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<b>Shenzhen, China</b> Rooms 1203-06, 12/F. Di Wang Commercial Centre 5002 Shennan Road East Luohu District, Shenzhen <b>T:</b> +86 755 8268 4480	<b>Shanghai, China</b> Room 603, 6/F., Tower B Guangqi Culture Plaza 2899A Xietu Road Xuhui District, Shanghai <b>T:</b> +86 21 6439 4114	<b>Beijing, China</b> Room 303, 3/F. Interchina Commercial Bldg. 33 Dengshikou Street Dongcheng District, Beijing <b>T:</b> +86 10 6210 1890	<b>Taipei, Taiwan</b> Room 303, 3/F. 142 Section 4 Chung Hsiao East Road Daan District, Taipei <b>T:</b> +886 2 2711 1324	<b>Singapore</b> 3/F., 36B Boat Quay Singapore 049825 <b>T:</b> +65 6438 0116	<b>New York, USA</b> 202 Canal Street Suite 303, 3/F. New York NY 10013, USA <b>T:</b> +1 646 850 5888
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## Branch Office Vs Subsidiary Company in Singapore

The establishment of a branch office or a subsidiary company in Singapore are two common options available for foreign companies wishing to establish a business presence here.

A Singapore branch office is considered an extension of the foreign company and is not a separate legal entity of its own. This means that the foreign company is responsible for the liability of its Singapore branch office. Additionally, the foreign company can also be sued in Singapore in the case of any dispute.

A branch office is also subject to certain compliance requirements, such as the preparation of financial statements and hiring auditors in Singapore to audit its financial statements. In accordance with the Companies Act, the audited financial statements of both the branch and the foreign company must be filed with ACRA. In the case of a local limited liability company, when the company satisfies certain criteria, it can be exempted from audit of financial statements.

A branch is generally not a tax resident and therefore making it ineligible for possible tax incentives that are available for private limited companies in Singapore. A limited company wholly owned by a foreign company is a separate legal entity from its foreign parent company. A Singapore limited company will by default considered to be a tax resident in Singapore and therefore is eligible to enjoy tax benefits and incentives which otherwise not available to non-tax residents.

Because of the reasons stated above, a local limited company is by far the most popular investment vehicle amongst foreign investors in Singapore.

This article tries to compare the branch office and subsidiary company in terms of asset protection, business activity, financial reporting and tax benefits. A table comparing a branch and a subsidiary in many other aspects is also attached.

## 1. Separate Legal Identity and Asset Protection

A Singapore branch office is considered an extension of the parent company and is not a separate legal entity of its own. This means that the liabilities of a Singapore branch office are derived from the liabilities and assets of the respective parent company that may be located in a foreign nation. It can, however, be sued in Singapore in the case of any dispute. Hence the assets of the parent company will be not protected in this case.

A subsidiary company in Singapore, on the other hand, is a separate legal entity from the foreign company even if the foreign company holds 100% shares. This means that the foreign company does not have to bear the losses and liabilities of the Singapore Subsidiary company. In this case, the assets of both the subsidiary and the parent company can be protected even if either company are sued.

## 2. Business Activities

Singapore branch office, as being an extension of its parent foreign company is only allowed to carry out activities defined in its constitution and cannot perform other activities in Singapore that are not aligned with the activities of the respective foreign company.

Singapore Subsidiary company can, however, be made to perform any activity, as long as these are defined clearly at the time of incorporation of the respective Singapore subsidiary company. Being a separate legal entity from its parent foreign company, aligning with the stated activities of foreign company is not necessary.

## 3. Annual Financial Reports

The branch office of a foreign company, unless the branch is dormant during the year or approval by ACRA upon written application, are required to prepare and submit the its audited accounts and that of its head office (the foreign company).

The Singapore subsidiary company wholly owned by a foreign company is an independent company separate from its foreign parent company. In accordance with the Companies Act, as long as it satisfies the definition of a small company, it is exempted from preparing audited financial statements. A Singapore company which meets the following criteria is a small company:

- (1) the company is s private company;
- (2) the company meets at least 2 of 3 following criteria for immediate past two consecutive financial years:
  - (a) total annual revenue is less than SGD10 million;
  - (b) total assets are less than SGD10 million;
  - (c) number of employees is less than 50.

For a company which is part of a group, if the company must qualify as a small company and the entire group is a “small group”, then the company also qualifies to the audit exemption.

#### 4. Tax Exemptions

The registration of a branch office in Singapore will not create a resident entity for the purposes of tax. Thus, making it ineligible for possible tax incentives that are available for private limited companies in Singapore.

The incorporation of a subsidiary company in Singapore, on the other hand, could prove to be tax efficient when it comes to the new entity operating as an independent organization. A Singapore subsidiary company enjoys various benefits, exemptions and advantages that are made available for Singapore resident companies. For example, new start-up companies in Singapore are eligible to enjoy the benefits of full exemption on the first SGD100,000 of normal chargeable income and a further 50% exemption on the next SGD200,000 of normal chargeable income for the first 3 consecutive Years of Assessment.

In summary, a Branch Office is preferred by Multi-National Corporations (MNCs), banks and insurance companies that want to use the brand name and finances of the parent company to secure licences and business contracts, while a subsidiary company is preferred by many foreign companies when establishing a business entity in Singapore due to its separate nature providing flexibility of business operations.

*If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at [www.kaizencpa.com](http://www.kaizencpa.com) or contact us through the following and talk to our professionals:*

*Email: [info@kaizencpa.com](mailto:info@kaizencpa.com), [enquiries@kaizencpa.com](mailto:enquiries@kaizencpa.com)*

*Tel: +852 2341 1444*

*WhatsApp/Line/Wechat: +852 6114 9414, +86 1521 9432 644*

*Skype: kaizencpa*

### Comparison of Branch Office and Subsidiary in Singapore

TYPES	SUBSIDIARY COMPANY	BRANCH OFFICE
Entity Name	Need not be the same as parent company	Must be the same as the parent company
Allowed Activities	Can conduct all business activities	Must be the same as the parent company
Suitable For	For local or foreign companies that wish to expand their operations in Singapore	For foreign companies that wish to expand their operations in Singapore
Disadvantages	Continuing Compliance Obligations eg Financial Reports, Audit, AGMS, etc	Continuing Compliance Obligations eg Financial Reports, Audit etc
Ownership	Can be 100% foreign or locally owned	Owned 100% by the head office
Separate Legal Entity	Yes	No
Cap on Number of Members	Yes, max 50	Not Applicable
Minimum Setting up Requirement	Minimum One shareholder that can be an Individual or a corporate entity (100% local or foreign shareholding allowed. Must have at least one resident director	Must have one Singapore Resident Agent
Limited Liability	Liabilities limited to subsidiary	Liabilities extend to parent company
Need for Audited Accounts	Yes if company does not meet audit exemption criteria	Yes
Filing of Accounts with ACRA and IRAS	Yes	Yes
Annual Filing	Must file audit report of Subsidiary if company does not meet audit exemption criteria	Must file Branch Offices as well as parent company's audit reports
Tax Treatment	May be qualified as Singapore resident entity and hence may be able to enjoy local corporate tax benefits	Generally taxed as non-resident entity, local tax benefits not available
Tax Benefits	A Subsidiary company, with at least one individual shareholder with minimum of 10 percent shareholding, is entitled to local tax incentives and rebates if they are qualified for tax residency.	A branch may still be treated as Singapore tax residents if they are able to satisfy IRAS that certain conditions have been met.
Bank Account	Can open bank account in Singapore	Can open bank account in Singapore
Validity Period	Perpetually until deregistered	Perpetually until deregistered
Staff Hiring	No restrictions on hiring local or foreign staff	No restrictions on hiring local or foreign staff
Appointment of Officers	Must appoint at least one local resident director	Must appoint at least one local authorized agent.
Governing Body	ACRA	ACRA