

Singapore Taxation

Basics to Corporate Taxes in Singapore

Introduction

- The Fiscal Policy is the government's means to influence and regulate the economy by means of revenue and expenditure.
- The two main tools of fiscal policy are –
 - Taxation (for raising revenue and is the major source of Income for government).
 - Expenditure (on public welfare for achieving desirable social and economic goals)

Types of Taxes

- Singapore has multifarious levies. This includes –
 - Income Tax
 - Property Tax
 - Estate Duty
 - Motor Vehicle Taxes
 - Customs and Excise Duties
 - GST
 - Betting Taxes
 - Casino Tax
 - Stamp Duties
 - Others (Foreign worker levy, Annual tonnage tax, Water conservation tax, Development charge and so on)

Taxes relevant for corporates

SN	Name of Tax	Point of Levy
1	Income Tax	Tax is on the Income earned by companies
2	Property Tax	Applicable if company owns properties. It is levied on the basis of expected rental values
3	Customs & Excise Duty	Singapore is a free-port. Most of the products are exempt. This duty is mainly levied on Tobacco, Petroleum products and liquor.
4	GST	GST is a basic indirect tax and is paid on the consumption of goods or services (including imports).
5	Stamp Duties	These are imposed on commercial and legal documents relating to (generally transfer of) stock and shares and immovable property.

Corporate Income Tax

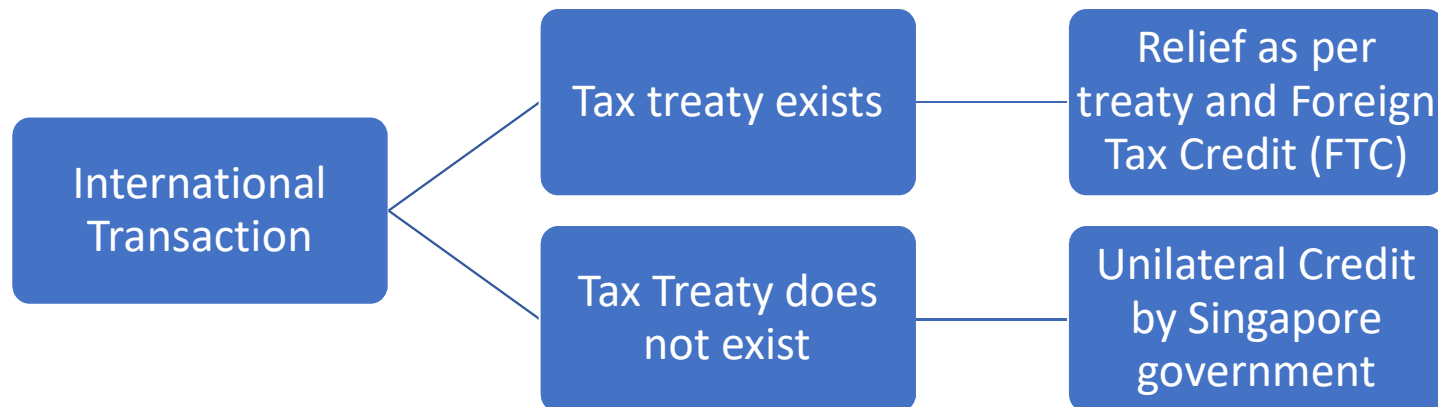
- Singapore follows the territorial tax system. This means that companies registered in Singapore pay taxes only on the profits they earn in Singapore. The overseas profits of such companies do not face any additional tax in Singapore. In other words, Corporate taxes in Singapore are based on location from where profit is earned rather than the Residential status of the corporate.
- The year in which company earns the profit is termed as “Basis Year” and the next year, in which the company is liable to pay income tax, is termed as “Year of Assessment (YA)”.

Corporate Income Tax (2)

- Singapore levies Income Tax ONLY on the PROFITS earned by the company and not on the gross revenue / turnover of the company.
- For Domestic profits, the tax rates are as below –
 - Headline Corporate Tax = 17%
 - Capital Gains Tax = NIL
 - Dividends = NIL
 - Inheritance (including estate) = NIL
- The Headline Corporate Tax rate of 17% is further reduced by various tax exemptions and incentives. This ultimately brings down the effective tax rate.

Corporate Income Tax (3)

- Singapore Companies indulging in International transactions currently enjoy benefits from Double Tax Avoidance (DTA) treaties with more than 80 countries.
- Companies also get unilateral reliefs from taxes for transactions with non-treaty countries



Corporate Income Tax (4)

- In order to enjoy tax breaks on Foreign Income and claim or enjoy DTA benefits, the Singapore-resident company must show the treaty partner that it is tax-resident in Singapore. To do this, the company can:

1. Apply for a Certificate of Residence (COR)

This is a letter certifying that a company is a tax resident in Singapore for the purpose of claiming tax benefits under the Avoidance of Double Taxation Agreements (DTAs).

2. Seek IRAS' endorsement of a tax reclaim form

In some cases , the foreign treaty partner will require the company to submit a tax reclaim form issued by that jurisdiction together with or in place of a COR.

Corporate Income Tax (5)

- Singapore companies get a tax exemption for foreign income received by way of dividends and others if the headline tax rate of the country in which the tax is first paid is not lower than 15%.
- There are various tax exemptions that the companies can claim (apart from the special exemptions for start-ups) namely –
 - Partial Tax Exemption (PTE) scheme
 - Development and Expansion Incentive (DEI) scheme
 - Productivity and Innovation Credit (PIC) scheme
 - Investment allowance

Corporate Income Tax (6)

- The Partial Tax Exemption (PTE) scheme
 - It is available to all companies, provided they do not claim any exemption for being a new start-up.
 - From the YA 2020, the exemption is as follows –
 - **75 %** tax exemption on **first S\$10,000** of normal chargeable income
 - **50%** tax exemption on the **next S\$190,000** of normal chargeable income

Corporate Income Tax (7)

- Development and Expansion Incentive (DEI) Scheme

DEI is aimed to encourage increase, upgradation and expansion of operations of the companies. It is granted to companies with an aim to increase employment and make products globally competitive.

All income earned from qualifying activities is either exempt from the taxes or taxed at a concessional rate (generally 10% instead of 17%) for a specified period (generally 5 years).

Corporate Income Tax (8)

- The Productivity and Innovation Credit (PIC) scheme

PIC is aimed at upgrading the production capacities and efficiencies. It also encourages innovations that aid growth.

Under PIC companies are offered as high as 400% tax deduction or allowances for certain categories of expenditures in varied categories such as –

- Training employees
- Acquisition and Licensing of Intellectual Property Rights
- Registration of patents, trade-marks, designs and plant varieties
- Research and Development activities
- Design projects (approved by the Design Singapore Council)

Corporate Income Tax (9)

- Investment Allowance

The main aim of this allowance is to attract more businesses in Singapore by giving allowances for capital expenditure.

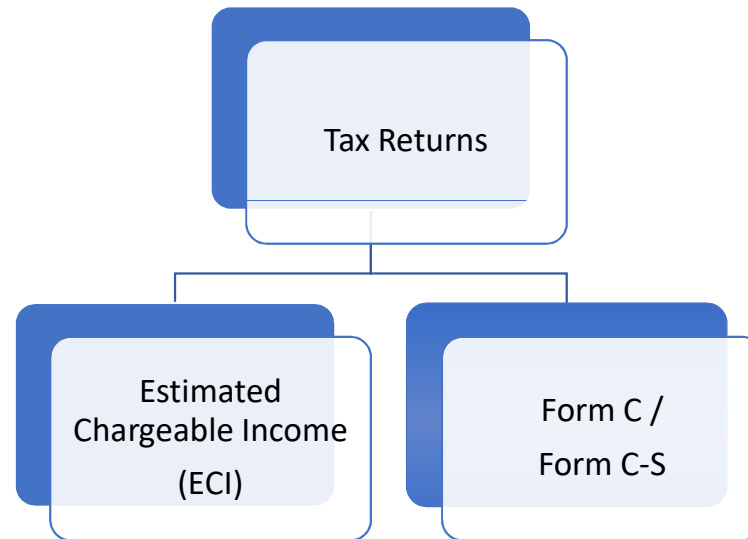
The generic condition is capital expenditure and hence both the existing and newly established businesses may reap benefits of this scheme.

The scheme allows tax credit of upto 100% of the capital expenditure incurred, on the qualifying projects, during a tax year (i.e. basis year).

The general duration of Investment allowance permitted in Singapore is 5 years, which maybe further extended for upto 8 years.

Income Tax Returns

- In Singapore, all companies need to file the following tax returns –



- *A company is not required to file ECI if its Annual revenue for the financial is not more than S\$ 5,000,000 and ECI is Nil for the YA.*

Income Tax Returns (2)

- The **Estimated Chargeable Income (ECI)** is a company's taxable profit. This means that it is arrived at after deduction of all tax-allowable expenses from the gross revenues earned by the company.
- Further the Revenues here are the revenue from operations and excludes gains on disposal of fixed assets.
- ECI is required to be filed with the IRAS (Inland Revenue Authority of Singapore) **within** a period of **3 months** from the end of the company's financial year.
- Where the audited financial statements are unavailable, management accounts maybe referred to for declaring the amount of revenue.
- If there is a change in the revenue as per audited financial statements from the one declared in ECI, and there is no change in ECI, then there is no need to revise the revenue figure.

Income Tax Returns (3)

- **FORM C / FORM C-S** is the form in which the company is required to declare its actual income for a given tax year.
 - The difference between the two forms is of attachments. While Form C requires tax computations, financial statements, detailed Statement of Profit & Loss and Balance Sheet and other supporting documents as attachments, the Form C-S does not require any such additional supporting.
 - This form is to be filed even if the companies are running into losses.
 - The form is mandatory to be e-filed from YA 2020 for all companies.
 - The last date for e-filing the form is December 15.
 - The form is to be signed by the Director or the principal officer of the company.
 - Failure to file the form may result in receipt of **NOA** (Notice of Assessment) from IRAS and payment of the taxes must be made within 1 month from date of NOA, even if the taxes are disputed.

Income Tax Returns (4)

- The co-relation between the form ECI and the form C-S / C is that, when the ECI is filed on time,
 1. If Chargeable Income in form C-S / C < Chargeable Income as per ECI, excess tax paid earlier will be refunded automatically.
 2. If Chargeable Income in form C-S/C > Chargeable Income as per ECI, additional tax must be made within 1 month from the NOA.

Also in case of significant difference between the revenues as per both the forms, the company maybe liable to explain the reasons for the same to IRAS.

Payment of Taxes

- The preferred method of Tax payment is GIRO (General Interbank Recurring Order).
- However the same maybe paid by other methods as well such as –
 - Internet Banking (Bill Payment / Fund Transfer)
 - DBS PayLah! Mobile App
 - Phone Banking (only to subscribers)
 - NETS (Available only over counter at Post branches)
 - AXS (Station / Online – Platform)
 - Telegraphic Transfer (TT) (Available only in case of overseas payments and other listed modes being not applicable)

Payment of Taxes (2)

- Companies are required to pay taxes within 1 month from NOA.
- Failure to do so attracts 5% penalty (via a late payment penalty letter)
- If tax remains unpaid for a period of 60 days after imposition of the 5% penalty, 1% additional penalty will be imposed for each completed month during which the tax remains unpaid, upto a maximum of 12% of the tax outstanding (inclusive of the 5% Late penalty payment).
- If tax continues to be unpaid, alongwith the additional penalty, IRAS may –
 1. Appoint agents to recover taxes (Eg Bankers, Tenant and Lawyer)
 2. Take Legal Action

Payment of Taxes (3)

- GIRO plan maybe cancelled if deduction of taxes is unsuccessful for reasons such as insufficient funds or deductions higher than set-limits.
- Appeal maybe made for waiver of late payment penalty and it will be considered only if –
 1. Overdue tax is paid in full, by the due date as stated in the late payment penalty letter; **and**
 2. a. This is first appeal; **or**
b. Company has filed and paid on time for the past two years.

Goods and Services Tax - GST

- GST is a consumption-based tax and is levied on all the goods and services including imports.
- The standard rate of GST in Singapore is 7% .
- However there are also certain category of goods which are leviable to GST @ 0% (e.g. Export transactions) and certain which are exempt from GST (certain specified transactions).
- Another category is Out-of-scope. The GST law simply does not apply to this category of goods and services.
- GST registration is compulsory where annual taxable supplies exceed S\$ 1,000,000. However voluntary registrations are also permitted.

Goods and Services Tax – GST (2)

- A business registered under GST must charge and collect GST for the supplies made by it. This is known as “OUTPUT TAX”.
- Output GST, so collected, must be paid to the IRAS.
- The GST that the business incurs on purchases made by it for the business purposes is known as “INPUT TAX”.
- The credit for Input tax paid can be claimed by the business subject to the prescribed conditions.
- GST can also be paid using the GIRO facility.

Goods and Services Tax – GST (3)

- A GST registered business must :
 1. Submit GST return to IRAS one month after the end of each prescribed accounting period. This is usually done on a quarterly basis.
 2. The Business should report both their output tax liability and input tax credit in their GST return.
 3. The difference between output tax and input tax is the net GST payable to IRAS or refunded by IRAS
- In order to file GST return, one must login using the GST CorpPass Admin Account (a trivial but vital role is also played by SingPass)

Goods and Services Tax – GST (4)

- GST account user can be set up either as “Preparer” or “Approver”.
- Preparer can prepare the Draft GST return and inform the approver to review it and submit it to IRAS.
- The GST return is filed in form GST F5.
- Further it is anticipated that the GST rate may change from 7% to 9% in Singapore between 2020 – 2025.
- Errors in filing of GST return maybe rectified using Form GST F7.

Goods and Services Tax – GST (5)

- Penalties for incorrect filing of GST return are as high as 200% of the undermined tax amount. This is in addition to fine and imprisonment.
- Businesses that commit fraud, are dealt with more severely.
- A voluntary disclosure can be made by sending an electronic request for GST F7 (Disclosure of Errors on GST Return) via myTax Portal and e-Filing the GST F7 **within 14 days** from the date of request.
- Errors, if any, made in past GST Returns maybe corrected within a period of **5 years** from the end of the relevant accounting period(s).

Goods and Services Tax – GST (6)

- Both GST returns and payment are **due one month after the end of the accounting period covered by the return**. If business is on **GIRO plan** for GST payment, GIRO deductions are on the 15th day of the month after the payment due date.
Hence opting for GIRO plan gives the business an additional span of 15 days for payment of the GST liability.
- The late submission penalty of S\$200 is imposed immediately once the GST return is not filed by the due date. A penalty of S\$200 will continue to be imposed for every completed month that the GST F5/F8 return is outstanding, till the maximum of S\$10,000 for each outstanding F5/F8 return.
- Businesses must still file the overdue return after they pay the late submission penalty as they can be prosecuted if the return is not filed.

Goods and Services Tax – GST (7)

Consequences for Late / Non-Filing of Tax Returns

- IRAS may take the following actions if businesses fail to file the GST return by the due date:
 1. Issue an estimated Notice of Assessment (NOA) and impose a 5% penalty on the estimated tax;
 2. Impose a late submission penalty; and/or
 3. Summon the business or person responsible for running of the business (including the sole-proprietor, partner and director) to Court.

Goods and Services Tax – GST (8)

- If a business receives an estimated NOA, it must:
 1. Immediately file its GST return to declare its actual GST liability and get the estimated NOA revised.
 2. Pay the estimated tax inclusive of 5% penalty by the due date stated on the late payment penalty letter.

The NOA for the estimated GST payable can only be revised if the GST F5/F8 is submitted within five years from the end of the relevant accounting period.