Managing ASEAN Expansion from Singapore

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Introduction

Expanding internationally can be a significant challenge in foreign markets – of which the Association of South East Asian Nations (ASEAN) is no exception. Diverse economies, divergent systems of taxation, and challenging regulations can all present challenges for even the most weathered and adaptive firms.

Although crafting a strategy to maximize profit in ASEAN – a region comprised of 10 economies at varying stages of development – may seem a particularly daunting task, effective investment strategy can help to minimize uncertainty and harness ASEAN’s diversity. Of critical importance in this respect is the establishment of regional management centers. Not only can these centers help to bring predictability to regional market entry; more importantly, regional management can act as an effective tool to maximize profits.

In this issue of ASEAN Briefing, we highlight the growing importance of Singapore as a management hub for the ASEAN region, and provide guidance on how to maximize returns through its domestic and international taxation infrastructure. We highlight the importance of double taxation agreements, discuss the ability of companies to route remittances through Singapore, and provide step-by-step instructions on guidelines for corporate establishment within the city state.

Dezan Shira & Associates has a growing team of Tax and Corporate Advisory specialists within Singapore and ASEAN at large with years of experience helping foreign enterprises set up operations within the region. For questions or information on double taxation, corporate establishment, or other issues related to entering the ASEAN marketplace, please contact our office in Singapore.

With kind regards,

Chris Devonshire-Ellis
This Issue's Topic
Managing ASEAN Expansion from Singapore

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Singapore: Opening the Door to ASEAN

By Dezan Shira & Associates, Singapore Office
Editor: Maxfield Brown

With steady harmonization of regional markets, emerging consumer classes, and growth in members such as Indonesia, Vietnam, and Malaysia projected to exceed four percent until at least 2050, the question is not if ASEAN warrants investment, but rather where and how to carry out expansion into the region effectively.

For an increasing number of investors, Singapore stands out as the choice location for establishing and managing operations within the region. Recent survey data from The Economist indicates that the city state is considered by 50.9 percent of respondents to have increased or significantly increased its profile as a regional management center. This is born out by investment data showing Singapore to also hold the highest FDI stock in the majority of ASEAN member states.

For those considering expansion to ASEAN, the following article sheds light on why Singapore has risen as a destination for the management of ASEAN expansion, where its competition lies, and how it has gained an edge over alternative locations.

Evaluating Holding Company Locations

The primary utility of Singapore lies in the city’s ability to act as a centerpiece for the management and holding of regional assets. Holding companies across the world are a vital component of any international expansion, offering investors a stable location from which to administer operations in more speculative markets. Offshore destinations can increase efficiency and maximize returns, thus having a serious impact on the profitability and ultimate success of overseas expansion. While most countries acting in this capacity offer similar benefits – including lowered taxes, efficient regulatory infrastructure, and protection of investors’ assets - their differences must be evaluated carefully in order to ascertain the optimal location to manage the current or planned portfolio of a given firm.
The Singapore Advantage

While locations such as the Netherlands offer advantages for European expansion and Hong Kong acts as the prime entry point to a slowing Chinese economy, Singapore easily outcompetes these traditional holding locations, and fellow ASEAN members alike, with regard to investment in South East Asia.

Effective Administration of Regional Operations

According to the World Economic Forum, Singapore is among the world’s most attractive economies for investment of any kind. Ranking fourth in setup procedures, first in dispute resolution, and first in higher education; business can be carried out in a seamless manner that is often more effective than a company’s home market. On top of this, and unlike many of its ASEAN counterparts, Singapore is a multinational state which utilizes English as its official language. This creates a significant advantage in transparency of legislation as well as contract interpretation.

Supply Chain Integration

With effective tariffs nearing complete removal within the ASEAN Economic Community (AEC) and ambitious progress being made on the harmonization of regulatory standards, investors within Singapore are not only well positioned to administer operations, but also stand to gain from integrating the city state into regional value chains. As a high end producer, Singapore’s top exports of electronics (30 percent) and machinery (13 percent) are able to access inputs from the likes of Indonesia and Malaysia at a lower price than alternative hubs such as Hong Kong or the Netherlands. Furthermore, these tariff reduction arrangements, in conjunction with independent trade agreements with 59 countries – including the EU and TPP – will ensure that exports from the city state are highly competitive in key export markets such as China, the United States, and Japan, which consume 12, 5.9, and 4.1 percent of Singapore’s exports, respectively. Helping to facilitate integration, Singapore is also home to the world’s second largest port, which handles over 36 million TEU in cargo on an annual basis.

Minimized Tax Obligations

As with all the world’s top locations for regional management and holding, Singapore imposes a relatively light tax burden on those invested within its borders. Corporate income tax (CIT) stands at 17 percent while dividends can be repatriated without imposed withholdings.

While CIT and withholdings rates are competitive in relation to alternative destinations such as Hong Kong and the Netherlands, the real advantage to investing in ASEAN’s most developed economy lies in its treaty arrangements with fellow AEC member states. As of 2016, Singapore is party to double taxation agreements (DTAs) with nine out of ten ASEAN members, a stark contrast with Hong Kong and the Netherlands with five and six agreements with ASEAN members, respectively.
For firms operating within ASEAN and seeking to reduce withholding rates, or those simply considering expansion to the region for the first time, the quick and cost-effective nature of corporate establishment procedures within Singapore can be a significant draw. As of 2016, Singapore ranks fourth for establishment times in the World Economic Forum’s Global Competitiveness Index with reported registration times taking as little as 2.5 days according to the World Bank.

To minimize the impact of registration, Singapore requires that the vast majority of foreign investors engage the services of a professional firm. This route is strongly encouraged as it minimizes uncertainty and ensures that establishment is completed in the least amount of time possible. Even with the engagement of assistance, it is important that firms maintain an up to date understanding of relevant procedures. With this in mind, the following chapter provides step-by-step instructions on establishment procedures within the city state.

Corporate Establishment Options
While representative offices, publicly listed companies, and joint ventures can be pursued within Singapore, the most effective option for administering operations throughout ASEAN is via Singapore’s private limited establishment option. In addition to ensuring that the parent company is in complete control of regional operations, this establishment option limits the liability that a company may face in the event of a conflict with its subsidiaries in third party states.

Note: A Singaporean private limited company should have at least one shareholder, but no more than 50. The shareholder can be a person or another legal entity, and 100 percent foreign shareholding is permitted. New shares can be issued or transferred at any time after the Singaporean company has completed the incorporation process.

Step-by-Step Guide to Corporate Establishment
Step 1 – Name Approval
Companies investing in Singapore must first obtain approval for the name they wish to register under within the country. This name must not be already in use and may not infringe upon trademarks recognized by the Intellectual Property Office of Singapore (IPOS).

Names may be rejected – at the time of registration or retroactively – if the name is deemed to be:

• Undesirable
• Identical to a name that is already in use
• Identical to a name that has been reserved
• Identical to a company that has been dissolved in the past two to six years (dependent upon circumstances)
• Identical to a name of a business whose registration has been canceled in the past year
• A name that the registrar has been given expressed directions to refuse from the ministerial level
In addition to the restrictions listed above, the nature of a given investment may place additional restrictions on the name in question. Names including certain words (such as bank, finance, law, etc.) may require review by a relevant government authority and prolong the approval process. In addition to this, for investors seeking to establish private and/or limited companies within Singapore, the following naming requirements should be noted:

- The word Private or Sendirian must be included in the names of private companies instead of Pte.
- The words Limited or Berhad must be included in the names of any limited company instead of Ltd

**Fee:** name applications are available for 15 Singapore dollars.

### Step 2 – Staffing

Outlined in Singapore's Companies Act, all private limited companies are required to fill the following positions:

**Director**

To complete incorporation within Singapore, a director of at least 18 years of age and eligibility to work in Singapore – via citizenship or issuance of an employment pass – must be appointed. This individual must also be the shareholder within the company unless a secondary shareholder is to be selected. The following information should be gathered in preparation for registration:

- Full name
- Residential address
- Nationality
- Copy of identification
- Date of appointment
- Date of cessation of appointment

**Company Secretary**

To be appointed within six months of incorporation within Singapore, company secretaries are required to maintain their primary residence within Singapore. Upon appointment, the following information should be provided:

- Full name
- Residential address

**Auditor**

Must be appointed within three months from the date of incorporation unless the company is exempt from audit requirements as outlined in the Companies Act. The appointment of all auditors must be done in conjunction with the provision of the following information pertaining to the auditor in question:

- Full name
- Address at which the auditor may be contacted
- Copy of identification (if available)
- Date of appointment
- Date of cessation of appointment

### Step 3 – Office Setup

Prior to formal registration, and in the interest of complying with registration requirements, firms should be sure to set up an office within Singapore's city limits. In addition to being able to receive mail, office locations within Singapore must also act as a point of contact for the public. For standard office space registration, materials should be submitted to the Urban Redevelopment Authority.

**Restrictions on Alternative Office Space**

Currently, registered addresses cannot simply be PO boxes, as office hours are required. However, smaller companies may register private homes, executive condominiums, and flats under the Home Office Scheme.

**Office Hours**

All offices must be open for at least three hours on all official business days. For companies with under five office hours a day, operating times must be pre scheduled and provided to the registrar when completing the company’s registration process.

### Step 4 – Registration

Upon the successful name approval and selection of relevant staff, registration at the Accounting and Corporate Regulatory Authority (ACRA) must be completed via Singapore's online BizFile system. While filing is to be handled externally, the following
requirements for documentation and information should be noted to ensure registration is completed quickly:

- **Memorandum & Articles of Association** setting out the objects and by-laws of the company.
- **Form 6 – Statutory Declaration of Compliance**
- **Form 7 – Certificate of Identity**
- **Form 44 – Notice of Situation of Registered Office and of Office Hours at Time of Incorporation**
- **Form 45 – Consent to Act as Director & Statement of Non Disqualification to Act as Director**

Note: unlike many other jurisdictions, Singapore does not set paid up capital requirements.

**Fees:** Companies can typically be incorporated within 15 minutes after the registration fee has been paid (between S$50 and S$600 for locals, and S$300 to S$1,200 for foreigners). For companies that require approval or review, the process can take between 14 days and two months.

**Official Certificate of Incorporation and Company Business Profile**

The Company Registrar will send an official email after successful incorporation that includes the company registration number, and can be treated as the official Certificate of Incorporation. A business profile that contains the company’s particulars can also be obtained for a small application fee. This and the Certificate of Incorporation are often sufficient for all legal and contractual interactions, including opening a corporate bank account, signing an office lease, and subscribing to telephone/internet services.

The holding company (in the form of a private limited company) is permitted to begin operations after these documents have been successfully obtained, and a Unique Entity Number (UEN) has been issued.

**Step 5 – Licensing**

Depending on the nature of the work that a company wishes to conduct within Singapore, additional documentation and licensing may be required. The following are the most common licensing requirements that investors may face upon entry into Singapore:

1. **Business Activity License:** the standard permit for companies that are operating within Singapore; required for most firms operating within the country.
2. **Occupational License:** required for professional services including but not limited to doctors, lawyers, accountants, and securities traders.
3. **Compulsory License:** required for specialized fields such as travel agencies, schools, and employment agencies.
4. **Certificate of Corporate Residency:** required for companies seeking to tap into Singapore’s DTAs.

Note: A full listing of all business licenses can be found on Singapore’s Online Business Licensing Service (OBLS)

**Step 6 – Compliance**

Following successful incorporation within Singapore, all companies are subject to a variety of compliance requirements. Within the first year and a half of operation, the following deadlines should be observed to ensure compliance with current regulations:

- Within 18 months of incorporation, a company must hold its first annual meeting.
- The Companies Act requires the financial statements of every company to be audited once every year.
- Companies should also be sure to comply with the office hours requirements outlined above.

Note: Notification of any changes to capital, shares, articles of association, or the company’s name must be made to relevant authorities.

**Professional Services**

Dezan Shira can guide your company through Singapore’s establishment and registration process. To learn more please contact singapore@dezshira.com or visit www.dezshira.com.
Of all the advantages that Singapore offers, its taxation arrangements are among the most important for investors. DTAs, as well as domestic coverage for taxation abroad, provide significant opportunities to reduce the tax burden of a given operation. To showcase the utility of these agreements, the following article sheds light on the requirements needed to tap into domestic benefits as well as the particulars surrounding Singapore’s domestic and international tax arrangements.

Qualifying for Tax Benefits

For effective utilization of Singapore’s taxation infrastructure, investors must be sure to structure investments in a manner consistent with guidelines set out by Singapore’s regulatory authorities and established under various DTA agreements. In this regard, obtaining a Certificate of Residence (COR), issued by the Internal Revenue Authority of Singapore (IRAS) and ensuring Permanent Establishment (PE) status within respective ASEAN states are the two most important compliance tasks that must be completed.

Certificate of Residence (COR)

Singapore’s COR is an indicator to tax authorities – in Singapore and abroad – that a given company has established operations within the state of Singapore. The paragraphs below outline the benefits of the COR, restrictions placed on the issuance of this status, and requisite documentation needed to apply for the certificate.

Usage

Within Singapore, a COR is used to establish a company’s eligibility for exemption on taxation of profits remitted from foreign operations in the form of dividends, foreign branch profits, and foreign sourced service income. Without a COR, these remitted profits will be subject to taxation in the same manner that any other profits would be within the city state.

Outside of Singapore, a COR is used as a means of satisfying requirements under the various DTAs that Singapore has established with partner states. Upon successful provision of the COR in the manner consistent with requirements set out by individual ASEAN member states, remittances – including royalties, interest payments, and dividends – will be subject to rates established under given DTAs rather than those imposed under normal circumstances. In some instances, countries may require further forms from Singapore in order to permit reduced rates under DTAs. Known as tax reclamation forms, the content of these forms are subject to the requirements of given treaties. All reclamation forms documents can be obtained from the IRAS.

Qualifications

To qualify for a COR, companies must prove that they are controlled and managed from within Singapore. In this regard, firms that are foreign owned – defined as having 51 percent or more ownership by foreign shareholders – as well as those receiving purely passive forms of income are placed under heightened levels of scrutiny.
For investors considering Singapore as both a production location as well as a regional management hub, the process of proving control and management within Singapore will likely prove an easier task. That being said, one or more of the following steps can be taken to reassure regulators that a business is in fact controlled and managed from within Singapore:

- Have related companies in Singapore that are tax residents or that have business activities in Singapore
- Receive support or administrative services from a related company in Singapore
- Have at least one director in Singapore who holds an executive position and is not a nominee director
- Have at least one key employee (e.g. CEO, CFO, COO) based in Singapore.

**Requisite Documentation**

To apply for the COR, the following documentation must be complied and submitted to the IRAS:

- Tax reference number
- Years of assessment that you need the COR to be valid for
- Treaty country
- Nature of the income (dividend, royalty, interest)
- Amount of income (rough estimate if actual figure cannot be located)
- Name of the foreign entity paying the income
- Date of remittance
- Contact information

**Permanent Establishment**

The concept of “permanent establishment” (PE) features in virtually all DTAs. Under most DTAs, when an entity resident in one country carries out business in another country (the “source” country), business profits will not be taxed in the source country unless the business is carried out through a PE. Once PE status is triggered, the entity will usually be subject to corporate tax, and qualifying staff will be subject to individual income tax in the source country.

The terms of individual DTAs may vary, but a PE is generally defined as a fixed place at which the business of an enterprise is carried out, either wholly or in part. It typically includes a place of management, a branch, an office, a factory or workshop, etc. A PE may also exist where an agent has, and habitually exercises, a general authority to negotiate and conclude contracts on behalf of the enterprise.

**Domestic Assistance with International Taxation**

**Protection from Foreign Taxation**

In an effort to reduce the tax burden of its tax residents, Singapore offers investors the means to offset international taxation. Currently those incorporated within Singapore and holding a COR will be able to select one of the following methods when filing taxes:

**The Credit Method**

Under the credit method, Singapore will typically grant a foreign tax credit (FTC) to an entity that has paid taxes on business profits derived in the source state. The entity can then offset that FTC against its tax liability in Singapore. Singapore’s laws provide that an FTC can only be offset against the tax liability arising from that same income in Singapore, and not against the entity’s other income. Accordingly, if the source country’s tax rate is higher than Singapore’s, the entity will bear the source state’s higher tax rate.

**The Exemption Method**

Under the exemption method, business profits that have already been taxed in the source state will typically be exempted from taxation in Singapore altogether. If the source state’s tax rate is lower than Singapore’s, the exemption method would be preferable to the credit method as a lower overall tax liability would result.

Singapore’s domestic laws also exempt foreign-sourced dividends, branch profits, and service income remitted into Singapore from further taxation, provided that they have already been taxed in the source country and the highest corporate tax rate (also known as the “headline” tax rate) is at least 15 percent, even if that income has not been taxed at the headline rate.

**Professional Services**

For a consultation on how your company can benefit from Singapore’s domestic and international tax arrangements, please contact our international tax advisors at singapore@dezshira.com or find us online at www.dezshira.com
Routing Chilean Investments Through Singapore

By: David Lee, Dezan Shira & Associates Singapore Manager
Editor: Maxfield Brown

For many companies, profits generated within ASEAN will need to be remitted to parent companies across the globe. Although remitting profits directly from centers of production can be accomplished, the cost of these transfers is often elevated in the absence of up to date DTAs. Singapore is a significant asset in this respect. With many DTAs in place and a 0 percent withholdings tax of its own on dividends, Singapore allows companies to remit profits from production centers at a lowered rate than would be normally possible and then pass profits on to a parent company without further reduction.

Indonesia to Chile

To illustrate the benefits of routing investments through Singapore, take the example of a Chilean investment in Indonesia. Under normal circumstances, Chilean investors would be subject to Indonesia’s CIT of 25 percent in addition to Indonesia’s non treaty withholding rate of 20 percent - applied to dividends, interest and royalties. This would result in a realized profit of just 60 percent of the company’s gross total upon repatriation of these funds to the Chilean parent company.

Routing through Singapore

When routing the same investment through Singapore, investors would be subject to the same CIT rate but benefit from Singapore’s DTA with Indonesia which reduces withholdings on all fronts. Depending on the combination of remittances employed, up to a 12 percent increase in realized profit can be achieved as a result of the withholdings differential between an Indonesia – Chile remittance and an Indonesia – Singapore – Chile remittance. Sending dividends from Indonesia to Singapore would result in a 67.5 percent retention rate which, without a withholding on the part of Singapore, can be carried over to Chile.

**CASE STUDY**

David Lee
Manager
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Strategies for Remitting Indonesian Dividends to Chile

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<td>67.5</td>
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Step 1: Remit profits to Singapore
Step 2: Remit profits to Chile

Note: The extent of Singapore’s cost advantage will depend on the countries, double taxation agreements, and remittances involved in the repatriation process.
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