

Tax Excellence Decoded

Grasp the Entirety to Tax Incentives

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Accredited Tax Advisor (Income Tax) Ho Kah Chuan shared on the various tax incentives and issues organisations need to be mindful of to gain the benefits from tax incentives.

The relatively low tax rate, plethora of tax incentives, numerous tax treaties and free-trade agreements continue to position Singapore as an attractive business hub and a strong base for regional expansions. Providing greater clarity and highlighting practical issues on relevant tax-related schemes designed to spearhead a company's expansion plans into or out of Singapore were the objectives of a half-day presentation by representatives from International Enterprise Singapore and KPMG in Singapore, organised under the Singapore Institute of Accredited Tax Professionals' (SIATP'S) *Tax Excellence Decoded* series.

Global Company Partnership Scheme (GCP)

The GCP supports companies in their internationalisation plans in four key areas namely capability building, market access, market development and access to financing. Funding is provided for a wide spectrum of expenses ranging from market feasibility studies to third party consultancy fees, and even supports insurance, rental and basic salary of business development staff, subject to various conditions.

Market Readiness Assistance Scheme (MRA)

The MRA supports companies in dispensing information through various platforms, understanding the various markets through seminars and workshops, and providing financial assistance through funding and tax deductions on eligible expenses.

To illustrate the use of MRA, a restaurant chain may wish to expand its presence into Indonesia through franchising. The MRA can be leveraged to identify potential in-market business partners and subsidise costs such as the drafting of franchising agreements.

Double Tax Deduction (DTD) for Internationalisation Scheme

Companies enjoy a 200% tax deduction through this scheme. For example, a company participating in an overseas tradeshow may claim twice the amount of qualifying expenses to be deductible. These expenses could be for the production of marketing brochures, advertising campaigns and/or the set-up of overseas representative offices. In addition, the first \$100,000 of qualifying expenditure is automatically approved.

An added point to note is that the DTD may also be used on expenses incurred when participating in international trade fairs held in Singapore that will aid outbound investments. The DTD cannot be used for participation in trade fairs held in Singapore that promotes business activity in Singapore.

Integrated Investment Allowance Scheme (IIA)

Companies in labour- and capital-intensive sectors considering to move some of their operations to immediate neighbouring jurisdictions like Iskandar Malaysia, Batam or Bintan, may apply for the IIA prior to investing in equipment to enjoy additional capital allowance claims.

If successful, a company could claim additional capital allowance (not more than 100%) on equipment cost over a period not exceeding five years (eight years if the equipment is acquired under a hire-purchase agreement) even if the equipment is used in a foreign jurisdiction.

Global Trader Programme (GTP)

Administered by IE Singapore, the GTP is a tiered programme where companies may enjoy a 5% or 10% concessionary tax rate depending on the level of offshore trading activities. The higher the trading volume and size of operations, the higher the chance of seeking a lower tax rate. Companies leveraging on this scheme will need to keep track of where their suppliers and customers are. Goods need not physically pass through Singapore. Any local value-added component is excluded from this scheme.

Unknown to many, there is an extended incentive tied to the GTP programme, which is the GTP Structured Commodity Financing Scheme [GTP (SCF)]. It encourages companies under the GTP to undertake structured commodity financing activities to mitigate the trading supply chain risk against an underlying physical trade transaction in Singapore. These include activities such as factoring, hedging and pre-payment arrangements.

Headquarters Programme

Comprising both the International Headquarters (IHQ) Award and Regional Headquarters (RHQ) Award, this programme broadly reviews headcount, headcount composition, the number of affiliates and subsidiaries under the purview of the headquarters among various factors before awarding companies accordingly. Companies awarded with RHQ status enjoy a 15% concessionary tax rate on incremental qualifying income. The tax rate ranging from 0% to 10% is more attractive for the IHQ Award. Correspondingly, the criteria are more stringent for the IHQ Award than RHQ Award.

Finance and Treasury Centre (FTC) Scheme

Another popular scheme is the FTC Scheme. Companies using Singapore as a regional or global centre for finance and treasury operations can consider applying for the FTC scheme and obtain a concessionary tax rate of 5% or 10% on the income derived from various treasury activities. In addition, there is a withholding tax exemption on interest from foreign loans.

Pioneer Incentive

Possibly one of the most attractive incentives, the Pioneer Incentive provides a full exemption of income tax for pioneer income derived during the tax relief period which may be up to a maximum of 15 years.

It must be noted that once companies are awarded the Pioneer Incentive, the qualifying period begins regardless of incidences where the companies are in a loss position in the initial years and thus not able to leverage on this incentive.

Another point for companies to note is the need to claim capital allowances during the qualifying period under the Pioneer Incentive. After the Pioneer Incentive qualifying period, any unutilised capital allowance can then be carried forward.



Investment Allowance

Companies that invest in high capital intensive activities and may be in a loss position in the initial years will find the Investment Allowance scheme more suitable than the Pioneer Incentive. In the Investment Allowance scheme, companies enjoy an additional tax depreciation (not more than 100%) on top of the usual capital allowance, for productive equipment delivered to Singapore and used in Singapore. This lowers the companies' tax burden, can be carried forward indefinitely and set off against other income streams.

Development and Expansion Incentive

This incentive appeals to multinationals projecting a significant increase in profits from a planned expansion of activities. Firstly, the average profit before tax for the last three years is determined and subject to the prevailing corporate income tax rate of 17%. The incremental profits from qualifying activities are then determined and a concessionary tax rate of 5%, 10% or 15% applied. This incentive could be granted up to 10 years with extensions of not more than five years, up to a maximum of 40 years.

To heighten the convenience, the incentive has also been updated to ease the computation after the initial 10 years. On the 11th year, companies need not recompute the base profits again. Companies under this scheme simply increase the tax rate by 0.5% every five years thereafter. Thus, if a company was enjoying a concessionary rate of 10% for the initial 10 years, the tax rate will increase to 10.5% from the 11th year and 11% after the subsequent five years.

Approved Royalties Incentive

To scale up the technical knowledge of Singapore's workforce, companies transferring technology from their head office to set up, say, manufacturing facilities in Singapore can apply for the Approved Royalties Incentives. Royalty payments to the head office are exempted from withholding tax of 10% or subject to a reduced rate of 5%. The scheme also covers technical assistance fees including head office staff deployed to Singapore to provide technical support for the initial start-up.

Approved Foreign Loan Incentive Scheme

In another scheme targeted at the manufacturing sector, the withholding tax cost of obtaining foreign loan is lowered or eliminated altogether with this scheme. Without this scheme, companies which invest in productive equipment or machinery in Singapore and obtain foreign loans are subject to 15% interest withholding tax or at best, a reduced rate if an applicable tax treaty is in force.

Land Intensification Allowance

Companies which invest in constructing new industrial buildings or structures to make more productive use of land may apply for the Land Intensification Allowance to be granted a tax depreciation of 25% and an annual allowance of 5% of qualifying capital expenditure.

Productivity and Innovation Credit (PIC) Scheme

An incentive to support companies investing in research and development (R&D), innovation and intellectual property (IP) management activities is the PIC scheme, and the PIC+ scheme designed for small and medium-sized enterprises (SMEs).

Companies may obtain 400% tax deduction on qualifying expenditure incurred on R&D activities on the first \$400,000 or \$600,000 of qualifying expenditure under the PIC and PIC+ schemes respectively. Alternatively, businesses may opt for the PIC cash payout instead.

In addition, there is the PIC Bonus comprising a dollar-for-dollar matching cash bonus of up to \$5,000 per year of assessment (YA) from YA 2013 to YA 2015, which will help micro-SMEs kick-start their productivity and innovation efforts.

Tax Incentive Related Issues

Besides knowing which tax incentives are relevant, company executives also need to be aware of various issues associated with tax incentives.

Meeting the Incentive Conditions

Incentivised companies need to ensure incentive conditions are met. Thus, milestones must be tracked on a timely basis, failing which, there is a risk that the incentive benefits may be clawed back.

Similarly, some tax incentives like the PIC Scheme and Investment Allowance Scheme may prohibit businesses from disposing of certain fixed assets. Processes must therefore be put in place to track assets to ensure compliance.

Apportionment Issues

Various income streams such as interest and rental income may not be covered under the concessionary tax rate incentives. Relevant income and expenses need to be identified and apportioned using a reasonable basis to be applied consistently throughout the incentive period. This could be an issue for companies without sophisticated accounting systems to identify, categorise and track relevant revenue/expense items.

Incomplete Supporting Documents

Proper supporting documents must be kept and made readily available to substantiate tax deduction claim against the income.

Changes in the Incentive Policy

There may also be changes to incentive policy from time to time, and these have to be communicated to relevant finance and accounting staff.

Tax Sparing Relief

Companies should take note of any tax sparing relief in tax treaties where tax exemption under incentives will be deemed to be tax paid for the purpose of granting a tax relief in cross-border transactions.

Controlled Foreign Corporations (CFC)

Some countries that have CFC rules may view a tax incentive company in Singapore as a CFC of its parent company, which could result in the income earned in Singapore, even if not repatriated, to be subjected to tax in the home country, wiping out the tax incentive benefits in Singapore.

Maximising the Benefits

With the wide range of incentives available, companies need to analyse and determine which are the most appropriate scheme(s) to apply for. Sometimes a financial grant may be more beneficial than a tax incentive. Moreover, the timing of application is important as all incentives are applied prospectively. Thus, income or expenses that occurred before would not be covered by the incentive.

Incentive Compliance Framework

In some cases, companies have to engage an auditor to certify that the company is on track in achieving its incentive conditions. In recent years, IRAS has also required certain incentivised companies to declare that processes and internal controls are in place to track and properly categorise income streams and expenses.

While incentives are aplenty and may seem attractive to businesses, companies need to be mindful of the intricacies discussed and relevance of the schemes, in order to gain the most benefits. It's essential to keep an eye on the details.

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About SIATP's Technical Discussions

SIATP's technical discussions have continually been very well received by accredited tax professionals. Unlike the run-of-mill Continuing Professional Educational courses which typically cover tax fundamentals, SIATP's interactive technical discussions are designed to cover tax issues that do not have clear-cut solutions or situations that may have different interpretations. Over time, these discussions contribute in boosting the overall tax standards in Singapore.

About Mr Ho Kah Chuan



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Kah Chuan is the key member of the Enterprise Incentive Advisory group which assists companies to plan, strategise and negotiate for incentive support from the government. He has more than 13 years of experience in the areas of tax advisory, tax policy formulation, tax treaty negotiation, tax audit and tax compliance services.

Kah Chuan started his career with the Inland Revenue Authority of Singapore, specialising in taxpayer audit and corporate tax compliance. He was seconded to the Singapore Ministry of Finance to work on corporate and international tax reforms, and also worked in the Singapore Economic Development Board where he was involved in formulating incentive and tax policy matters and advising multi-national corporations to structure their operations in Singapore in a tax-efficient manner.

A regular speaker for seminars on international tax issues, Kah Chuan has written various academic articles and policy papers on tax issues.

This technical event commentary is written by SIATP's Assistant Director, Joanna Wong.