

Asia-Pacific Asset Finance & Leasing Newsletter

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Issue 1

Foreword

Welcome to PwC's first edition of the Asia-Pacific Asset Finance & Leasing Newsletter.

Although "Asset Finance & Leasing" as a source of finance has existed for many years, there are many aspects of this topic that are ripe for discussion.

Many of you have expressed a desire to see more content written on this issue. Leasing transactions are increasingly being conducted across multiple territories and legal jurisdictions, which can significantly impact business profitability and operations. Having access to timely, specific and relevant information on this topic is more important than ever.

This Newsletter brings you the collective knowledge of PwC's business professionals covering new regulations, news and market developments in the Asset Finance & Leasing space from across the region.

I would like to thank the contributors of this first edition: Gavin Marjoram, Fang Lin, Wendy Guo, Kenny Lam, Hardy Chan, Rex Ho, Katsuyo Oishi, Han Chon, Lawrence Biscocho and Maan Huey Lim. Their time, effort and dedication have made this publication possible.

I am eager to hear any feedback you may have on the Newsletter, so please do not hesitate to contact me. If you would like to know more about any of the topics covered in the Newsletter, please feel free to give the respective contributors a call.

I trust you will find the contents of the Newsletter both insightful and useful for your business.

Clarence Leung
PwC Hong Kong

Australia

Tax reform to the Australian shipping industry

On 20 February 2012, the Australian Government released draft legislation for a range of proposed tax incentives for the Australian shipping industry. The proposals will allow specific participants in the Australian shipping industry to access a variety of tax incentives, which aim to make the Australian shipping industry more internationally competitive, facilitate Australian competition on international routes and increase the attractiveness of the industry to investors.

These tax incentives will be available to Australian shipping operators. In addition, certain aspects of the proposals will be available to owners of eligible vessels, including lessors.

There are five key tax incentives proposed, as follows:

- An income tax exemption for Australian operators of eligible vessels on qualifying shipping income.
- Accelerated depreciation for holders of eligible vessels.
- Balancing adjustment and roll-over relief for gains on disposal of eligible vessels.
- A refundable tax offset for employers of eligible Australian seafarers.
- An exemption from royalty withholding tax for non-resident owners of eligible vessels leased on a bareboat basis to an Australian operator.
- The following entities may benefit from these proposed measures:

Proposed measure	Australian shipping operators	Australian ship lessors	Offshore ship lessors ¹
Income tax exemption	Yes	No	N/A
Accelerated depreciation	Yes	Yes	N/A
Seafarer tax offset	Yes	No	N/A
Balancing adjustment and roll-over relief for disposal of vessels	Yes	Yes	N/A
Royalty withholding tax exemption	N/A	N/A	Yes

¹ Where the offshore lessor does not have a permanent establishment in Australia.

Generally, the proposed tax incentives will be available to the holder of a “shipping exempt income certificate” in relation to eligible vessels. An eligible vessel is one that is:

- registered under either Australia’s primary or international shipping registers; and
- over 500 gross tonnes (cargo vessels between 200 and 500 gross tonnes may be eligible if primarily used in regional or remote Australia).

Certain types of vessels are specifically excluded².

Income tax exemption for Australian shipping operators

Where a ship operator has applied for and obtained a ‘shipping exempt income certificate’ in relation to a particular vessel, income derived from the ‘core shipping activities’ of the vessel will be exempt income of the operator.

Core shipping activities includes:

- carrying the shipping cargo or shipping passengers on the vessel;
- crewing the vessel;
- carrying goods on board for the operation of the vessel (including for the enjoyment of shipping passengers);
- providing the containers that carry shipping cargo on the vessel; and
- loading shipping cargo onto, and unloading it from the vessel.

Where the total income derived from activities incidental to the core shipping activities (‘incidental shipping activities’) is less than 0.25% of the income from core shipping activities, all income from the vessel will be deemed to be exempt. Otherwise, the income derived from incidental activities will be included in the assessable income of the taxpayer.

Income which is deemed to be exempt income under these provisions is also subject to a modified loss wastage rule where the taxpayer’s carry forward losses are only reduced by 10% of the value of the exempt income. That is, 90% of the exempt income will be disregarded in calculating the taxpayer’s current year and carry forward tax losses.

Accelerated depreciation for eligible vessels

The effective life of shipping vessels for tax depreciation purposes will be capped at 10 years under the new rules. Taxpayers may continue to self assess the effective lives of their vessels, but where they choose to rely on the ‘safe harbour’ effective life (currently the Commissioner’s determined effective life of 20 years for most vessels), it will be the lesser of the Commissioner’s determination and the statutory cap of 10 years, effectively allowing the holder of the ship to claim capital allowance deductions at a greater rate than under current law.

The statutory cap only applies to shipping vessels which are covered by a shipping exempt income certificate. This measure is available to both owners and operators of eligible vessels. However, where the operators income from operating the vessel is exempt under the shipping income tax exemption, depreciation deductions will not be available.

Seafarer tax offset

In certain circumstances, a company will be eligible to claim the seafarer tax offset, a refundable tax offset linked to withholding payments paid to Australian resident seafarers for overseas voyages. The overseas voyage must be made by a certified vessel, and the seafarer must be employed (by the company claiming the offset) on overseas voyages made by certified vessels for at least 91 days in the income year.

The amount of the company’s seafarer tax offset for the income year will be calculated as 27% of the gross payment amount, that is, the total amount of withholding payments (salary, wages and allowances) payable by the company in an income year to individuals employed for 91 days or more within the income year in employment that qualifies for the offset, in respect of that employment.

Balancing adjustment and roll-over relief

The proposed measures will provide roll-over relief for holders of certified vessels on disposal in certain circumstances. Where eligible, the balancing adjustment amount arising from the disposal of the original vessel is rolled over to the second income year after the income year in which the vessel is disposed of.

² Excluded vessels are any of the following: recreational vessels; fishing vessels and fishing fleet support vessels; offshore industry vessels; inland waterways vessels; salvage vessels; tugboats; barges; vessels operating wholly or mainly from a stationary position; government vessels; and vessels owned or operated by the Australian Defence Force or the defence force of another country.

Also, where roll-over relief is chosen, and another vessel which is intended to replace the original vessel is purchased either within one year before or within two years after the day the original vessel was disposed of, only the amount of the balancing adjustment amount that exceeds the cost of acquiring the new vessel is included in the taxpayer's assessable income.

Similar to the accelerated depreciation measure, this rollover relief will not be available where the taxpayer's income from operating the vessel is exempt under the shipping income tax exemption.

Exemption from royalty withholding tax for payments made for lease of shipping vessels

Payments made to non-residents by Australian resident companies for the lease of shipping vessels on a bareboat (i.e. without a captain or crew) basis will be exempt from royalty withholding tax under the new rules where:

- the lessee is an Australian resident company;
- the vessel is not an 'excluded vessel' (see above)
- the vessel must be leased on a bareboat basis; and
- the vessel must be used, or available for use, wholly or mainly for business or commercial activities that involve shipping cargo or passengers for consideration.

The interaction of this measure with international tax treaties and other domestic laws (such as the location of substantial equipment in Australia giving rise to a permanent establishment) should be carefully considered.

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China, Beijing

Dongjiang free trade port zone of Tianjin (“DFTP”) and aircraft leasing in China

Located in the Bin Hai New Area of Tianjin Municipality of the Peoples’ Republic of China, Dongjiang Free Trade Port Zone (“DFTP”) is the largest free trade zone since the State Council approved its establishment in 2006. As a shipping centre and logistic hub in northern China, DFTP receives support from the authority and develops the state’s aircraft financing industry.

On 25th October 2012, China Airfinance Development (DFTP) Summit was co-organized by the management committee of DFTP and the General Aviation Committee of China Air Transport Association. Over 400 representatives from airline companies, aircraft leasing companies, aircraft manufacturers and other parties have attended the Summit. The theme of this Summit was “The Innovative Practice and Prospect of China’s Aircraft Leasing Industry”. The Summit covered several topics, including policy effect and practical experience of Chinese aircraft leasing industry innovative zone, the innovative models and future challenges of Chinese aircraft leasing, aircraft financing, transaction, securitization, and government’s role in the coordination of policy support for taxation and foreign exchange aspects, etc.

PricewaterhouseCoopers Consultants (Shenzhen) Limited, Beijing Branch (“PwC Beijing”) has entered into a strategic cooperation framework agreement with the management committee of DFTP. In the agreement, PwC Beijing will introduce DFTP’s development experience to its clients and share global advanced experience and other research findings with management committee of DFTP. Meanwhile, the management committee of DFTP will invite PwC Beijing to join in the seminars held by it and share real cases and new practice in aircraft leasing industry with PwC Beijing.

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China, Shanghai

Pudong new area financial subsidies measures and detailed implementation rules

Pudong New Area People's Government issued a notice in 6 November 2012 to further promote the development of financial sector in the Pudong area in Shanghai.

Further to "The Measures regarding the Financial Supports to Promote the Development of the Financial Industries in the Pudong New Area" (the "Measures") issued in July 2012, the Shanghai Pudong Government recently issued the Detailed Implementation Rules for the Measures (the "DIR"). The Measures and the DIR, inter alia, set out the scope of the eligible persons, the types of financial subsidies and supports available, conditions and requirements, and the amount. The Measures is effective from the date of issuance to 31 December 2015.

Subject to certain conditions, the Measures stipulated that financial subsidies/ supports will be granted to the following types of financial industry enterprise:

- financial institutions
- private equity funds and private equity fund management enterprises
- financial leasing enterprises
- professional financial service providers
- SMEs that undergo initial public offerings / sponsors

The eligible enterprise must be registered in Pudong New Area and their in-charge tax authorities are located in Pudong New Area.

The Measures also stipulated that financial subsidies will be granted to the senior management, managers and key professional staff of the above enterprises.

In relation to the financial leasing industry, the Measures stipulated that only financial leasing enterprises that were either approved by the China Banking Regulatory Commission ("CBRC") or the Ministry of Commerce People's Republic of China ("MOFCOM") are eligible for the financial subsidies / supports under the Measures. Generally speaking, financial leasing companies established by financial institutions are governed by CBRC and other leasing companies including the wholly foreign funded leasing companies are governed by MOFCOM.

Major financial subsidies/supports available to financial leasing enterprises include:

1. Financial leasing enterprise newly domiciled in Pudong New Area, it will be granted a one-off subsidy; the amount of the subsidy is dependent on the amount of the registered capital of the enterprise. A one-off subsidy is also available for the increase in the registered capital of the financial leasing enterprise domiciled in Pudong New Area. The cumulative amount of the subsidy under this category should not exceed RMB 1.5 million.
2. Housing subsidies equal to 1.5% of the purchase price for the office premises purchased and occupied by the new financial leasing enterprise.
3. The new financial leasing enterprise will receive some form of subsidies for its contributions to the Pudong New Area. The amount of the subsidies is dependent on the paid-up capital and other factors such as economic contributions, technology innovation, energy and pollution reduction and control, career opportunity, etc.

4. Subsidies will be granted for providing financial leasing services, in particular aircrafts and vessels, to the enterprises in the Pudong New Area. The amount of the subsidies is dependent on the annual business volume of the financial leasing enterprise provided that the annual business volume from the financial leasing business of the applicant should not be less than RMB 50 million.
5. Subsidies will be granted to financial leasing enterprises for purchasing the equipment (including aircrafts and vessels) manufactured by advanced assembling and manufacturing enterprises in the Pudong New Area. The amount of the subsidy is dependent on the contract value and the maximum amount should not exceed RMB 5 million per year.
6. There will be a registration fee allowance for the aircraft and vessels purchased by the new financial leasing enterprises. The allowance equal to 100% of the registration fee with a cap of RMB 100,000 / unit and the cumulative registration fee allowance receivable by a financial leasing enterprise should not exceed RMB 2 million per year.
7. Larger amount of the subsidies will be granted to subsidiaries of the financial leasing enterprises engaged in aircrafts and vessels finance lease business established in the Shanghai Free Trade Zones and Lujiazui Finance & Trade Area.
8. Financial leasing will be considered as the preferred financing option for any purchases in the new area by the Shanghai Government and investment projects by the Government including public facilities, infrastructure facilities etc, provided the terms and conditions are the same as the other financing methods.
9. The types and amount of subsidies granted to senior management, managers and key professional staff are dependent on the paid-up capital of their employers , their years of working experience and number of the eligible persons in the same enterprise.

Please note that the above only summarized the salient points of the Measures and the DIR. Please consult with PwC Shanghai for further details. The eligibility of the financial subsidies/supports is subject to the final approval from the Shanghai Pudong Government.

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Hong Kong

Hong Kong as a new transportation hub?

In a recent interview with the Financial Times, the new Chief Executive, Mr C Y Leung, was quoted as stating that the Government will do more to help local industries by using some of the Hong Kong's fiscal reserves which currently stands at well over six hundred billion Hong Kong dollars. He also mentioned Singapore's use of tax incentives to shore up its shipping industry, and set his sights on overtaking London as the centre for shipping services.

If what the Chief Executive actually meant was to further strengthen Hong Kong's position as the transportation hub in Asia, then the Government must include the aviation industry into its development plan.

To look at the Asia's aviation sector, it is forecast that there would be a strong demand for new aircraft through 2030, predominantly driven by the emerging markets. According to the estimates, 40% of the world's commercial fleet will be based in Asia Pacific by 2030, and China alone will be operating over 5,500 aircraft. As a result, there would be significant needs for aircraft financing in order to meet the rapidly growing aircraft demand. Amongst the various types of aircraft financing, lease financing has grown substantially over the years. According to Boeing, approximately 40% of the global air fleet today are financed with leases, which is compared to less than 1% forty years ago.

Such increase in aircraft demand and reliance on lease financing has presented an attractive opportunity for global aircraft lessors to increase their presence in China in order to tap into the world's fastest growing aviation market. As a result, many aircraft lessors are considering developing an Asian aerospace hub, outside the traditional jurisdictions like Ireland and the U.S. to capture this potentially lucrative opportunity.

Critics have often indicated that the options for global aircraft lessors to set up their Asian operations include Hong Kong, Singapore and China. Indeed, Singapore has taken a major step to provide a favourable tax regime and policy incentives for aircraft lessors to operate in Singapore. We are aware that a number of global aircraft lessors have been considering setting up their Asian operations in Singapore, which is clearly working to the detriment of Hong Kong.

For Hong Kong to compete in this arena, it is important that the Government leverages on our existing advantages as being the gateway into China, our mature financial system, stable political environment and well-developed legal system. However, what is paramount is that the Government should revisit our existing tax rules and policy incentives to improve the overall business environment for aircraft lessors intending to operate in Hong Kong. This would not only help Hong Kong maintain its competitiveness as Asia's key transportation hub, but also further strengthen our position as a major international financial centre.

Key issues to note:

- Aviation Industry is forecast to be a growing industry in Asia, especially China
- Aircraft leasing has become an extremely important source of funding for this industry
- The increase in aircraft demand and reliance on lease financing has presented attractive opportunities to global aircraft lessors
- Hong Kong has a unique advantage as the gateway into the China market
- Singapore has already taken a major step to provide a competitive tax regime and incentives for aircraft lessors
- With appropriate tax rule changes and policy incentives, Hong Kong can utilize its unique position as the gateway to China to attract aircraft lessors to set up their operations in Hong Kong, thus generating additional tax revenues and further strengthening the position as a major international financial centre

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Japan

Tax legislation update for 2012 tax reform

On August 10, 2012 the “Tax Hike Bill” related to social security reforms was approved in the upper house of the Japanese Diet. Since the bill was submitted to the Diet on March 30, 2012, various political debate occurred with regard to the proposed amendments to the Consumption Tax Law, which delayed passage of the bill.

This Japan Tax Update provides a summary of the amendments in the Tax Hike Bill.

1. Overview of the amendments in the Tax Hike Bill

Submitted for the purpose of securing revenue to fund the increased cost of social security the “Tax Hike Bill” related to social security reforms – including amendments to the Consumption Tax Law – was approved in the upper house of the Japanese Diet on August 10, 2012 and will be effective on April 1, 2014.

Under the amendments, the consumption tax rate will be increased from the current 5% rate to an 8% rate on an interim basis and finally to a 10% rate (8% will apply from April 1, 2014, with 10% applying from October 1, 2015), and the tax exemption status for newly established small- and middle-sized enterprises (SMEs) will not be applicable to a subsidiary of a large corporation where such subsidiary is established on or after April 1, 2014.

Other reforms which were previously in the Tax Hike Bill relating to income tax and inheritance tax and gift tax were dropped from the final bill.

2. “Tax Hike Bill” to address Social Security Reform

1) Amendments to the consumption tax law

a) The consumption tax rate will be increased to 10% in two steps.

Transaction date (Note)	Tax rate
~ March 31, 2014	5%
~ April 1, 2014 ~ September 30, 2015	8%
October 1, 2015 ~	10%

Note: The relevant rate should be applied to the transfer of assets, the provision of services in Japan, and the importation of taxable products on or after the respective effective dates. For certain types of asset transfers or service transactions, transitional rules have been provided.

b) The tax exemption for newly established SMEs* (the “NESME”) will not be applicable if the following requirements are met:

- As of the beginning date of either of the first two fiscal years of the NESME, it is majority owned by a large corporation group – i.e., a group where any group member has annual sales exceeding 500 million yen in the Base Period (generally the fiscal year two years prior to the current fiscal year), and
- the NESME (other than a corporation established with a social welfare purpose) is established on or after April 1, 2014

c) To implement the increase in tax rate, transitional rules have been provided for certain types of asset transfers or service transactions.

Type of transaction	Cases where the current rate is applied
Freight charges, admission, etc. (services provided to the general public)	For physical payments before April 1, 2014 where service provision will occur on or after April 1, 2014, the charge is subject to the 5% tax rate.
Construction / manufacturing contracts	Where contract is entered into during the period from October 1, 1996 to September 30, 2013 but the transfer assets occurs on or after April 1, 2014, the consideration is subject to the 5% tax rate. (For any increased portion of consideration agreed on or after October 1, 2013, the new rate is applied)
Lease contracts	Where, contract is entered into during the period from October 1, 1996 to September 30, 2013, the actual lease occurs before April 1, 2014 and continues on or after April 1, 2014, the consideration is subject to the 5% tax rate. (For lease payments changed on or after October 1, 2013, the new rate is applied)
Instalment sales contracts	Where instalments are due on or after April 1, 2014 pursuant to an instalment sales contract entered into before April 1, 2014, such payments are subject to the 5% tax rate (interest portion is not taxable).
Long-term large construction contracts	For contracts entered into during the period from October 1, 2013 to March 31, 2014 but deliver occurs on or after April 1, 2014, the consideration (for the portion earned up to March 31, 2014) is subject to the 5% tax rate.

2. Measures to implement the above amendments

To lessen the impact of the increase in the tax rate on the lower income class of people, it will be considered further as to introducing a new income tax deduction for consumption taxes paid, as well as addressing the multiple layers in the existing consumption tax rate system.

3. Certain Amendments regarding Income Tax and Inheritance Tax

In the initial bill, certain amendments in regard to both income tax and inheritance / gift tax (increase in highest individual income tax rate from 40% to 45%, reconsideration of the basic deduction, review of inheritance tax brackets, etc.) were proposed. These proposed amendments ultimately were dropped from the final bill. However, the final bill states that these measures will continue to be considered and will be addressed during the 2012 fiscal year.

Taking into consideration that financial income will be subject to a 20% flat tax (including local tax) from January 1, 2014, the taxation method on income earned from bonds as well as the scope of income and loss sum-up rule shall be reviewed during the fiscal year of 2012. Further, the current salary income deduction rule will also be reviewed.

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Korea

Clarification of taxation of equipment rental income of a non-resident

In Korea, royalty and rental income of non-resident is subject to different withholding tax rate under the domestic tax law.

Under the Korean Corporate Income Tax Act ("CITA"), royalty paid to a non-resident from Korea is subject to withholding tax at 22% (including local income tax). On the other hand income derived by a non-resident from a rental of ship, aircraft or industrial, commercial or scientific equipment to a Korean resident or Korean permanent establishment of a non-resident ("equipment rental income") is treated as Korean source income and subject to withholding tax at 2.2% (including local income tax).

However, under most treaties entered into by Korea, income from industrial, commercial or scientific equipment is generally treated as a royalty and subject to a reduced rate ranging from 0% to 15%.

Since the domestic tax rate of 2.2% applied to equipment rental income is generally lower than the treaty rate for royalty (0% ~ 15%), equipment rental income arising in Korea has been assessed at 2.2% in practice where the rate was lower than the treaty rate.

Under the Law for the Coordination of International Tax Affairs ("LICTA") which is a special act for international transactions, the treaty overrides domestic tax law in the classification of Korean source income and where the domestic withholding tax rate differs from the reduced tax rate under the treaty, the lower of the two rates is to be applied in the case of interest, dividend or royalty. However, there is no such rule in the case of equipment rental income.

Under the proposed Korean tax law amendment announced on August 2012, equipment rental income of a non-resident is withheld at the relevant treaty rate even if the domestic withholding tax rate is lower than the treaty rate where the equipment rental income is treated as a royalty under the tax treaty.

We understand that the reason for this proposed change is to ensure equitable taxation with regard to the equipment rental income between Korea and other Contracting States which tax such income as a royalty.

The proposed change will be effective from 1 January 2013 if the proposal is passed by the Korean assembly.

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Philippines

Go For Green

The Philippine economy has remained relatively insulated from the impact of the global economic crisis, registering record-breaking stock indices and earning near-investment grade credit ratings over this past year. Notwithstanding this and the unprecedented investment approvals of over Php 368 billion reported by the Board of Investments last year, the government remains committed to increasing foreign inbound investments.

Recognizing the need to address the issue of climate change, the government has included Green Projects in its Investment Priorities Plan (IPP) since 2010. The IPP is an annual list of promoted investment areas eligible for government incentives.

Qualified investors could thus register a Green Project and be entitled to various incentives such as Income Tax Holidays ranging from four to six years, with a possible three-year extension up to a total of eight years subject to conditions; tax and duty-free importations; and tax credits on domestically-sourced supplies, raw materials and capital equipment, among others.

Under the 2012 IPP, Green Projects cover the manufacture/assembly of goods and the establishment of energy efficiency-related facilities (such as district cooling systems), utilization of which would significantly lead to the efficient use of energy, natural resources or raw materials; or reduction of pollution or greenhouse gas emissions. To qualify for incentives, the assembly operations must be integrated with the manufacture of at least one part/component for use in the assembly.

Moreover, registration of Green Projects will only be granted if they do not fall under any other provisions of the IPP. This may have been one reason why only a handful of projects have been registered under the Green Projects provision. To the extent possible, most projects utilizing green technology have availed of incentives under other provisions.

Given the relative novelty of the Green Projects provision, there is no hard and fast rule as to the manner by which a proponent may prove that a project qualifies as a Green Project. Government examiners generally keep an open mind on what evidence would sufficiently show the green nature of a project. Currently, heavy reliance is placed on authoritative third party assessments. Depending on the activity, process or product involved, government agencies such as the National Economic Development Authority, Department of Science and Technology, Department of Energy, and Department of Environment and Natural Resources are often consulted. Internationally recognized standards such as ISO 14001 certifications may also be taken into consideration in assessing the green nature of a project.

Investors with a view to environmental sustainability may therefore explore the possibility of securing valuable incentives by investing in Green Projects in the Philippines. Given the current reliance placed on third party opinions, applicants should consider preparing third party materials that support the green nature of their technology to increase their chances of approval.

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Singapore

An attractive leasing hub

The Singapore Government has been apt in identifying market trends with the objective of advancing its economies. At the same time, Singapore has good infrastructure to support business operations and it is a sound and stable location for business expansion.

Beside the fundamental aspects of Singapore, the following tax attributes support Singapore in becoming an attractive place for leasing operations.

General

In Singapore, tax is assessed on income accruing in or derived from Singapore, or income received in Singapore from sources outside Singapore by a Singapore resident or a permanent establishment (certain exemptions apply). In the absence of any tax incentive, the income is assessed at the prevailing corporate tax rate (currently, 17%).

Incentives

Aircraft Leasing

Aviation leasing companies in Singapore can enjoy the benefits of the Aircraft Leasing Incentive Scheme (ALS).

It offers a five or ten percent tax rate for qualifying income from aircraft or aircraft engines leasing and related activities. Once granted, it will be available for five years and may be renewable thereafter for another five years.

A withholding tax exemption for interest and qualifying payments on loans obtained before 31 March 2017 to finance the purchase of aircraft or aircraft engines is attached to this incentive.

The ALS is available for application to the Economic Development Board of Singapore up to 31 March 2017. The awarding of the ALS generally comes with economic commitments towards Singapore, such as projection on employment of professionals and business spending.

Maritime (Ship and Container) Leasing

Several benefits are available to companies undertaking ship or container leasing activities under the Maritime (Ship and Container) Leasing Incentive (MSI-ML(Ship) or MSI-ML (Container)). Please refer to the table below for the applicable corporate tax rates under the incentives.

Approved entities can also enjoy automatic withholding tax exemption on qualifying payments in certain circumstances up to 31 May 2016. For approved lessors with the MSI-ML (Ship) incentive that satisfies the relevant conditions, the withholding tax exemption is available on qualifying foreign loans used to purchase or finance Singapore-flagged or foreign-flagged ships. For approved MSI-ML (Container) incentive holders that satisfy the relevant conditions, the withholding tax exemption is available on purchase of qualifying containers and intermodal equipment.

The array of benefits includes:

Approved shipping investment enterprise	Tax exemption for qualifying income from leasing activities for sea-going ships for use outside Singapore port limits.
Approved container investment enterprise	Concessionary tax rate of five or ten percent for income from container and intermodal equipment leasing.
Approved shipping investment manager	Concessionary tax rate of ten percent for qualifying income from managing of vessel portfolio of an approved shipping investment enterprise.
Approved container investment manager	Concessionary tax rate of ten percent for qualifying income from managing of an approved container investment enterprise.

The above scheme is administered by the Maritime Port Authority of Singapore and available for application subject to satisfaction of certain substance requirements. The sunset clause on the application period for the MSI-ML (Ship) and MSI-ML (Container) award is 31 May 2016.

Offshore Leasing

Income derived by a leasing company in Singapore from offshore leasing activities of certain plant or machinery is taxable at ten percent. The leasing company may elect for its income to be taxed at prevailing corporate tax rate.

Offshore leasing is generally define to mean the leased asset is used offshore and the lease payments are denominated in non-Singapore dollars and is not deductible against income accruing in or derived in Singapore.

Withholding taxes

Rental payments made to non-residents for the use of movable property is subject to withholding tax at the rate of 15% unless the relevant tax treaties provide for reduced rates.

Singapore has however built up a strong tax treaty network of about 70 jurisdictions in which it will be able to lease equipment or movable property on favorable terms. In general, leasing income is regarded as “royalty” under Singapore treaties and a reduced tax rate of 5% to 10% applies.

Notwithstanding the above, lower domestic withholding tax rates may apply as follows.

- Time, voyage and bareboat charter fees on aircraft payable to non-residents are subject to reduced withholding tax of 0% to 2%.
- Time, voyage and bareboat charter fees on ships payable to non-residents are exempt from withholding tax.

Summary

Singapore provides an attractive and tax efficient environment to carry on leasing operations by providing a beneficial tax rate for the leasing company as well as easing the withholding tax burden on lessees for aircraft, ships and containers. Although the incentives appear straightforward, there are certain nuances under these schemes that may create complexities for those without professional guidance in applying the regime.

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