

Doing Business in Singapore

April
2024

At a Glance

A vibrant city located in the heart of Asia, Singapore offers global entrepreneurs and investors unparalleled access to the Asia Pacific markets, one of the world's fastest-growing regions. Having a robust legal infrastructure and trade linkages as well as a pro-business and investment environment enables Singapore to remain a major international player for business expansion as banks, hedge funds and family offices are increasingly choosing Singapore as their choice of jurisdiction to base their operational headquarters.

Singapore is often cited as an attractive jurisdiction for businesses due to the following key attributes:

- Common law legal framework and regulated trust law
- Excellent infrastructure
- Economic, social, and political stability
- Growing investment in the strong pool of local talent
- Corporate legal structure that is conducive to business
- Strategic geographical location
- World class regulation
- Extensive network of tax treaties
- Attractive corporate tax rates
- Tax and other incentives

This briefing paper provides an overview of the corporate structuring options available in Singapore and the related requirements. Additionally, we provide an overview of the corporate tax implications of operating in Singapore, along with an insightful summary of the incentive schemes administered by the Singapore Government. Specific tax briefings are published on our website including "Overview of Funds in Singapore", "Singapore Variable Capital Company" and "Singapore Withholding Tax".

The information contained in this briefing does not constitute advice and is intended solely to provide the reader with an outline of the provisions. It is not a substitute for specialist advice in respect of individual situations.

Trusts
Accountancy
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Tax

The Structure

Local Company

The Singapore Companies Act provides for registration of four types of locally incorporated companies:

Company Limited by Shares

- 1) **Private Company** - Limited to maximum of 50 shareholders, which can either be individuals or corporate entities.
- 2) **Exempt Private Company (EPC)** - Restricted to maximum of 20 shareholders and must not have any corporate shareholders.
- 3) **Public Company Limited by Shares** - Number of shareholders can exceed 50. The company may raise capital by offering shares or debentures to the public.

A private company (considered on a group wide basis) may be exempted from the annual audit requirement, if it meets at least two of the following criteria for the immediate past two consecutive financial years:

- Annual revenue is not more than SGD10 million
- Total assets are not more than SGD10 million
- Number of employees is not more than 50

A private company can raise capital by issuing shares to new shareholders or issuing additional shares to existing shareholders. The company name is usually suffixed with "Private Limited" or "Pte. Ltd.". This is the most common type of company set up in Singapore.

Any company other than a private company is called a public company. It must register a prospectus with the Monetary Authority of Singapore (MAS) before getting listed to raise capital from the public. The shares issued by a public company are freely transferable and the company name must be suffixed with "Limited" or "Ltd.".

Company Limited by Guarantee

This type of company carries out non-profit making activities that have some basis of national or public interest, such as the promotion of art or charity. The amount of guarantee by the members will be stated in the Constitution. The amount is usually nominal. The Minister may approve the registration of the company without the addition of the word "Limited" to its name.

Company Officers and Registered Address

Director - A company must have at least one director who must be locally resident in Singapore, i.e. a Singapore citizen, a Singapore permanent resident or holder of Singapore work visas (such as EntrePass or Employment Pass) but subject to restrictions regulated by the Ministry of Manpower (MOM). Such services can be provided by Rawlinson & Hunter.

Shareholder - A private company can have up to 50 shareholders who may or may not be directors. Shareholders can consist of both local and non-local individuals or companies, and 100% non-local shareholding is allowed.

Company Secretary - A company must appoint at least one professionally qualified company secretary who is locally resident in Singapore within six months of the company's incorporation. Such services can be provided by Rawlinson & Hunter.

Registered Address - A company must provide a Singapore address as its registered address where all communications and notices to the company will be addressed to. It can be residential or commercial but not a P.O. Box. Such services can be provided by Rawlinson & Hunter.

Business Firms

Business firms do not have a separate legal identity of their own and the owner or partners are personally liable for the debts and losses of the business. Business firms consist of the following:

- 1) **Sole-proprietorship** - Owned by one individual.
- 2) **Partnership** - Formed by a minimum of two to a maximum of twenty partners.

Limited Liability Partnership (LLP)

An LLP is a structure which integrates the features of both partnerships and companies. Like a company, an LLP has a legal identity of its own and the partners are not personally liable for the debts and losses of the LLP. However, a partner may be personally liable for claims from losses resulting from his own wrongful act or omission, but not for such wrongful acts or omissions of any other partner of the LLP. Like a traditional partnership, the partners share profits according to the partnership agreement and the LLP, being a tax transparent vehicle, is not subject to tax, the liability to tax falls on the individual partners.

An LLP can be the owner of a business, a partner of another LLP or a shareholder in a company. A partner of an LLP can be an individual, corporation or another LLP. Two or more partners must enter into an agreement to conduct business under specific terms and conditions that are mutually agreed by all partners. The partnership name must be suffixed with the words "Limited Liability Partnership" or "LLP".

Foreign Company

There are four entry options into Singapore for foreign companies:

- 1) **Branch** - A foreign company may set up a branch in Singapore. Although a branch does not have separate legal identity, it is likely to create a taxable presence in Singapore. The tax residency status of the branch usually follows its parent company. The profits of the Singapore branch may also be taxable in the foreign jurisdiction of tax residence, double taxation may be avoided depending on the relevant tax treaty. An authorised representative who is locally resident is required for the Singapore branch.
- 2) **Subsidiary** - A foreign company may set up a subsidiary in Singapore, this would be a locally incorporated company and the requirements for a Singapore company will similarly apply, such as having at least one locally resident director and company secretary. The foreign company may be the sole shareholder of the subsidiary.

3) Representative Office (RO) – A foreign company may set up a RO for the purposes of conducting market research and feasibility studies before establishing a permanent office in Singapore. An RO does not have a legal persona thus it is unable to enter into contracts or engage in trading. As an RO does not operate any profit-making activities, it has no tax residence status. It must be represented either by a Singapore staff or a staff from its headquarters.

4) Re-domiciliation - The Companies (Amendment) Act 2017 introduced an inward re-domiciliation regime which permits foreign incorporated companies to re-register as Singapore companies but is subject to the company meeting certain specific requirements. When a company changes its domicile to Singapore, it ceases to have its place of incorporation in its home country. The company then becomes a Singapore-registered company and will consequently have to comply with Singapore laws. Its legal identity remains the same. Not all countries allow outward re-domiciliation, including Singapore.

Variable Capital Company (VCC)

A VCC is a relatively new form of legal structure introduced in Singapore in 2020 which adds to the current set of fund vehicle options available. It can be used for both open-ended and closed-ended funds and can be formed as a stand-alone or an umbrella structure. The VCC will benefit from the fund tax incentives (Sections 13O and 13U) set out below and requirements are similar, this includes having a licensed Singapore-based fund manager. It also carries certain standard requirements of a company, including Singapore resident director(s), registered office and company secretary and its accounts must be audited in Singapore.

Benefits of VCC include the flexibility in the issuance and redemption of its shares, dividends can be paid out of capital, there is no need to publicly file the financial statements of the company and a foreign fund can be re-domiciled into Singapore as a VCC. Furthermore, requirements including the ownership requirement, size of fund requirement and minimum spend requirement consider the VCC as one and therefore the sub-funds under the umbrella structure do not necessitate these thresholds to be multiplied. Please refer to our "Singapore Variable Capital Company" publication for more details.

General Tax System

Singapore's corporate tax rate is 17%. Generally, a company is tax resident in Singapore if its management and control are exercised in Singapore.

Taxable Income

Singapore's semi-territorial basis of taxation translates to a company being liable to pay tax on income accrued in or derived from Singapore and on foreign-sourced income remitted or deemed remitted into Singapore. Taxable income refers to:

- gains or profits from any trade or business;
- income from investment such as dividends[^], interest and rental;
- royalties, premiums and any other profits from property; and
- any other gains that are revenue in nature.

[^] Under the one-tier corporate tax system, tax at the corporate level is the final tax. Accordingly, dividends paid by Singapore resident companies are exempt from further Singapore tax in the hands of the shareholder. Dividends received from foreign companies may be exempt from tax subject to certain conditions.

Deductions such as business expenses, capital allowances and tax exemptions can be claimed to reduce taxable income.

Non-Taxable Income

Certain types of income are specifically exempted from tax under the Singapore Income Tax Act (SITA), subject to conditions. Examples of these are:

- Certain shipping income derived by a shipping company under Sections 13A and 13E of the SITA;
- Foreign-sourced dividends, branch profits and service income received by a resident company under Section 13(8); and
- Company's gains on disposal of ordinary shares under Section 13W.

No Capital Gains Tax regime

There is no capital gains tax in Singapore. However, gains which are revenue in nature will be treated as taxable under the tax regime, based on a consideration of the factors drawn from established case law principles known as the "Badges of Trade". The difference between a company holding investments and a company trading in investments can be significant for tax purposes in Singapore.

Economic Substance Requirements (ESR)

From 1 January 2024, in-scope entities without sufficient economic substance could be liable to tax on gains derived from sale of foreign assets.

Tax is triggered when gains are remitted or deemed to be remitted into Singapore – even if the gains are capital in nature. Foreign assets include immovable/movable properties, shares, intellectual property rights, etc.

Business groups that have business operations in Singapore and at least one other jurisdiction should take note of the ESR. Please refer to our "Economic Substance Requirements" publications for more details.

Avoidance of Double Taxation Agreements (DTAs)

A Singapore tax resident can benefit from Singapore's extensive DTA network. Singapore has concluded over 90 comprehensive DTAs with jurisdictions including the UK, Germany, Indonesia, China, Japan, Malaysia, Australia, etc.

Singapore has also signed limited DTAs with Hong Kong and the USA, which cover only income from shipping and/or air transport activities.

Withholding Tax

The following types of payments attract Singapore withholding tax when paid to non-residents:

- Interest, commission, fee in connection with any loan or indebtedness;
- Royalty or other payments for the right to use any movable property;
- Payments for the use of or the right to use scientific or technical, industrial or commercial knowledge and associated services;
- Management fees;
- Rent;
- Fees to professionals, public entertainers and directors;
- Payments for the purchase of real property from a non-resident property trader; and
- Distribution of real estate investment trust .

The rate of withholding tax is typically between 10% and 17%, depending on the nature of the payment. Withholding tax rates apply on gross payments. There is no withholding tax on dividends.

Where the recipient of the income is resident in a jurisdiction which has a DTA with Singapore, the rates specified in the DTA may apply. Tax treaties may also allow for a foreign tax credit to be set off against the tax payable on the profits locally.

Tax Reliefs and Incentives

Tax Deductions

Business expenses - The general rule is that for an expense to be deductible, it must be incurred wholly and exclusively in the production of the income and it must not be specifically disallowed under the SITA. Some examples of non-deductible expenses include non-business expenses, depreciation, private car expenses and statutory fines and penalties.

Capital allowances - Depreciation of fixed assets is not a deductible expense for corporate tax purposes, capital allowances can be claimed instead. Qualifying fixed assets are referred to as plant and machinery and include carpets, machinery and office equipment. Companies that carry on a trade or business may claim capital allowances on expenditure incurred on the assets.

Renovation or refurbishment deduction - Certain qualifying capital expenditure like flooring and general electrical fittings, capped at SGD300,000 over a three-year period, incurred for renovation or refurbishment works done to the business premises can be claimed as a tax deduction against the income derived from that business. The deduction is given over a period of three consecutive years on a straight-line basis, starting from the YA in which those expenses were incurred and claimed. An option for accelerated claim of one year is available from Year of Assessment 2025.

Approved donations - To encourage giving back to the community, companies can enjoy 250% tax deduction on approved donations made to Institutions of Public Character in Singapore.

Unutilised losses, capital allowances and donations - These are collectively known as “loss items” and can be

carried forward to offset against future profits indefinitely (up to five YAs for donations). Unutilised losses and capital allowances can be carried back to offset against profits arising in the preceding YA, there is a cap of SGD100,000. Utilisation of loss items are subject to meeting the shareholding test and/or same trade test. An application for waiver of the shareholding test can be made with the IRAS.

Tax Exemption for New Start-Up Companies

Newly incorporated companies can claim the following in each of its first three consecutive YAs:

- 75% tax exemption on the first SGD100,000 of normal chargeable income; and
- a further 50% exemption on the next SGD100,000 of normal chargeable income.

To qualify for the start-up tax exemption, the company must:

- 1) Be incorporated in Singapore;
- 2) Be tax resident in Singapore for that YA;
- 3) Have no more than 20 shareholders throughout the basis period for that YA where:
 - all shareholders are individuals who “beneficially and directly” hold the shares in their own names; or
 - at least one shareholder is an individual who “beneficially and directly” holds at least 10% of the issued ordinary shares of the company; and
- 4) Have principal activity that is not of investment holding and not of property development, whether for sale, for investment, or both.

Partial Tax Exemption (PTE)

All companies including companies limited by guarantee can enjoy PTE unless they have already claimed the Tax Exemption for New Start-Up Companies. Under the PTE, companies may claim:

- 75% tax exemption on the first SGD10,000 of normal chargeable income; and
- a further 50% exemption on the next SGD190,000 of normal chargeable income.

Fund Tax Incentive Schemes

Generally, a fund (regardless of where it was incorporated) may be exposed to Singapore tax if it is managed by a Singapore-based fund manager.

There are tax incentives schemes for onshore and offshore funds which are **managed by a Singapore-based fund manager**. The incentives are all subject to conditions which should be carefully considered before entering into such arrangements. The fund tax incentives are available until 31 December 2029, however, once the award is granted, it is for the life of the fund, provided the relevant conditions are met.

Offshore Fund Tax Incentive – Section 13D

The **offshore fund** is a prescribed person i.e. not resident in Singapore, does not carry on business in Singapore and does not have a permanent establishment in Singapore (other than the fund manager). The offshore fund can be 100% owned by Singapore persons.

“Specified income” from “designated investments” derived by the fund are exempted from tax. In other words, all income and gains in respect of designated investments such as stocks, shares, securities, derivatives etc. will not be taxable (except if the income is arising from the exclusion list such as immovable property in Singapore or REITs listed on Singapore Exchange).

Investors need to be “qualifying” to avoid suffering a penalty. Broadly, investors are non-qualifying if they are Singapore-based non-individuals owning more than 30% (50% in some cases) in the fund.

MAS approval is not required for the offshore fund tax incentive, minimum fund size and minimum annual local business spend do not apply.

Onshore Fund Tax Incentive – Section 130

The Singapore Government also provides similar tax exemption to an onshore fund to encourage fund managers to base their funds in Singapore. As with the offshore fund regime, the onshore fund can now be 100% owned by Singapore persons and non-qualifying investors will incur a penalty if the thresholds are met.

The main advantage of using a Singapore fund compared to countries without a tax regime such as the Cayman Islands is the access to Singapore’s extensive tax treaty network.

There is no minimum fund size requirement if managed by a licensed fund manager, but annual business spend must be at least SGD200,000. Approval from the MAS needs to be sought.

Enhanced-Tier Fund Tax Incentive – Section 13U

Another available tax exemption is the Enhanced-Tier Fund Tax Incentive Scheme which is **applicable to both Singapore-based funds and offshore funds**.

One of the advantages of this scheme is that there is no financial penalty even if there are “non-qualifying” investors. Additionally, this scheme is more flexible in terms of the choice of fund entity and its place of constitution or residence.

It is necessary to seek MAS approval for this tax incentive. For funds managed by a licensed fund manager, the fund size must be at least SGD50 million and local business spend must be SGD200,000 or more.

Financial Sector Incentive for Fund Managers (FSI-FM)

The FSI-FM award is also available for fund managers managing qualifying funds in Singapore. The award gives a concessionary tax rate of 10% for fund management and investment advisory activities of incentivised funds if certain criteria are met.

Grants for Businesses

Enterprise Singapore

Formed in 2018, Enterprise Singapore addresses the needs of Singapore companies by streamlining financial and non-financial assistance programmes.

To help businesses in the current climate, the maximum level of funding will be of up to 70%.

Enterprise Development Grant (EDG)

EDG will integrate support for local enterprises undertaking projects across the following three categories to help them become more competitive locally and abroad:

- Core Capabilities
- Innovation and Productivity
- Market Access

The grant defrays qualifying project costs such as third-party consultancy fees, software and equipment costs and internal manpower costs.

Productivity Solutions Grant (PSG)

PSG targets local companies with a strong interest in adopting IT solutions and equipment to improve business processes.

Sectors such as retail, food, logistics, precision engineering, construction and landscaping has sector-specific solutions, solutions in areas such as customer management, data analytics, financial management and inventory tracking for industries across the board are supported under PSG as well.

Market Readiness Assistance (MRA) Grant

The MRA grant is suitable for small and medium enterprises looking to expand their businesses in **new** overseas markets. There are criteria to be met and the grant is disbursed on reimbursement basis.

About Rawlinson & Hunter

Rawlinson & Hunter is an international grouping of professional firms, specialising in financial and taxation advice. Our offices stretch from London to New Zealand, through Jersey to Switzerland, Bermuda, the Cayman Islands, the British Virgin Islands, Singapore, and Australia. Our skill lies in maximising the rewards that prosperity can bring. For the private client, we can take the strain, safeguarding their assets, leaving them to enjoy the benefits, rather than suffer the burdens, of wealth.

The maze of UK and international law is complex to navigate alone, particularly for clients with profiles in many jurisdictions. Our grouping of offices can provide global advice and solutions. We administer billions of dollars of assets in offshore jurisdictions and specialise in providing trust and company administration services.

Our expertise is not limited to individuals. Our partners are all qualified professionals who are trained to look at the big picture. Both private and corporate clients can equally benefit from our skill at finding solutions to match their own distinctive financial circumstances.

We are different, as is our way of working. Our partners like to get to know their clients well and carry out much of the work in person, often face to face. Most of our clients have come to us through a personal recommendation, evidence of our reputation as leaders in our field.

Internationally, our network of offices includes Australia, Bermuda, the British Virgin Islands, the Cayman Islands, Guernsey, Jersey, New Zealand, Singapore, Switzerland and the United Kingdom.

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