Issue 20 • October 2021

ASEAN BRIEFING

From Dezan Shira & Associates

Using Singapore as a Base for ASEAN Expansion

www.aseanbriefing.com

Introduction

ALBERTO VETTORETTI
Managing Partner

Singapore has long been a preeminent destination for setting up a regional headquarter to pursue business opportunities across ASEAN and Asia.

This has been attributed to the country's favorable taxation and legal regimes, enabling the city-state to develop into a global financial hub and attracting more than 37,000 international companies and 7,000 multinational companies.

More than ever, Singapore's importance for entry into ASEAN markets is growing. As such, developing an effective investment strategy that uses Singapore as a base can help foreign investors reduce investment risk, maximize profit and harness ASEAN's diversity.

In this issue of ASEAN Briefing magazine, we provide an overview of the efficient incorporation process in Singapore and compare Hong Kong and Singapore as holding locations. We then explore how investors can benefit from Singapore's tax policies and free trade agreements before finally focusing on Singapore's potential as a hub for digital expansion in Asia.

With offices located in the ASEAN region and years of experience helping foreign enterprises set up operations, Dezan Shira & Associates is well positioned to assist your company in entering ASEAN markets. For more information, please email us at **asia@dezshira.com**.

With kind regards,

Alberto Vettoretti

ASIA BRIEFING
www.asiabriefing.com

Asia Briefing Ltd. Unit 507, 5/F, Chinachem Golden Plaza, 77 Mody Road, Tsim Sha Tsui East Kowloon, Hong Kong.

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Reference
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For queries regarding the content of this magazine, please contact: editor@asiabriefing.com

Credits
Publisher / Asia Briefing Media Ltd.
Senior Editor / Melissa Cyrill
Editor / Ayman Falak Medina
Designers / Aparajita Zadoo

This Issue's Topic

Using Singapore as a Base for ASEAN Expansion

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Streamlined Business Setup Process

Author: Ayman Falak Medina

Singapore is globally renowned as a business-friendly destination that offers a stable socio-political environment, free market economy, highly efficient infrastructure, and an attractive tax regime.

As such, a primary advantage of Singapore is its ability to act as a centerpiece for the holding and management of regional assets. Holding companies are a vital component of any international expansion strategy, and Singapore offers investors a stable environment from which to administer operations in more speculative markets in Asia.

The city-state has already attracted more than 37,000 international companies and 7,000 multinational companies that utilize Singapore as their regional headquarters.

Choosing your entity structure

Singapore's efficient business environment is demonstrated by the ease with which foreign investors can incorporate a business in the country. Registering a company can take as little as one day provided all the files are in order.

Prior to establishing a company, investors need to decide the type of business structure that suits their needs.

There are five types of business structures in Singapore:

- Sole proprietorship (one owner);
- Partnership (two or more owners);
- Limited partnership;
- Limited liability partnership; and
- Private company limited by shares.

Private company limited by shares

The private company limited by shares, commonly known as a private limited company, is the most preferred type of entity among foreign investors in Singapore. This entity is the most flexible, advanced, and scalable type of business form.

There are some key characteristics of a private limited company that makes them an attractive option for foreign investors:

A separate legal entity — the private limited company is a legal identity and separate from its shareholders and directors. Furthermore, this entity can also acquire assets, enter contracts, or enter debts in its own name.

Foreign ownership — this entity can be 100 percent foreign-owned.

Limited liability — the personal liability of the members that contribute towards the paid-up capital is limited to the amount that was contributed towards the paid-up capital.

Tax benefits and incentives — a Singapore private limited company is eligible for various tax incentives. For instance, the corporate tax rate of 17 percent is effective only for chargeable income above S$200,000 (US$147,000) with a 50 percent exemption on the next S$190,000 (US$139,000) of chargeable income. Furthermore, there is no capital gains tax.

Ease in the transfer of ownership — through the selling of all or part of the shares of the private limited company, the ownership of the company is transferred, thus not requiring any complex legal documents or processes.

Step-by-step guide to corporate establishment

Incorporating a business in Singapore is an efficient and cost-effective and can be broken down into several simple steps.

Step 1: Company name approval

The first step for foreign investors is to have their company name approved with the Accounting and Corporate Regulatory Authority (ACRA) — a statutory board under the Ministry of Finance responsible for the regulation of business activities, corporate service providers, and public accountants in Singapore.

Once a name has been proposed, the foreign investor should check if it has already been registered through the BizFile online portal as the proposed name cannot be identical to existing ones. Company names should also not be vulgar or offensive in nature. ACRA is usually swift with this process, often taking only a few hours to one day to approve. The only exception is if the business is in a field that requires a specific license, such as medicine, finance, and law. Also, the name application costs S$15 (US$11.02), which will be reserved for 120 days.

Step 2: Document preparation

Once the company name has been approved, the foreign investor can proceed with preparing the necessary documents for ACRA approval. These are:

- A Company Constitution, also known as the Articles of Association;
- The signed consent to act as a director by each director (at least one director must be a Singaporean citizen, permanent resident, or EntrePass holder);
- The registered local address;
- Signed consent to act as a company secretary (appointment must be done within six months after incorporation); and
- Details of each shareholder (can have between 1-50).

The company's corporate service provider is obligated by ACRA to conduct a Know Your Customer (KYC) due diligence in accordance with the international Anti-Money Laundering Act to verify the documents as well those of the stakeholders involved in the company. If all documents are in place, step 2 can be prepared within one day.

Step 3: Incorporation

If the incorporation documents have been prepared, the company can be officially registered with ACRA. The process is done online and only takes one hour.

Upon incorporation, the paid-up capital must be immediately paid and transferred into the company's bank account. The minimum paid-up capital is at least S$1 (US$0.73).

Singapore vs. Hong Kong

Hong Kong will continue to remain important for companies looking to tap the Chinese market, but Singapore will continue to serve as a magnet for multinationals that want to use the country's innovation-led economy and generous investment and tax regime as a springboard for Southeast Asia. For businesses that have not yet decided whether to target the market in China or Southeast Asia, Singapore is more likely to have a DTA or FTA that will benefit your business: Singapore has more double taxation agreements (DTAs) (90+) than Hong Kong (44), and more free trade agreements (FTAs) (26) compared to Hong Kong's seven.

Singapore and Hong Kong Holding Locations Compared

	Singapore	Hong Kong
Corporate income tax rate	17%, but effective rate can be reduced through tax incentives	Flat rate of 16.5%
Paid-up capital	At least S$1 (US$0.73)	There is no minimum share capital
Shareholding in private limited company	Minimum of one and maximum of 50 shareholders and the company can be 100 percent foreign-owned	
Tax system	Territorial and tax on some remittances	Purely territorial
Number of double tax treaties	Over 90	44
Value-added tax or goods and services tax	7%	None
Capital gains tax	None	None
Withholding tax	Dividends – none Interest – 10% on gross interest paid to non-resident with no business operation in Singapore. Royalties – 10% on gross royalty paid to non-resident with no business operation in Singapore.	Dividends – none Interest – none Royalties – 16.5% on either 30% or 100% of gross royalty depending on qualifying conditions.
International property rights index 2020 (rank out of 129)	3	15
Free trade agreements	26	7

Benefitting from Singapore's Tax Policies and Free Trade Network

Author: Ayman Falak Medina

Singapore's tax system is internationally recognized as efficient and competitive, which allows foreign investors to enjoy low tax rates and numerous tax incentives. The country operates a single-tier, territorial tax system, which means that foreign-sourced income would not face additional taxes in Singapore. There is also no capital gains tax and there is no tax on dividends.

Businesses can benefit from Singapore's vast network of DTAs and unilateral tax credits, which further allows Singapore companies to reduce or eliminate taxes on their foreign-sourced income.

For individuals, Singapore is able to attract quality talent from around the world by offering low personal income taxes and individuals can also reduce their effective tax rates through incentives offered by the government.

Meanwhile, Singapore's extensive FTA, coupled with a transparent legal system and educated workforce, have been credited with accelerating the country's transformation to a first-world economy.

The country's 13 bilateral and 11 regional FTAs include some of the largest combined trade agreements in the ASEAN-China, ASEAN-India, and ASEAN-Hong Kong trade blocs — providing Singapore-based businesses with access to preferential markets, free or reduced import tariffs, as well as enhanced intellectual property regulations.

Overview of some important tax incentives

Singapore offers a multitude of tax relief measures to help businesses reduce their overall tax bills. Many of these incentives are for taxpayers involved in specified industries or sectors which are deemed essential to Singapore's economy.

Applicants must generally carry out high-value activities in the country and will be required to commit to spending on local employment as well as certain levels of local business spending. Such factors include the capacity for the company to contribute to the growth of research and development (R&D), the potential for the business to create a spin off to the rest of the economy, and introducing or anchoring leading-edge technology, activities, and skills in Singapore.

Common corporate tax relief measures to help reduce tax bills

Tax exemption for start-up companies

In 2005, the government introduced a tax exemption for start-up companies to support local enterprises grow and entrepreneurship. Qualifying companies are given the following tax exemption on the first three consecutive year of assessment (YA), where if the YA falls in 2020:

- 75 percent tax exemption on the first S$100,000 (US$73,646) of normal chargeable income (income to be taxed at the prevailing corporate tax rate); and
- A further 50 percent tax exemption on the next S$100,000 (US$73,646) of normal chargeable income.

The exemptions are open to all new start-ups **except** the following companies:

- Companies whose principal activity is that of investment holding; and
- Companies that undertake property development for investment, for sale, or for both.

Partial tax exemption for companies

Those not eligible for the tax exemption for start-ups can be eligible for the partial tax exemption scheme. Under this scheme businesses are afforded:

- A 75 percent tax exemption on the first S$10,000 (US$7,300) of normal chargeable income; and
- A 50 percent tax exemption on the next S$190,000 (US$140,000) of normal chargeable income.

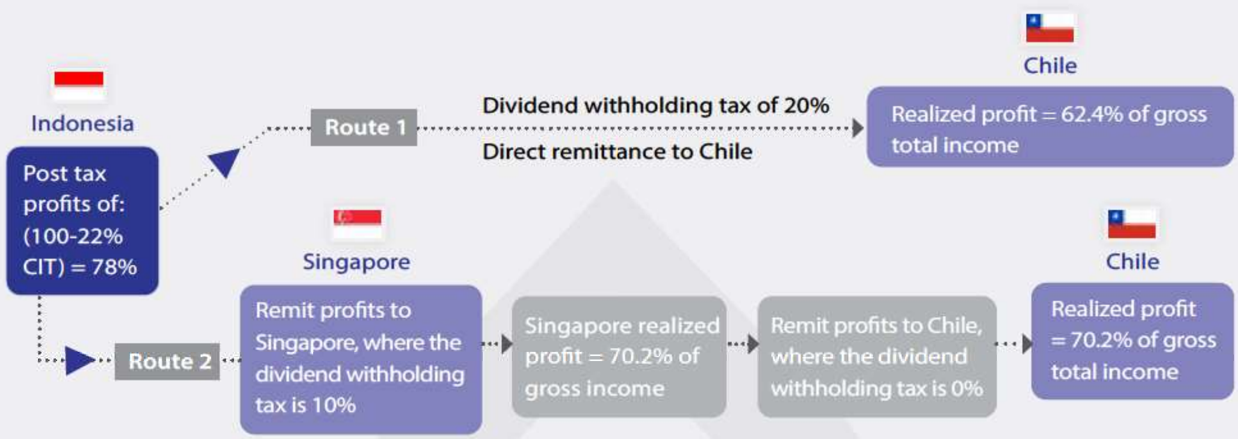
CASE STUDY

Routing investments through Singapore

To illustrate the benefits of a DTA, let's take the case study of a Chilean investor in Indonesia remitting their profits through Singapore.

If the investors were to execute a direct remittance to Chile, they would be subject to Indonesia's CIT rate of 22 percent in addition to a 20 percent withholding tax (WHT) rate applied to dividends, interest, and royalties, due to Indonesia and Chile not having a DTA. Thus, the realized profit is only 62.4 percent of gross total income.

When routing the same investment through Singapore, investors would be subject to the same CIT rate but benefit from Singapore's DTA with Indonesia, which reduces withholdings on all fronts. Singapore's DTA with Indonesia means that dividends from Indonesia are taxed at 10 percent, resulting in a 70.2 percent retention rate of realized profit. This is also the same when the profits are remitted to Chile since there is no tax on dividends under the Singapore-Chile DTA. The realized profit is therefore higher compared to the direct remittance to Chile.



Headquarter and internationalization incentives

International headquarters award

The international headquarter award (IHQ) provides businesses a concessionary tax rate of five or 10 percent on income for businesses that commit to substantive headquarter activities, such as managing, coordinating, and controlling their regional operations from Singapore.

Merger and acquisition scheme

The merger and acquisition (M&A) scheme provide the acquiring company an M&A allowance of 25 percent (capped at S$10 million (US$7.3 million) of the qualifying acquisition value capped at S$40 million (US$29.5 million) per year of assessment, stamp duty relief capped at S$80,000 (US$59,000), and double tax deduction transaction costs capped at S$100,000 (US$73,800).

Double tax deduction for internationalization

Under this incentive, the business can receive up to 200 percent tax deduction on expenses used for international expansion. Most DTDi deductions are subject to approval from Enterprise Singapore (ESG) and the Singapore Tourism Board. However, certain activities do not require approval on the first S$150,000 (US$111,000) of eligible expenses.

Incentives for manufacturing and services activities

Pioneer certificate incentive

The pioneer certificate incentive aims to encourage companies to develop and conduct new economic activities in Singapore. Eligible companies are eligible for a concessionary tax rate of five or 10 percent on income derived from qualifying activities. The incentive period is limited to five years.

Investment allowance

The investment allowance incentive is administered by the EDB, from which businesses can enjoy a tax exemption of up to 100 of fixed capital expenditure incurred. The EDB defines fixed capital expenditure as expenditure incurred for qualifying projects within a five-year period, which can be extended up to eight years.

An extension of the 100 percent Investment Allowance (IA) scheme has been granted by the government until 2023.

The approved 100 percent IA support is capped at S$10 million (US$7.4 million) and is part of the Automation Support Package (ASP), which comprises the following grants, loans, and tax support.

The ASP support itself is due to end on March 31, 2021, but the 100 percent IA scheme will still be available.

Incentives for finance and treasury activities

Finance and treasury center

Under this scheme, income derived from finance and treasury activities is taxed at a reduced rate of eight percent. Such approved activities include international treasury and fund management activities, investment and economic research analysis, and corporate finance and advisory services.

Financial sector incentive

The financial sector incentive, any income from high-value-added activities, such as transactions and services related to the equity market, derivatives market, and bond market, may be taxed at five percent, while other activities will qualify for a 13.5 percent tax rate.

Financial sector technology and innovation scheme

This scheme provides co-funding to develop financial technology (Fintech) that enhances Singapore's banking industry. The scheme offers support of up to 70 percent for qualifying costs such as IP rights, technical software, manpower skilling, and professional services, among others.

Taking advantage of Singapore's double tax agreement network

Singapore has one of the world's most extensive DTA networks, attracting international businesses from a multitude of conventional and nuanced industries. The country has signed over 90 DTAs, which comprise of three types: comprehensive, limited, and exchange of information arrangements (EOIAs).

Comprehensive DTAs provides relief from double tax for all income types between the two signatories. Limited DTAs, however, only provides relief from income generated from air transport and shipping, and EOIAs are provisions for the exchange of tax information.

The tax reliefs under each DTA treaty differs for each country. They normally cover several income types:

- Tax on royalties;
- Tax on dividends;
- Tax on capital gains;
- Tax on interests;
- Shipping and air transport;
- Directors' fees;
- Independent and dependent personal services;
- Researchers;
- Students; and
- Income from immovable property.

How to avail the benefits of a Singapore DTA

To benefit from Singapore's extensive network of DTA's, the individual or company must be a tax resident of Singapore or the other country.

A Singapore resident is defined as:

- A company or body of persons whose control and management of the business is exercised in Singapore; or
- An individual who resides in Singapore and who is physically present or who exercises an employment in Singapore for 183 days or more in a calendar year.

The Singapore resident must submit proof of their Singapore tax residency — a certificate of residence (COR) — to the other treaty country. If, however, the company is a tax resident of the treaty country, they will need to submit a completed Certificate of Residence from Non-Residents certified by the tax authority of the treaty country to the Inland Revenue Authority of Singapore.

Within Singapore, a COR is used to establish a company's eligibility for exemption on taxation of profits remitted from foreign operations in the form of foreign branch profits, dividends, and other foreign sourced income. Without a COR, these remitted profits would be subject to the same manner that any other profits would be within the country.

Singapore's free trade agreements

Despite regional players maintaining strong FTA networks, they are not as extensive as Singapore's. Due to these factors, the country will continue to be the default location for businesses seeking to expand into Southeast Asia and neighboring regions.

The country's 14 bilateral and 13 regional FTAs include some of the largest combined trade agreements in the ASEAN-China, ASEAN-India, and ASEAN-Hong Kong trade blocs — providing Singapore-based businesses with access to preferential markets, free or reduced import tariffs, as well as enhanced intellectual property regulations.

There are two types of FTAs: bilateral (agreements between Singapore and a single trading partner) and regional (signed between Singapore and a group of trading partners).

Bilateral FTAs

- China-Singapore FTA (CSFTA);
- India-Singapore Comprehensive Economic Cooperation Agreement (CECA);
- Japan-Singapore Economic Partnership Agreement (JSEPA);
- Republic of Korea-Singapore FTA (KSFTA);
- New Zealand-Singapore Comprehensive Economic Partnership Agreement (ANZSCEP);
- Panama-Singapore FTA (PSFTA);
- Peru-Singapore FTA (PeSFTA);
- Singapore-Australia FTA (SAFTA);
- Singapore-Costa Rica FTA (SCRFTA);
- Singapore-Jordan FTA (SJFTA);
- Sri Lanka-Singapore FTA (SLSFTA);
- Turkey-Singapore FTA (TRSFTA);
- United States-Singapore FTA (USSFTA); and
- UK-Singapore FTA (UKSFTA).

Regional FTAs

- ASEAN-Australia-New Zealand Free Trade Area (AANZFTA);
- ASEAN-China Free Trade Area (ACFTA);
- ASEAN-Hong Kong, China Free Trade Area (AHKFTA);
- ASEAN-India Free Trade Area (AIFTA);
- ASEAN-Japan Comprehensive Economic Partnership (AJCEP);
- ASEAN-Republic of Korea Free Trade Area (AKFTA);
- ASEAN Free Trade Area (AFTA);
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP);
- EFTA-Singapore FTA (ESFTA);
- Singapore-Eurasian Economic union (EAEUSFTA);
- Regional Comprehensive Economic Partnership (RCEP)
- GCC-Singapore FTA (GSFTA); and
- Trans-Pacific Strategic Economic Partnership (TPSEP).

How to Apply for Tariff Concessions for Exporting Goods from Singapore

Once a Singaporean company has identified their target market, they can start applying for tariff concessions through the Enterprise Singapore website.

1 Determine the relevant FTAs for your target market

Visit Enterprise Singapore's website for a list of Sinagpore's FTAs

2 Determine the Harmonised System (HS) code of your product

Use the Tariff Finder Tool to search for the HS code of your product (using relevant keywords - e.g. 'avocado') in the destination country.

3 Check if your product benefits from lower tariffs

Key in the destination country and the correct HS code and compare the tariff rate for your Singapore-originationg product to the generic rate applicable to most countries (i.e MFN rate).

4 Check the FTAs' Rules of Origin (ROO) to see how quality as "Singapore-originating"

Refer to the ROO section for your product to determine the business processes necessary to benefit from lower tariffs. Some examples are:

- Change in HS code during manufacture
- Minimum % for local value-added content

5 Choose qualifying FTA (based on ROO) with highest tariff savings

If Preferential Certficate of Origin (PCO) is required by your chosen FTA

6a Submit the relevant documents to Sinagpore Customs

Go to Singapore Customs Certificate of Origin website to check document requirements

https://www.customs.gov.sg/businesses/certificates-of-origin/overview

7 Send PCO to customer for presentation to importing authorities

If self-certification is required by your chosen FTA

6b Follow self-certification prcedures as per FTA requirements

8 Reduction in tariffs by importing authorities

Source: mti.gov.sg

Singapore as a Hub for Regional Digital Expansion

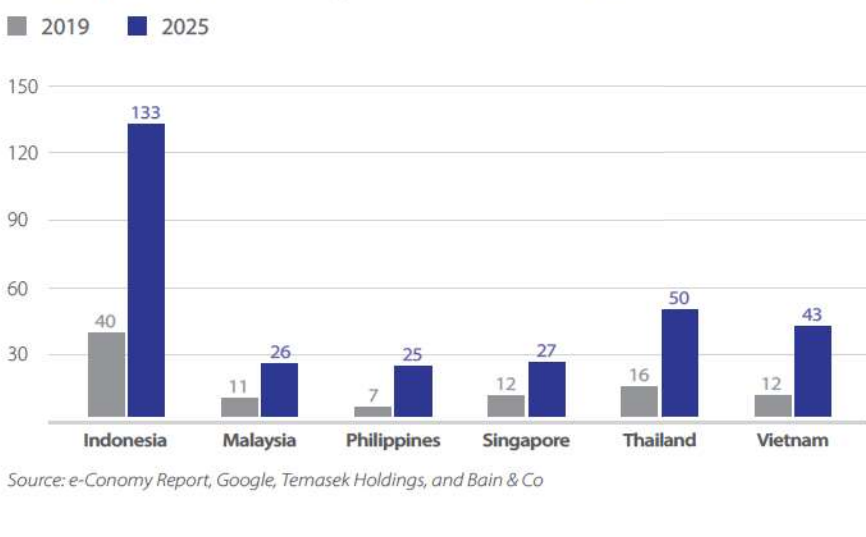
Author: Ayman Falak Medina

According to the Singapore Economic Development Board, more than 80 of the world's top 100 software companies have a presence in the city-state. Although known as a long established global financial center, Singapore could is set to become the next Silicon Valley as government initiatives as well as a high-quality workforce have attracted big tech companies and start-ups to incorporate in the country.

Having a diverse cluster of international tech giants in the country has resulted in an ecosystem that supplies more resources from early funding opportunities for startups to mentorships. The likes of Tencent, Alibaba, and Bytedance are reportedly planning to establish their regional headquarters in the city-state while others, such as Amazon, Facebook, Google, and Grab, already have headquarters or significant operations in Singapore, attracted to the country's proximity to an ASEAN market of 650 million people.

A report by Google, Temasek, and Bain & Company, highlighted that ASEAN's internet economy is expected to have a gross merchandise value (GMV) of over US$300 billion by 2025, with Indonesia being the largest in the bloc with a GMV of US$124 billion.

Value of the Internet Economy of ASEAN-6 (US$ billion)



Source: e-Conomy Report, Google, Temasek Holdings, and Bain & Co

Global hub for intellectual property and intangible assets

With technology-driven innovation taking center stage in ASEAN, Singapore launched its latest 10-year blueprint to strengthen its position as an intellectual property (IP) hub. Named the Singapore IP Strategy (SIPS) 2030, the blueprint builds on the country's existing IP environment but will see more coordinated intangible assets (IA) initiatives that stays ahead of technological advancements.

With the global IA value standing at US$65 trillion, SIPS 2030 aims to capture this huge market by working with enterprises to better translate the outputs of their research and development (R&D), including helping companies raise capital using their IA/IP, and getting their products or services to market and society.

The government is also providing holistic IA/IP training and education programs that are curated to meet the needs of industries, particularly those engaged in the digital sector.

Fast track patent program

The Intellectual Property Office of Singapore (IPOS) launched the SG Patent Fast track Program on May 4, 2020, which aims to expedite the application-to-grant process of patents in all technology fields to six

Singapore as an IP Hub in Numbers

Global Rankings

TOP 5 Since 2015 — In the World Economic Forum's Global Competitiveness Report ranking for IP protection

TOP 10 Since 2015 — RANKED 8th In 2020

In Global Innovation Index Overall Ranking

Global Innovation Index Indicators Since 2015

- Ranked 1st in Innovation Inputs
- Ranked 2nd in Investment*
- Ranked 6th in Intellectual Property Payments*
- Ranked 1st in Political Environment*
- Ranked 1st in Tertiary Education*

*Ranked in 2020

Source: www.ipos.gov.sg

months, compared to the typical duration of two years.

This is a two-year program, which began on May 4, 2020, and is expected to end April 29, 2022. It replaces the FinTech Fast Track and Accelerated Initiative for Artificial Intelligence programs.

There is no additional fee required to participate in the program; however, it is currently only available to process five applications per month on a first-come, first-serve basis with IPOS also imposing a limit of 10 requests per year for each entity, whether they are corporates or individuals. The program has benefited innovators who develop products or solutions with short lead times to market or short product lifecycles.

Furthermore, the positive examination results issued by IPOS can be used to leverage their application to international patent examinations, such as to the ASEAN Patent Examination Co-operation (ASPEC).

Due to Singapore's robust intellectual property (IP) system and IPOS'global reputation, an IPOS patent report can support innovators in their quest to process their patents internationally, such as in Japan, the USA, China, and Europe.

Furthermore, Singapore is part of the ASEAN Patent Examination Co-operation (ASPEC), a regional patent-sharing program among ASEAN members. Similar to the PPH, the program aims to expedite the patent application process by sharing search and examination results between participating offices.

Special Purpose Acquisition Companies

As of September 3, 2021, the Singapore Exchange (SGX) is among Asia's first major bourse to allow the listing of special purpose acquisition companies (SPACs) in a move that the city-state hopes will attract more firms to raise funds amid a stagnating initial public offering (IPO) market.

The government hopes SPACS will bring more tech companies to list on the SGX and give the SGX a competitive advantage over regional rivals, particularly since a company needs a valuation of at least US$5 billion to attract investor interest in the US stock market. The SGX could be another option for tech companies with smaller valuations.

SPACs are essentially shell companies and have no commercial operations. They are formed by investors — who are called sponsors — with the sole purpose of raising money through an IPO to acquire another company, also known as a de-SPAC transaction.

The key features of the SPACs listing framework are as follows:

- The minimum market capitalization is S$150 million (US$111 million);
- The de-SPAC must take place within 24 months of IPO with an extension of up to 12 months subject to conditions;
- The minimum SPAC IPO price is S$5 (US$3.7) per share;
- At least 25 percent of the SPAC's total number of shares issued must be held by at least 300 public shareholders at the time of listing; and
- All independent shareholders are entitled to redemption rights — this mirrors the US SPAC framework.