



NATARAJAN & SWAMINATHAN LLP
A MEMBER FIRM OF KNAV INTERNATIONAL LTD



RECENT CHANGES IN
TAX & FINANCIAL
SERVICES IN SINGAPORE
WEDNESDAY, 5TH FEBRUARY, 2025.



TIME 5.00PM

Scan the QR Code for the
Teams Meeting Link



SPEAKER

MR. R NARAYANA MOHAN

Senior Partner, Natarajan & Swaminathan LLP
Chartered Accountants of Singapore.
PAST CHAIRMAN of SICCI is inviting you to a
scheduled Teams meeting.

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- ❖ Funds manager & Tax Incentive Schemes for funds (13D, 13O, 13U)
- ❖ Income Tax : Tax Treatment of Gains and Losses from the Sale of Foreign Assets sec 10(L)
- ❖ Meaning of Economic Substance Requirements in Singapore
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OECD and definition of Multinational Enterprise

OECD

- ❑ **Organisation of Economic Co-operation and Development, a global body (140 member countries), along with G-20 countries have agreed on a landmark, during the year 2021, to address the tax challenges arising from the digitalisation of the economies have come out with various regulations for all member countries to follow.**
- ❑ **OECD and G-20 countries adopted a 15-point action plan to address BEPS (Base Erosion and Profit Shifting)**
- ❑ **Reform International Taxation rules and ensure that Multinational Enterprises pay a fair share of tax which ever county they operate and generate profits in this digitised world.**

OECD AND DEFINATION OF MULTINATIONAL ENTERPRISE

Multinational Companies - definition

- ❑ **Multinational Companies with an annual global turnover of more than 750 million EUROS (S\$ 1.1 B). In the consolidated financial statements of the ultimate parent entity in at least 2 of the four fiscal years immediately preceding the tested Fiscal Year**
- ❖ **Consolidated revenue of the Group – Intra-group transactions are excluded from consolidated revenue**
- ❖ **Minority Holding – Include revenue attributable to minority interest holding**
- ❖ **Excluded Entity – Include revenue o Excluded Entity**
- ❖ **Two of four Fiscal Years (current year is excluded from the Four year calculation)**

FATF – Financial Action Tax Force – Recommendations

The FATF and OECD are separate organisations. Although the member countries overlap to a large degree, there are several countries which are members of the FATF but not the member of OECD and vice-versa or maybe members of both.

FATF has come out with International Standards on combatting money laundering and the financing of terrorism & proliferation

- **40 recommendations have been made for member countries to follow.**
- **Grade 1 countries which have complied with the recommendations are in this list. They have blacklisted countries (North Korea, Myanmar and Iran) due to sanctions. Also placed some countries on grey-list (22 countries are in grey-list as they are yet to comply or not complying with the regulations)**

OECD –Pillar 1 Singapore Compliance

Under Pillar 1, the allocation of taxing rights on corporate profits between countries is being transformed.

MNC – avoid paying taxes - BEPS (Base Erosion and Profit Shifting)

- ❑ Relates to tax planning strategies that multinational enterprises use to exploit loopholes in tax rules to artificially shift profits to low or no tax locations, as a way, to avoid paying tax.**

OECD –Pillar 1 regulations

- ❑ Applies to multinationals - will allocate certain amounts of taxable income to market jurisdictions, resulting in a change in effective tax rate and cash tax obligations, as well as an impact on current transfer pricing arrangements.**
- ❑ CBC reporting – (Country by Country reporting) – Aggregate data on the global allocation of income, profit, taxes paid and economic activity among tax jurisdictions in which they operate.**

OECD –Pillar 1 Singapore Compliance

Table 2. List of all the Constituent Entities of the MNE group included in each aggregation per tax jurisdiction

[illegible]

OECD – Pillar 1 Singapore Compliance

ANNEX – Template for CbC Report

Table 1. Overview of allocation of income, taxes and business activities by tax jurisdiction

[illegible]

OECD –Pillar 2 – Singapore Compliance

Pillar 2 - minimum corporate tax rate of 15% for multinational companies.

Definition - Establishes a global minimum corporate tax rate of 15% to prevent multinational companies from shifting profits to low-tax countries

Mechanism: If a company's effective tax rate in a jurisdiction falls below the global minimum, the country where the parent company is based is required to "top-up" the tax liability to reach the minimum threshold.

Impact: Aims to create a level playing field for corporate taxation, discouraging tax avoidance strategies and ensuring companies pay a minimum level of tax globally.

Singapore Compliance

Multinational Enterprise Top-up Tax and Domestic Top-up Tax

- **To comply with the Pillar 2 regulations, Singapore has introduced Multinational Enterprise Top-up Tax Act to enable multinational enterprises to pay the minimum tax of 15%. w.e.f 01.01.2025**
- **Pioneer status companies, global traders program companies and other companies enjoying tax benefits will be required to pay top-up tax to make it 15% corporate tax**

OECD –Pillar 2 – Singapore Compliance

Domestic Top-up Tax (DTT)

Definition: A general top-up tax applied at the global level to ensure that all MNEs meet the 15% minimum tax threshold, usually under the IIR or UTPR.

Purpose: Allows a country to retain tax revenue that would otherwise be collected by a foreign jurisdiction under the Income Inclusion Rule (IIR) or Undertaxed Profits Rule (UTPR).

Application:

- If a subsidiary of an MNE has an ETR below 15% in a specific jurisdiction, that jurisdiction can impose a DTT to meet the minimum tax requirement.
- This means the low-taxed profits are taxed domestically first before another jurisdiction applies the IIR or UTPR.

Advantage: Helps countries keep tax revenues within their borders rather than allowing them to be collected by the parent company's jurisdiction.

OECD –Pillar 2 – Singapore Compliance

Minimum Top-up Tax (MTT)

Definition: A general top-up tax applied at the global level to ensure that all MNEs meet the 15% minimum tax threshold, usually under the IIR or UTPR.

Purpose: Acts as a safety net when a country does not impose a DTT, ensuring that low-taxed profits anywhere in the group are taxed appropriately.

Application:

- If a country does not implement its own DTT, another jurisdiction (usually the country of the parent entity) can apply the MTT under the IIR or UTPR to collect the top-up tax.
- The MTT ensures that tax revenues are not avoided or deferred if the primary taxing jurisdiction does not impose the necessary level of taxation.

OECD –Pillar 2 – Singapore Compliance

Key Differences

Feature	Domestic Top-up Tax (DTT)	Minimum Top-up Tax (MTT)
Who imposes it?	The jurisdiction where the low-taxed entity is located.	A jurisdiction under IIR or UTPR (e.g., the parent entity's country).
Objective	Ensures top-up tax is collected locally rather than by a foreign jurisdiction.	Acts as a last resort if a jurisdiction does not levy a DTT.
Which rule applies?	Implemented voluntarily by a country to meet Pillar 2 requirements.	Applies when a DTT is not imposed, ensuring minimum taxation globally.
Who benefits?	The domestic government collects the top-up tax.	A foreign jurisdiction (e.g., parent country) may collect the tax instead.

Singapore - Tax Incentive scheme for Funds and Fund Managers

Funds managers

Fund manager means a company holding a capital markets services licence under the Securities and Futures Act 2001 for Fund Management or that is exempted under that Act from holding such a licence.

Tax incentive schemes for funds

Tax exemption to fund vehicles that are managed by Singapore-based fund managers, subject to the fulfilment of the schemes' conditions throughout the relevant period. The tax exemption is granted in respect of specified income (SI) derived by the fund vehicles from the funds managed by a fund manager in respect of designated investments (DI)

13D scheme - Exemption of income of prescribed persons arising from funds managed by a fund manager in Singapore henceforth referred to as “S13D scheme”

13O scheme - Exemption of income of approved companies arising from funds managed by a fund manager in Singapore henceforth referred to as “S13O scheme”

13 U scheme - Exemption of income arising from funds managed by a fund manager in Singapore henceforth referred to as “S13U scheme”

To support the growth of Singapore's asset and wealth management industry, the above-mentioned tax incentive schemes for funds are extended till 31 December 2029

Singapore - Tax Incentive scheme for Funds and Fund Managers

GST Remission

GST remission will continue to be available for qualifying funds that have satisfied the conditions under the respective S13D, S13O or S13U schemes as at the last of the fund's preceding financial year (FY). The scope of the GST remission remains unchanged, and the date has been extended till 31.12.2029

WHT Exemption

WHT exemption will continue apply to interest and other qualifying payments made to non-residents by qualifying funds. The scope of the WHT exemptions remains unchanged, and the date has been extended till 31.12.2029.

Tax Exemption

Tax exemption under the S13D, S13O and S13U schemes are available for the life of the funds., subject to them fulfilling the conditions of the respective schemes applicable in those basis periods.

Singapore - Tax Incentive scheme for Funds and Fund Managers

30 – 50 rule

If a fund has less than 10 investors, a resident non-individual investor may not own more than 30% of the fund. If a fund has 10 or more investors, a resident non-individual investor may not own more than 50% of the fund. If this investment limit is breached, a financial penalty will be imposed on all the investment income derived by the resident non-individual investor from the S130 fund

Aum – Asset Under Management - AUM in DI requirement (new)

The S130 non-SFO fund must have at least S\$5 million in AUM comprising investments in DI, as at the end of each FY.

Singapore - Tax Incentive scheme for Funds and Fund Managers

Business spending requirement (updated).

A Local Business Spending (“LBS”) requirement for each FY of the S13O non-SFO fund, tiered according to AUM in DI, will be introduced. This tiered LBS requirement replaces the existing annual Total Business Spending (“TBS”) requirement of S\$200,000.

Table A: Minimum tiered LBS for S13O & S13U non-SFO funds

AUM In DI as at the end of FY (S\$)	Minimum LBS for the FY (S\$)
AUM < 250 million	200,000
250 million ≤ AUM < 2 billion	300,000
AUM ≥ 2 billion	500,000

Income Tax : Tax Treatment of Gains and Losses from the Sale of Foreign Assets

Section 10L – Gain of sale of foreign assets

Gains from the sale or disposal by an entity of an relevant group of any movable or immovable property situated outside Singapore at the time of such sale or disposal or any rights or interests thereof that are received in Singapore from outside Singapore are treated as income chargeable to tax.

An entity is a member of a group, if its assets, liabilities, income, expenses and cash flows are included in the consolidated financial statements of the parent entity of the group.

Income Tax : Tax Treatment of Gains and Losses from the Sale of Foreign Assets

The following amounts of gains from the sale of gains or disposal of any foreign assets are treated as received in Singapore from outside Singapore.

1. Any amount from such gains that is remitted to, or transmitted, or brought into Singapore.
2. Any Amount from such gains that is applied in or to satisfaction of any debt incurred with respect of a trade or business carried out in Singapore.
3. Any amount from such gains that is applied to the purchase of any movable property which is brought into Singapore.

However, suppose an entity possess adequate economic substance in Singapore, in that case, gains from disposal of foreign assets, sales or disposal (excluding intellectual property rights) will not be subjected to tax.

Meaning of Economic Substance Requirements in Singapore

- 1. Manage and carry out its operations in Singapore, whether by its employees, third parties or group entities. (full time employees or other individuals managing the entity's operation) (qualification and experience of these employees)**
- 2. Possess adequate human resources and a physical premises for its operation in Singapore (an office in Singapore, share premises or outsourced service providers)**
- 3. Exercises effective management and control, board meetings and strategic resolutions passed in Singapore.**
- 4. Gains economic benefits, business expenditure relating to Singapore operations**
- 5. Key management and significant business decisions are made in Singapore.**

Meaning of Economic Substance Requirements in Singapore

- **Core Income-Generating Activities (CIGA):** The entity must conduct its primary revenue-generating activities in Singapore rather than outsourcing them to another jurisdiction.
- **Accounting and Financial Records:** The entity should maintain proper financial records, books of accounts, and supporting documents in Singapore to demonstrate compliance with economic substance regulations.
- **Regulatory Compliance:** The entity must adhere to Singapore's corporate governance and regulatory requirements, such as filing annual returns, financial statements, and tax compliance.
- **Local Tax Residency:** The entity should ensure that it qualifies as a tax resident of Singapore, typically demonstrated by having its control and management exercised within Singapore.

Meaning of Economic Substance Requirements in Singapore

- **Demonstration of Commercial Viability:** The business should have real commercial activities in Singapore, rather than existing merely for tax benefits or as a shell company.
- **Use of Singapore-Based Service Providers:** Where outsourcing is involved, the entity should rely on Singapore-based professionals, agencies, or corporate service providers to support its business functions.
- **Intellectual Property (If Applicable):** If the entity owns intellectual property (IP), it should demonstrate that IP management, development, or exploitation is actively conducted in Singapore rather than being held passively.

SINGAPORE – Recent changes to Company's Act and Accountant's Act

Singapore Companies Act 1967

- Failure to comply (Sec 201(5) of the Companies Act now carries a penalty of up to\$ 250 ,000 up from \$ 50,000 for offenses committed before June 30, 2023.
- CEO Mr. Miyoshi was fined \$ 22,400 by ACRA for not recognizing an impairment loss of\$ 16M on its equity investment in a foreign company, in their books.

Amendment to Accountant's Act

- Following the amendment to accountants act in 2022, ACRA has the power to inspect and impose sanctions on public accounting entities; to raise the standards in the industry.

UNITED KINGDOM – recent tax changes

The recent tax reforms in the UK including the abolition of the resident non-domiciled tax regime and tighter capital gain tax have prompted an exodus of wealthy individuals from UK.

❖ Resident- Overseas Income

Resident wealthy tax-payers were paying only £ 30,000 (Pound Thirty thousand only) annually for all their overseas income as per the Tax Regulations. After the Labour Party have taken over the government the Income Tax Law was amended to tax all the overseas income.

❖ The Capital Gains Tax

The short-term capital gains tax was increased from 10 % to 18% and the long-term capital gain was increased from 20% to 28%

INDIA

Audit Compulsory for Indian companies' subsidiaries established in Singapore

The RBI circular issued on 22.08.2022 state that all Indian resident/companies, when they make ODI investments overseas have to submit audited financial statement if they have major control over the overseas company and the annual return (APR) has to be submitted before 31st Dec of the year.

The details of the circular are as follows:

The APR shall be based on the audited financial statement of the foreign entity provided that where the person resident in India does not have control in the foreign entity and the laws of the host country or host jurisdiction, as the case may be, do not provide for mandatory auditing of the books of account, the APR may be submitted based on unaudited financial statements certified as such by the statutory auditor of the Indian entity or by chartered accountant where the statutory audit is not applicable.

A person resident in India acquiring equity capital in a foreign entity which is reckoned as ODI, shall submit an Annual Performance Report (APR) with respect to each foreign entity every year by 31st December.

INDIA

POEM – Place of Effective Management

This concept of Place Of Effective Management (POEM) is also introduced by OECD and India, a member of OECD. The Indian Tax authorities have amended sec 6 of Income Tax Act (which defines the source of income). If the management and control happen to be in India for any companies established overseas, are also treated as income earned in India

OECD /CBDT/ FEMA/RBI Circular /Principal Purpose Test (PPT)

The concept of PPT was introduced by OECD and agreed to by 140 countries including India. PPT provides that the benefit of tax treaty shall be available only if the purpose of a transaction was commercial and it has commercial substance. Any transaction entered into including investment made with one of the major purposes of tax avoidance will not be eligible for treaty benefit.