



## Singapore Business Tax developments

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We are pleased to share the following with you.

#### **Economic Expansion Incentives (Relief From Income Tax)(Amendment) Act 2020**

The Economic Expansion Incentives (Relief from Income Tax)(Amendment) Act 2020 (Amendment Act 2020) came into operation on 15 June 2020. Prior to enactment, the Bill was passed in Parliament on 26 March 2020 with the President's assent on 27 April 2020.

Amongst others, the Amendment Act 2020 provides for the framework for the transfer of tax incentive awards between companies and the enhancement of the Investment Allowance (IA) scheme.

The salient points are as follows: -

Provisions	Points
Framework for the transfer of tax incentive awards between companies	A new Part IV was introduced in the Amendment Act 2020 which allows the Minister to transfer existing tax incentive awards under the Economic Expansion Incentives Act (Relief from Income Tax) (EEIA), in whole or in part, from a company (i.e., transferor company) to another company (i.e., transferee company) as a result of

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corporate amalgamation, mergers or corporate restructuring. The incentive schemes would cover the Pioneer Industry Award, the Pioneer Service Award, and the Development and Expansion Award.

*Application for transfer of award*

The application for transfer must be made in writing and the Minister may approve the application if the Minister is satisfied that:

- (i) The transferee company is or will be producing the subject product, or is or will be engaging in the subject activity because of a transfer or proposed transfer to the transferee company of any business of the transferor company to which the subject award relates; and
- (ii) It is in the public interest to approve the transfer.

In approving the application for transfer, the Minister may:

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<b>Transferee company</b>	Impose on the transferee company as conditions of the award given to it any conditions that the Minister thinks fit, which may be the same as or different from the conditions imposed on the transferor company for the subject award.
<b>Transferor company</b>	If the transferor company continues to produce any pioneer products or continues to engage in any qualifying activity under the respective subject award, the Minister may also add, vary or remove any conditions imposed on the transferor company for the subject award.

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In addition, the Minister may make the following in a transfer application that relates to development and expansion award: -

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<b>Transferee company</b>	Specify the base income amount of the transferee company for the subject activity for the Year of Assessment (YA) for which approval is given and subsequent YAs which may be the base income of the transferor company for the subject activity immediately before the specified date or any other amount that the Minister thinks fit.
<b>Transferor company</b>	Substitute, with effect from the YA for which the approval is given and

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subsequent YAs, the base income of the transferor company for any qualifying activity under the subject award that it continues to engage in on or after the specified date mentioned, with any amount that the Minister thinks fit.

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The Minister may require the transferee company to apply for a new application of the tax incentives instead of approving the transfer.

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Enhancements of the IA scheme	<p>There are two enhancements made to the IA scheme:</p> <ul style="list-style-type: none"><li>(i) First, the IA scheme will be extended to corporate partnerships. IA previously can only be awarded to a company, but not a corporate partnership. A corporate partnership refers to a partnership, limited liability partnership or limited partnership comprising solely of partners that are companies.</li><li>(ii) Second, the list of qualifying projects under the IA scheme has been expanded to include the construction and operation of any submarine cable system with at least one landing station in Singapore, and any such landing station. This will strengthen Singapore's position as a leading digital connectivity node.</li></ul>
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### Deloitte Singapore's views

The ability to transfer tax incentives between companies is a welcomed move for local and multinational companies who may be looking to restructure during this period of time. However, the transfer of tax incentives is currently limited to the tax incentives that are under the EEIA, and not the tax incentives under the Income Tax Act (ITA). This would mean that the considerations for companies looking to transfer businesses that are currently enjoying tax incentives under the ITA remains unchanged, i.e., the transferee company will need to apply for a new incentive with a new set of incentive commitments.

There may be added considerations for companies looking to transfer the Development and Expansion Award. The framework for the transfer of tax incentives will allow the transferee company to step into the shoes of the transferor company as though the transferor company had remained on the incentive. This also means that the incremental concessionary tax rate of 0.5% from Year 11 onwards would apply accordingly. This is in comparison to a new award holder which could enjoy the baseline concessionary rate of 5% or 10% for up to 10 years before any step-up would be applicable. Other factors that can add to the complexity of transferring the development and expansion award include implications of the base income and incentive conditions to both the transferor and transferee companies. Therefore, companies need to carefully

consider whether a transfer of existing incentive or a new application is more advantageous.

The extension of the IA scheme to corporate partnerships will be well-received in an evolving business environment where partnership structures are getting progressively common, especially for the co-ownership of assets between companies. The IA enhancements will also be beneficial in large capital investment projects, such as in the investment of submarine cable systems, where the investment could be undertaken by consortiums that are structured in the form of corporate partnerships.

## Contacts

For more information on the above or any other matters, please contact either the listed contacts below, or any member of the [Singapore Tax & Legal team](#).

**Low Hwee Chua**  
Tax & Legal Leader  
Deloitte Singapore

+65 6216 3290  
[hwlow@deloitte.com](mailto:hwlow@deloitte.com)

**Daniel Ho**  
Tax Partner  
Deloitte Singapore

+65 6216 3189  
[danho@deloitte.com](mailto:danho@deloitte.com)

**Ong Zhong Teck**  
Tax Manager  
Deloitte Singapore

+65 6800 1998  
[zong@deloitte.com](mailto:zong@deloitte.com)

**Lee Tiong Heng**  
Tax Partner  
Deloitte Singapore

+65 6216 3262  
[thlee@deloitte.com](mailto:thlee@deloitte.com)

**Yvaine Gan**  
Tax Director  
Deloitte Singapore

+65 6531 5090  
[yvgan@deloitte.com](mailto:yvgan@deloitte.com)



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