Singapore has long been recognised as a jurisdiction of choice for setting up a holding company.

Strategically located in Asia and well supported by its excellent financial infrastructure and pro-business environment, Singapore is a major international transportation hub in Asia, positioned on many sea and air trade routes. Its airport – Changi Airport – is considered as one of the best in the world; it provides one easy access to major cities in the Asia Pacific, North America, Europe and the Middle East.

Singapore is also home to one of the busiest ports in the world. Having the most extensive international port connections and sophisticated port infrastructure makes it one of the best and preferred port in the world.

Singapore is well-known as a location which promotes ease in the setting up of a new business. According to the IMD World Competitiveness Yearbook 2010, it is ranked the least bureaucratic place for doing business in Asia. Singapore is also the world’s easiest place to do business'. There are strict regulations regarding the protection of intellectual property and various dispute resolution channels are also available. Singapore’s simple and business-friendly tax system, coupled with an open immigration policy that facilitates the relocation of foreign talent to Singapore, attracts foreign investors to Singapore.

The availability of skilled workforce in Singapore also contributes to the success of Singapore being the preferred holding company jurisdiction in Asia. Singapore has made significant investments in developing a highly regarded education system that produces a capable and skilled workforce. English is widely spoken in Singapore, and the literacy rate in 2010 based on the population aged 15 years and above is close to 96 percent. Relatively low personal income tax rate, coupled with excellent quality of life, also attracts foreign skilled talents to Singapore.

Although taxation may not be the only factor to locate a holding company in a certain jurisdiction, Singapore’s simple and business-friendly tax system plays an important role in attracting foreign investors.

In this issue, we highlight Singapore’s position as a holding company location for outbound investment, notably for entering the Asian emerging markets.

¹ Source: Doing Business 2011 Report, World Bank (Note: The rankings are from the Doing Business 2011 report, covering the period June 2009 through May 2010)
Singapore’s competitive tax regime

In Singapore, taxes are levied on the income of companies and individuals. In addition, there are Goods and Services Tax (a tax on consumption) and property tax (a tax on the use of property). There is however no capital gains tax.

- **Taxation of companies**

  Singapore’s taxation system is territorial. Companies in Singapore are subject to tax on income accruing in or derived from Singapore and foreign income received in Singapore from outside Singapore.

  As of 1 June 2003, foreign-sourced dividends, foreign branch profits and foreign-sourced service income received in Singapore by a person resident in Singapore is exempt from income tax if the following conditions are met:

  1. **the headline tax rate** of the foreign jurisdiction from which the income is received is at least 15 percent;
  2. **the income is subject to tax** in the foreign jurisdiction from which it is received; and
  3. **the Comptroller of Income Tax** is satisfied that the tax exemption would be beneficial to the person resident in Singapore.

Where the above conditions are not met, there is still an avenue to apply for specific tax exemption to the Comptroller of Income Tax. Approval would generally be granted on a case-by-case basis. Where the resident recipient of the income is not entitled to the foreign-sourced income exemption scheme, he may, nevertheless, still be able to claim credits for the foreign tax suffered on such foreign-sourced income.

- **Corporate income tax rate**

  The prevailing corporate tax rate in Singapore is 17 percent. Typically, the headline corporate tax rate in Singapore as in many other jurisdictions, does not necessarily provide an accurate indication of effective corporate tax rate. The effective tax rate is normally lower than the headline tax rate due to applicable tax exemptions or tax incentives, for example. Following a general partial tax exemption (where $152,500 of chargeable income is exempt from tax) on the first $300,000 of taxable income, the effective tax rate for small-to-mid sized Singapore companies is reduced significantly when compared to the corporate tax rate in Hong Kong of 16.5 percent (or 15 percent for unincorporated businesses). Furthermore, Singapore provides a number of incentive schemes which, where applicable, could reduce the headline corporate tax rate on qualifying activities to 10 percent or 5 percent.

  The effective corporate tax rate for Singapore companies for taxable profits up to $300,000 is below 9 percent and capped at 17 percent for amounts above $300,000 (Figure 1).

By keeping corporate tax rates competitive, Singapore continues to attract a good share of foreign investment.

---

**Figure 1: Corporate tax rates**

<table>
<thead>
<tr>
<th>Income</th>
<th>Effective corporate tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate profits for up to $300,000</td>
<td>8.4%</td>
</tr>
<tr>
<td>Corporate profits above $300,000</td>
<td>17%</td>
</tr>
<tr>
<td>Capital gains derived by the company</td>
<td>0%</td>
</tr>
<tr>
<td>Post-tax profits (i.e. dividend) distribution to shareholders</td>
<td>0%</td>
</tr>
<tr>
<td>Foreign-sourced income not brought into Singapore</td>
<td>0%</td>
</tr>
<tr>
<td>Foreign-sourced income brought into Singapore</td>
<td>0% - 17% subject to conditions</td>
</tr>
</tbody>
</table>
Based on the assumed data of chargeable income of US$2 million for the income years of 2009, 2010, and 2011, Figure 2 shows that Singapore ranks at first position with the lowest effective corporate tax rate and Hong Kong comes in second in the Asia Pacific region.

- **Shareholder dividends are not taxable**

Under the current one-tier corporate tax system, corporate profits would be taxed at the corporate level. The corporate tax paid is a final tax and Singapore dividends distributed out of the corporate profits are tax exempt in the hands of its shareholders. In addition, Singapore does not impose withholding tax on dividends.

- **No capital gains tax**

There is no capital gains tax regime in Singapore. Singapore income tax is imposed on the gain on disposal of shares/investments if the gain is regarded as a revenue gain sourced in Singapore².

- **Tax incentives**

Singapore is renowned for its extensive tax incentive schemes to companies, which can be tapped by businesses keen to invest in Singapore. There are two main categories of tax incentives: those administered by the Singapore Economic Development Board under the authority of the Economic Expansion Incentives (Relief from Income Tax) Act, and those granted under the Singapore Income Tax Act itself. Examples of these incentives include the Financial Sector Incentives Scheme, Headquarters (HQ) Programme (which comprises the Regional Headquarters (RHQ) tax incentive and International Headquarters (IHQ) tax incentive) and the Global Trader Programme, where qualifying income is taxed at concessional income tax rates at 0 percent, 5 percent or 10 percent that significantly reduces the headline tax rate of Singapore companies.

- **Taxation of individuals**

Singapore's competitive personal income tax rates may attract both local and foreign talents to be based in Singapore.

Singapore's personal tax rates start at 0 percent and are capped at 20 percent (above $320,000) for residents and a flat rate of 15 percent for non-residents. Figure 3 shows that Singapore has the lowest personal income tax rates among the selected Asia Pacific countries based on an annual gross salary of US$150,000. Figure 3 is based on the following assumptions:

1. Gross Salary: US$150,000 p.a. (converted to the respective local currencies using the published exchange rates as at 30 November 2010 for purpose of this comparison. (Note that some of the Asia Pacific countries may have official exchange rates that must be used.)

2. Employee is an expatriate married with two children (qualifying for child relief claim) and is not entitled to any benefits-in-kind.

3. He makes no contribution to any approved pension fund in the country of employment.

4. In the case of Indonesia, it is assumed that the expatriate has obtained a tax identification number (NPWP).

5. For Australia, it is assumed that the expatriate previously resided in a country that Australia does not have a reciprocal health care agreement with and is therefore not liable to Medicare Levy.

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² Whether proceeds should constitute capital gains rather than revenue would depend on a number of factors such as length of ownership of shares/investments, frequency of similar transactions being carried out, the motive/intention at the time of acquisition of shares/investments, etc. None of the factors is in itself conclusive in determining the nature of the profits. The determination is a collective assessment of all factors, and each case would depend on its own set of facts and circumstances.
Figure 2: Comparison of effective corporate tax rates of selected countries in Asia Pacific

Figure 3: Comparison of effective personal income tax rates of selected countries in Asia Pacific
Extensive tax treaty network

It is a well-known fact that Singapore has an established network of more than 60 comprehensive double taxation agreements. With 65 treaties currently in force, a Singapore tax resident company may avail itself of treaty benefits on its income sourced in the respective treaty country (Figure 4).

The treaty benefits include the availability of reduced withholding tax rate or exemption from withholding tax on certain classes of income, such as dividends, interest, royalties and profits from international shipping and air transport, derived by the Singapore company from a treaty country. Also, the Singapore company can claim a tax credit for the foreign tax suffered in a treaty country against its Singapore tax payable on income sourced in that treaty country when such income is received in Singapore.

The adoption of a Mutual Agreement Procedure (MAP) in the Singapore’s tax treaties offers a dispute resolution channel in the event of transfer pricing adjustments.

It enables both the Inland Revenue Authority of Singapore (IRAS) and the tax authorities of the respective treaty country to consult with each other with a view to resolving the situation of taxpayers subjected to taxation not in accordance with the provisions of the tax treaty.

Figure 4: Singapore's tax treaty network

<table>
<thead>
<tr>
<th>Country 1</th>
<th>Country 2</th>
<th>Country 3</th>
<th>Country 4</th>
<th>Country 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Estonia</td>
<td>Kazakhstan</td>
<td>New Zealand</td>
<td>South Africa</td>
</tr>
<tr>
<td>Austria</td>
<td>Fiji</td>
<td>Kuwait</td>
<td>Norway</td>
<td>South Korea</td>
</tr>
<tr>
<td>Bahrain</td>
<td>Finland</td>
<td>Latvia</td>
<td>Oman</td>
<td>Sri Lanka</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>France</td>
<td>Libya</td>
<td>Pakistan</td>
<td>Sweden</td>
</tr>
<tr>
<td>Belgium</td>
<td>Georgia</td>
<td>Lithuania</td>
<td>Papua New Guinea</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Brunei</td>
<td>Germany</td>
<td>Luxembourg</td>
<td>Philippines</td>
<td>Taiwan</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Hungary</td>
<td>Malaysia</td>
<td>Poland</td>
<td>Thailand</td>
</tr>
<tr>
<td>Canada</td>
<td>India</td>
<td>Malta</td>
<td>Portugal</td>
<td>Turkey</td>
</tr>
<tr>
<td>China (People's Republic)</td>
<td>Indonesia</td>
<td>Mauritius</td>
<td>Qatar</td>
<td>Ukraine</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Ireland</td>
<td>Mexico</td>
<td>Romania</td>
<td>United Arab Emirates</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Israel</td>
<td>Mongolia</td>
<td>Russian Federation</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Denmark</td>
<td>Italy</td>
<td>Myanmar</td>
<td>Slovak Republic</td>
<td>Uzbekistan</td>
</tr>
<tr>
<td>Egypt</td>
<td>Japan</td>
<td>Netherlands</td>
<td>Slovenia</td>
<td>Vietnam</td>
</tr>
</tbody>
</table>
Singapore as a gateway for investment in the Asian emerging markets

1. Tax structure

Multinational companies adopt a holding company structure for several reasons, amongst others:

- to access foreign market by obtaining control of another company in that foreign market as opposed to merger or consolidation
- to isolate business units, as the holding company and its subsidiaries are regarded as two separate businesses, to facilitate future disposition
- to defer taxation in the jurisdiction of the ultimate parent company on the dividend income not declared by the holding company
- to manage tax exposure on capital gains arising from a disposal of a particular asset
- to reduce or eliminate withholding tax on the repatriation of profits.

In respect of access to the foreign market, we will discuss below the use of Singapore for investment in the Asian emerging markets. We focus particularly on India and China, the two rising Asian business giants.

Let us assume that a US company (US Co) plans to enter the Asian emerging market (Figure 5), through a direct investment in India, for example, by setting up a wholly-owned India subsidiary (India Sub). For ease of illustration, we assume the US Co has the following objectives:

- secure US tax deferral opportunities for its Asian-source income
- obtain the most favourable withholding tax rates available
- create capacity to redeploy cash among its Asian subsidiaries in a tax efficient manner.

Where the India Sub distributes dividends to the US Co, there is no withholding tax on the dividends in India under the India domestic tax law. On the assumption that the profits out of which the dividends are paid, e.g. US$100, are subject to corporate income tax (CIT) at 30 percent (for sake of discussion, we have excluded applicable surcharge and education cess) in India, the Indian tax borne by the US Co from that income is US$30.

In addition, the US taxation (the federal top rate is 35 percent) of the India Sub’s profits may not be deferred because such profits would be repatriated to the US Co at some point in time. The US – India DTA, nevertheless, prescribes that the income tax paid to India by the India Sub with respect to the profits out of which the dividends are paid can be claimed by the US Co if the US Co owns at least 10 percent shareholding in the India Sub. Hence, the foreign tax credit of 30 percent may be claimed by the US Co to offset against the US tax payable on the India-sourced dividend income.

In this regard, on the assumption that the dividends is subject to US tax at 35 percent, the overall tax borne by the US Co from the profits of the India Sub is US$35. Thus, where the US Co plans to use the profits of the India Sub to inject into additional investment in the China Sub and/or Vietnam Sub, such profits may be exposed to potential US taxation as the profits would likely have to be routed up to the US Co.

In the event the US Co plans to dispose of the India Sub, the gains from such disposal would be subject to a domestic withholding tax of 20 percent (for simplicity, we have excluded applicable surcharge and education cess), assuming India Sub is an unlisted company in India and the gains derived are long-term capital gains.

This direct form of investment into India by US multinationals may not be efficient from a tax standpoint as it may expose the cash from the India Sub (to be redeployed for investments elsewhere in Asia) to potential taxation in the US. As an intermediate holding company location, Singapore may offer a more tax efficient solution. Under the Singapore - India DTA, capital gains from the alienation of shares in a company are not taxable in the country where the company is located. Any such gains are instead taxable in the country where the seller of the shares is resident.

Figure 5: Direct Investment to enter India market

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3 India Sub is liable to pay Dividend Distribution Tax (DDT) at 16.223 percent (i.e. inclusive of surcharge and education cess) on dividends paid to its shareholders. The dividends distributed by India Sub are exempt from income tax in the hands of all shareholders.
Let us assume that the US Co interposes a Singapore holding company (Singapore HoldCo) to hold its investment in India, i.e. India Sub (as illustrated in Figure 6). This might create significant tax-savings for the US Co or at least create significant tax deferral opportunities under US tax law. Where the India Sub distributes dividends to the Singapore HoldCo, which is a tax resident of Singapore, the dividends are not subject to withholding tax in India. On the assumption that the profits out of which the dividends are paid, i.e. US$100, is subject to CIT rate at 30 percent (again, without the application of surcharge and education cess) in India, the tax borne by the Singapore HoldCo from that income is US$30.

As regards the foreign dividends received by the Singapore HoldCo, such income should be exempt from Singapore tax under the foreign-sourced income exemption scheme, provided the conditions are met. However, with the foreign tax credit of 30 percent and the Singapore CIT rate of 17 percent on the dividends, the Singapore HoldCo could maximise the foreign tax credit by electing for foreign tax credit pooling system, particularly, if it has other foreign-sourced income (e.g. interest and royalties). This is due to the existence of unutilised foreign tax credit of 13 percent [i.e. 30 percent - 17 percent (assuming the Singapore Sub has minimal expenses relating to the dividend income)]. For example, the Singapore HoldCo also receives interest income from the India Sub and the interest is subject to a 15 percent withholding tax in India under the Singapore – India DTA. In this regard, the excess of foreign tax credit from the dividend income can be used to offset against the Singapore tax payable on the India-sourced interest income under the FTC pooling system, assuming the Singapore HoldCo satisfies the conditions prescribed for the FTC pooling system.

In addition, the US taxation of the India Sub’s profits may be deferred because such profits are kept at the Singapore HoldCo, and not repatriated to the US Co. This is on the assumption that the requirements of the controlled foreign corporation (CFC) rules of Subpart F of the US Internal Revenue Code and the anti-deferral provisions are satisfied by the US Co. The US Co, via the Singapore HoldCo, can utilise the repatriated profits of the India Sub to inject additional investment to the China Sub and/or Vietnam Sub without suffering US taxes.

Based on Figure 7 (next page), it appears that interposing a Singapore holding company may reduce the overall tax borne by the US Co from 35 percent to 22.5 percent.

Where the Singapore HoldCo plans to dispose of the India Sub, any gains derived by the Singapore HoldCo from such disposal would not be subject to tax in India as under the Singapore – India DTA (and protocol). Singapore has the exclusive right to tax such gains, subject to the Singapore HoldCo’s compliance with Article 3 of the protocol.

With the possibility of an Indian capital gain tax exemption under the Singapore – India DTA, Singapore has risen to be a highly attractive alternative to Mauritius as a jurisdiction for holding company, particularly with the impending introduction of a broader based anti-avoidance approach in the new Indian Direct Tax Code (which is slated to be effective on 1 April 2012).

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4 Effective from year of assessment 2012 (i.e. financial year 2011) and subject to the meeting of certain conditions.
Figure 6: Interposing a Singapore holding company to enter India market

![Diagram showing the structure of investments in India and Vietnam, with WHT rates and percentages indicated for dividends and interest.]

KEY:
(D): Dividends
(I): Interest

Figure 7: Investment in India

<table>
<thead>
<tr>
<th></th>
<th>Direct investment in India by US HoldCo</th>
<th>Investment in India via Singapore HoldCo*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable income</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>India corporate tax @ 30%</td>
<td>(30)</td>
<td>(30)</td>
</tr>
<tr>
<td>Income after tax</td>
<td>70</td>
<td>70</td>
</tr>
</tbody>
</table>

**Upstream of Dividend of US$100:**

- **US federal tax @ 35%**: 35
- **Less: FTC**: (30)
- **Additional US tax**: 5
- **Taxable Income in the hands of US HoldCo/Singapore HoldCo**: 65

**Assume, Interest of US$100 from India which suffers 15% Indian withholding tax is (also) received:**

- **US federal tax @ 35%/Singapore corporate tax @ 17%**: 35
- **Less: FTC**: (15)
- **Additional tax**: 20
- **Total tax liability**: 70
- **Effective tax rate**: 35%

* under FTC pooling system

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*Singapore: Preferred gateway to Asia and beyond*
In the case where US Co decides to also invest in China in view of its huge market potential, it can hold its Chinese subsidiary (China Sub) in the same Singapore-based holding company (Singapore HoldCo). Rather than establish multiple entity chains (which may not be tax efficient where redeployment of cash among India Sub and China Sub is concerned), US Co can hold both its Indian and Chinese subsidiaries in Singapore HoldCo (as shown in Figure 6). This structure allows cash from India Sub to be routed to China Sub (and vice versa) through their common parent entity, Singapore HoldCo. Given that no Singapore tax would generally be imposed on dividend payments from India and China (by virtue of the foreign-sourced income exemption scheme), and cash does not move through US Co, no adverse tax consequences are likely to result in either Singapore or the US.

In respect of gains derived by the Singapore HoldCo from the disposal of shares of the China Sub, any gains derived by the Singapore HoldCo from such disposal would be subject to withholding tax at 10 percent in China. Singapore would only tax the gains if the gains are regarded as a revenue gain sourced in Singapore. In that event, by virtue of the Singapore – China DTA where foreign tax credit is allowable, the 10 percent tax suffered in China may be claimed by Singapore HoldCo against the Singapore tax payable on the same income.

For ease of comparison, we provide below the withholding tax rates on dividends, interest, and capital gains on shares (denoted as D, I and C respectively) sourced in the selected countries and derived by a holding company located in Singapore, Hong Kong, Mauritius, and the Netherlands.

Figure 8: Comparison of withholding tax rates on dividend, interest and capital gains sourced in the selected countries

<table>
<thead>
<tr>
<th>Source country</th>
<th>China (%)</th>
<th>India (%)</th>
<th>Vietnam (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location of holding company</strong></td>
<td><strong>D</strong></td>
<td><strong>I</strong></td>
<td><strong>C</strong></td>
</tr>
<tr>
<td>Singapore</td>
<td>5 (^1)</td>
<td>7/10 (^2)</td>
<td>0/10 (^3)</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>5 (^1)</td>
<td>7</td>
<td>0/10 (^3)</td>
</tr>
<tr>
<td>Mauritius</td>
<td>5</td>
<td>10</td>
<td>0/10 (^3)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>10</td>
<td>10 (^7)</td>
<td>10</td>
</tr>
</tbody>
</table>

\(^1\) The rates shown in this column reflect the withholding tax rates on payments made by an entity located in the source country to the holding company.

Note:
1. The 5% rate applies to shareholding of at least 25% of capital of the China company. In all other cases, the rate of withholding is 10%.
2. The lower rate applies to interest payments made to a bank or financial institution.
3. The 0% rate applies where shareholdings are less than 25% in a China company, and the China company’s assets do not principally comprise real property.
4. There is no dividend withholding tax in India. India however levies Dividend Distribution Tax at 16.223% (i.e. inclusive of surcharge and education cess) on dividends paid to its shareholders. The recipient of the dividend is exempt from tax in India.
5. The exemption applies in accordance with the protocol to the Singapore - India DTA.
6. Further to tax paid on corporate profits, no further taxes are imposed on dividends.
7. Exempt if paid to the government.
8. Assume, long term capital gains of non-listed company (rates shown exclude surcharge and education cess).
9. The India domestic withholding tax rate on interest applies; there is no reduction under the India - Mauritius treaty.
10. The lower 10% rate applies in accordance with the protocol to the Netherlands - India DTA.
11. No Indian tax would be payable unless the sale (other than a sale which takes place in the course of a corporate reorganisation/amalgamation/division/similar transaction) forms part of at least 10% interest in the capital stock of the other and the purchaser is an Indian resident. Also see Note 8.
12. If the Netherlands does not levy a tax at source on interest paid to a resident of Vietnam, the percentage provided shall be reduced to 7% of the gross amount of the interest.

\(^{5})\) Where the Singapore HoldCo can substantiate such that the gains are not revenue in nature, the gains would not be subject to tax in Singapore.
2. Supply Chain management

Other than holding shares in other foreign subsidiaries and therefore generating passive investment income, a holding company may also carry out commercial activities, for example, conducting supply chain activities. A Singapore holding company (Singapore HoldCo) may provide a tax-efficient supply chain to the group of companies because of Singapore’s relatively low corporate income tax rate, Singapore’s established treaty network, the availability of tax incentives and its continued adoption of international best practices.

The Singapore HoldCo may provide, for example, headquarter-related services to its foreign subsidiaries and would then be remunerated for the provision of such services. The headquarter-related activities may include general management and administration, strategic business planning and development, shared services, intellectual property management, research and development (R&D) as well as sourcing, procurement and distribution. Further, the Singapore HoldCo could explore the applicability of the HQ Programme, a tax incentive offered to Singapore companies that use Singapore as a base for conducting management activities to oversee, manage and control their regional and/or global operations and businesses.

The minimum requirements of the HQ Programme include minimum paid-up capital, minimum number of professionals employed, and minimum amount of local business spending in Singapore. Under the IHQ tax incentive, for instance, the qualifying income may be taxed at a concessional tax rate of 0 percent, 5 percent, or 10 percent. Where the Singapore HoldCo conducts R&D activities relating to the provision of services, it may enjoy tax benefit under the enhanced Productivity and Innovation Credit (PIC) scheme in relation to the expenses incurred on the R&D activities. This enhanced tax deduction, which could significantly reduce the effective tax rate of the Singapore HoldCo, creates added appeal for global corporations to site their R&D activities in Singapore.

Referring to Figure 6, by establishing Singapore HoldCo, US Co is able to optimise the tax structure of its Asian operations. Let us assume Singapore HoldCo sells US Co’s goods directly to customers in each of the Asian markets namely, India, China and Vietnam, with legal titles passing directly from Singapore HoldCo to the customers. Each subsidiary (i.e. India Sub, China Sub and Vietnam Sub) is not directly involved in the sales activities but liaises with customers and provides customer support and after-sales services. In this case, Singapore HoldCo may explore the Global Trader Programme, a tax incentive that is available to global trading companies that use Singapore as the nerve centre for its principal offshore trading activities and a whole range of business activities and support functions. Similar to the HQ Programme, there are minimum requirements to meet. As a Global Trader, Singapore HoldCo is subject to tax at a concessionary tax rate of 5 percent or 10 percent on both the buy and sell legs of the transactions.

6 Briefly, enhanced tax deduction/allowance of up to 400 percent of qualifying expenditure incurred in six qualifying activities namely, R&D, investment in automated equipment, registration/acquisition of intellectual property, training and approved design projects. These reliefs under the PIC scheme are considerably more generous than Singapore’s regional competitors.
The foregoing hub supply chain model presents (tax) benefits as well as risks. Singapore HoldCo does not just act as a holding company; it also assumes sales, management and other business functions. These activities carried out by Singapore HoldCo would demonstrate that Singapore HoldCo has economic substance, which is a crucial factor for the entitlement of tax treaty benefits and important for the tax deferral arrangement to be successful.

3. Substance requirements and Singapore’s standing as a Holding Company jurisdiction

For a company to access the benefits of Singapore’s DTAs, it must be a Singapore tax resident. The possession of a valid tax residence certificate is a prerequisite to claiming treaty benefits: the IRAS confirms the residence status of a company by issuing a Certificate of Residence (COR). The IRAS would treat a company as a tax resident in Singapore if the control and management of its business is exercised in Singapore. In practice, the IRAS would treat the place where the Board of Directors of the company hold their board meetings to determine/set the overall strategic policy and direction of the company to be the place of tax residency of the company.

Although Singapore’s DTAs typically do not contain comprehensive limitation-on-benefits provisions, it is pertinent to highlight that the IRAS does not condone the use of its DTA network by entities with little commercial substance. The IRAS’ aim is to curb the misuse of tax treaties: by placing greater emphasis on the rationale for the location of holding company in Singapore and ultimate beneficial ownership of investment. It is this same vigilance of the IRAS that has in fact elevated Singapore’s standing as a credible holding company jurisdiction in the global arena. Tax incentives such as the HQ Programme and Global Trader Programme offered by the Singapore Government to encourage foreign investors to establish operations in Singapore and to use Singapore to hold investments in overseas subsidiaries would demonstrate that the Singapore Holdco has economic substance, which is a crucial factor for the entitlement of tax treaty benefits. In this respect, foreign investors keen to gain access into the emerging markets in Asia via a Singapore holding company should satisfy the requirements on economic substance prescribed under the domestic anti-avoidance provision of both Singapore and the respective foreign jurisdictions.

On this note, it would be worthwhile to note the anti-avoidance policy and recent precedents in other Asian jurisdictions. In the high profile case of Vodafone, the Indian tax authorities regarded Vodafone’s 2007 purchase of the Indian telecommunications assets of Hutchinson Whampoa through an offshore holding company as subject to Indian capital gains tax amounting to approximately Rp. 112bn (US$2.5bn). More recently, the Chinese tax authorities invoked the provisions of Guoshuihan [2009] 698 (Circular 698) and levied Chinese tax on a divestment by a British Virgins Islands company of shares in a Chinese company held through a Hong Kong holding company.

With jurisdictions such as India and China imposing taxes where investments in companies incorporated or resident in the country are sold by non-resident investors, the IRAS’ stance and insistence on economic substance should be seen more as a glass half-filled than half-empty. In light of the regional developments, it would put the use of a Singapore company for acquisitions or investments in the region beyond any challenge of treaty shopping.
In our view, Singapore’s preeminence as the preferred holding company jurisdiction in Asia is apparent. Strategically located at the centre of the major growing markets of India and China, and the nascent economies of Association of Southeast Asian Nations (ASEAN), Singapore offers tremendous opportunities for markets, technologies, talents and business growth.

Equipped with sound infrastructure, one of the best business environments, political stability, extensive market connectivity and an educated, motivated and skilled workforce, Singapore is ideally positioned to be the gateway to Asia for global companies and growing Asian enterprises.

With a diversity of players from India, China and the rest of Asia spanning the entire continuum of enterprises, from start-ups to growth stage companies and multinational companies, in Singapore, Singapore also provides an excellent introduction to Asia for global businesses that seek to enter the regional markets.

Adopting the Singapore holding company structure, notably to obtain access into the Asian emerging markets using Singapore’s DTAs, may present substantial tax savings for group companies, provided it can be demonstrated that commercial business motives, and not tax-driven motives, are the main consideration for adopting such structure.

With Singapore having more than 20 DTAs with other Asian countries covering developed markets such as Japan and South Korea, and major emerging markets such as India, China, Vietnam and Indonesia, Singapore is well-placed to be an Asian headquarters hub.

As a committed tax advisor to our clients, we welcome any opportunities to discuss the relevance of the above case to your business.

Conclusion

In our view, Singapore’s preeminence as the preferred holding company jurisdiction in Asia is apparent. Strategically located at the centre of the major growing markets of India and China, and the nascent economies of Association of Southeast Asian Nations (ASEAN), Singapore offers tremendous opportunities for markets, technologies, talents and business growth.

Equipped with sound infrastructure, one of the best business environments, political stability, extensive market connectivity and an educated, motivated and skilled workforce, Singapore is ideally positioned to be the gateway to Asia for global companies and growing Asian enterprises.

With a diversity of players from India, China and the rest of Asia spanning the entire continuum of enterprises, from start-ups to growth stage companies and multinational companies, in Singapore, Singapore also provides an excellent introduction to Asia for global businesses that seek to enter the regional markets.

Adopting the Singapore holding company structure, notably to obtain access into the Asian emerging markets using Singapore’s DTAs, may present substantial tax savings for group companies, provided it can be demonstrated that commercial business motives, and not tax-driven motives, are the main consideration for adopting such structure.

With Singapore having more than 20 DTAs with other Asian countries covering developed markets such as Japan and South Korea, and major emerging markets such as India, China, Vietnam and Indonesia, Singapore is well-placed to be an Asian headquarters hub.

As a committed tax advisor to our clients, we welcome any opportunities to discuss the relevance of the above case to your business.