TAX INCENTIVES FINANCIAL

RELEVANT TO ACCA QUALIFICATION PAPER P6 (SGP)

The financial services industry has long been a key sector of the Singapore economy and plays an important role in Singapore's position as a major business hub in the region.

Singapore recognises that financial sector activities are highly mobile; and as global tax competition intensifies with the lowering of taxes, if Singapore is to continue as the preferred location for international finance, its tax incentives must remain relevant and effective, attracting and anchoring new financial sector activities.

The tax incentives available to the financial sector are relatively comprehensive as they seek to cover a wide range of activities. The most relevant tax incentives for the financial services industry are included under the Financial Sector Incentive (FSI) Scheme.

THE FSI SCHEME

The FSI Scheme has its origins in Budget 2002, when the Finance Minister announced that the Singapore Government was planning to rationalise and streamline the tax incentives designed to promote and encourage further development of Singapore as a prominent international financial services hub.

The FSI Scheme is an umbrella incentive scheme which comprises several tax incentives for the financial services industry. These were streamlined from 1 January 2004 under Section 43Q of the Singapore Income Tax Act (SITA), largely aimed at reducing the tax compliance and administrative burden faced by financial institutions.

Key features

Under the FSI Scheme, tax incentives are generally categorised under either the Enhanced Tier (ET) award or the Standard Tier (ST) award.

The ET award is targeted at certain financial activities that have been identified by the Singapore Government as being in high growth financial areas and high value-added processes for the country.

The ST award covers a broader range of financial activities that are critical to the continuing development of the Singapore financial sector.

Income derived by approved financial institutions from qualifying activities is subject to income tax at the concessionary rate of 5% and 10% under the ET and ST awards, respectively.

Initial award periods may vary from five, seven and 10 years, based on the number of employees and the scope of activities undertaken.

The tenure of the awards may be extended subject the approval of the authorities.

This article focuses only on ET awards, and only on those relevant to debt capital markets in Singapore.

ET AWARDS RELEVANT TO DEBT CAPITAL MARKETS

Broadly, the tax incentives available under the ET scheme are as follows:
- FSI – Debt Capital Market (FSI–DCM)
- FSI – Derivative Market (FSI–DM)
- FSI – Islamic Financing (FSI–IF)
- FSI – Equity Market (FSI–EM)

The FSI – DCM award can be further broken down into the following categories:
- FSI – Bond Market (FSI–BM)
- FSI – Credit Facilities Syndication (FSI–CFS)
- FSI – Project Financing (FSI–PF)

In addition, the FSI–DM award is further divided between the following activities:
- over-the-counter (OTC) commodity derivatives
- exchange traded commodity derivatives
- OTC and exchange traded commodity derivatives
- financial derivatives (both OTC and exchange traded)
- financial, OTC and exchange traded commodity derivatives.

The relationship between these sub-categories is shown in **Figure 1**.

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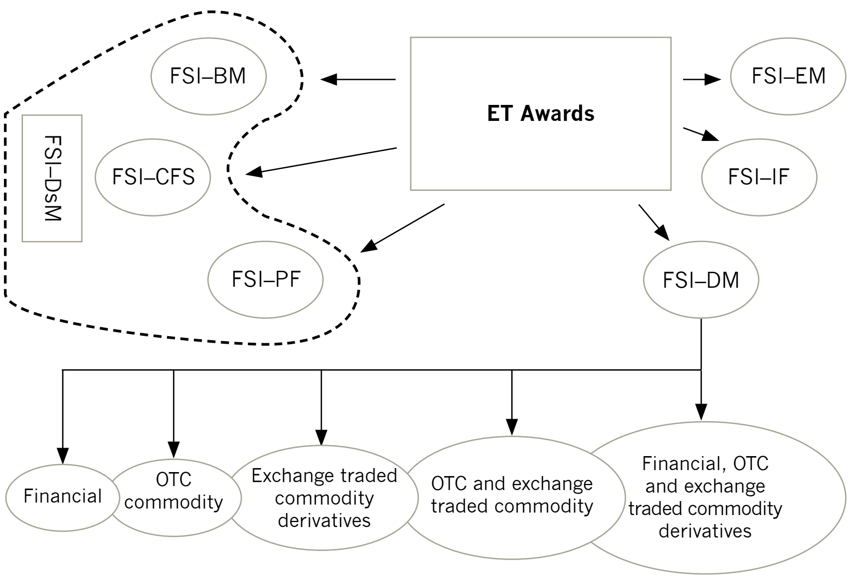
FIGURE 1: THE RELATIONSHIP BETWEEN SUB-CATEGORIES OF ET AWARDS



THE DEBT CAPITAL MARKET IS AN INTEGRAL PART OF THE FINANCIAL SECTOR IN SINGAPORE. SEVERAL TAX INCENTIVES WERE INTRODUCED OVER THE YEARS IN ORDER TO PROMOTE THE DEVELOPMENT OF SINGAPORE'S DEBT MARKET, INCLUDING THE FSI–BM, FSI–IF, FSI–PF AND QDS (INCLUDING ISLAMIC DEBT SECURITIES) SCHEMES.

QUALIFYING ACTIVITIES AND CONDITIONS

The qualifying activities and conditions for the schemes relevant to the debt capital market are shown in **Table 1** on **page 4**.

DEBT CAPITAL MARKET IN SINGAPORE

The debt capital market is an integral part of the financial sector in Singapore. Several tax incentives were introduced over the years in order to promote the development of Singapore's debt market, including the FSI–BM, FSI–IF, FSI–PF and QDS (including Islamic debt securities) schemes.

Such moves are in line with the Singapore Government's continuous effort to make Singapore an international financial hub.

The FSI–BM, FSI–IF and FSI–PF accord (subject to conditions) a 5% concessionary tax rate for qualifying income derived by qualifying companies from qualifying activities.

The QDS scheme, which accords concessionary tax treatment to qualifying income arising from qualifying debt securities to investors, was first introduced in 1998. The QDS scheme accords (subject to conditions) the following tax benefits to investors:

- Tax exemption on qualifying income derived by qualifying non-residents and qualifying individuals.
- A 10% concessionary tax rate on qualifying income derived by companies in Singapore.

Over the years, the QDS scheme has been enhanced to ensure it reflects current market trends and the business environment. In 2008, the Singapore Government extended the tax exemption scheme, subject to certain conditions, to investors (including resident non-individual investors) of Islamic debt securities which are QDS. This move by the Singapore Government is relevant in promoting Islamic debt capital raising activities in Singapore.

THE SINGAPORE GOVERNMENT HAS TAKEN A PROACTIVE APPROACH TO ENSURE THAT THE EXISTING TAX INCENTIVES REMAIN RELEVANT IN THE EVER-CHANGING LANDSCAPE OF THE FINANCIAL SERVICES SECTOR. THESE TAX INCENTIVES WILL CONTINUE TO EVOLVE AND MAY BECOME MORE COMPETITIVE IN A BID TO ENTRENCH SINGAPORE'S POSITION AS A GLOBAL FINANCIAL CENTRE.

CONCLUSION

In Singapore, the FSI Scheme is the cornerstone of all tax incentives for the financial services sector. Notwithstanding, there are also other tax incentives (though not within the scope of the FSI Scheme) that help the development of Singapore as a premier financial hub. Such incentives include the remission and exemption of withholding tax in respect of payments made by financial institutions to non-residents of Singapore. Without such exemptions, payments such as interest, commission, fees, and other payments made in connection with any loan or indebtedness, would attract Singapore withholding tax at 15% of the gross amount (unless mitigated by any relevant tax treaty that Singapore has entered into with other countries). In addition, Singapore offers the advantage of having a comprehensive network of tax treaties with over 60 countries and this strategically positions Singapore as an important location for businesses and financial institutions.

The Singapore Government has taken a proactive approach to ensure that the existing tax incentives remain relevant in the ever-changing landscape of the financial services sector. These tax incentives will continue to evolve and will perhaps become more competitive in a bid to entrench Singapore's position as an important global financial centre.

REFERENCES

1 QPDS means debt securities which are issued during the period from 1 November 2006 to 31 December 2011, and arranged in accordance with regulations made for this purpose by any financial institution in Singapore, or by any FSI–BM or FSI–PF company.

2 This qualifying activity was proposed by the Minister for Finance in his 2008 Budget Speech but has yet to be included in the tax regulations.

TABLE 1: QUALIFYING ACTIVITIES AND CONDITIONS FOR THE SCHEMES RELEVANT TO THE DEBT CAPITAL MARKET

AWARDS	QUALIFYING CONDITIONS	QUALIFYING ACTIVITIES
FSI–BM	Generally granted to banks and financial institutions involved in structuring, arranging and trading in qualifying debt securities. At least eight professionals employed, covering origination, trading, and distribution of debt securities. Proven expertise in origination and structuring, as well as the extent of debt sales, distribution and trading capabilities in Singapore.	Services and trading activities which include: ¤ arranging, underwriting and distributing QDS (Qualifying Debt Securities) ¤ trading of QDS and Qualifying Project Debt Securities[1] (QPDS)[2].
FSI–PF	Generally granted to banks and financial institutions involved in underwriting and providing project finance advisory services relating to infrastructure projects. At least five professionals employed engaged in project financing.	Services which include: ¤ arranging, underwriting and distributing any QPDS or qualifying project loans ¤ project finance advisory services relating to qualifying infrastructure projects.
FSI–IF	Generally granted to banks and financial institutions involved in Islamic financing activities. Experienced professionals employed involved in prescribed Shari'ah-compliant financial activities and business development plans.	Broad range of approved Islamic financial products and services including: ¤ lending and related activities (similar to ST award) ¤ fund management and investment advisory services (similar to ST award) ¤ insurance and re-insurance.

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