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Business Tax Alert
Keeping you informed

Greetings from your tax team at Deloitte Singapore. We are pleased to update you on the following Singapore tax development:

Enhancements to the Singapore's Finance & Treasury Centre (FTC) Scheme

The Finance & Treasury Centre (FTC) scheme was extended to 31 March 2021 during Singapore's 2016 Budget.

Background of the FTC scheme

Prior to the Budget announcement, the FTC scheme accorded:

- Reduced corporate tax rate of 10% on fees, interest and gains derived by a FTC from conducting qualifying activities on its own account or providing qualifying services to

approved offices and associated companies [collectively, approved network companies (ANCs)]
- Withholding tax exemption on, amongst others, loan interest paid by the FTC to overseas banks and non-resident ANCs, provided that the funds from the loans are used by the FTC to conduct qualifying activities or services

Funds used by the FTC for carrying out its activities must be obtained directly from qualifying sources, otherwise neither the concessionary tax rate nor the withholding tax exemption apply on income derived and interest payments respectively. Qualifying sources include funds obtained from financial institutions in Singapore, banks or non-bank financial institutions outside Singapore and internally-generated funds (i.e., profits from operations, etc.,) from ANCs.

Enhancements to the FTC scheme

The extension of the FTC scheme sunset date to 31 March 2021 was accompanied by the following enhancements:

- Concessionary tax rate on qualifying income of the FTC is reduced to 8%
- Withholding tax exemption is extended to interest payments on deposits placed with the FTC by overseas ANCs (provided funds are used by the FTC for the conduct of qualifying activities or services)

The ‘qualifying sources of funds’ rule remained, but was expanded to include funds obtained indirectly by the FTC from qualifying sources.

On 1 June 2016, the Singapore Economic Development (EDB) issued a circular which provided additional details on the enhanced FTC scheme.

Deloitte Singapore’s view

Based on the circular issued by EDB, our main observations are:

- The new rate is available to new FTC applications and renewals

- Taxpayers enjoying the existing FTC award may be able to apply for an early renewal to qualify for the reduced 8% tax rate. If approved by the EDB, the taxpayer should be expected to commit to a higher level of financial and manpower resources in Singapore
- The circular did not provide information on the substantive requirements to qualify for new/enhanced 8% concessionary tax rate on qualifying income. The previous scheme's indicative eligibility criteria were:

  - Annual total business spending of S$750,000;
  - 3 professional staff employed by the FTC; and
  - 3 qualifying FTC services to 3 or more network companies

  Based on discussions with the EDB, we believe that these substantive requirements should still be met as a minimum. While it is yet to be seen whether the authorities will require, for instance, higher headcount requirements, one can reasonably expect higher demands for total business spending (as a proxy for investment commitment). Lastly, the EDB may focus more on the quality of services performed by the FTC in Singapore, with applicants that perform higher value-adding services such as the provision of corporate finance advisory services being looked upon more favorably than one that performs primarily 'back-office' functions such as general management and administration.

- The relaxation of the 'qualifying sources of funds' rule to include funds obtained indirectly by the FTC will benefit multinationals that operate multiple cash pools globally. On this point, the EDB circular envisages a scenario whereby funds are consolidated in a regional FTC before being deposited into a Singapore FTC, the latter functioning as the group's Global Treasury.
- The administrative requirement to ensure that the Singapore FTC's activities are funded by qualifying sources of funds remain, and going forward may become more onerous since funds may flow through multiple entities before arriving at the Singapore FTC.

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