

Singapore*

Solutions for shipping companies Opportunities in Singapore

Introduction

Over the past decade, Singapore has grown as a global shipping hub and an international maritime centre. Singapore boasts a wide and comprehensive range of maritime services that meets the varied and diverse needs of ship and oil rig owners, operators and other players in the shipping supply chain.

Currently, the Singapore Register of Ships is the largest register in Asia and fourth largest in the world. Singapore is also the leading builder of oil rigs in the world.

With its strategic geographical position in Asia, first-rate business environment and infrastructure, Singapore is in an excellent position to serve as a gateway for maritime companies looking to achieve maximum growth and reach out to the Asian markets. The Maritime Port Authority of Singapore, which oversees the development and promotion of the Singapore maritime industry, works closely with the local tax authorities to provide attractive tax incentives for the local shipping and oil rig industry.

Singapore tax regime

The taxation system in Singapore is based on a modified territorial basis whereby Singapore-sourced income is subject to tax in Singapore. Certain foreign-source income is also subject to tax upon receipt/remittance to Singapore. There are also rules in Singapore which exempt specified classes of offshore income from tax.

The applicable corporate tax rate on a Singapore company's profits is 20%. In maintaining Singapore's competitiveness as one of the world's leading international maritime centres, Singapore has attractive tax incentives available to the shipping industry that exempt shipping income from tax.

Other taxes

Goods and Services Tax ("GST") is a tax on domestic consumption and is chargeable on any supply of goods or services made in Singapore where it is a taxable supply made by a taxable person (i.e. a GST registered person) in the course or furtherance of the business carried on by him. The applicable GST rate is currently 5%.

Singapore clearly recognises the vital role of the shipping industry in world trade and reliefs are available to ensure that GST is neutral wherever possible. As international movement of goods is zero-rated, the majority of goods and services provided to ships for their provisioning, repair and maintenance, crewing and management are also zero-rated.

Tax incentives for the shipping and oil rigs industry

There are several attractive tax incentives available in Singapore such as:

Automatic tax exemption for Singapore – flagged ships

Broadly, an owner or operator of a Singapore-registered ship is exempt from tax on qualifying income derived from the operating or chartering of such ships in international waters.

There is no expiry date for this incentive as long as the ships continue to be Singapore-flagged and there is no requirement to apply for this incentive.

Tax exemption for foreign – flagged ships

The Approved International Shipping Incentive ("AIS") is a tax incentive to be applied for and available to resident companies which own or operate foreign flagged ships. To qualify for the AIS scheme, a company must substantiate that the control and management of its Singapore fleet will be based in Singapore and meet other quantitative qualifying criteria such as fleet size, head count and Singapore business spending.

Under the AIS scheme, qualifying income from the international operation and chartering of foreign ships is exempt from tax for up to 10 years (with possibility of extension up to 30 years). In addition, withholding tax exemption is also available on charter payments to non-residents.

Ships leasing company

Leasing income received by a qualifying ship leasing company will also be tax exempt. This incentive is meant to develop the ship financing sector in Singapore and provide shipping operators with more flexibility in managing their vessels.

Marine Finance Incentive

To further boost the ship financing sector, the Marine Finance Incentive ("MFI") was introduced in the 2006 Singapore Budget. The MFI will enable the players involved in ship financing to package innovative financing products which will benefit the shipowners (e.g. cheaper sources of capital) and investors (e.g. alternative high yield investments) alike.

From financial year 2006, tax exemption will be granted on qualifying income for the ship investment vehicle (such as a ship leasing company, shipping fund or shipping trust), while the qualifying fee income of the ship investment manager (such as a fund management company or a trustee manager) will be taxed at 10%. Dividends distributed by the ship investment vehicle to both corporate and individual investors will be tax exempt.

Approved Shipping Logistics scheme

The Approved Shipping Logistics Enterprise scheme was launched in 2004 to encourage freight management and logistics companies to use Singapore as a base for the provision of ancillary logistic services.

Approved companies would enjoy a concessionary tax rate of not less than 10% on incremental income from qualifying activities. Tax exemption on dividends (from qualifying profits) remitted to overseas network companies is also available.

Block Transfer Scheme

To encourage the flagging of foreign flagged ships as a fleet under the Singapore flag, the Block Transfer Scheme ("BTS") was introduced as a volume discount scheme for ship registration fees, provided their primary registry elsewhere is suspended.

In addition to the tax exemption available for income from chartering or operating Singapore flagged ships, the BTS also provides for automatic exemption from withholding tax on interest paid on an overseas loan taken to finance those ships. This applies to ships registered during the period ended November 1, 2003 to December 31, 2008.

Oil rigs

Oil rigs involved in the exploratory work can now be registered as Singapore-flagged ships, thereby entitling the income from operating or chartering such rigs to Singapore tax exempt.

Oil rigs to be used for production work which cannot be Singapore-flagged can benefit from the AIS tax incentive mentioned earlier for foreign ships.

Double Tax Agreements

Currently, Singapore has comprehensive Double Tax Agreements ("DTA") with 58 countries (out of which 52 are currently in force) as well as 7 Shipping and Air Transport Agreements. Most of the DTAs provide for full exemption for a non-resident company from tax on international shipping profits sourced in Singapore. These DTAs granting a full tax exemption do so by confirming the tax right to the country in which the company is effectively managed or which the company is resident in. The DTAs which do not provide for full tax exemption would generally reduce the normal tax by half.

Contacts

For more information, please contact:

Ms Ho Mui Peng

mui.peng.ho@sg.pwc.com

Tel.: +65 6236 3838

Ms Lina Lew

lina.lew@sg.pwc.com

Tel.: +65 6236 3787