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Taxation in Singapore

International
Tax and Business
Service

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USA

Taxation in Singapore

International Tax and Business Service

APRIL 1979

This book is based on the latest information available to Deloitte Haskins & Sells as of the above date. The office of Deloitte Haskins & Sells in Singapore is located at the following address:

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Taxation in Singapore is part of a series that presents information on taxation in various countries of the world. The book is intended to supply information of a general character regarding taxation in Singapore for use as background when considering the conduct of business in that country. Specific questions should be answered by reference to the laws and regulations of the country and by consultation with professional advisors in the light of the particular circumstances.

Taxation in Singapore is published in two forms: in a loose-leaf edition and as a bound book. Only the loose-leaf edition may be supplemented or revised. These supplements will appear on blue-colored sheets inserted at the end of the book. These supplementary pages will be keyed to the original text by chapter and section numbers and should always be read in connection with the original text. In addition, revised information may be presented on pages inserted in the basic text to replace original pages. Revisions of this type are indicated by a date that appears on the bottom of each replacement page. Rules governing taxation are subject to change and reinterpretation, in many cases with little or no advance notice. The information in this book is based on material available to Deloitte Haskins & Sells as of April 1979.

This book contains the following tax changes that were announced in the 1979 Budget Speech, but are not expected to be enacted before early in 1980:

- Section 3.02—The extension of the 10% concessionary tax rate to income from the inward direct insurance business covering offshore risks.
- Section 7.02—The increase in the maximum depreciable expenditure for automobiles acquired after March 31, 1979, from S$15,000* to S$25,000.
- Section 12.01—The 100% exemption from tax on pensions to residents when paid by approved plans.
- Section12.03 and Appendix A—The increase from S$4,000 to S$5,000 in the combined deduction for employee contributions to provident funds and for premiums paid for life insurance.
- Section 15.01—The exemption from estate duty for any one home previously owned by a deceased person up to a maximum value of S$200,000.

Since these proposals had not been enacted when Taxation in Singapore was prepared, readers should obtain information as to their current status.

* S$ stands for the Singapore dollar.

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Part 1:
The Tax System

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Tax Legislation and Administration

1.01 Enactment of Tax Legislation

The Singapore Parliament has virtually unlimited powers in matters of tax legislation. No written constitution circumscribes its authority and the only restraints are those resulting from tradition and economic considerations.

The basic statutory authority on income tax law is the Income Tax Act (Chapter 141) and the Economic Expansion Incentive (Relief from Income Tax) Act (Chapter 135). The latter deals with tax incentives.

Tax legislation is introduced in the Parliament by the Minister for Finance, who summarizes and explains the major proposals in the annual budget speech at the end of February. The Minister's proposals are brought before the Parliament in the form of amendments to the Income Tax Act and the Economic Expansion Incentives Act. The proposals are normally based on recommendations from the Ministry of Finance and the Inland Revenue Department. In recent years, at least one amendment bill has been proposed in each fiscal year. Although the President must give his assent to the bill before it becomes law, such agreement has been only a matter of procedure.

1.02 Tax Administration

The Ministry of Finance controls and administers the finances of the country and advises the government on financial and taxation matters, but has no direct jurisdiction in the areas of legislation or the collection of taxes. These matters are the direct responsibility of the Inland Revenue Department.

With the exception of customs and excise duties that are administered and collected by the Department of Customs and Excise, the administration of taxes is under the jurisdiction of the Inland Revenue Department, which is directed by the Commissioner of Inland Revenue. The taxes administered by this department include:

- income tax
- estate duty
- stamp duty
- property tax
- payroll tax [collected by the Central Provident Fund (CPF) Board]

1.03 Judicial Review

Any taxpayer may file a protest (objection) against an income tax assessment within 30 days of service of the notice of assessment. If the objection is disallowed by the Comptroller of Income Tax (who is also the Commissioner of Inland Revenue), the taxpayer may appeal

to the Board of Review. Either the Comptroller or the taxpayer may further appeal on a question of law (or of mixed fact and law) to the High Court. The decision of the High Court may be appealed by either litigant to the Court of Appeal, and this decision may be further appealed, with the consent of the Court of Appeal, to the Privy Council in the United Kingdom.

1.04 Taxes Imposed by Local Authorities

Singapore consists of the main island of Singapore, where most of its business is transacted, and a number of smaller islands. The country is not large. Its total area is only 232 square miles or 602 square kilometers. In effect, Singapore is a city-state. Its small size enables the national government to function effectively without the assistance of local governments. Consequently, Singapore has no local authorities that impose taxes. Singapore does levy taxes other than income taxes. These other taxes are discussed in Chapter 13.

Distinctive Features of the Singapore Tax System

2.01 Summary

Singapore's principal tax is the income tax, which is levied on the taxable income of individuals and corporations. There is no tax on capital gains, gifts, or wealth. Residence is usually more relevant than citizenship or place of incorporation in determining whether individuals or corporations are liable to income tax on the income earned from each source of income, such as trade or business, employment, dividends, interest, and rent.

The criterion for determining an individual's residence status is the intention of residing in Singapore for a considerable period of time or the physical presence in Singapore for 183 days or more in a calendar year. In the case of a corporation, residence is deemed to be where management and control are exercised, which is normally considered to be where the directors' meetings are held. Residents are assessable on income accruing in or derived from Singapore and on foreign income received in Singapore. Nonresidents are subject to tax only on income accruing in or derived from Singapore and foreign income is not taxable even when received in Singapore. Tax withholding is usually not required on payments to residents of Singapore unless the Comptroller specifically directs such withholding. However, certain payments to nonresidents are subject to withholding tax of 40% or such lower rate as permitted by the Comptroller (5.02).

2.02 Classification of Taxpayers

Two broad classes of taxpayers are subject to income tax:

- noncorporate, such as individuals, bodies of persons, and trusts
- corporate, such as companies, domestic branches, and agencies of nonresident corporations

A partnership is not a taxable entity that is distinct from its members. The incidence of tax is on the partners, as indicated in the discussion that follows.

Partnerships. Partnerships are not subject to income tax, but must file returns showing details of income and expenses and the allocation of taxable income among the partners. The individual return of each partner must show his share of the partnership's taxable income. If the partnership operations result in a loss, each partner's share of the loss is an allowable deduction from his other sources of income. If the loss exceeds his other income, the excess may be carried forward to future years (7.08).

Partnership income retains its character when reported in the tax return of the individual partner. A partner is assessed on his share of the assessable income as shown in the partnership return, or as

adjusted by the Comptroller, without regard to the amount actually distributed. An inactive partner's share of the partnership income is not regarded as earned income and, therefore, does not qualify for separate assessment (10.01) or for the personal exemption afforded to earned income (Appendix A). Splitting income by a husband and wife to achieve maximum tax economy through the use of a family partnership is not permitted except where the married woman is duly qualified as an accountant, lawyer, doctor, dentist, engineer, or has a similar professional endeavor.

2.03 Unitary Concept of Income Taxation

The income tax system of Singapore does not contain schedular classifications of income. Instead, the various sources of income, after deductions or allowances appropriate to each source, are aggregated to arrive at the total taxable income. This aggregate income is subject to tax at the applicable tax rates discussed in Chapter 3. The aggregation of income applies to both companies and individuals.

2.04 Tax Year and Base Period

The tax year, commonly known as the year of assessment, begins on January 1 and ends on December 31 for all taxpayers. Income tax is levied for each tax year on the income of the base period, which is normally the preceding calendar year. (See example in 4.01.) However, if a trade or business uses a fiscal year other than the calendar year, the fiscal year ending in the preceding calendar year is used as the base period.

Most of the proposed tax changes noted in the introduction to this book, if enacted, will be effective for the 1980 assessment year, the tax returns for which will be filed early in 1980. In such returns, the income reported is that of the base period (preceding year). If the proposed changes have not been enacted by the due dates for filing the returns, they should be filed on the basis of existing law; the Comptroller, however, in the course of his examination of the returns and the preparation of assessments, will give effect to any tax changes that have been enacted that apply to the assessment year.

2.05 Tax Incentives

Various tax incentives are provided by the Economic Expansion Incentives (Relief from Income Tax) Act. Most of them are available only to companies.

Pioneer Enterprise. A company may be granted pioneer status if it is in an industry whose activities are not on a scale adequate to Singapore's economic needs and if the prospects for development are

favorable. Application for approval as a pioneer enterprise is processed by the Economic Development Board (EDB). No minimum capital investment is required for such approval.

An approved pioneer company enjoys income tax exemption for a period ranging from five to ten years, starting with the day on which production in commercial quantities is expected to begin. Dividends paid out of exempt pioneer profits are also tax exempt to the shareholders. A 100%-owned holding company may, in its turn, pass on such tax-exempt dividends to its shareholders who are also exempt from tax. The distribution of tax-exempt dividends is at the discretion of the company. They may be paid after the pioneer period and retain their tax-exempt status if the profits were earned during the pioneer period. Any capital allowances and losses that remain unabsorbed at the end of the pioneer period are available to be set off against future taxable profits, subject to the same conditions as apply to nonpioneer companies (7.02 and 7.08).

Expansions by Established Enterprises. An approved company that incurs new capital expenditure of at least S$10,000,000 may be granted tax incentives for a period of up to five years from when the new assets are first used in normal operations. The expenditure must be for productive equipment intended to increase production and/or improve profitability. The use of secondhand equipment requires the approval of the EDB. This tax exemption is based on the increased income resulting from the expansion, but cannot exceed the proportionate increase in the cost of assets. Dividends from such exempt profits are also tax exempt to the shareholders in the same manner as applies to shareholders of a pioneer company.

Export Enterprises. A company that manufactures for export (or engages in deep-sea fishing for export) may be approved as an export enterprise, which entitles it to tax exemptions. The annual export sales must not be less than S$100,000 and constitute not less than 20% of total sales. (This latter condition applies only to the first year and may be waived.) For a nonpioneer enterprise, the tax exemption is for five years beginning with its export year. In the case of a pioneer enterprise manufacturing for export, the tax exemption is for three years beginning immediately after the end of the pioneer period. This tax incentive is granted only to manufacturing and deep-sea fishing enterprises that export directly or through an independent exporter. The tax exemption period for the export enterprise (including the pioneer period, where applicable) may be extended to 15 years if the enterprise incurs or intends to incur a fixed capital expenditure of

(a) not less than S$1,000 million, or

(b) between S$150 million and S$1,000 million, if more than 50% of its paid-up capital is held by persons who are permanent residents of

Singapore and the EDB is satisfied that the expenditure will enhance the economic and technological development of Singapore

The tax-exempt amount is 90% of the excess export profits over the base export profit. The base export profit is one-third of the company's total export profits for the preceding three years or, if the company has no past operations, the base export profit is determined by the EDB.

Dividends paid out of exempt export profits are tax exempt to the shareholders in the same manner as dividends paid out of exempt pioneer profits.

International Trade Incentives. A company that obtains approval as an international trading company may obtain important tax benefits. To obtain such approval, a company must meet one of the following requirements:

(1) its export sales of goods manufactured in Singapore and/or of domestic produce (such as eggs, chickens, orchids, or aquarium fish) exceed or are expected to exceed S$10 million per year, or (2) its export sales of commodities exceed or are expected to exceed S$20 million per year. However, certain traditional commodity exports are excluded, such as tin, rubber, palm and kernel oil, coconut oil, copra or coconuts, logs and timber, petroleum and petroleum products, and pepper and other spices.

Under this incentive, one-half of the export profit is exempt from tax for a period of five years, beginning with the date specified in the certificate or such other date as approved by the EDB. The amount of such export profit is based on the incremental export sales, i.e., the excess of total export sales value over a base export value. The tax incentive is available only if the export sales in a tax year attain the required levels noted in (1) or (2) above.

Dividends paid out of exempt profits are also tax exempt to the shareholders. If a recipient shareholder is a company, it may pay such tax-exempt dividends to its shareholders, who will also be exempt from tax.

Foreign Loans for Productive Equipment. To encourage borrowing from foreign sources, interest paid to nonresidents of Singapore may be granted exemption from tax. To qualify for tax exemption, the following conditions apply:

(a) the foreign loan must be S$200,000 or more,

(b) any productive equipment purchased and financed from the proceeds of such loan must not be sold without prior approval of the EDB,

(c) such exemption must not result in an increase in the liability to tax of the foreign lender in his country of residence.

Royalties, Technical Assistance Fees, and Development Contributions. A tax incentive may be granted on royalties, technical fees, or development contributions received by nonresidents. The incentive may take the form of full tax exemption or withholding at a reduced rate of 20% instead of the normal 40%. Such exemption or relief must not result in increased tax liability of the nonresident recipients in their countries of residence.

Investment Allowances. A company that starts to manufacture or expands its manufacture of any product, or that provides specialized engineering or technical services, may receive an investment allowance. Such investment allowance is used to offset taxable income. An investment allowance that cannot be utilized because of insufficient taxable income may be carried forward until the full investment allowance has been offset against the taxable income of subsequent years. Dividends distributed from such untaxed income are also exempt to the shareholders on the same basis as applies to shareholders of an international trading company.

The amount of an investment allowance is determined by the EDB when it approves a company for this incentive. The amount will be a percentage (not exceeding 50%) of the company's fixed capital expenditure on specified assets. Fixed capital expenditure is defined as capital expenditure to be incurred by the company on an approved project for a building in Singapore (excluding the cost of land) and for productive equipment to be used in Singapore. During the qualifying period for which the investment allowance is granted, and for two years after the end of such qualifying period, the company is prohibited from selling, leasing, or otherwise disposing of any assets in respect of which the investment allowance was granted, unless the EDB approves of such disposition.

Warehousing and Servicing Incentives. Tax relief is granted to a company approved as a warehousing company or as a servicing company if such company intends to incur fixed capital expenditure of not less than S$2 million for:

(a) warehouse facilities for the storage and distribution of manufactured goods to be sold and exported by the company, with or without processing or the provision of related services, or

(b) the provision of technical or engineering services, or other services specified in the government gazette, to persons outside Singapore who are not residents of Singapore.

When approved, the company receives a certificate that specifies the date the tax relief will start, the kinds of goods or services eligible for

tax relief, and such other conditions as the EDB may impose. The tax relief is for a period of five years, and the company may apply to the EDB for the tax relief to start at an earlier or later date than originally specified.

The tax relief is an exemption of one-half of export profits from tax. The amount of export profit eligible for such relief is based on the incremental earnings of eligible goods or services exported; that is, the excess of the export earnings over a base export earnings. Dividends distributed from such exempt income are also tax exempt to the shareholders on the same basis as applies to shareholders of an international trading company. During its tax relief period, a company is prohibited from certain acquisitions unless written approval of the EDB is obtained.

International Consultancy Services. Tax relief is available for either a consultancy company or a consultancy firm that obtains the necessary approval from the EDB. Approval is based on the intention to provide consultancy services for overseas projects at revenues expected to exceed S$1 million per year, excluding the cost of material and any subcontracts. As defined, consultancy service means providing any of the following services:

- advisory services on any technical, construction, or engineering matter
- fabrication of machinery or equipment
- design and engineering
- procurement of materials and equipment
- management and supervision of the installation or construction
- data processing, programming, and other computer services
- other services specified in the government gazette

When it grants approval, the EDB will issue a certificate that specifies the commencement date of the tax relief, the kinds of projects eligible for such relief, and such other conditions as the EDB may impose. The tax relief is for five years starting with the commencement date. The EDB may, upon application, change the commencement day to an earlier or later date.

The tax relief for a consultancy company provides that one-half of the income qualifying for relief is exempt from tax. Such qualifying income is determined by reference to the incremental consultancy revenue from approved overseas projects, i.e., the excess of the consultancy revenue from approved projects over a base consultancy revenue.

A consultancy firm is a partnership that, unlike a company, is not an entity for tax purposes and the partners of the firm are separately assessed on their shares of the firm's profit (2.02). Consequently, the income of a consultancy firm that qualifies for tax relief will be ascertained in accordance with the Regulations prescribed by the Minister for Finance.

Shipping Enterprises. Shipping income of companies owning or operating ships registered in Singapore and flying the Singapore flag is exempt from tax. Such exempt income must be derived from the transportation of passengers, mail, livestock, or goods by seagoing Singapore-registered ships that voyage beyond the Singapore limits. The exemption includes income derived from the charter of such Singapore-registered ships. Dividends paid out of exempt shipping profits are tax exempt to the shareholders in the same manner as dividends paid from exempt profits of a pioneer company.

Other Tax Incentives. See 3.02 for other tax incentives in the form of concessionary tax rates that are provided to promote special kinds of activities.

Part 2:
Income Taxes

Tax Rates

3.01 Individuals

The Singapore tax system is essentially a single tax on chargeable income. The term chargeable income refers to gross income subject to tax, less allowable deductions and personal exemptions. Residents are liable to tax on their taxable income accruing in or derived from Singapore and on their foreign income received in Singapore. Resident individuals are taxed at the graduated tax rates set forth in the Rate Tables.

Nonresidents generally are subject to tax on Singapore-source income at a flat rate of 40%. Nonresidents are not taxable on their foreign-source income. Certain categories of nonresidents are subject to tax at a reduced rate as follows:

- employment income derived by a nonresident employee (other than a company director) is taxed at the rate of 15%, or on the same basis as a resident at graduated tax rates (after personal exemption), if this basis results in a higher tax liability.
- income derived by a nonresident public entertainer, such as an artist, musician, or athlete, is taxed at the rate of 15%.

3.02 Corporations

Normal Rate. Corporations are liable to Singapore tax at the flat rate of 40% of taxable income (i.e., gross income subject to tax less allowable deductions). The flat 40% tax rate applies to all corporations whether incorporated locally or in a foreign country, private or public, limited or unlimited, and resident or nonresident. As are resident individuals, resident corporations are liable to Singapore tax on income accruing in or derived from Singapore and on foreign income received in Singapore. Nonresident corporations are taxable only on income accruing in or derived from Singapore; foreign-source income is not subject to Singapore tax even if received in Singapore.

Concessionary Tax Rates. The flat corporate rate of 40% is subject to reduction in certain cases as a tax incentive to promote special kinds of activities.

Asian Dollar Market. To promote the development of the Asian dollar market in Singapore, the offshore income derived from this market by banks and by merchant banks licensed to operate in this market by the Singapore monetary authorities is taxable at the concessionary rate of 10% instead of the normal rate of 40%. Beginning with the tax year 1978, this concessionary rate was extended to cover all offshore income other than income derived from currency transactions involving Singapore dollars and transactions with domestic banking units and residents of Singapore. In prior years, this

concessionary rate had been confined to income earned from borrowers who were nonresidents of Singapore. Beginning with the tax year 1979, dividends declared from such offshore profits are also taxed in the hands of the recipient shareholders at the reduced rate of 10%. Income that does not qualify for the concessionary rate is taxable at the normal rate of 40%.

Offshore Insurance Business. As of the tax year 1978 (based on any accounting periods ending in 1977), the income of insurance companies derived from the business of reinsuring offshore risks is subject to tax at the concessionary rate of 10%. This 10% rate also applies to dividend and interest income derived from the investment of income from such offshore reinsurance business activities. Shareholders who receive dividends paid by Singapore resident companies from such offshore reinsurance income are also subject to 10% tax on such dividends as of the tax year 1979.

To further encourage the offshore insurance business in Singapore, the 10% concessionary tax rate will be extended effective from the tax year 1980 to income from inward direct insurance business covering offshore risks, if this proposal contained in the 1979 Budget Speech is enacted.

Returns, Assessments, and Payment of Tax

4.01 Returns and Assessments

Every individual or corporation chargeable with Singapore tax must file a return annually to the Comptroller. The prescribed Form B or C must be used to report the income earned in the preceding calendar year or preceding financial accounting year, whichever is applicable. The taxpayer declares that the information in the return and any accompanying statements is a correct report of all income, deductions, and exemptions of the preceding year.

The annual tax return forms are issued by the Comptroller to all taxpayers in January and must be completed and submitted to the Comptroller within 21 days from the date of issue, unless an extension of time is granted. Taxpayers who have not received tax return forms are required to request them and must file their returns by April 14 of the year following the base period in which the income has accrued (2.04). Partnerships are subject to the same reporting requirements (2.02). As an example, tax returns for assessment year 1980 are normally filed early in 1980. The income reported on such tax returns is that of the base period, which would be the year 1979 for calendar-year taxpayers.

The tax return is reviewed by the Comptroller and the tax liability is communicated to the taxpayer in a formal notice of assessment. The Comptroller is empowered to make estimated assessments if no return is filed and to issue advance assessments in certain circumstances.

Extension of Time for Filing Returns. A reasonable extension of time may be granted for the submission of tax returns and related statements and information. A corporation submitting its own return may obtain an extension to May 31. Tax preparers may obtain an extension to July 31 provided they submit estimated returns of chargeable income so that an estimated assessment may be issued and the assessed tax collected by the Comptroller without undue delay. An individual or partnership may obtain extensions only to April 30.

Limitations on Assessment of Deficiencies. Generally, any assessment of tax deficiencies may be made within 12 years from the end of the tax year. The assessment period, however, is limited to three years from the end of the tax year in which an individual dies. There is no time limit on assessments in cases involving fraud or willful default.

4.02 Payment of Tax

Corporations may apply for permission to pay their taxes in monthly

instalments. This requires the submission of estimated chargeable income on which the instalment payments will be based. A corporation whose financial year ends after September 30 may request instalment payment at the beginning of the tax year (January). The maximum permitted number of instalments is ten. The instalment payment procedure requires that the same number of instalments must be paid before the normal due date (generally May 31) as after the due date. Thus, ten instalments would be paid monthly from January to October, eight instalments from February to September, six instalments from March to August, and so on. For corporations whose financial year ends on or before September 30, the normal due date is generally five months after the fiscal yearend, and their instalments are due accordingly.

Employees' income is not subject to regular withholding of income tax, but employees may arrange to pay their tax in monthly instalments up to October without following a normal due-date procedure. The Comptroller may request a letter of guarantee from a local bank or other established company. The Comptroller may also refuse to accept personal checks, in which case checks of an established company may be offered in payment.

4.03 Examination of Returns

Every tax return is reviewed by the Comptroller and, on the basis of the review, a notice of assessment is issued. The Comptroller has the right to request information in addition to that required in the tax return form itself and has full and free access to all books and documents. See 1.03 for the procedures when disputing an assessment.

4.04 Interest and Penalties for Late Filing and Late Payment

Any taxpayer who fails to file a tax return or provide information within the stipulated period (or extended period) may be subject to a penalty of up to S$1,000 on conviction. On a second or subsequent conviction for the same year of assessment, the taxpayer is liable to a further penalty of S$50 for each day of continued delay after the conviction. The Comptroller may reduce the penalty.

If the tax assessed is not paid on or before the due date, a penalty of 5% of the unpaid amount may be imposed. A further penalty of 1% for each full month will be imposed if the tax remains unpaid 60 days after the imposition of the 5% penalty. In total, the penalty cannot exceed 17% of the unpaid tax. The Comptroller may waive all or part of the penalty.

Withholding Taxes

5.01 Withholding of Income Tax on Wages

Singapore does not have a system of withholding tax from each payment of wages. Withholding tax on remuneration is required in the following cases:

- when an employee who is not a citizen of Singapore is about to cease employment and/or depart from Singapore.
  The employer must notify the Comptroller at least one month before such employee ceases employment or departs from Singapore. The employer must also withhold any money due to such employee until 30 days after the Comptroller has been notified of such cessation or departure, or until a tax clearance from the Comptroller to release such funds has been obtained.
- when formally directed to do so by the Comptroller.
  In such case, the employer must deduct and send the tax withheld to the Comptroller within ten days from the date of withholding; otherwise a penalty of 5% will be imposed as well as an additional penalty of 1% for each full month the amount remains unpaid. The total penalty is limited to 17%. The Comptroller may waive all or part of the penalty on evidence of good cause for the delay.
- when remuneration, which includes directors' fees, is paid or credited to a nonresident director of a company.

5.02 Withholding Tax on Interest, Dividends, and Other Payments

No withholding is required on payments to residents of Singapore. Payments to nonresidents of interest, royalties, technical fees, management fees, and rent for the use of movable properties are subject to withholding tax of 40% of the gross amount payable. Other rates may be approved by the Comptroller, such as lower tax-treaty rates provided for in double-taxation agreements. Where lower treaty rates apply, the Comptroller requires the filing of Form IR 585, which must be certified by the tax authorities of the other treaty countries. The tax withheld or deemed withheld must be paid to the Comptroller within seven days of such payments or deemed payments. A 5% penalty is imposed for late payments and a 1% penalty is added for each full month the tax remains unpaid. The total penalty is limited to 20%. Withholding tax but not reporting it to the Comptroller is a serious offense. Conviction carries a penalty of three times the tax payable, plus a fine of up to S$10,000 and/or imprisonment not exceeding three years.

Nonresidents are deemed to have been paid, even if not actually paid, when payments are invested, accumulated, capitalized, carried to any reserve, credited to any account however designated, or similarly handled. The Comptroller has ruled that payments for technical fees or management fees (but not for other types of payments) for

services rendered entirely outside of Singapore, arising from transactions that are commercial and independent in nature, and without any intention of siphoning off Singapore income, are not subject to withholding tax.

As the withholding tax is not a final tax, the income subject to withholding tax is also subject to annual assessment. The penalties for noncompliance apply (4.04), although the Comptroller has experienced difficulties in imposing the penalties on residents of foreign countries. The tax return must be filed by April 14 of the year following the year in which the income accrued (4.01). If the tax withheld exceeds the tax payable, a Notice of Computation of Tax Repayable is issued by the Comptroller and a check for the overpayment is issued.

Withholding Tax on Dividends. The taxation of dividends depends primarily on their territorial origin. The territorial origin of dividends depends solely on whether the corporation declaring the dividends is a resident or a nonresident. Dividends declared by a nonresident corporation are normally regarded as declared outside of Singapore and no withholding tax is required. Dividends declared by a resident corporation are paid from aftertax income. The company income tax on taxable profits is considered, in effect, as an advance payment of the taxes that would otherwise be owed by the shareholders who receive the dividends. Thus, a resident corporation is deemed to withhold tax of 40% on its dividends and the shareholders are deemed to receive net dividends of 60%. The tax deemed withheld by the corporation is compared with the actual tax paid on its taxable profits. If the tax paid exceeds the tax deemed withheld on the dividends, no further tax is payable. If the tax deemed withheld exceeds the tax paid, the corporation is required to pay the difference. Each corporation is required to report its dividends declared to the Comptroller, who also maintains a record of the tax paid and the tax deemed withheld by each corporation.

Income Subject to Tax

6.01 The Nature of Income—Nontaxables

There is no single or comprehensive definition of income. The Income Tax Act, however, refers in great detail to sources of income, methods of computation, and the like. Moreover, various rules have evolved for each category of income which provide general guidelines in determining what is and what is not income within the several categories. Certain classes of income are exempt from tax. These include the following, subject in some cases to special conditions:

- salaries of consuls and other foreign officials
- income of bona fide friendly societies
- income of registered cooperative societies
- income of approved charitable institutions
- sums received in commutation of pensions
- retirement and death gratuities
- income of trade unions
- income of approved pension plans or schemes
- interest on deposits in approved banks, and interest on Asian dollar bonds received by nonresidents
- interest on deposits in the Post Office Savings Bank (POSB)

6.02 Business Income

Generally, a corporation's profits are determined from its accounting records, with the adjustments necessary to reflect tax principles (Chapter 8). The usual presentation to the Comptroller starts with "book profits" and lists the adjustments for tax purposes. In this regard, dividends, interest, and rentals are excluded from the book profits and are assessed as a separate source of income.

6.03 Interest Income

Interest becomes income for tax purposes when it is paid or credited. Interest on tax-free government stocks or bonds is tax exempt. However, such tax-free interest is subject to tax when received by a financial institution, but a tax credit of 20% of the gross interest is offset against the tax payable.

Under Singapore's territorial concept of income, interest is taxable only if it is accrued in or derived from Singapore or received in Singapore from sources outside Singapore. Interest is deemed to be derived from Singapore if:

- the interest burden is borne by a resident or permanent establishment in Singapore, or

- the interest is deductible against any income derived from Singapore, or
- the funds from which the interest is derived are brought into or used in Singapore.

Interest derived from activities of financial institutions (such as banks, finance companies, and moneylenders) is assessable as gain or profit from a trade or business.

6.04 Dividends

As noted in 5.02, the company income tax of 40% is, in effect, a withholding tax on dividends paid to residents or remitted abroad. No additional withholding is required. Residents receiving such dividends report them gross (at their pretax level) and obtain a tax credit for the 40% company tax. Any excess of the tax credit over the tax payable is refunded to the taxpayer.

Dividends declared out of tax-exempt profits are also exempt from tax in the hands of the recipients (2.05). This exemption, however, applies only to dividends paid on ordinary shares; it does not extend to dividends on preference shares.

The taxation of foreign dividends received in Singapore depends on the country from which the dividends originated. Dividends received from Commonwealth or treaty countries that provide Commonwealth tax reliefs (CTR) or treaty reliefs are assessable on the gross amount and the recipients receive tax reliefs. Dividends received by residents from foreign countries (other than Commonwealth and treaty countries where CTR or treaty tax reliefs are given) are assessable on the amount received (net dividends remitted to Singapore). The same dividends are tax exempt when received by nonresidents of Singapore.

Under certain circumstances, dividends are assessable when declared, but, in practice, most dividends are assessable to tax on the basis of the payment date stated on the dividend warrants.

6.05 Capital Gains and Losses

Capital gains are not taxed and capital losses are not deductible. However, the distinction between capital transactions and ordinary gains and losses is sometimes elusive. The basic test is whether the income has resulted from an investment gain or a profit-making transaction. The content of the transaction is decisive rather than its form.

Several factors are influential in determining the nature of a transaction. The number and frequency of transactions is important; the more transactions, the greater is the risk of being taxed. However,

the fact that there is only one transaction does not necessarily earmark the profit as a capital gain. Transactions closely related to a taxpayer's regular business would ordinarily indicate that any profit is taxable. It may be difficult for a stockbroker to avoid being taxed on gains from the sale of his personal investments, but, depending on the circumstances, it may be possible to prove that shares were acquired and sold quite apart from his activities as a trader. The circumstances surrounding the acquisition, retention, and disposal of an asset; the period of time covered by the transactions; and other relevant factors must be taken into consideration.

In the case of a corporation, the purposes stated in its articles and memorandum of association, and whether these conflict with the conduct of its business activities will be a factor. In each case, all the relevant facts must be considered.

In transactions involving the acquisition and disposal of fixed assets, it may be said, as a generalization, that if an asset was purchased for the purpose of resale at an eventual profit and not as a long-term investment, the gain will be taxed. In transactions involving shares and similar securities, individuals rarely are taxed on gains unless they are brokers or dealers in such securities.

Currency-Exchange Gains and Losses. The normal rules ordinarily apply to gains or losses from currency exchange fluctuations arising out of international transactions; namely, gains arising out of transactions on capital account are nonassessable and losses on such transactions are not deductible. Realized gains or losses arising out of transactions on revenue account are assessable to tax or deductible as the case may be.

6.06 Income from Royalties, Patents, Copyrights, Etc.

The treatment of royalty income varies with the provisions of the different international tax treaties. If the treaty exemptions are to apply, royalties must not be effectively connected with a permanent establishment in Singapore.

Royalties are deemed to have a Singapore source if paid, directly or indirectly, by a person resident in Singapore, or a permanent establishment in Singapore, or if they are deductible from any income accruing in or derived from Singapore. Royalties paid to nonresidents are subject to withholding tax (5.02), although the treaty exemptions noted in the first paragraph may apply.

The definition of royalties is quite broad. Royalties generally include:

(a) mining royalties for the right to extract minerals

(b) patent or technical service royalties for the use of, or the right to

use, any patent, trademark, secret formula or process, and for information or services of an industrial, technical, or scientifc nature

(c) copyright royalties for the right to use any writings or drawings

6.07 Insurance Proceeds and Annuities

The principal amounts insured under life insurance and deferred endowment policies are considered as capital gains when received and are not taxable.

Annuity proceeds are taxable as ordinary income. In the case of a purchased annuity, the assessable income derived from the annuity is deemed to be 3% of the total consideration paid or payable. However, after the total consideration has been received, excluding 3% deemed assessable income, the entire annuity proceeds will be taxable.

Deduction Items

7.01 Business Expenses

The Income Tax Act provides for the deduction of expenses wholly and exclusively incurred in the production of income. Certain expenses are specifically noted as not being deductible. These include:

- domestic or personal expenses
- expenses not wholly and exclusively incurred in acquiring the income
- any expense or loss recoverable by insurance or other indemnification
- any capital withdrawn or any sum employed as capital
- any tax on income in Singapore or any other country

7.02 Depreciation

Depreciation, which is referred to as "capital allowances," may be deducted only for specified categories of assets. An asset may have a determinable useful life and be used in a trade or business for the production of income, but, nevertheless, the taxpayer is not authorized to deduct depreciation as a matter of right. Depreciation is allowed for industrial buildings as well as plant and machinery. The term "plant and machinery" is not defined, but it includes furniture, automobiles, and similar assets generally used in a trade or business. The main assets for which depreciation is not allowed are land, nonindustrial buildings (such as offices, hotels, showrooms, retail shops, and so forth), and intangible assets (such as patents, trademarks, and know-how).

Nature of the Depreciation Deduction. Technically, depreciation is not treated as an expense in computing the net business profits subject to income tax assessment. Instead, a depreciation allowance is deducted from the business profits adjusted for tax purposes.

The distinction is largely academic as the practical result would generally be the same were depreciation to be treated as an expense.

First-Year Depreciation Allowances. An initial depreciation deduction, known as the "first-year allowance," is available for the tax year in whose base period the capital expenditure was incurred. The first-year allowance is 10% on industrial buildings and structures newly constructed by the taxpayer. Effective with the tax year 1979, this first-year allowance is increased to 25% and is also given on unused industrial buildings acquired by purchase, including a leasehold interest of at least 25 years. The first-year allowance is 20% on plant and machinery, which includes furniture, equipment, and automobiles. The first-year allowance on plant and machinery may not be claimed if the taxpayer elects accelerated depreciation. The depreciable capital expenditure for a motor car is limited to a maximum of

S$15,000 (S$25,000 for a car acquired after March 31, 1979, if this proposal contained in the 1979 Budget Speech is enacted) and any expenditure over these limits is disregarded.

Annual Depreciation Allowances. In addition to the first-year allowance, an annual allowance is given on assets in use at the end of the base period. The annual allowance for industrial buildings was 2% of the cost of the building; this was increased to 3% beginning with the tax year 1979. The annual allowances on plant and machinery (including furniture, equipment, and automobiles) vary from 5% to 25% (Rate Tables). The Comptroller may allow higher rates at his discretion.

The annual allowance is calculated by applying the appropriate rate to the reducing balance of the asset's original cost. The reducing balance is the original cost less the initial allowance and all annual allowances given previously. The first-year depreciation allowance reduces the basis of an asset for purposes of the annual depreciation allowance except that in the first year both allowances are calculated on initial cost, as illustrated in the following example.

Cost of typewriters		1,000
Tax Year One:		
First-year allowance (20%)	200	
Annual allowance (10%)	100	
Total depreciation		300
Tax basis after tax year one		700
Tax Year Two:		
Annual allowance (10%)		70
Tax basis after tax year two		630

Accelerated Allowances on Prescribed Plant and Machinery. In lieu of both the normal first-year and annual allowances, an accelerated allowance at the rate of 33⅓% for three consecutive years may be claimed on the plant and machinery (excluding motor cars) of an industrial enterprise and on any equipment or device to control pollution. An industrial enterprise is defined as an entity that carries on trade or business in a mill, factory, or similar premises or which processes goods or materials. For purposes of using accelerated depreciation, enterprises engaged in transportation, water supply, generation of electricity, and the storage of goods do not constitute industrial enterprises.

Disposal of Depreciable Assets. When the sale or other disposition of a depreciable asset results in a loss, the taxpayer is allowed to deduct the difference between the depreciated cost and the amount realized. Conversely, if the amount realized exceeds the depreciated

cost, the excess is treated as taxable income, but only to the extent of the allowances previously deducted.

Carryover of Unabsorbed Capital Allowances. A taxpayer may not be able to deduct all the allowances to which it may be entitled because of insufficient assessable income to absorb them. In the case of a corporation, any unabsorbed capital allowances may be carried forward and deducted against the income of succeeding year(s), provided the Comptroller is satisfied that the shareholders and their respective shareholdings at December 31 of the year in which the allowances arose remained substantially the same (at least 50%) as those at January 1 of any tax year in which the capital allowances are utilized. If one of the shareholders is another corporation, that corporation's shareholders and shareholdings are also reviewed by the Comptroller.

7.03 Depletion and Other Items Attributable to Mineral Resources

A special depletion allowance is available to a mining operation in place of the various capital allowances deductible as depreciation by a non-natural-resource business. This depletion allowance is calculated on the basis of a current estimate of the life of the mine, which is expressed in terms of the remaining years until the resource is exhausted. Depletion is on a straight-line basis, dividing the residue of capital expenditure by the remaining years. All elements of capital expenditure are depletable, including the cost of the site, prospecting costs, and construction costs.

A similar allowance is provided for capital expenditure incurred for a plantation, but the plantation allowance is computed on a straight-line basis over ten years.

7.04 Bad Debts

Business bad debts that become wholly or partially worthless during the accounting period are deductible. The deduction is allowed only for specific uncollectable debts previously accrued as income. Additions to a reserve or provision for bad debts, based on estimates of probable losses, are not deductible. Recoveries of previously deducted bad debts are assessable income.

The purchaser of a business may not deduct worthless receivables acquired from the predecessor company.

7.05 Payment of Rents, Royalties, and Technical Assistance Fees

Rents are allowable deductions under the general rules for deducting expenses incurred in producing income. Premiums paid for a lease, as distinguished from ordinary rent payments, are considered to be

of a capital nature. As such, they are not deductible and no capital allowances are given.

Royalties and technical assistance fees paid for the use of patents and/or the supply of know-how or technical services are deductible for tax purposes if incurred in the production of income. If these payments are made by a Singapore resident, or a permanent establishment in Singapore, or are deductible against Singapore-source income, they are deemed to have their source in Singapore (6.06). Withholding tax is required when such payments are made to nonresidents (5.02).

7.06 Taxes

Except for foreign and local income taxes, taxes are deductible under the general rules concerning expenses incurred in the production of income. Customs and excise duties constitute additions to the cost of goods sold if they are incurred in connection with the acquisition and sale of inventoriable assets. Miscellaneous taxes incurred in connection with the acquisition of capital assets are treated as capital expenditure, as are stamp duties incurred on the issuance of capital stock or bonds. Local property taxes or "rates" paid in connection with the occupancy of business premises and annual license fees and other filing fees paid to the Registrar of Companies are ordinarily deductible as business expenses.

7.07 Interest

Interest expense is deductible if the related loan was used for the purpose of producing assessable income. If not so used, the interest is not deductible, despite the fact that the principal may be secured by an income-producing asset.

Preoperational interest on borrowings before the commencement of business is not deductible to the extent that the interest relates to a financial period prior to the commencement of regular business activities.

Interest on borrowings used by individuals to purchase shares must be matched against the dividends received; any excess is not deductible from other assessable income in the same year and may not be carried forward to future years. Interest payable to nonresidents is subject to withholding tax (5.02).

7.08 Operating Losses

The excess of allowable deductions over related income is considered an operating loss. The first use of an operating loss is to reduce other assessable income derived by the taxpayer during the same year. Any unabsorbed balance may be carried forward indefinitely until the losses are fully absorbed. Carryback of losses is not permitted.

A corporation may carry forward unabsorbed losses and deduct them from the income of succeeding years only if the Comptroller is satisfied that the shareholders and their respective shareholdings at December 31 of the loss year remain substantially the same (at least 50%) as those at January 1 of the tax year in which the losses are utilized. If the shareholders include a corporation, the Comptroller normally reviews the shareholding composition of that corporation before allowing the unabsorbed losses to be utilized.

7.09 Worthless Stocks, Securities, and Other Assets

Because capital gains and losses are not recognized, no deduction is available for worthless stocks or securities. As an exception, realized losses are deductible in the case of securities held as inventory by a dealer in securities.

If a depreciable asset is abandoned or otherwise becomes useless, a deduction of the depreciated value may be available (7.02).

7.10 Casualty Losses

There is no specific provision for the deduction of casualty losses. If inventory is destroyed or damaged, the loss will be reflected in the cost of goods sold and will result in reduced gross profit. If a depreciable asset is destroyed or damaged, there may be a deduction, as in the case of sale or other disposition of an asset (7.02) and, to the taxpayer, the effect will be that of a loss deduction.

Losses incurred in the course of business that result from misappropriation or embezzlement by employees are allowable deductions. However, if such losses involve directors, relatives, or other associated persons who have control over the business, no deductions are permitted.

7.11 Charitable Contributions

The law specifically provides for the deduction of charitable contributions made in money (but not for noncash donations) to government authorities or to institutions in Singapore that have been approved by the Comptroller. These approved charitable institutions include public hospitals, public benevolent institutions, public universities, and certain religious organizations, but not political organizations. A list of the approved institutions is issued at the beginning of each year. Deductions for charitable contributions are limited to taxable income and cannot form part of operating losses that are carried forward.

7.12 Advertising, Entertainment, and Travel Expenses

In general, advertising expenses are deductible, except when related to the sale of capital assets. Expenditures for display stands, adver-

tising signs, or billboards of a permanent or semipermanent nature must be capitalized.

The deduction for entertainment expenses is frequently the subject of dispute with the Comptroller—the main issues being factual. A deduction is allowed for entertainment expenses related to the production of assessable income and incurred for business purposes. Expenditure of a general or social nature incurred by professional people with a view to promoting business or professional interests generally is not deductible.

Business travel expenses are deductible. Expenses incurred in traveling between home and place of work are not allowable deductions.

7.13 Legal Expenses

Legal expenses are deductible if they meet the general requirements for the deduction of business expenses. No deduction is allowable for legal expenses incurred in acquiring capital assets or in organizing or recapitalizing a corporation. Legal expenses incurred in raising funds by issuing debentures or a mortgage or to lease property generally are not deductible. Counsel fees incurred for a tax appeal are not deductible. However, counsel fees for tax-return preparation and determination of tax liability generally are deductible as long as these do not relate to an appeal.

7.14 Insurance

A deduction is allowed for premiums on policies insuring against the usual business risks. An employer may also deduct premiums paid on employee accident and disability insurance and for fidelity guarantees.

7.15 General and Special Reserves

As a general rule, no deduction is allowed for expenditures not yet incurred, for provisions or reserves for future contingencies, for anticipated losses, and for estimated future expenses.

7.16 Nondeductibles

A number of business expenses that might be appropriate deductions for accounting purposes in arriving at net business income are not deductible for tax purposes. Examples of such items are:

- Payments by tenants for the premature termination of a lease
- Fines and penalties for breach of law
- Organization expenses of a company
- Preliminary and preproduction expenses
- Interest incurred for late payment of income and other taxes

Accounting for Income and Expenses

8.01 Tax Accounting Generally

Tax accounting generally follows accepted accounting practice and principles. However, in several areas the tax treatment may legitimately, and sometimes must necessarily, differ from the conventional accounting treatment. Examples include inventory valuation, asset depreciation, and the making of provisions and reserves.

8.02 Accrual of Business Income and Expenses

Income ordinarily must be determined on the accrual basis, and the Comptroller requires that all business income (including professional income) be computed on this basis.

Generally, expenses are deductible in the year the costs are incurred even if they relate to more than one income year. In practice, the Comptroller normally accepts the matching of revenues and expenses in each annual period.

8.03 Long-Term Contracts and Instalment Sales

Income from instalment sales must be accrued at the time the sales are made. However, any financial and administrative charges may be carried to income over the period of the instalment agreement.

Profits from long-term construction contracts are customarily determined by the percentage-of-completion method. Short-term contracts of less than three-year duration may be reported on the completed-contract basis.

8.04 Inventories

Inventory is commonly valued at the lower of cost or market. It is customary to apply the concept of "lower of cost or market value" to each separate category of the inventory. The use of the LIFO or base-stock method is not permitted.

In determining the cost of inventory, there must be added to the purchase price related charges such as insurance in transit, freight in, brokerage fees, and other expenses incidental to acquisition. The market value of inventory is the price it would realize on the open market.

When a business is discontinued, inventory must be valued at its market value, unless it is sold to a person who will use the inventory in a Singapore business.

Provisions Peculiar to Corporations

9.01 Resident and Nonresident Corporations Compared

A corporation is resident in Singapore if it is managed and controlled there. Whether or not the corporation is chartered in Singapore is irrelevant for this purpose. The place where directors' meetings are held is of primary importance in determining whether management and control are exercised in Singapore. If management and control are exercised outside Singapore, a corporation is usually nonresident.

A resident corporation is taxable on income from Singapore sources, plus foreign income remitted into Singapore. A nonresident corporation is liable to Singapore tax on income accruing in or derived from Singapore and its foreign income is exempt from Singapore tax, regardless of whether it is taxed in the source country. Resident and nonresident corporations are subject to income tax at the same rate of 40%.

9.02 Tax on Accumulated Profits

There is no special tax on accumulated or undistributed profits. The Comptroller, however, is empowered to treat any undistributed profits as distributed and assess the distributees if the nondistribution was for the purpose of avoiding or reducing tax. In practice, this power is seldom exercised as any tax saving by nondistribution is normally not substantial since the 40% tax paid by the corporation is passed on to shareholders receiving the dividends as a tax credit (5.02).

9.03 Affiliated Corporations—Group Relief

Each corporation is a separate entity for tax purposes. There are no provisions for the filing of a consoliated tax return by a parent corporation and its subsidiaries, or for aggregating profits and losses of related corporations, or for eliminating intercorporate transactions.

9.04 Special Type Entities

Life Insurance Companies. Life insurance companies are taxable on their investment income as well as on profits realized on the sale of investments. Deductible expenses are confined to management expenses and commissions paid. If such companies receive premiums from outside Singapore, their investment income is prorated on the basis of Singapore premiums to total premiums received. A fair portion (usually 5%) of the head office expenses is also deductible.

General Insurance Companies. General insurance (other than life insurance) companies are taxable on their gross premiums, interest, and other income accrued in Singapore. Deductions are allowable for actual losses, agency expenses, a fair portion (usually 5%) of the head office expenses and a percentage (usually 40%) of the unexpired

risks at the end of the base period. Such unexpired risks are, however, taxable in the following tax year. For concessionary tax rates, see 3.02.

9.05 Liquidations and Other Corporate Changes

A liquidator is responsible for filing the income tax return for the period to the date of liquidation. A return is also required for the period from the date of liquidation to the end of the corporation's financial year. Thereafter, annual returns must be filed up to the time of final realization, at which time a final realization account must be submitted to the Comptroller.

A corporation retains its original identity during liquidation. Losses arising prior to liquidation may be carried forward to the liquidation period in accordance with the normal rules (7.08). The deduction of expenses incurred during liquidation follows the same rules as before liquidation (Chapter 7). The costs of liquidation, such as losses on asset disposals, generally are not deductible as these are of a capital nature or otherwise not linked to the production of income. Proceeds from the sale of inventories are taxable in the normal way. Liquidation distributions normally are not taxable in the hands of shareholders.

The tax law does not have specific provisions dealing with corporate reorganizations. Capital gains and losses are generally not recognized for tax purposes (6.05). The acquisition by one corporation of control of another corporation by issuance of shares is a capital transaction and generally does not give rise to any taxable gain or loss to either corporation.

Provisions Peculiar to Individuals

10.01 General

The incomes of a husband and wife are combined, and their income tax is determined as though the entire income were that of the husband. However, a married woman may elect to be assessed separately on her earned income (employment income and trade income obtained by her personal effort). Nevertheless, her other income, such as dividends, interest, and rents, is assessable to her husband together with his income. The investment income of a child under 21 years of age may be attributable to the parent if the income arises from the parent's gift or settlement.

10.02 Itemized Deductions

Generally, itemized deductions from income are not allowed for the cost of medical and dental care, taxes, and similar personal and family expenses. However, deductions are allowed for expenses incurred in producing the income and such expenses are deductible directly from the income so produced. Contributions to approved charitable institutions are deductible from total assessable income. Certain other personal expenses are deductible as personal reliefs (Appendix A).

10.03 Personal Exemptions and Reliefs

A number of personal allowances or exemptions (known as personal reliefs) are available to a resident individual. Such personal reliefs include personal allowances, exemptions for dependents, and earned income allowances based on age, as well as reliefs for specific expenses such as premiums paid for life insurance.

10.04 Resident and Nonresident Individuals Compared

Resident individuals are taxable on Singapore income and on any foreign income remitted into Singapore. Resident individuals are entitled to personal exemptions (10.03). An individual is a resident of Singapore if he is physically present in the country for a period aggregating 183 days or more in one year, or if he intends to settle in Singapore for a considerable period, or if his usual place of abode is in Singapore.

Nonresident individuals are subject to tax on all income derived from sources in Singapore. Payments to nonresidents of dividends, interest, royalties, technical services fees, management fees, and rentals from movable properties are subject to withholding tax, which is not a final tax (5.02). The taxation of income of nonresidents may be governed by the provisions of a reciprocal tax treaty (11.01 and Appendix B).

10.05 Taxation of Employees

Generally, all income from employment in Singapore is subject to tax, regardless of where the contract of employment was signed or where payment is made. Salaries, wages, vacation pay, fees, commissions, bonuses, gratuities and allowances, paid in cash or otherwise, are assessable income at the time paid or granted.

Noncash Benefits. Perquisites and benefits in kind, such as leave passage, the use of a house or apartment and/or furnishings, hotel accommodations, and the use of a business car, are assessable at prescribed rates, which are generally lower than the fair market value of such benefits. Other noncash benefits are generally assessable at the cost to the employer.

Reimbursed Expenses. Reimbursement of expenses incurred by an employee in the course of his duties and on behalf of his employer are not assessable as they are not income. Allowances that benefit an employee are assessable income.

Relief from Double Taxation of Foreign Income

11.01 Tax Treaties

Singapore has international tax treaties with 19 countries (Appendix B), but none with the United States. The basis of all treaties is the avoidance of double taxation on income that is subject to tax in both treaty countries. Under the treaties, relief is granted generally by exempting the income from tax in one of the countries, by reducing the normal tax rate applicable to certain categories of income, and/or by granting credits for foreign taxes paid.

11.02 Credit for Foreign Income Taxes

Singapore provides tax credits against the Singapore tax liabilities of residents for income taxes paid to foreign countries on income arising abroad. Generally, the foreign tax credit is limited to the lower of the foreign tax paid or the Singapore tax on the same income calculated at the effective tax rate. In addition, the Singapore law provides that the tax liability after such tax credit cannot be less than the tax liability that would be incurred if the foreign income were excluded. The tax credit is granted despite the fact that income may be computed differently under the laws of the foreign country. Tax credits cannot be carried over to future tax years.

Some tax treaties also provide credits for foreign income taxes in the form of "underlying tax" provisions. An underlying tax is the tax paid by a company on its profits before any dividends are paid. For example, neither Malaysia nor Singapore imposes a withholding tax on dividends. Nevertheless, a Singapore resident may take a foreign tax credit for the underlying tax on dividends received from a Malaysian source.

Tax sparing is another form of tax relief provided for in some tax treaties. Tax sparing refers to the treatment of certain tax exemptions granted by developing countries. The foreign tax credit is available as if the exempted tax had actually been paid. The purpose of such tax sparing is to avoid frustrating the tax exemptions offered by developing countries. If a foreign investor had to pay full income taxes in his home country, a tax exemption offered by a developing country would have little or no value to the foreign investor.

Pensions, Pension Funds, and Other Retirement Benefits

12.01 Taxation of Retirement Benefits and Contributions

Employer contributions to a trust under an approved pension plan (12.02) are not taxed currently to the employee. Sums withdrawn from an approved pension plan on reaching retirement age or on death are also tax exempt. However, contributions by employers to provide retirement benefits under a nonapproved pension plan are taxable.

Gratuities paid in a lump sum on death or retirement from full-time gainful employment on reaching retirement age (normally age 55) or on health grounds are tax exempt. The value of such benefits must be reasonable and commensurate with the length of past services.

As of the tax year 1977, pensions paid out of an approved pension plan to a resident are taxable on half the value only; the remaining 50% is tax exempt. Effective from the tax year 1979, pensions paid by approved plans to residents are fully tax exempt, if this proposal contained in the 1979 Budget Speech is enacted.

12.02 Approval of Pension Plans

To obtain the tax advantages available to approved pension plans, they must satisfy requirements regarding contributions, benefits, investment of funds, and withdrawal rights. Employee contributions to pension plans are not a requirement. However, if such contributions are required by the plan, they must not exceed the rate of employee contributions to the Central Provident Fund (Rate Tables). If an employee leaves his job before retirement, the sums due him may be retained by the trustee until he reaches retirement age. Such sums may also be transferred to the Central Provident Fund (14.01), used to purchase a paid-up life insurance policy, or converted into an endowment policy maturing at normal retirement age or at death, if earlier. At least 90% of an approved pension plan's funds must be invested in approved Singapore securities of which 30% must be Singapore government securities. The investment income of an approved pension plan is exempt from tax.

12.03 Deduction of Pensions and Contributions to Pension Funds

Contributions by employers to approved pension plans are deductible to the extent of 16½% of each employee's remuneration.

Employee contributions to an approved pension plan qualify as a personal relief (Appendix A). The deduction available for such contributions, together with contributions to the Central Provident Fund and life insurance premiums, is limited to S$4,000 (Appendix A), or S$5,000 as of the tax year 1980, if this proposal contained in the 1979 Budget Speech is enacted.

Pensions paid directly to retired employees are, strictly speaking, not regarded as expenses incurred wholly and exclusively in the production of income.

Part 3: Other Taxes

Taxes on Sales, Transactions, Commodities, and Property

13.01 Sales Tax

Currently, Singapore does not impose a sales tax. However, to provide funds for the promotion of the tourist industry, a "cess" at the flat rate of 3% is added to the bills rendered by hotels and restaurants that are classified as tourist enterprises.

13.02 Taxes on Commodities

Singapore imposes excise duties on the production of certain commodities without regard to when or whether the commodities are in fact sold. By their nature, these taxes apply only to commodities produced or processed domestically. Similarly, imported goods are subject to comparable customs duties at rates that correlate with the excise duties. The commodities subject to excise duties include spirits, wines, beer, tobacco, cigarettes, cigars, gasoline, and alcohol used in perfumes or toilet preparations (Rate Tables).

13.03 Taxes on Real Property

Property taxes (or "rates") are usually based on the annually assessed value of the property. These taxes apply only to real estate, not to personal property. Strictly speaking, the rates are not taxes on real estate because they are assessed on the person and not on the property. In most cases, the rates are imposed upon the owner of the property rather than the occupier.

13.04 Documentary Stamp Duties

Stamp duties are imposed on many types of documents. They are important because of the fact that a document may have no legal effect unless the stamp duty has been paid.

The stamp duty is imposed on the document resulting from a transaction and not on the transaction. Thus, a duty may be imposed on a written agreement even though the same agreement made orally would not attract duty. Some of the stamp duties are at fixed rates, while others are at ad valorem rates (Rate Tables).

Employment Taxes

14.01 Central Provident Fund

Central Provident Fund (CPF) is a government social security scheme that covers all employees who are domiciled in Singapore or West Malaysia. Domiciles of other countries who are employed in Singapore on an Employment or Professional Visit Pass need not contribute to this scheme. Permanent residents of Singapore are regarded as domiciled in Singapore for this purpose.

Both employers and employees are required to contribute. The amounts contributed may be withdrawn in a lump sum by the employee on retirement, or when he migrates to another country, or in case of incapacity to work. Sums withdrawn from the CPF are tax exempt. The rates of contribution by employers and the amounts recoverable from employees' wages are set forth in the Rate Tables.

14.02 Payroll Tax

A payroll tax at the rate of 2% is payable monthly on their total Singapore payroll by both foreign and local employers. For this purpose, the law does not distinguish between resident or nonresident employers. The payroll tax is payable by employers only. It applies to the total remuneration paid in a calendar month to employees, including casual and part-time employees, expatriates, and company directors. Payroll tax is not levied if the gross payroll does not exceed S$500 per month.

Estate and Gift Taxes

15.01 Estate Tax

Estate duty is a tax levied on the total wealth of a deceased person. The relationship between the deceased and his successors or inheritors has no tax effect. The property passing under the will of the deceased person, or passing intestate if there is no will, is valued for estate duty purposes at its open market value on the date of death.

A person who at death was not domiciled in Singapore is chargeable with estate duty only on property (both movable and immovable) that is situated in Singapore. In the case of a person domiciled in Singapore at the time of death, duty is chargeable on both movable and immovable property in Singapore and on movable property situated outside of Singapore.

The deductions allowed include debts of the decedent at the time of death, reasonable funeral expenses, and income tax on income derived to the date of death. The estate duty rates and the applicable rebates are shown in the Rate Tables. Effective April 1, 1979, any one home in a deceased's estate is exempt from estate duty to a maximum value of S$200,000, if this proposal contained in the 1979 Budget Speech is enacted. This exemption was provided to encourage home ownership and to provide relief to those affected by the escalation in property values.

15.02 Gift Tax

Singapore does not, at the present time, levy duties on gifts.

Part 4: Rate Tables and Appendices

Deloitte Haskins & Sells

Income Tax—Resident Individuals

Tax Years 1966 to 1977

Chargeable Income (S$)	Tax on Lower Amount (S$)	Rate on Excess (%)
0- 2,500	0	6
2,501- 5,000	150	9
5,001- 7,500	375	12
7,501- 10,000	675	15
10,001- 15,000	1,050	20
15,001- 20,000	2,050	23
20,001- 25,000	3,200	25
25,001- 35,000	4,450	30
35,001- 50,000	7,450	40
50,001-100,000	13,450	50
100,001-upward	38,450	55

From Tax Year 1978

Chargeable Income (S$)	Tax on Lower Amount (S$)	Rate on Excess (%)
0- 2,500	0	5
2,501- 5,000	125	8
5,001- 7,500	325	10
7,501- 10,000	575	12
10,001- 15,000	875	15
15,001- 20,000	1,625	20
20,001- 25,000	2,625	25
25,001- 35,000	3,875	30
35,001- 50,000	6,875	35
50,001-100,000	12,125	40
100,001-200,000	32,125	45
200,001-400,000	77,125	50
400,001-upward	177,125	55

Central Provident Fund—Contribution Rates

(From July 1, 1978, for private-sector employment)

Total Employee's Wages for the Calendar Month (1)	**Monthly Contribution Payable by the Employer (2)**	**Recoverable from Employee's Wages (3)**
Up to S$10	0	0
S$10.01 to S$200	16½% of wages	0
S$200.01 to S$363	18% of wages, plus ⅓ of difference between total wages and S$200	1.5% of wages, plus ⅓ of difference between total wages and S$200
Over S$363	33% of ordinary wages to a maximum of S$990, plus 33% of all additional wages (See Note 1.)	50% of the employer's contribution

The entire contribution shown in Column 2 must be paid by the employer. However, the employer is entitled to recover the amount shown in Column 3 by deduction from the employee's wages.

Note:

1. The 33% contribution rate on additional wages, such as a bonus, applies to all additional wages and is not subject to the S$990 maximum that applies to ordinary wages.

Custom Duties on Specified Commodities

Commodity	Rate
Leaf tobacco	S$36 per kilo
Cigarettes	45 per kilo
Cigars	45 per kilo
Pipe tobacco—retail	30 per kilo
—bulk	25 per kilo
Brandy	200 per decaliter
Whiskey	190 per decaliter
Rum	190 per decaliter
Gin	190 per decaliter
Liqueurs	185 per decaliter
Other spirit beverages	240 per decaliter
Beer	26 per decaliter

Annual Capital Allowances on Plant and Machinery

The annual capital allowances (permitted rates of tax depreciation) for plant and machinery are generally as follows:

	Rate (%)
1. Office Furniture and Fixtures:	
Table, desk, armchair, chair, stool, stand, settee	5
Cupboard, cabinet, shelf	5
Safe, showcase, counter	5
Removable partitions	5
Carpet, curtain, wallpaper	R/B
Fixed partition, frame, paintings	R/B
2. Office Machines and Equipment:	
Weighing machine, scale	7½
Typewriter, calculator, adding machine	10
Air-conditioner, cash register, checkwriter	10
Dictaphone, photocopier, teleprinter, PABX system	10
Water cooler, refrigerator	15
Data processing equipment	20
3. Electrical Equipment	
Fan, plant air-conditioning	7½
Burglar alarm system, exhaust fan	7½
Fluorescent lighting, electrical lighting	7½
4. Other Equipment:	
Optical machinery, lift, spotlight	7½
Enlarger, developing machine	10
Camera, television set, radio, sound equipment	15
5. Transport Equipment and Motor Vehicles:	
Bicycle	10
Lorry, van, truck, pickup, bus	20
Bulldozer, tractor, crane, roller	20
Scooter, motorcycle	20
Motorcar (restricted to cost of S$15,000)	20
6. Plant and Machinery (Generally, the rate is 7½% or 10%, depending on the type of industry):	
Cylinder, tank, mould, die	5
Electric motor, dynamo, electric generator	7½
Crushing and grinding plant	7½
Condenser, compressor, conveyor, vibrator	10
Aircraft	25

(continued)

Annual Capital Allowances on Plant and Machinery (continued)

Notes:

1. The capital allowances consist of an initial allowance available only once and an annual allowance calculated on the reducing balance of cost. (Thus, the allowance is greater in the early years.)

2. The list on page 50 is not exhaustive. The rates may vary from one industry to another, and may be increased if assets are used for more than normal working hours.

3. R/B indicates that these items do not qualify for capital allowances and are deductible in full only when replaced.

4. Industrial enterprises may deduct accelerated depreciation at the rate of 33⅓% annually over three years on all plant and machinery. However, no initial allowance may be deducted by a taxpayer who utilizes accelerated depreciation.

Estate Duties Payable

(Estates of persons dying after April 1, 1977)

Net Value of Estate (S$)	Tax on Lower Amount (S$)	Rate of Excess (%)
100,000- 115,000	0	5
115,001- 140,000	750	7½
140,001- 165,000	2,625	10
165,001- 190,000	5,125	12½
190,001- 240,000	8,250	15
240,001- 290,000	15,750	20
290,001- 390,000	25,750	25
390,001- 490,000	50,750	30
490,001- 590,000	80,750	35
590,001- 840,000	115,750	40
840,001-1,090,000	215,750	45
1,090,001-2,090,000	328,250	50
2,090,001-4,090,000	828,250	55
4,090,001-upward	1,928,250	60

Note:

As a relief to beneficaries of small estates, the estate duties payable are reduced by the rebates shown below.

	Net Value of Estate (S$)	Rebate of Estate Duties Payable (%)
Each dollar of the first	120,000	90
Each dollar of the next	20,000	80
" " " " "	20,000	70
" " " " "	20,000	60
" " " " "	20,000	50
" " " " "	20,000	40
" " " " "	20,000	30
" " " " "	20,000	20
" " " " "	20,000	10
Each dollar in excess of	280,000	0

Rates of Stamp Duties

(Abstract of First Schedule)

Description of Instrument	Duty in Singapore Dollars
Affidavit and statutory declaration	$2 each
Agreement or contract	$1 each
Check	15 cents each
Conveyance, assignment or transfer:	
(a) on sale of any property except stock and marketable securities	For every $100 or part: of the first $30,000 $2.00 of the next $20,000 $2.50 thereafter $3.00
(b) on sale of any stock, shares, or marketable securities:	
1. Where a certificate is signed by the transferor that the name of the transferee was filled in prior to the execution	20 cents per every $100 or part
2. In all other cases	30 cents per every $100 or part
Deed of any kind not hereinbefore described	$10

Lease whose average rent for a whole year:

	Period of Lease		
	Up to one year	One to three years	More than three years
Does not exceed $500	$4	$8	$16
Exceeds $500, for every $250 or part	$2	$4	$ 8

Mortgages:

Description of Instrument	Duty in Singapore Dollars
(a) As the only or primary security for the repayment of money, other than an equitable mortgage	Not exceeding $1,000 $4.00 Each $1,000 additional or part $5.00
(b) Collateral, auxiliary, additional, or substituted security	One-fifth of the duty on the principal security, but not more than $10
(c) Equitable mortgage	One-half of the duty chargeable on a mortgage for the amount secured

(continued)

Rates of Stamp Duties (continued)

(d) Transfer, assignment, or any disposition of a mortgage, bond, covenant, or debenture (not being a marketable security)	One-half of the duty chargeable on a mortgage for the amount transferred	
Promissory notes	For every $100 or part	10 cents
Share certificates	For every $1,000 or part of the par value shown in the certificate	$1.00
Reconveyance of mortgaged property, reassignment, release, discharge, surrender, or renunciation of any security, or of the benefit thereof, or of the money thereby secured	If the money secured:	
	Does not exceed $1,000	$1.00
	Is between $1,000 and $10,000	$3.00
	Any other case	$10.00

Personal Exemptions and Reliefs of Resident Individuals

(Tax Year 1979)

1. Personal allowance	S$2,000
2. Earned income (based on age):	
55 and below	1,000
Above 55 to 60	2,000
Above 60	3,000
3. Wife (if not separately assessed)	1,000
4. Child allowances:	
Parents with more than three children before August 1, 1973:	
1st child	750
2nd and 3rd child (each)	500
4th and 5th child (each)	300
Over 5	none
Parents with less than four children after August 1, 1973:	
1st and 2nd child (each)	750
3rd child	300
Over 3	none

These child reliefs may be increased to the actual expenditures to maintain and educate a child, but the increase is limited to twice the normal relief for a child either:

(a) a full time student in a university or equivalent institution outside Singapore, after being unable to gain admission to a similar institution in Singapore, or

(b) pursuing a course of study not available on a full-time basis in Singapore.

Specially qualified married women who are separately assessed are granted the following reliefs:

1st and 2nd child (each)	lower of S$2,000 or 5% of earned income
3rd child	lower of S$2,000 or 3% of earned income

5. Dependent allowance (maximum of 2 dependents):
Each parent or grandparent residing in the same household in Singapore — S$750

6. Life insurance allowance:
Life insurance premium and contributions to Central Provident Fund and other approved provident funds—to a maximum of S$4,000, or S$5,000 as of the tax year 1980, if this proposal contained in the 1979 Budget Speech is enacted. (Relief for premiums on life insurance is granted only for policies with insurance companies that have offices or branches in Singapore.)

Countries with Which Singapore Has Entered into Income Tax Treaties

- Australia
- Belgium
- Canada
- Denmark
- France
- West Germany
- Israel
- Italy
- Japan
- Malaysia
- Netherlands
- New Zealand
- Norway
- Philippines
- South Korea (signed but not ratified)
- Sweden
- Switzerland
- Thailand
- United Kingdom

Countries with Which Tax Treaties Are Being Negotiated

- India
- Indonesia
- Sri Lanka
- United States

Specimen Income Tax Computation—Corporation

	Note No.		
Net profit per books	1		S$225,000
Additions:			
Provision for taxation	2	S$90,000	
Depreciation	3	75,000	
Decline in value of securities reflected in accounts	4	12,500	
Legal fees related to capital expenditures	5	1,200	
Charitable contributions	6	2,000	
Machinery installation costs written off as maintenance	7	13,300	
Restriction on expenses of automobiles that cost over S$15,000	8	2,500	
Increase in provisions for leave pay and passages	9	6,500	
			203,000
			428,000
Deductions:			
Gain on sale of capital assets	10	S$14,500	
Decrease in provision for doubtful debts	11	10,000	
Capital allowances (depreciation)	12	97,500	
			S$122,000
Adjusted profit			S$306,000
Income tax at 40%	13		S$122,400

Notes:

1. The corporation's net income per books for the accounting period is subject to adjustment for purposes of determining taxable profits.

2. Corporation tax is not a deductible expense.

3. Depreciation is not treated as an expense deduction. Tax depreciation, known as capital allowances, is deducted instead (Note 12).

4. A decline in the value of securities on hand is not deductible unless the taxpayer's business is that of trading in securities.

5. Legal fees incurred in connection with capital expenditure are not deductible.

(continued)

6. Charitable contributions are deductible only when made to approved institutions.

7. Machinery installation costs are capital expenditures that are part of the cost of the machinery. Accordingly, they will be eligible for capital allowances (depreciation).

8. If the cost of an automobile exceeds S$15,000, the deduction for running expenses is restricted in the proportion that the S$15,000 bears to the actual cost. (See 7.02 for a change in this limitation.)

9. Such provisions are not tax deductible.

10. Capital gains are not taxable.

11. Both additions and reductions in a reserve for bad debts are not recognized for tax purposes. Only specific bad debts may be deducted.

12. Capital allowances are allowed for tax purposes in place of the usual depreciation deductions (7.02).

13. Income tax is charged at the flat rate of 40% on the adjusted income. This rate applies equally to corporations, whether resident or nonresident, locally incorporated or a branch of a foreign company.

Specimen Tax Computation of a Resident Individual

(Tax Year 1979)

Employment income		S$92,000
Less: Personal reliefs:		
Himself	S$2,000	
Earned income	1,000	
Wife	1,000	
Child	750	
Life Assurance/CPF (maximum)	4,000	
		8,750
Chargeable income		S$83,250
Tax on 1st $50,000		S$12,125
Tax on balance ($33,250 at 40%)		13,300
Tax payable		S$25,425

Taxes on Representative Earned Incomes

(Tax Year 1979)

Employment Income (S$)	Single Individual (S$)	Married (no children) (S$)	Married (two children) (S$)
5,000	100	50	0
6,000	165	100	25
7,000	245	165	75
8,000	325	245	125
9,000	425	325	205
10,000	525	425	285
20,000	2,025	1,825	1,550
30,000	4,475	4,175	3,750
40,000	7,575	7,225	6,725
50,000	11,075	10,725	10,200
60,000	14,925	14,525	13,925
70,000	18,925	18,525	17,925
80,000	22,925	22,525	21,925
90,000	26,925	26,525	25,925
100,000	30,925	30,525	29,925

Notes:

1. A nonresident individual would be assessable at a flat rate of 15% on his employment income or taxed as a resident as above, whichever results in the higher tax.

2. The amount in the column *Employment Income* is based on the number of days the employee worked in Singapore. If the employee had worked outside of Singapore for six months, his actual income would have been double the amount in the first column.