

MINISTRY OF FINANCE

ANNEX 5: Tax Incentives for the Financial Sector and Enterprise Development

Financial Sector Incentives

Fund Management Industry Incentives

1. Two tax changes will give a boost to the fund management industry in Singapore. Firstly, qualifying investment income of foreign investors from funds managed by all fund managers in Singapore will be exempt from tax.
2. The second change is the merger of the Approved Fund Manager and Approved Boutique Fund Manager schemes into a single Approved Fund Manager scheme. Under the new scheme, the concessionary tax rate of 10% on fee income previously enjoyed only by fund managers under the existing Approved Fund Manager scheme will be extended to qualifying boutique fund managers. The new scheme will also cover more types of investments.
3. The changes will apply from YA 2003. MAS will administer the scheme and announce more details in 2 months.

Enhanced Approved Trustee Company Scheme

4. To encourage further the development of world-class trustee and custodian services in Singapore, the Approved Trustee Company (ATC) Scheme will be enhanced by the following changes:
 - i. The concessionary tax rate of 10% for the provision of trustee and custodian services will be extended to the custodian services that ATCs provide to mutual fund corporations;
 - ii. The tax exemption granted on income from foreign trusts administered by an ATC will be extended to income derived through an eligible investment holding company; and
 - iii. The concessionary tax rate of 10% will be extended to an ATC that provides substantial trust management or administrative services to a foreign trust of which it is not the trustee. Such foreign trusts will also be granted tax exemption on their qualifying income.
5. The changes will take effect from YA 2003. MAS will administer the scheme and announce more details in 2 months.

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Concessionary Tax Rates for Equity Capital Market

6. To encourage further development of the equity capital market in Singapore, the following measures will be introduced:

- i. Subject to certain conditions, Approved Securities Companies will be taxed at the concessionary rate of 10% on the income derived during the period YA 2003 to YA 2007 from the provision of financial advisory services to persons outside Singapore.
- ii. From YA 2003 to YA 2007, income derived by Asian Currency Units and Approved Securities Companies from managing the Initial Public Offering of securities of foreign companies for listing on the Singapore Exchange (SGX) will be taxed at a concessionary rate of 5%. The securities can be placed with any investor and denominated in any currency. This rate will also apply to the income derived by Asian Currency Units and Approved Securities Companies from the sale of such foreign securities and related services such as brokerage and custodian services.
- iii. Currently, qualifying corporate futures SGX members enjoy a concessionary tax rate of 5% on the incremental income from designated transactions in new futures contracts denominated in any foreign currency in the futures market. This incentive will be replaced. Corporate SGX members who are ranked amongst the top 20 in terms of annual trading volume generated for each approved new derivative product denominated in any foreign currency will enjoy the same rate on total income derived from transactions in each product. This will apply to new products that commence trade on SGX during the period from 1 Jan 2002 to 31 Dec 2006.

7. MAS will administer the above incentives and release further details in 2 months.

Treasury Industry Incentives

8. Asian Currency Units or Approved Securities Companies with substantial commitments will enjoy a concessionary tax rate of 5% for 5 years on the income derived from transacting with qualifying parties in over-the-counter financial derivatives denominated in any foreign currency. Payments to non-residents on such derivative transactions will be exempted from withholding tax for this period. This scheme will take effect from 20 May 02 and will last for 5 years. MAS will administer this scheme and announce the details before 20 May 2002.

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Financial Sector Incentive Scheme

9. Several of the eleven existing incentives will be merged into a single umbrella Financial Sector Incentive (FSI) scheme, which offers simpler administrative procedures and more flexible qualifying criteria. The FSI scheme will offer a concessionary tax rate of 5% for qualifying high growth and high value-added activities and 10% for mature but tax-sensitive activities. As this involves a major revamp of the many existing incentives, the FSI scheme will only be implemented from YA 2004. MAS will announce more details in 6 months.

Extension of Concessionary Rate for Interest Income from Qualifying Debt Securities

10. Interest income from qualifying debt securities is currently subject to tax at a concessionary rate of 10% if it is received by a company or financial institution. With effect from YA 2003, this incentive will be extended to bodies of persons, such as management corporations, town councils, trade and industry associations, and clubs.

Tax Deduction for Special Reserves of General Insurance Companies

11. Under this scheme, general insurance companies can claim tax deduction on special reserves set aside for certain offshore risks. This scheme will take effect from YA 2003. MAS will release further details.

Promoting Enterprise Development

Development and Expansion Incentive

12. The minimum tax rate under the DEI will be reduced from 10% to 5% with effect from today. Companies that currently qualify for both the Pioneer Incentive on some activities and DEI on other activities can apply to EDB for a flat rate DEI to be applied for all qualifying activities. This will obviate the need for such companies to keep separate accounting books for different incentives awarded for each qualifying activity and reduce compliance costs for businesses. It will also provide such companies with greater certainty of the benefits when they invest in Singapore.

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Enhanced Deduction for Research and Development Expenses

13. Currently, tax deductions are only granted for expenses incurred for R&D conducted in-house or outsourced to approved R&D organisations that conduct their research activities in Singapore. With effect from YA 2003, single tax deduction for expenses incurred for R&D that leads to the ownership of intellectual property in Singapore will be liberalised to include R&D outsourced to any R&D organisation, whether local or overseas. The scope of further tax deduction for R&D expenses will also be extended to all service companies.

14. Further details will be released by EDB within 1 month.

Approved International Shipping Enterprise Scheme

15. In the face of intensified competition and the changing shipping landscape, the AIS scheme will be extended and enhanced. Key enhancements to the AIS scheme are as follows:

i. Scope of 'qualifying ships'

To exploit new opportunities in the whole arena of shipping and build diversity within our maritime cluster, the AIS scheme will be expanded to include towage vessels, salvage ships, dredgers, seismic vessels and semi-submersible oil rigs as 'qualifying ships' under the AIS scheme with effect from Year of Assessment 2003.

ii. AIS eligibility criteria

The qualifying criteria under the AIS scheme will also be harmonised to make the scheme more user-friendly and help ship operators to expand their operations in Singapore. The manpower requirement for operators of Floating Production Storage Offloading vessels and Floating Storage Offloading vessels under the AIS scheme will be lifted with effect from YA 2003.

16. The AIS scheme currently requires qualifying ship operators to register at least 10% of their companies fleet under the Singapore flag. This requirement will be lifted with immediate effect to give companies greater operating flexibility.

17. Details of the changes will be available from IE Singapore.

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Other incentives

Extended Unilateral Tax Credit Scheme for Services Income

18. The unilateral tax credit scheme was first introduced in 1985 to encourage our firms and professionals to export their expertise and services. The scheme was meant to help the development of Singapore's external economy by eliminating double taxation on income from specified professional and consultancy services remitted from certain non-treaty countries.

19. The unilateral tax credit scheme currently covers income from 13 categories of services remitted from 19 non-treaty countries. To further support regionalisation, the unilateral tax credit scheme will be extended to cover all services income remitted from all non-treaty countries with effect from YA 2003.

Unlimited flow-through of exempt dividends

20. Currently, companies whose income is tax-exempt or taxed at a concessionary rate are allowed to flow such exempt dividends to their own shareholders. Subsequent dividends to further tiers of shareholders are exempt provided the shareholding requirement in the company from which the exempt dividends are received is satisfied. This effectively limits the flow-through of exempt dividends to 2-tiers of shareholders.

21. As our economy matures, corporate structures have become more complex. Joint ventures have also become prevalent as a means of spreading risks in new undertakings.

22. In recognition of these, with effect from 1 Jan 2003, dividends distributed by companies out of income that has been exempt from tax under tax incentive schemes will be allowed to flow tax-free to all tiers of shareholders, regardless of shareholding level. This will apply to all credit balances in the exempt dividend income accounts of companies as at this date.

Withholding Tax Exemption for Arbitrators

23. International arbitrators are currently subject to withholding tax at the prevailing non-resident income tax rate of 24.5%. To promote the international arbitration industry in Singapore, payments to international arbitrators will be exempt from withholding tax with immediate effect.

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Final Income Tax for Non-resident Professionals in Singapore

24. The income received by non-resident professionals is currently subject to withholding tax of 24.5% net of expenses. In order to reduce the compliance cost, a final income tax of 15% will be levied on the gross income of non-resident professionals. This change will take immediate effect.

Estate Duty Exemption for Movable Assets of Non-Domiciles

25. To improve Singapore's attractiveness as a private banking centre and encourage more expatriates to hold Singapore Dollar-denominated assets, the movable assets of non-domiciles will be exempt from estate duty.