

Introduction to Corporate Income Tax in Singapore

Singapore adopts a territorial basis of taxation. Income accruing in or derived from Singapore is subject to Singapore tax. Foreign source income is not taxable unless received in or remitted into Singapore. There is no precise definition of “source” in the Singapore Income Tax Act (Cap. 134) (“the Act”) and consequently, each commercial activity has to be carefully examined to determine the source from which it generated income. There is no capital gains tax in Singapore and consequently, capital receipts would not be taxable in Singapore.

1. Tax Residency

A company would be deemed to be tax resident in Singapore if the ‘control and management’ of its business is exercised in Singapore for the current year of assessment.

‘Control and management’ is not defined in the Act and what constitutes control and management is essentially a question of fact. Thus, a company would be deemed to be tax resident in Singapore if the directors generally manage and control the company from, and regularly hold board meetings in, Singapore.

Conversely, if control and management of the company is carried out by directors who meet and act outside of Singapore, it is likely that the company:

- (1) although incorporated in Singapore;
- (2) with its business operations in Singapore;
- (3) with its profits earned out of Singapore; and
- (4) with some of its board meetings in Singapore (though the majority of which are overseas);

will not be tax resident in Singapore if in reality the control and management of all its functions are outside Singapore.

A company which is not tax resident in Singapore but carries on part of its business operations in Singapore can still be liable to Singapore tax upon its profits. Thus, for a non-resident company in Singapore, its business profits which are not directly attributable to its business operations carried on outside Singapore, would be deemed to be derived from Singapore, i.e. such profits would be taxable in Singapore.

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2. Income Sourced Outside Singapore

If a company is tax resident in Singapore, its foreign income received in Singapore on or after 1 January 2004 which falls within any of the following categories, would be tax exempt (hereinafter ‘general tax exemption’), namely:

- (1) Dividend derived from any territory outside Singapore; or
- (2) Profit derived from any trade or business carried on by its branch in any territory outside Singapore; or
- (3) Income derived from any professional, consultancy or other services rendered in any territory outside Singapore, provided that the Comptroller of Income Tax is satisfied that the income is derived from outside Singapore. IRAS has taken the view that income derived from such services would be tax exempt but only to the extent of services rendered through a fixed place of operation outside Singapore in the course of a person’s trade or business.

The general tax exemption, however, will only be available if the following conditions are satisfied:

- (1) Such income is subject to tax of a similar character to income tax under the law of the territory from which the income is received; and
- (2) At the time such income is received in Singapore by the company, the highest corporate tax rate of the foreign jurisdiction from which the income is received, is not less than 15%; and
- (3) The Comptroller of Income Tax is satisfied that the tax exemption would be beneficial to the company.

In addition, there are tax exemptions and/or concessions which may be applicable in respect of the income derived by companies in specific industries.

3. Tax Structure

The corporate income tax rate is 17% for both Singapore tax resident and non-Singapore tax resident companies.

(1) New Start-up Company

For a new start-up company, 75% tax exemption on the first \$100,000 of the normal chargeable income is given for the first 3 consecutive years of assessment from year of assessment 2020 onwards. Hence, the exemptions and resultant assessable amounts will be as follows:-

Chargeable Income	SGD	% Exempted	Exempted Amount	Amount Assessable
For the first	100,000	75%	75,000	25,000
For the next	100,000	50%	50,000	50,000
	200,000		125,000	75,000

The qualifying conditions for the above tax exemption for a start-up company are:-

- (a) The company is incorporated in Singapore;
- (b) The company is tax resident in Singapore for that year of assessment;
- (c) Throughout the basis period, there are 20 or less shareholders where -
 - (i) all of the shareholders are individuals beneficially holding the shares in their own name; or
 - (ii) at least one individual shareholder holds at least 10% of the issued ordinary shares;

The above exemption is however, not available to investment holding companies and property development companies with effect from 26 February 2013.

(2) All Existing Company

The following partial tax exemption is given to existing companies for year of assessment 2020 onwards and the resultant assessable amounts are as follows:-

Chargeable Income	SGD	% Exempted	Exempted Amount	Amount Assessable
For the first	10,000	75%	7,500	2,500
For the next	190,000	50%	95,000	95,000
	290,000		102,500	97,500

Companies in profit making position will be given a 50% corporate tax rebate (capped at S\$40,000) for YA2024. For those companies who are in loss position, if the Company employed at least one local Singapore resident, it will be entitled to cash rebate of \$2,000.

4. Deductions

The general rule is that all outgoings and expenses wholly and exclusively incurred in the production of income are deductible. There are also specific rules which disallow the deduction of expenses such as private car expenses and medical expenses which exceed the capping.

(1) Approved donations

A tax deduction of 2.5 times the amount donated to approved Institutions of a Public Character (IPCs) in Singapore will be given to businesses and individuals.

A company can carry forward any unabsorbed donations up to a maximum of 5 years.

(2) Unabsorbed Losses, Capital Allowances and Approved Donations

Utilisation of unabsorbed losses, capital allowances and approved donations are subject to there being no more than 50% change in the shareholders and their shareholding composition of the company as at the relevant dates. For carrying forward of unabsorbed capital allowances, there must also not be a change in the nature of the trade.

(3) Renovation and Refurbishment Deduction Scheme

Although no capital allowance will be given for expenditure incurred on furnishing, fixtures and those relating to building, a special tax deduction is given in lieu of depreciation for qualifying renovation and refurbishment expenditure over a 3-year period subject to a cap of SGD300,000 for every 3 years, provided they do not involve structural changes for which prior approval from

In Budget 2020 it announced that from YA2021 business will have an option to claim R&R deduction in 1 YA. The cap of SGD300,000 for every relevant period of 3 consecutive YAs will still apply.

(4) Group Relief

Group relief was introduced in the Year of Assessment 2003. A group consists of a Singapore incorporated parent and all its 75% (minimum) owned Singapore subsidiaries. Current year trade losses, capital allowances and approved donations may be transferred to other Singapore group members of the same accounting year end for set-off under group relief.

(5) Carry-back Relief System

With effect from Year of Assessment 2006, current year unabsorbed trading losses and capital allowances can be carried back to offset against the assessable income for the immediate preceding year of assessment. The maximum amount to be carried back is SGD100,000. In Budget 2020, the deduction against assessable income will be extended three immediate preceding YAs.

(6) Research & Development (“R&D”) Deductions

R&D deductions are available for R&D carried out by the company or outsourced to R&D organization. Additional claims (up to 150%) are available subject to conditions from YA2019 onwards until YA2025.

Up to and including YA2018, the tax deduction for qualifying R&D is further enhanced under the PIC scheme (subject to cap).

(7) Further Tax Deductions for Overseas Marketing and Business Development Expenses

Enjoy tax savings with DTDi, which provides 200% tax deduction on eligible expenses for supported market expansion and investment development activities. You can automatically claim 200% tax deduction on the first SGD100,000 of eligible expenses for these four activities below per year of assessment. No prior approval from IE Singapore is required. Expenditure exceeding SGD100,000 will still require IE Singapore's approval.

5. Withholding Tax Obligations

(1) Dividend

There is no withholding tax on dividends paid by Singapore resident companies. There is no capital income being taxed in Singapore, and dividend are capital income, so the person receiving the dividend does not need to pay additional taxes on dividend income.

(2) Interest

Where the preferential tax rate of the tax agreement cannot be applied, the interest paid to non-residents shall be subject to withholding tax at the rate of 15%. Certain interest rates maybe exempt or subject to a lower tax rate. The 15% rate is final and applied only to interest earned by non-resident not related to carrying out business in Singapore or to forming a permanent establishment in Singapore. Other interest not subject to lower rate will be taxed at the current corporate tax rate.

(3) Royalties

Royalties paid to non-residents are subject to withholding tax at the rate of 10% in cases where the preferential tax rate of the tax agreement cannot be applied. There are exemptions for some royalty payments. The 10% rate is final and applies only to royalties received by non-residents not related to carrying out business in Singapore or to forming a permanent establishment in Singapore. Other royalties not subject to low rates will be taxed at the current corporate tax rate.

(4) Technical service fee

Fee paid to non-resident enterprises (non-individuals) for the application or use of scientific and technological, industrial or commercial knowledge or information, or for the management or assistance of any trade operation or professional activity shall normally subject to withholding tax at the rate of 17%, unless tax agreements or certain exceptions are applicable.

(5) Branch profits

Overseas companies are not required to pay withholding tax when remitting profits from their branches in Singapore to their overseas head office.

6. Tax Incentives & Financial Grants

Singapore does not tax gains of a capital nature. However, there are circumstances where the disposal of security investments and/or property investments could be considered as carrying on a trade by IRAS. In those cases, any gains derived from the disposal of such investments assets may be subject to income tax.

7. Compliances

(1) Tax year

The tax year of a Singapore company is usually a calendar year, but a company may file a tax return in accordance with its fiscal year (the “base period”). Each tax year is also called an “assessment year”. Year of assessment means the year in which the company calculates its taxable income and pays tax. The company’s income from calculating and paying taxes in the company’s income for the previous year. For example, if a company’s current fiscal year is 1 April 2017 to 31 Mar 2018 (base period), the company’s income during that period will be calculated and tax payable in 2019.

(2) Filing of Tax Return

Every company is required to furnish to the Comptroller a return of its income by 30 November every year.

After filing, the Comptroller may take a few months or earlier to review the tax return and thereafter issue the Notice of Assessment (i.e. the tax bill).

(3) Payment of Tax Liability

Notwithstanding any objection or appeal against the Notice of Assessment raised, the tax levied thereon has to be paid within 1 month after the service of that Notice.

The company may pay its tax assessed via cheque payment (for lump sum only) or arrange with the Comptroller, to settle its tax liability via automatic GIRO bank deductions. However, to avail the company for the maximum of 10 instalments, the company’s estimated chargeable income has to be filed shortly after the financial year end. From YA2021 onwards, all the companies must file the ECI through e-filing mode.

(4) Objections to the Notice of Assessment raised

If the company disputes the assessment, an objection has to be made within 30 days from the date of service of the Notice of Assessment stating precisely the grounds of the objection. Otherwise, the assessment may be treated by the Comptroller as final and conclusive.

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

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