

# Singapore

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## 1.0 OVERVIEW

Singapore has a territorial, and to a limited extent, remittance basis of taxation. Under the Income Tax Act (Cap 134) (ITA), income that is sourced in Singapore or received in Singapore from outside Singapore is subject to income tax in Singapore, unless specifically exempted by the ITA.

Singapore resident companies may enjoy tax exemptions on certain types of foreign-sourced income received in Singapore, including dividends, branch profits and service income, provided the qualifying conditions are met. Singaporean residents are not taxed on foreign sourced income that is not received in Singapore. There is also no tax on capital gains.

Singapore imposes withholding tax on certain categories of payments made to non-residents, including interest, royalties, rent for movable property, management fees and technical assistance fees. However, Singapore has an extensive network of avoidance of double-taxation treaties (DTT), which may provide for tax relief, such as reduced withholding tax rates or foreign tax credits. In order to avail treaty benefits, a Certificate of Residence (COR) must be obtained to prove that the taxpayer is Singapore resident.

Goods and services tax (GST) is chargeable on certain supplies of goods and services in Singapore, and stamp duty is levied on the transfer of stocks, shares and immovable property in Singapore. Employers are required to make mandatory contributions to the Central Provident Fund (CPF) in respect of employees who are Singaporean citizens or who have permanent resident status.

## 2.0 LEGAL SYSTEM

Singapore operates under a common law legal system, which can be traced back to the English legal system. Its sources of law are the Constitution, legislation, subsidiary legislation (e.g., Rules and Regulations) and judge-made law. The judiciary in Singapore is comprised of the Supreme Court, the state courts and the family justice courts. In this regard, Singapore is known for its commitment to the rule of law and vigilance against corruption. Singapore is also a leading center for arbitration and international commercial dispute resolution, where parties may submit their disputes to the Singapore International Arbitration Centre or the Singapore International Commercial Courts.

## 3.0 TAXATION AUTHORITIES

Singapore's tax system is administered by the Inland Revenue Authority of Singapore (IRAS). The functions of the IRAS include collecting taxes and representing the Singaporean government in tax treaty negotiations, drafting tax legislation and providing advice on property valuation to the government.

## 4.0 BUSINESS VEHICLES

The types of business vehicles in Singapore include a company, sole proprietorship, partnership, branch, representative office and business trust.

### 4.1 Partnerships

#### 4.1.1 General partnership

A general partnership, other than a limited liability partnership, is not a separate legal entity and is not

treated as a separate assessable entity for tax purposes. Individual partners are assessed separately on their respective shares of income from the partnership on the relevant personal income tax rate, and corporate partners are taxed based on the prevailing corporate tax rate. A non-resident partner of a partnership regardless of whether the partner is a corporation or an individual conducting business in Singapore is assessed on their share of income computed in accordance with the general provisions of the ITA. Resident individual partners are taxed at the applicable marginal individual income tax rates. However, the graduated rates of tax do not apply to a non-resident. A non-resident individual partner is taxed at a flat rate of 22% on every dollar of partnership income accrued to him.

#### 4.1.2 Limited liability partnership (LLP)

An LLP registered in Singapore has the advantage of being a separate legal entity and providing limited liability protection for its partners. At the same time, an LLP retains the flexibility and tax transparency of a general partnership as it is not treated as a separate assessable entity for Singaporean tax purposes. If the LLP does not make any profit, various deductions—such as capital allowances, trade losses and donations—can be set off against the partners' own income from other sources (if any), subject to certain restrictions. The amount which is set off for a particular Year of Assessment is subject to a restriction based generally on the contributed capital of the partner. However, as the LLP is not considered a taxable



entity, it is not entitled to any benefit under Singapore's double-taxation treaties. Only Singaporean resident partners are able to claim treaty benefits.

#### **4.1.3 Limited partnership (LP)**

LPs are relatively new business vehicles, only having come into operation in 2009. An LP consists of both general partners and limited partners and is not considered a legal entity for corporate law purposes. However, only the general partner is personally liable for all debts, liabilities and obligations of the LP; the limited partner's liability is limited to the amount contributed. For tax purposes, the tax treatment of LPs is similar to that of general partnerships and LLPs, whereby the LP is not taxed separately. Instead, each partner of the LP is taxed on their share of the LP's income, although the tax treatment of a general partner is different from the tax treatment of a limited partner. The general partner is taxed in the same manner as the partners in a general partnership, whereas the limited partner is taxed in the same manner as the partners in an LLP.

## **4.2 Corporations**

Incorporating a company in Singapore is relatively straightforward. The Accounting and Corporate Regulatory Authority of Singapore generally requires the submission of a company's constitution, identification of the corporate officers and establishment of the company's name before the incorporation will take effect. However several considerations ought to be taken into account before incorporating a company, some of which are elaborated below.

### **4.2.1 Company limited by shares**

A company with a share capital, generally, could be a public or a private company. There are two material differences between a private and a public company:

- i. The first difference is restrictions on the right to transfer shares. The Companies Act has made it a prerequisite that, before any private company can be incorporated, the company has to ensure that its constitution restricts the right to transfer its shares. Public companies do not require the same restrictions but might also have such restrictions. While the specific prohibition on the right to transfer shares is not legislated, the usual practice is to give other members the right to buy the shares first, before an existing shareholder can transfer the shares to non-members, known as preemptive rights
- ii. The second material difference is a limitation on the number of members. A private company cannot have more than 50 members.

### **4.2.2 Company limited by guarantee (CLG)**

A CLG is a public company by virtue of the fact that it does not have share capital. Only companies that have share capital may be formed as a private company. In a CLG, as the name suggests, the members' liability is limited to the amount stated in the constitution, which they undertake to contribute to the assets of the company in the event of its winding up. CLGs have limited fundraising abilities, given their lack of share capital. Therefore, such companies are usually employed by persons

who wish to carry out nonprofit ventures, such as for charitable, educational or religious purposes.

CLGs that are registered as a charity under the Charities Act may be exempt from tax. Some conditions must be met to qualify for registration, including having a charitable purpose.

### **4.2.3 Unlimited liability company**

Unlimited liability companies are a rarity in Singapore. This is because people usually incorporate companies to benefit from the separate legal entity doctrine, which in turn gives members limited liability. In unlimited liability companies, the members' liability is unlimited. The only difference between an unlimited liability company and a normal partnership is that, given the separate legal entity doctrine, creditors cannot pursue the members directly, even though they are, in principle, guarantors of the company's debts. Given the drastic nature of unlimited liability, such companies are usually incorporated when mandated by law or rules.

## **4.3 Foreign corporation (with or without a Singaporean branch)**

Under the ITA, a taxpayer is either resident or non-resident in Singapore. While both residents and non-residents are subject to the same basis of taxation (i.e., on source and remittance), the concept of residence is important as it impacts the tax treatment of the taxpayer in question. For example, the applicable tax rates may differ, and certain exemptions of income and the applicability of foreign tax credits are only available to residents. Further, payments

of income sourced in Singapore but made to non-residents are generally subject to withholding tax in Singapore.

The tax residency of a company is not dependent on the location where the company is incorporated or registered. A company will be deemed resident in Singapore for tax purposes if the control and management of its business is exercised in Singapore. It may also change depending on the location its control and management is exercised for the applicable Year of Assessment. The term “control and management” refers to the executive level of decision-making and policy-forming functions, which are normally carried out by the company’s board of directors. It does not refer to the company’s day-to-day business operations.

Since a branch is not a legal entity separate from the head office, a branch will be considered controlled and managed where the head-office management is located. As such, a Singaporean branch of a foreign corporation would, in most circumstances, be treated as a non-resident for tax purposes. Consequently, a payment of specified income made to a Singaporean branch derived from the business activities of the Singaporean branch will normally be subject to withholding tax. However, it was announced in 2014 that withholding would generally not be required on payments made to branches on or after February 21, 2014. Singaporean branches of non-resident companies are, however, still taxed on such payments directly and are required to declare them in their annual income tax returns.

#### 4.4 Trusts

Business trusts registered under the Business Trust Act are treated like a company under the one-tier system. This is because the economic purposes, structure and operation of a registered business trust are similar to those of a company. The income of a registered business trust is assessed on the trustee-manager. Unit holders of the registered business trust are not taxed on their share of the statutory income of the trustee-manager to which they are entitled (whether distributed or not) and no credit is allowed to unit holders for the tax paid by the trustee-manager.

Apart from business trusts, most other trusts are tax transparent in most situations, except in certain circumstances. This means that the trust will not be taxed, but beneficiaries who are entitled to the relevant income may be taxed. A number of tax incentives are available in relation to trusts, such as foreign trusts, foreign charitable trusts and locally administered trusts. These incentives are designed to promote the trust industry in Singapore and encourage the use of Singaporean trusts.

### 5.0 FINANCING A CORPORATE SUBSIDIARY

#### 5.1 Equity financing

##### 5.1.1 Contributions for shares

The contributed capital of a company is defined under the ITA as the aggregate amounts received by the company, whether in cash or in another form of valuable consideration, for shares that the company has issued. There are generally no income tax implications

on an issuance by a Singaporean company of shares, although depending on the nature of the rights of the shares issued, certain types of shares may be treated as debt for tax purposes. Dividends issued in respect of shares held in a Singapore-resident company are not taxable in the hands of the shareholders, under the one-tier corporate tax system in Singapore.

##### 5.1.2 Distributions of paid-up capital

The Singapore Companies Act contains limitations as to the reduction of share capital by a company. Generally, court approval is required before the company’s share capital may be reduced. This is to protect the interests of the creditors; given the separate legal personality, creditors may only turn to the company for the full satisfaction of their debts.

There are generally no income tax implications of a reduction of a company’s share capital. Whether the share capital reduction is deemed as a payment of dividend by the company to the shareholders or a payment of capital, there are no income tax implications given that there is no tax on capital gains nor on dividends under the one-tier corporate tax system in Singapore.

#### 5.2 Debt financing

##### 5.2.1 Thin capitalization

There are no thin capitalization rules in Singapore. Loans entered into between related parties are, however, subject to transfer pricing rules, under which interest is to be determined for tax purposes at an arm’s length rate. Interest payments are tax deductible against income if wholly and exclusively incurred in producing the income.



### 5.3 Stamp duty

Stamp duty is payable on a conveyance of Singaporean immovable property, stock or shares, pursuant to the Stamp Duties Act. There are also additional stamp duty issues in transferring shares of a company whose assets consist primarily of Singaporean residential property.

## 6.0 CORPORATE INCOME TAX

### 6.1 Income tax rate

All companies are taxed at a flat rate of 17% on both Singapore-sourced income and foreign-sourced income received in Singapore (unless otherwise exempted). This is unlike resident individuals, who are taxed at progressive rates up to 22%.

Various government bodies administer tax incentives that award eligible taxpayers who derive qualifying income a concessionary tax rate or a tax exemption on their qualifying income. Some of the examples are listed below:

- Financial Sector Incentive (FSI): Companies engaged in qualifying activities in the provision of financial services may apply for FSI status. Approval is conditional on certain items, including a minimum number of professional staff stationed in Singapore to perform the qualifying activities.
- Foreign trusts and foreign accounts of charitable purpose trusts (including any eligible holding company owned under the trust or account) are generally exempt from tax on their investment income. The trusts have to be administered by approved trustee companies.
- For foreign investors seeking to locate manufacturing operations or the performance of high value-added services in Singapore, the Pioneer or Pioneer Services Incentives, as well as the Development and Expansion Incentive (DEI), are available. Pioneer status entitles the Singaporean entity to full tax exemption, whereas the DEI entitles it to a concessionary tax rate as low as 5% on income exceeding the average corresponding annual income for the three years before the commencement of the incentive.



## 6.2 Capital gains

There is presently no capital gains tax in Singapore. However, gains from trading activities may not be treated as capital gains. Whether a gain is characterized as income or capital gain is a matter of fact and is to be determined on a case-by-case basis, based on various factors.

## 6.3 Computation of taxable income

Singapore adopts an annual, preceding-year basis of assessment. For example, the basis year in which income tax is calculated and charged for Year of Assessment 2012 is January 1, 2011, to December 31, 2011.

### 6.3.1 Taxable base

Taxable income generally refers to gains or profits from any trade, business or profession or vocation less deductions, allowances and approved donations.

### 6.3.2 Deductions

Generally, the deductibility of expenses is governed by subsection 14(1) of the ITA, which provides that, for the purpose of ascertaining the income of any person for any period from any source chargeable with tax, there shall be deducted all outgoings and expenses wholly and exclusively incurred in the production of income chargeable with Singaporean income tax.

### 6.3.3 Capital allowances

Capital gains are not subject to tax in Singapore. Conversely, capital expenses are generally not deductible against taxable income in Singapore. However, under the ITA, if a company incurs a capital expenditure in acquiring certain capital assets, it is allowed to

claim capital allowances, which is similar to tax depreciation. Capital allowances may be claimed against the taxable income of the company. Capital assets which are eligible for capital allowances include certain buildings and structures, plant, machinery or equipment used by the company to carry on its trade.

## 6.4 Income tax reporting

The ITA provides for the Comptroller of Income Tax to issue a notice requiring the taxpayer to furnish a return of total income and all relevant information. The government announced in 2016 that the e-filing of corporate income tax returns will be made mandatory by Year of Assessment 2020. Currently, it applies only to companies with turnover of more than S\$1 million in the Year of Assessment 2018.

## 7.0 CROSS-BORDER PAYMENTS

### 7.1 Transfer pricing

Transfer pricing refers to the pricing of goods, services and intangibles between related parties. The ITA contains provisions and regulations governing transfer pricing in Singapore, and the Comptroller is allowed to make adjustments to inter-company transactions if they are not made at arm's length. The adjustments may be made through the income, deductions or losses of the taxpayer.

From 2019 onwards, it will be mandatory for companies, firms (which include partnerships) and trusts with turnover exceeding S\$10 million for the basis period concerned to keep contemporaneous transfer pricing documentation. The law requires the pricing documentation for each transaction to be kept in safe

custody for a period of at least five years from the end of the basis period in which the transaction took place. Noncompliance without reasonable excuse will attract a financial penalty.

## 7.2 Withholding tax

Generally, certain categories of payments made to non-residents will be subject to withholding tax. Payments that are subject to withholding tax, as stipulated under the ITA, include interest, royalties, rent for movable property, management fees and technical assistance fees. In most cases, the applicable domestic rate for withholding tax is 17%. However, for interest, royalties or rent, if the income is not derived from any trade, business, profession or vocation carried on or exercised by the recipient in Singapore, and is not effectively connected with a permanent establishment of the recipient in Singapore, it will be subject to a 15% final withholding tax, except in the case of royalties, where the withholding tax rate is 10%. In the case of the 17% rate, the withholding tax is not final and partial refunds can be claimed by filing tax returns and claiming deductions for expenses incurred in earning the income in question.

Withholding tax rates may be reduced under any of the more than 80 DTTs to which Singapore is a party, if applicable.

## 8.0 PAYROLL TAXES

### 8.1 Central Provident Fund contributions

The CPF was established as a compulsory savings scheme in Singapore in 1955. Under the CPF Act, employers have to make



mandatory contributions to the CPF accounts of each employee who is a Singaporean citizen or who is a Singaporean permanent resident, based on the level of wages earned by each employee. CPF contributions are prohibited for expatriate employees.

The use of CPF funds by the account holders are generally restricted to purchase of residential properties, and health care costs for either themselves or their immediate family members. The CPF Act governs the use of the CPF funds by the account holders.

## 9.0 INDIRECT TAXES

### 9.1 Goods and services tax

GST is a tax on the domestic supply of goods and services. It is a multi-stage tax where the tax burden is intended to fall on the final consumer. Effective from July 1, 2007, the GST rate is 7%. However the Singaporean government announced in 2018 that the GST rate may be increased from 7% to 9% sometime in the future from 2021 to 2025.

Generally, the GST charged on outputs is known as the output tax, and the GST paid on inputs is known as the input tax. The difference between the output tax and the input tax is the amount payable to the IRAS. When the output tax is lower than the input tax however, IRAS will refund the difference to the person or entity.

GST is chargeable on taxable supplies only, which is defined under the GST Act as a supply of goods or services made in Singapore other than an exempt supply. Generally, the exempt categories are the sale and lease

of residential properties, financial services and the supply and import of investment precious metals. Certain taxable supplies are zero-rated supplies (GST chargeable at 0%), namely, exports of goods and provision of international services.

GST is also chargeable on imports into Singapore. Import GST applies on most goods (subject to specific reliefs, exemptions or special schemes). To level the GST treatment for all services consumed in Singapore, the Minister for Finance announced in Budget 2018 that import GST will also be imposed on imported services from January 1, 2020, through (i) a reverse charge regime for business-to-business supplies of imported services and (ii) an overseas vendor registration regime for business-to-consumer supplies of imported digital services.

### 9.2 Customs and exercise duties

All "dutiable goods" imported into or manufactured in Singapore are subject to customs duty and/or excise duty. Customs duty is duty levied on goods imported into Singapore, excluding excise duty. Excise duty is duty levied on goods manufactured in, or imported into Singapore. The duties are based on ad valorem or specific rates. The law presently provides for four categories of dutiable goods: liquor, tobacco, petroleum products and motor vehicles.

## 10.0 REAL ESTATE

In Singapore, property taxes apply on property ownership with rates differing depending on whether the property is commercial or residential, and if residential, whether the property is owner-

occupied, rented out or left vacant. For residential properties, owner-occupier tax rates range from 0% to 16% and non-owner occupied rates range from 10% to 20%. The applicable tax rates depend on the relevant "Annual Value" bands. Commercial (non-residential) properties are taxed at 10% of the Annual Value of the property. The Annual Value is the estimated annual rent of the property.

Purchasers of commercial properties are also liable to pay GST of 7% on the market value of the property purchased. The sale and lease of residential properties are however exempt from GST. As mentioned in section 5.3 above, stamp duty is applicable on instruments for the sale, purchase or lease of immovable property in Singapore.

For a sale of residential properties, the following duties apply:

- Buyer's stamp duty (BSD)
- Additional buyer's stamp duty (ABSD)
- Seller's stamp duty (SSD) for residential property
- Effective March 11, 2017, additional conveyance duties also apply in a purchase or sale of shares or units ("equity interests") in property-holding entities that own primarily residential properties in Singapore.

For a sale of **non-residential** properties, the following duties apply:

- BSD
- SSD for industrial property