax on profits, the dividends for shareholders are not subject to further taxes. The effective CIT rate for subsidiary company profits up to S\$300,000 is 8.5 percent, and a flat rate of 17 percent for profits above S\$300,000. Newly incorporated companies can often benefit from a series of incentives, deductions, and reduced tax rates including being subject to a 0 percent tax rate for the first three filings of the tax year if certain requirements are met. Singapore does not have a capital gains tax.

c. Goods and Services Tax (GST)

Singapore's GST is a tax on consumption charged on the purchase of a good or service—the equivalent of a value added tax (VAT) in many other countries. Singapore has a standard 7 percent GST rate on the import of goods, and the supply of most goods and services. Businesses with a turnover exceeding S\$1 million per year must pre-register for GST, while those that do not may register voluntarily.

d. Withholding Tax

While Singapore does not require withholding tax on dividend payments, a number of other payments, including royalties, interest, rentals from movable properties, payments for the use of technical information, and directors' fees paid to non-residents (individuals or companies), are subject to withholding tax.

Tax Rate by Taxable Income and Year of Payment Following Establishment

Establish	Year 1	Year 2	Year 3	Year 4		
Taxable Income (S\$)		Tax Rate		Taxable Income (S\$)		Tax Rate
S\$0 – S\$100,000		0%		S\$0 – S\$300,000		8.5%
\$100,001 – S\$300,000		8.5%		S\$300,001 – S\$2,000,000		17%
S\$300,001 – S\$2,000,000		17%				

The Singapore Advantage: Singapore's DTA Network

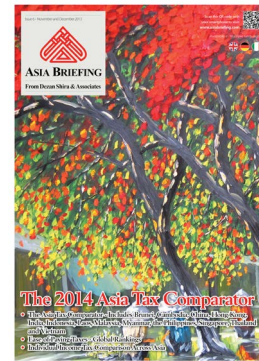
Aside from providing additional legal distance between the parent company and its Asia-based investment holdings, Singapore-based subsidiary companies also enable foreign firms to take advantage of the city-state's various tax treaties. Singapore's double taxation agreements (DTAs) limit or eliminate the level of withholding taxes payable on dividends from overseas holdings, and the city-state's low corporate income tax rate (17 percent) and lack of a capital gains tax make it an ideal jurisdiction for basing holding company operations in the wider region.

Double taxation occurs when entities are taxed on the same income or capital by two different tax jurisdictions. Often, this occurs when an entity earns income in a country other than the one in which it is resident. In such cases, both the source state in which the income is earned and the entity's residence state may have the right to tax that same income under each jurisdiction's domestic tax laws. Another instance of double taxation can occur when an entity is deemed to be resident in more than one state, and is therefore liable for taxation in both. Because double taxation acts as a strong deterrent to cross-border investment, countries often work together to provide bilateral tax relief via DTAs.

Singapore boasts one of the most extensive networks of DTAs in the world, with over 70 comprehensive DTAs in force, applicable to both income and capital. Singapore has DTAs with China, India, and all members of ASEAN except Laos and Cambodia, among others. Additionally, Singapore currently has a number of limited DTAs which cover only income derived from air transport and shipping with treaty partners including the U.S. and Hong Kong. Even when no DTA applies, Singapore offers unilateral tax credits to prevent double taxation if certain conditions are met.

Who Qualifies for Relief?

Only residents of Singapore or its treaty partners can take advantage of the benefits available under the relevant DTAs. An entity must first obtain a Certificate of Residence (COR) from the Inland Revenue Authority of Singapore (IRAS) before it can claim treaty benefits as a Singapore tax resident.



The 2014 Asia Tax Comparator

Asia Briefing Magazine

November issue, 2013

available here

To obtain a COR, the control and management of a company's business must be exercised in Singapore. Merely being incorporated in Singapore will not be sufficient to meet this requirement. Factors considered by the IRAS include: whether Board of Directors' meetings are held in Singapore; the presence of other related companies in Singapore; and the presence of at least one executive director or key employee in Singapore.

A foreign-owned holding company in Singapore with only passive or foreign sources of income will need to provide reasons for setting up an office in Singapore, and convince the IRAS that its control and management are based in Singapore. Licence agreements, where intellectual property is registered in Singapore and licensed to an ASEAN subsidiary, or arrangements to provide management services from Singapore, are possible ways in which control and management might be exercised in Singapore.

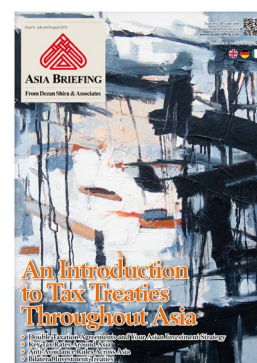
However, investors need to ensure they do not fall foul of anti-avoidance laws and transfer pricing regulations. The IRAS does not approve of "treaty shopping" or the abuse of its DTAs by entities with little commercial substance in Singapore, so foreign investors need to be alert to economic substance requirements under anti-avoidance provisions, which can override and disallow treaty benefits.

Permanent Establishment

The concept of "permanent establishment" (PE) features in virtually all DTAs. Under most DTAs, when an entity resident in one country carries out business in another country (the "source" country), business profits will not be taxed in the source country unless the business is carried out through a PE. Once PE status is triggered, the entity will usually be subject to corporate tax, and qualifying staff will be subject to individual income tax in the source country.

The terms of individual DTAs may vary, but a PE is generally defined as a fixed place at which the business of an enterprise is carried out, either wholly or in part. It typically includes a place of management, a branch, an office, a factory or workshop, etc. but can also cover certain activities (such as a building site, construction project, or provision of consultancy services) lasting over a certain period of time, usually ranging from 6 to 12 months. Moreover, a PE may also exist where an agent has, and habitually exercises, a general authority to negotiate and conclude contracts on behalf of the enterprise.

As the presence or absence of a PE usually determines where business profits are sourced and taxed for the purposes of a DTA, this can have significant implications for the legal structure or vehicle through which an entity chooses to conduct business.



An Introduction to Tax Treaties Throughout Asia

Asia Briefing Magazine

July Issue, 2013

available here

What Relief is Available?

There are two main methods by which Singapore and its treaty partners grant relief from double taxation: by credit and by exemption method. These methods may be used either separately or in combination.

a. The Credit Method

Under the credit method, Singapore will typically grant a foreign tax credit (FTC) to an entity that has paid taxes on business profits derived in the source state. The entity can then offset that FTC against its tax liability in Singapore. Singapore's laws provide that an FTC can only be offset against the tax liability arising from that same income in Singapore, and not against the entity's other income. Accordingly, if the source country's tax rate is higher than Singapore's, the entity will bear the source state's higher tax rate.

b. The Exemption Method

Under the exemption method, business profits that have already been taxed in the source state will typically be exempted from taxation in Singapore altogether. If the source state's tax rate is lower than Singapore's, the exemption method is preferable to the credit method as this results in a lower overall tax liability. Singapore's domestic laws also exempt foreign-sourced dividends, branch profits, and service income remitted into Singapore from further taxation, provided that they have already been taxed in the source country and the highest corporate tax rate (also known as the "headline" tax rate) is at least 15 percent, even if that income has not been taxed at the headline rate.

Tax Incentives and Concessions

Singapore and a number of other ASEAN countries offer favorable tax incentive schemes and concessions, aimed at attracting foreign investment. A number of Singapore's DTAs include "tax sparing" provisions, which ensure that benefits granted to foreign investors under the source state's tax incentive schemes will not be offset by the residence state's taxes. Under those provisions, the residence state treats the entity as if it had paid the usual corporate tax rate on that income in the source state, even when it has enjoyed a tax holiday or other concession. Essentially, the income is "spared" under the treaty in order to advance economic development. Currently, the countries with which Singapore has such agreements include Malaysia, Vietnam, the Philippines, Myanmar, Brunei, Canada, and New Zealand.

Withholding Tax: Dividends

Singapore does not have a dividends tax under its one-tier corporate tax system, meaning that a Singaporean company's after-tax profits can be distributed freely to both resident and non-resident shareholders without being subjected to further tax. A number of Singapore's treaty partners do levy withholding taxes on dividends, however, and many DTAs reduce the rate that would otherwise be applicable under domestic laws, as illustrated in the table on page 11.



“DTA considerations are essential to ensuring that a business operating across multiple jurisdictions can meet its tax obligations in those countries without suffering an excessive tax burden. Singapore’s favorable DTAs are key in allowing it to retain its status as an international investment hub, by enabling companies to stay competitive with local businesses in Asia.”

David Lee
Regional Manager
Dezan Shira & Associates Singapore

Withholding Tax: Interest and Royalties

Tax treaties help to clarify the jurisdiction in which interest or royalties are deemed to arise. The source state will usually be the jurisdiction in which the payer of the interest or royalty is resident. In certain cases both states will tax interest or royalty income, although at lower rates. Singapore's domestic withholding rate for interest and royalties derived by a non-resident through operations in Singapore is the prevailing corporate tax rate of 17 percent (or 20 percent in the case of individuals). For all other payments, the domestic withholding rates are 15 percent for interest and 10 percent for royalties.

An Illustration of DTA Relief Methods

The table below provides a hypothetical example of how a Singapore holding company would be taxed on business profits from a PE in a foreign country. The company in this example earns \$1,000 of income from its Singapore operations and \$1,000 in another ASEAN country with a domestic tax rate of 25 percent. While DTAs will provide for one of the two commonly used relief methods, this example demonstrates that the tax savings yielded under both methods are usually the same. As the table illustrates, the DTA offers tax savings, but the net income after tax is the same regardless of whether the credit method or exemption method is adopted when the foreign country's tax rate is higher than Singapore's (as will usually be the case). It is assumed in this example that a unilateral tax credit is not available and that the income does not consist of foreign-sourced dividends, branch profits, or service income. The foreign tax credit (FTC) is capped at 17 percent in the credit example, as Singapore does not allow FTCs to be offset against tax liability from other sources of income.

	Credit	Exemption	No DTA
Singapore-Sourced Income	1000	1000	1000
PE-Sourced Income	1000	1000	1000
Less: (DTA Exemption)	-	(1000)	-
Total Income Taxable in Singapore	2000	1000	2000
Singapore Tax (17%)	(340)	(170)	(340)
Foreign Tax (25%)	(250)	(250)	(250)
Plus: Foreign Tax Credit	170	-	-
Net Worldwide Tax Liability	(420)	(420)	(590)
Net Income After Tax	1580	1580	1410

	Parent Directly Investing into Indonesia	Parent Investing into Indonesia Through Singapore Subsidiary
Indonesian Company		
Profit Before Tax	100	100
Less: Indonesia CIT (25%)	(25)	(25)
Profit After Tax	75	75
Parent Company		
Dividend Income	75	75
Indonesian Dividend Withholding Tax	$75 \times 20\% = 15$	$75 \times 15\% = 11.25$
Singaporean Dividend Withholding Tax	-	-
Net Dividend Received	60	63.25

Routing Investment through Singapore

This second example shows how a business can save 3.75 percent in withholding tax by routing a hypothetical investment in Indonesia through Singapore. While Indonesia is used in this scenario, all ASEAN countries with the exception of Laos and Cambodia currently maintain tax treaties with Singapore, and would produce a similarly advantageous outcome when interposing a Singaporean holding company between the local and parent company. With the formation of the ASEAN Economic Community in 2015, Singapore's economic ties and relationships with its ASEAN treaty partners will only continue to be strengthened, granting companies utilizing the city-state as an operational hub a sharper edge.

In this hypothetical scenario, when an Indonesian subsidiary tries to remit profits directly to its parent company, it is subject to Indonesia's high 20 percent dividend withholding rate (assuming the parent company is located in a country that does not have a DTA with Indonesia providing for a lowered tax rate). This is displayed in the first column. By interposing a Singaporean holding company between the Indonesian company and its ultimate parent, displayed in column two, a business can avail itself of the lower 15 percent dividend withholding rate in the Indonesia—Singapore tax treaty. As Singapore does not impose withholding taxes on dividends, the Singaporean holding company can then remit profits to its parent without incurring further withholding tax liability.

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Human Resources and Payroll Considerations



- Key Considerations when Hiring Staff
- Payroll and Social Insurance

Key Considerations when Hiring Staff

Singaporean government agencies charged with monitoring compliance with labor laws and regulations include the Ministry of Manpower (MOM), National Trade Union Congress (NTUC) and Workforce Development Agency (WDA). The Singapore National Employers Federation (SNEF) also plays an important role in helping employers perfect their employment practices in order to enhance productivity and competitiveness.

Immigration Law

Most foreigners can enter Singapore for a maximum stay of 30 days without obtaining a visa, assuming their passport is valid for at least six months from the date of entry. For short business trips, it is also possible to obtain a visa upon arrival. Foreign nationals must obtain one of five valid work passes to work in Singapore, subject to the eligibility outlined in the chart below.

Eligible Individuals by Work Pass Type	
Work Pass Type	Eligible Individuals
Employment Pass	Foreign professionals working in managerial, executive or specialized jobs earning a fixed monthly salary of at least S\$3300 are eligible.
Personalized Employment Pass (PEP)	Unlike the Employment Pass, which must be cancelled when the pass-holder leaves an employer, Personalized Employment Pass holders are not tied to employers and are granted on the strength of an applicant's merit. PEP passes are valid for up to 3 years, and the holder is permitted to remain in Singapore for up to 6 months between jobs to evaluate new employment opportunities. To be eligible, overseas professionals must have a salary of S\$18,000 per month, or S\$12,000 per month if they are Employment Pass holders.
EntrePass	To obtain an EntrePass, applicants must be foreign entrepreneurs seeking to start a business in Singapore and meet specific qualifications, including holding at least 30 percent of shares in a company with at least S\$50,000 in paid-up capital.
S Pass	Mid-level skilled foreigners earning a fixed monthly salary of at least S\$2200 are eligible to obtain an S Pass.
Work Permits	If a foreign unskilled worker does not meet the criteria for other work passes, they are able to apply for a work permit on a case-by-case basis.

Source: Ministry of Manpower, <http://www.mom.gov.sg/foreign-manpower/passes-visas/Pages/default.aspx>

Contracts

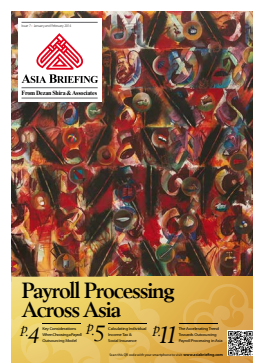
Singapore's Employment Act regulates employment terms and conditions for all employees in Singapore (regardless of nationality) under a work contract with an employer. Among other things, the Employment Act covers the following:

- Minimum days for giving notice of termination of contract
- Actions employers are entitled to upon misconduct of employees
- Salary periods, time of payment, etc.
- Maternity protection and benefits, and childcare leave for parents
- Holiday and sick leave entitlements

The essential clauses of a contract of service in Singapore include:

- Commencement of employment
- Appointment—job title and scope
- Hours of work
- Probation period (if any)
- Remuneration
- Employee benefits (sick leave, annual leave, maternity leave, etc.)
- Termination of contract—notice period
- Code of conduct

Singapore does not stipulate a statutory minimum wage, but rather promulgates the Recommendations for Annual Wage Adjustments through the National Wages Council.



Payroll Processing Across Asia

Asia Briefing Magazine

January Issue, 2014

available here

Selected Reliefs and Deductions for Foreigners with Singapore Tax Residence

Condition-Expense	Quantum-Rate
	Relief
Earned Income	From S\$1,000 to S\$8,000 depending on age
Course fees (related to employment)	Maximum S\$5,500
Life insurance policies with a company that has a branch in Singapore	Max S\$5,000; capped at the lower insurance premium paid in the preceding year; or 7% of capital sum assured on death
	Deduction
Employment expenses (just those expenses faced to produce income)	Employment expenses can be claimed if an individual satisfies the following conditions: expenses are incurred are carrying out official duties; expenses are not reimbursed by the employer; expenses are not capital or private in nature; expenses are incurred on public transport
Rental and Net Annual Value expenses	Depending on various parameters and conditions (residential, commercial etc.) and capped at S\$150,000
Donations	Up to 250% of the donations amount till 31 December 2015

Source: Inland Revenue Authority of Singapore, <http://iras.gov.sg/irasHome/page.aspx?id=11536>

Payroll and Social Insurance

The legal obligations of a Singapore company to its employees generally include assisting with individual income tax documentation and/or payment and managing contributions to the Central Provident Fund.

Withholding and Paying Individual Income Tax

Most employers choose to participate in the Auto Inclusion Scheme, a mechanism through which the employer files taxes for employees. Before September each year, the Inland Revenue Authority of Singapore (IRAS) will issue a Notice of Assessment to confirm a tax filing or signal a necessary revision. After receiving a confirmed Notice of Assessment, IIT payments can be made. "MyTaxPortal" serves as a portal for taxpayers to transact with IRAS electronically.

The basis period for the year of assessment runs from April 1 through March 31 of the following year. Within 30 days of receiving a Notice of Assessment (NOA), individuals should pay the amount indicated or, if an individual does not have any income to report, declare zero income on the tax form. A foreigner that stays for more than 183 days in Singapore is treated as a tax resident, and will need to pay taxes for all income received in Singapore. Income received outside of Singapore is exempt from taxation unless the income is received through partnerships, the overseas employment is incidental to Singaporean employment, or an employee is employed outside of Singapore on behalf of the Singaporean government. Non-residents are defined as "individuals exercising any profession of an independent nature (i.e. persons other than employees) in Singapore for less than 183 days in a calendar year under a contract for service" (e.g. foreign speakers, consultants, etc.). Non-resident tax-payers are subject to a 15 percent flat rate, excluding the "high-salary positions" (foreign directors are subject to a 20 percent rate).



“Most investors are aware of the importance of an employment contract, but many foreign investors ignore the value of the employee handbook and confidentiality agreement.”

Adam Livermore
Partner
International Payroll Operations Director

Progressive Individual Income Tax Rates	
Income Bracket (SGD)	Individual Income Tax Rate (%)
20,000 or less	0%
20,001 to 30,000	2%
30,001 to 40,000	3.5%
40,001 to 80,000	7%
80,001 to 120,000	11.5%
120,001 to 160,000	15%
160,001 to 200,000	17%
200,001 to 320,000	18%
320,001 or more	20%

Central Provident Fund Contribution Rates and Accounts* (% of wage)

Employee Age (Years)	Contribution Rate			Account Credited to		
	Employer	Employee	Total	Ordinary	Special	Medisave
35 & below	16	20	36	23	6	7
Above 35-45	16	20	36	21	7	8
Above 45-50	16	20	36	19	8	9
Above 50-55	14	18.5	32.5	13.5	9.5	9.5
Above 55-60	10.5	13	23.5	12	2	9.5
Above 60-65	7	7.5	14.5	3.5	1.5	9.5
Above 65	6.5	5	11.5	1	1	9.5

* For monthly wages \geq S\$1,500 (for this category, there are complex formulas calculating CPF contributions)
Source: Central Provident Fund Board, <http://mycpf.cpf.gov.sg/Employers/Gen-Info/cpf-Contri/ContriRa.htm>

Singapore's Central Provident Fund

In order to secure their income during retirement, Singaporean workers are required to contribute to a savings plan called the Central Provident Fund (CPF). The employer makes all payments into this fund, including those required of an employee, by withholding the required percentage from that employee's salary. The total amount collected is used to cover healthcare, housing, education, retirement income, and asset enhancement.

Individual CPF funds are further subcategorized into three savings accounts: the Ordinary Account, Special Account, and Medisave Account. The Ordinary Account can be used at any time to purchase a home, make investments, and provide for education. The Special Account cannot be touched until retirement unless the money is used to purchase retirement-related investment products. This account will serve as the income a retired person receives. The Medisave Account is used to pay for medical expenses or to pay for health insurance. Required employer contributions range from 6.5 percent to 16 percent depending on the age and wage of the employee. Required employee contributions range from 5 percent to 20 percent.

Employers of foreign workers do not have to pay CPF contributions unless the foreign employee becomes a permanent resident. Permanent residents have to contribute to CPF, with the first two years following the receipt of permanent resident status having lower required contribution rates. Applications to become a Singaporean Permanent Resident are open to certain employment pass holders, as well as entrepreneurs and investors looking to take up residence in Singapore.

More specific compliance requirements related to social insurance can be found on the Ministry of Manpower's website.

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