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Business Tax Alert
Stay informed of new developments

Greetings from your tax team at Deloitte Singapore. We are pleased to update you on the following Singapore tax developments:

Initiatives to support Singapore companies to internationalise

With a limited domestic economy in Singapore, it is important for companies to internationalise for access to a wider and diversified market. In Budget 2015, the Minister for Finance announced various initiatives to support Singapore companies to internationalise their operations, while anchoring their key business activities and headquarters in Singapore.

These developments include the introduction of a new tax incentive, the International Growth Scheme; enhancements to the Double Tax Deductions for Internationalisation Scheme and the Market Readiness Assistance Grant.

These schemes are administered by the International Enterprise (IE) Singapore.

International Growth Scheme (IGS)

This new tax incentive confers qualifying companies a concessionary tax rate of 10% for a period not exceeding 5 years on their qualifying incremental income from approved qualifying activities, in excess of a base income. The base income as well as income not derived from approved qualifying activities will be taxed at the prevailing corporate tax rate.

For the purpose of this scheme, qualifying activities refer to commercial activities aligned with the companies' international growth plan. Also, the base income for the company is determined by taking the average of the annual net profit before tax derived from the carrying on of approved qualifying activities during the three years period immediately before the date of its approval.

To be eligible for the IGS, applicants must fulfil the following conditions:

- The applicant must be incorporated in and have its global headquarters in Singapore,
- It must have an established track record with international presence,
- It must have a sound and ambitious internationalisation growth plan, and
- It must be able to create economic spin-offs for Singapore, such as creating job opportunities for Singaporeans to gain greater international exposure, and helping other non-related Singapore companies to secure projects overseas.

Based on draft legislation available, an international growth company is defined as a company incorporated and tax resident in Singapore which carries on, or which intends to carry on, a trade or business which involves:

(a) the export of goods to a country outside Singapore; or
(b) the performance of services in a country outside Singapore.

This incentive is open to applications from 1 April 2015 to 31 March 2020.

Enhancement to the Double Tax Deduction (DTD) for Internationalisation Scheme

Currently, businesses may claim up to 200% tax deduction on qualifying expenditure incurred on a range of qualifying market expansion and investment development activities.

The scope of qualifying expenditure of the DTD Scheme will be enhanced to include qualifying salary expenses incurred for employees posted overseas in an overseas entity. Qualifying salary expenses will be capped at S$15,000 per month per employee. If granted, the tax deduction will be available on up to five employees' salaries per year.

To be eligible for the DTD enhancement, applicants must fulfil the following conditions:

- The employee is a Singaporean citizen or permanent resident of Singapore;
- The employee's posting lasts at least one year, and is designed to further the applying business's expansion plans and provide the employee with opportunities to gain new skillsets;
- The employee is contractually employed by the applying business throughout the supported period, and the salary expense is incurred by the applying business;
- The salary expenditure cannot be deducted against any income that may be liable to tax in the overseas jurisdiction; and
- The overseas entity was set up or acquired (including equity interests therein) by the applying business fewer than three years ago.

To facilitate businesses to internationalise and expand overseas, businesses which are enjoying discretionary incentives will also be allowed to qualify for the DTD scheme on a case-by-case basis, subject to approval by IE Singapore.

Both enhancements apply to qualifying expenditure incurred from 1 July 2015 to 31 March 2020 (both dates inclusive).

Enhancements to the Market Readiness Assistance (MRA) Grant

The grant is designed to assist companies expanding overseas by supporting pre-determined activities such as overseas market set-up, business matching and market promotion.

Enhancements to the MRA grant include:

- Funding support of eligible cost for qualifying activities increased to a maximum of 70%, capped at $20,000 per company per fiscal year;
- New supportable activities for overseas promotion such as marketing and PR, online marketing and participation in overseas tradeshows not supported under the International Marketing Activities Programme (iMAP); and
- Appointment of third-party professionals that best meet business needs

To be eligible for the MRA grant, Small & Medium Enterprises (SME) must fulfil the following conditions:

- Global HQ anchored in Singapore; and
- Annual turnover of less than S$100 million per annum based on the most recent audited report.

The grant will be effective from 1 April 2015 to 31 March 2018.

Our observations

One of the policy objectives behind introducing IGS and granting double tax deduction for qualifying salary expenses is to create more opportunities for Singaporeans and permanent residents to gain international exposure and new skill sets via working overseas. As a corollary, Singapore employers are generally required to perform services outside Singapore as a prerequisite to enjoy concessionary tax treatment under the DTD scheme or for a potential IGS company which intends to secure projects outside Singapore.

It should be noted that the rendering of services by a Singapore company through its employees in an overseas jurisdiction may give rise to tax exposures for both the Singapore company and the employee in that jurisdiction. In particular, companies interested in the

DTD Scheme should also carefully evaluate the requirement to second / assign their employees for at least a year and the prohibition against deducting the employees' salary against any income that may be liable to tax in the overseas jurisdiction. In this regard, detailed advice should be sought to manage the tax risk.

How we can help

Deloitte Singapore Tax is highly experienced in the practicalities of applying for and negotiating of tax incentives and grants; including all aspects from initial reviews to document submission, for companies in a broad spectrum of industries. To this end, we have a dedicated Government Incentives team with extensive experience assisting companies to apply for and obtain the appropriate governmental support. Deloitte Singapore Tax can also assist with evaluating the tax implications of the overseas projects and advise on the tax risks involved.

If you have any enquiries or would like to arrange for a discussion on the application of government incentives in Singapore, please contact our specialists below.

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