

Global Residence Program Group Project
Singapore

Topic: Benefits and advantages of Singapore's corporate income tax in attracting foreign investment

Overview: In this project, we will provide a comprehensive analysis of the country's taxation policies and their impact on the economy. We will explore the key benefits and advantages of Singapore's corporate income taxes, elucidating their structure and rates. Additionally, the paper will examine the effectiveness of Singapore's taxation strategies in attracting foreign investments and fostering economic growth. Through this in-depth exploration, we aim to shed light on the unique features of Singapore's tax system and its role in shaping the country's economic landscape.

Contents

1. Introduction: Overview of Singapore's Corporate Income Tax System

- Provide an introduction to Singapore's corporate income tax system.
- Briefly explain the tax rates, incentives, and overall framework of corporate taxation in Singapore.
- History of corporate tax system in Singapore

2. Advantages of Singapore's Corporate Income Tax for Foreign Investment

- Discuss the various tax incentives and benefits offered to foreign investors in Singapore.
- Highlight how these incentives attract foreign companies and investors to establish their presence in Singapore.
- Analyze case studies or real-life examples of companies benefiting from Singapore's tax policies.

3. Comparative Analysis: Singapore's Tax System vs. Other Jurisdictions

- Compare Singapore's corporate income tax system with that of other countries or regions known for attracting foreign investment.
- Highlight the competitive advantages of Singapore's tax policies compared to those of its regional or global counterparts.
- Discuss how Singapore's tax system contributes to its competitiveness as an investment destination.

4. Impact and Future Prospects

- Evaluate the impact of Singapore's corporate income tax system on the influx of foreign investment.
- Discuss the broader economic implications, such as job creation, technology transfer, and economic growth, resulting from increased foreign investment.
- Provide insights into the potential future trends or developments in Singapore's tax policies and their anticipated impact on attracting foreign investment.

1. Introduction: Overview of Singapore's Corporate Income Tax System

Singapore has emerged as a hub for ASEAN direct investments by advocating an open economy and fostering economic growth through various incentives and the establishment of a pro-business infrastructure to attract foreign investments. The Economic Development Board (EDB) of Singapore formulated plans encompassing foreign investments, industrial development, and investment enhancement to position Singapore as a global hub for trade and investment. As a result, 46% of global corporations' regional headquarters in Asia are located in Singapore, spanning across diverse industries. Many global companies have ventured into Singapore, leading the country to be ranked second globally by The World Bank for having an excellent business environment conducive to investment.

The current corporate tax system in Singapore is a direct tax imposed on corporate income, serving as a significant source of government revenue and exerting direct and indirect influences on investment and corporate activities. Reductions in corporate tax rates generally lead to increased investments through income and substitution effects, promoting economic growth. Moreover, in a scenario of free movement of capital between nations, lowering corporate tax rates reduces the capital cost for domestic investment compared to overseas investments, thus encouraging the inflow of foreign capital into the country. When global corporations choose their business locations, factors like market size, wage levels, political and social stability are crucial considerations, but relatively lower corporate tax rates act as a strong incentive. However, reductions in corporate tax rates may erode the government's revenue base, potentially deteriorating fiscal stability and constraining public sector investments. Nevertheless, if the reduction in corporate tax leads to a substantial increase in private investment and stimulates economic growth, it might expand the tax base in the medium to long term, thereby augmenting fiscal revenue.

Since the 2000s, major advanced countries competitively pursued corporate tax reductions, causing the OECD's average corporate tax rate to decline from 31.3% in 2000 to 25.5% in 2007. About 80% of OECD countries and, among non-OECD countries, notably, Singapore aggressively reduced corporate tax rates over five occasions since 2000, currently maintaining a rate of 17%. Following these reductions, Singapore's economy experienced a slowdown in growth and investment rates, yet it managed to maintain fiscal stability while witnessing an increase in foreign capital inflow, achieving the original policy objectives to some extent. Singapore's success in attracting foreign capital through corporate tax reduction was a result of the government's simultaneous efforts in actively relaxing regulations for business-friendly environments and pursuing an open policy. As part of its medium to long-term development plans, Singapore expanded Free Trade Agreements (FTAs), streamlined foreign entry through visa reforms, strengthened patent protection laws, offered tax incentives for intellectual property rights, reduced withholding taxes on fees paid to foreign companies, and introduced tax exemptions on repatriated overseas income, enhancing incentives for foreign investment.

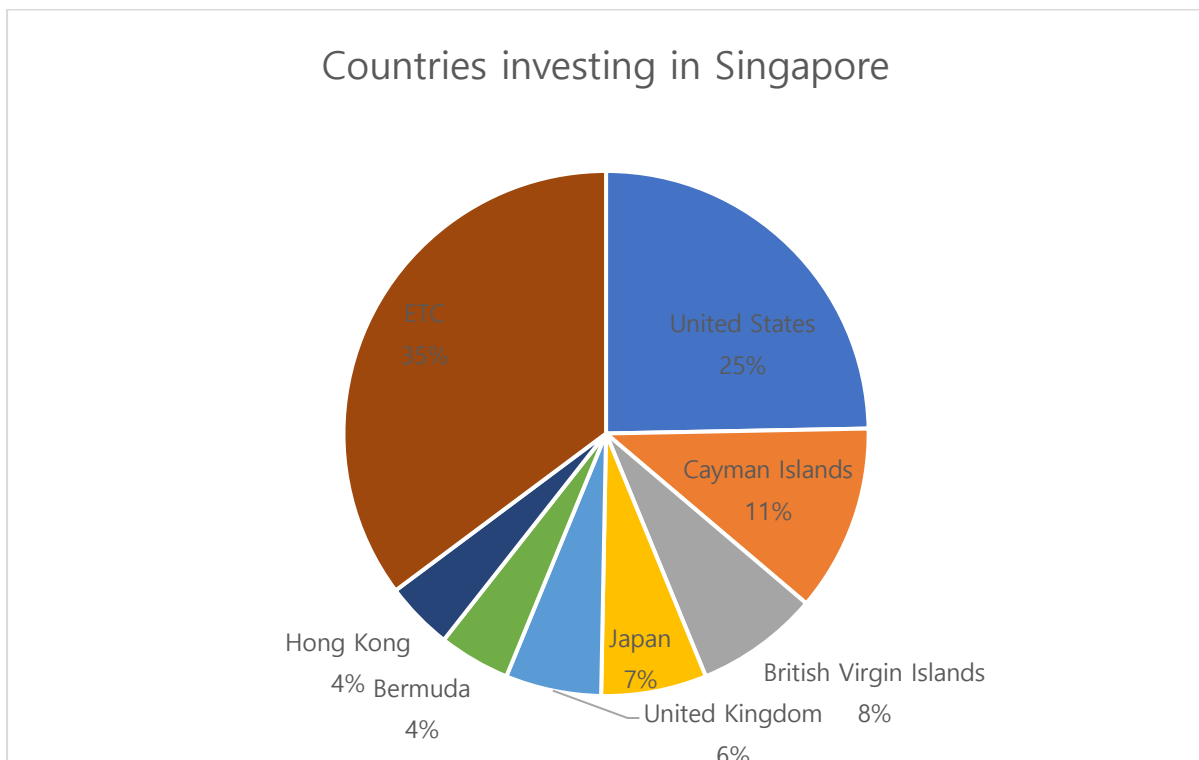
2. Advantages of Singapore's Corporate Income Tax for Foreign Investment

One of the notable pro-business policies of the Singaporean government is its tax policies. Singapore comprehensively considers industries, investment amounts, job creation, and business expenditure, providing either a full tax exemption for a basic period of 5 years or a reduction to 5-10% for eligible entities. The general corporate tax rate in Singapore stands at 17% (a flat rate). Capital gains arising from fixed assets are excluded from corporate tax, and there are no capital gains taxes, inheritance taxes, or gift taxes imposed on individuals, including investors. Furthermore, the investment support schemes for Singapore-based companies are available regardless of nationality. Singapore also implements systems that facilitate the establishment of businesses by foreigners, offering residency or simplified visa issuance, thereby reducing barriers to investment.

As a result of maintaining policies that reduce barriers to entry for investors and ensure maximum economic freedom for businesses, Singapore witnessed a notable influx of foreign direct investment (FDI) in 2021, recording an inflow of \$99.1 billion in flow terms, marking a 31.4% increase from \$75.4 billion in 2020. In 2021, Singapore received \$99.1 billion in FDI inflows, accounting for 6.3% of the total global FDI inflow, making it the world's fourth-largest recipient of foreign direct investment after the United States (\$367.4

billion), China (\$180.9 billion), and Hong Kong (\$140.7 billion). In terms of industries, investment in the financial and insurance sectors constitutes the largest share, accounting for approximately 55% of the total cumulative FDI, followed by wholesale and retail trade (14.8%), manufacturing (12.0%), and other services (10.6%).

Among the countries investing in Singapore, the United States holds the largest share at 24.7%, amounting to \$389.3 billion. Following the United States, other significant contributors include the Cayman Islands (11.5%, \$181.7 billion), the British Virgin Islands (7.6%, \$120.5 billion), Japan (6.5%, \$120.5 billion), the United Kingdom (5.9%, \$93.6 billion), Bermuda (4.4%, \$70.2 billion), Hong Kong (4.2%, \$89.8 billion), Switzerland (3.5%, \$54.5 billion), Canada (3.3%, \$51.6 billion), and Luxembourg (3.0%, \$47.2 billion), with South Korea ranking 15th at 1.3% (\$21.0 billion).



Singapore has established various preferential tax measures for investments under the Economic Expansion Incentives Act. While most of these tax incentives predominantly revolve around finance and trade, there also exists a considerably extensive range of incentives related to the manufacturing sector. The categories of benefits provided in different fields are as follows.

- Pioneering Industries and Services: Tax exemption for up to 15 years.
- Development and Expansion Incentives: More than 5% reduction in tax rates for periods under 20 years.

- Service Export: Tax exemption for a maximum of 10 years.
- Foreign Loans for Production Equipment: Tax exemption or reduction in tax rates.
- Corporate Investment Incentives: Tax deductions for losses.
- R&D and Intellectual Property Management Hub: Income tax exemption.
- Overseas Investment Incentives: Deferred tax payments for overseas losses.

These incentives are determined through negotiations with the Singapore Economic Development Board (EDB) and are primarily based on four factors: ① Total Business Spending, ② Investment Amount, ③ Job Creation, and ④ Nature of Business Activities (such as marketing, regional headquarters, R&D, manufacturing, etc.), comprehensively considered and decided upon. The scope of incentives is not restricted and is flexibly determined based on assessments of how a particular project contributes to economic development. For instance, tax exemptions can range from 0%, and the duration can span from 5, 10, 15 years to even longer periods.

There are several case studies showcasing how companies have benefited from Singapore's tax policies:

- Google: Google established its Asia-Pacific headquarters in Singapore in 2007, partly drawn by Singapore's favorable tax environment. The corporate tax rate of 17% and various tax incentives for research and development (R&D) and intellectual property (IP) helped Google save substantially on taxes, while the country's strategic location and business-friendly policies further supported its regional operations.
- Procter & Gamble: P&G's decision to set up its global operations hub in Singapore was influenced by the country's efficient tax system. Singapore's tax incentives for international trading companies and its Intellectual Property Development Incentive (IDI) program attracted P&G. The IDI scheme offers tax exemption on income derived from approved IP rights, encouraging companies like P&G to locate their IP activities in Singapore.
- Facebook: In 2010, Facebook opened its first Asia-Pacific office in Singapore. The country's stable political environment, strategic location, and favorable tax policies played a significant role in this decision. Facebook benefited from Singapore's corporate tax rates and the absence of capital gains tax, which supported the company's expansion plans in the region.
- Uber: Uber chose Singapore as its regional headquarters for Asia-Pacific operations in 2013 due to the nation's business-friendly environment and favorable tax policies.

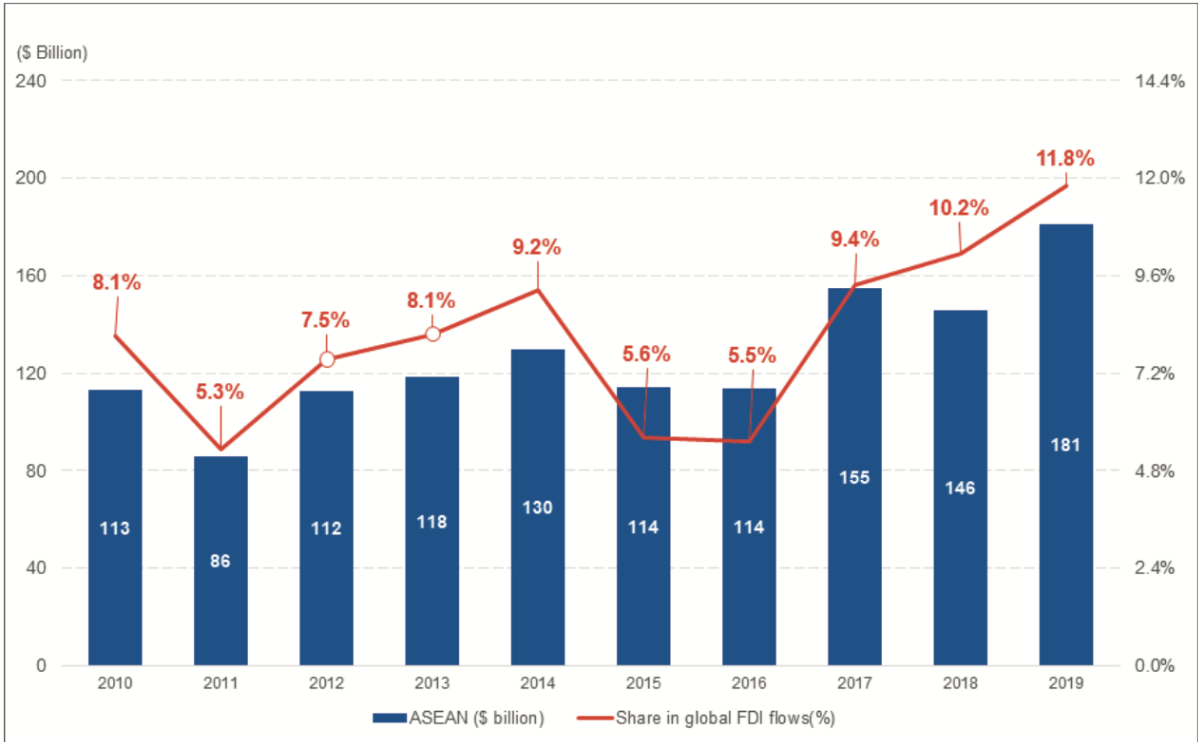
The corporate tax rate, along with various tax incentives for technology companies and startups, made Singapore an attractive destination for Uber's expansion in the region.

These examples highlight how multinational companies, attracted by Singapore's low corporate tax rates, tax incentives for specific industries like technology and innovation, and favorable business environment, have established regional headquarters or operations, leveraging these policies to enhance their global footprint while benefiting from tax savings and incentives.

3. Comparative Analysis: Singapore's Tax System vs. Other Jurisdictions

According to the KCI research paper, 'A study on motives of Inward FDI in ASEAN', the amount of foreign direct investment (FDI) inflows into the ASEAN region has shown a continuous upward trend since 2010, despite experiencing occasional declines during certain periods. As of 2019, the FDI inflow accounted for approximately 11.8% of the total global foreign direct investment, exhibiting an average annual growth rate of 5.4%. Particularly, from 2016 onward, there was a decline in global foreign direct investment, with decreased investment flowing into developed countries while the amount directed to developing countries continued to increase steadily. Among the FDI inflows directed towards developing countries, 50% of the total amount was directed to ASEAN countries.

ASEAN's foreign direct investment status



SOURCE: UNCTAD

As of 2019, Singapore accounted for over 63.1% of the total ASEAN inward foreign direct investment (FDI) inflow, followed by Indonesia, Vietnam, Malaysia, the Philippines, and Thailand, which are classified as middle-income countries in the region. Low-income ASEAN countries like Cambodia, Myanmar, Laos, and the relatively smaller-sized Brunei received around 4% of the total FDI inflow. Major countries contributing to FDI inflows into ASEAN include the United States, Japan, Singapore, Hong Kong, China, South Korea, and Taiwan.

Inflow Status of FDI from Advanced and Developing Countries



SOURCE: UNCTAD

The majority of ASEAN nations currently enforce corporate income tax (CIT) rates near the average of 23 percent, which has reduced from approximately 26 percent over the last decade. Singapore stands out among the 10 member states by imposing the lowest CIT rate at 17 percent on taxable income. Moreover, Singapore provides concessional tax rates to newly established companies through its partial tax exemption scheme. This scheme allows a company with a chargeable income of S\$300,000 to benefit from an effective tax rate of merely 8.36 percent, less than half of the standard CIT rate. The combination of a low CIT rate and additional incentives significantly reduces the effective tax rate, thereby lowering the overall cost of conducting business. Cambodia, Thailand, Vietnam, and Brunei also impose CIT rates for domestic and foreign investors below the average ASEAN rate. Conversely, the Philippines imposes the highest CIT rate at 30 percent on a company's taxable income.

The rate is determined by a myriad of factors including the priorities of government (whether more emphasis is placed on state revenue or investment), the nature of its economy (how reliant it is on foreign investment), the country's size, and its level of development.

The definition of what a corporation is and whether it is subject to CIT varies from country to country. While the specifics of each country's policies with regard to taxation should be monitored closely, tax residency can roughly be divided into the following three categories of treatment:

Corporate Tax Residency in ASEAN		
Type of Tax Residency	Definition	Countries where Applicable
Conducting Business	Some countries within ASEAN consider all companies conducting business within their borders to be liable for CIT payments. This is by far the most expansive definition of tax residency, allowing for the majority of businesses within a given jurisdiction to face tax obligations.	 Laos  Philippines  Thailand  Vietnam
Incorporation	Under this definition of tax residency, operations that have been incorporated within a given state's jurisdiction are liable to pay tax. This is a less expansive conception of taxation than simply conducting business within a country, but applies to the majority of those companies that choose to undertake production or investment within a given country.	 Indonesia  Myanmar
Exercising Control	The most limited definition that can be employed on the part of a country's tax authorities is that of exercising control. This generally involves having certain executives or owners of the company residing within the country or is tied to the holding of certain events, such as annual meetings, within the country. While this conception allows some businesses to avoid paying tax, the exercising of control may also be tied to the benefits of tax treaties and other benefits coming from the state in question.	 Brunei  Cambodia  Malaysia  Singapore

SOURCE: Asia Briefing Ltd.

Among ASEAN countries, Singapore stands out as an attractive destination for Foreign Direct Investment (FDI) due to several key factors:

1. **Strategic Location:** Singapore's location is advantageous, serving as a gateway to Southeast Asia and the larger Asia-Pacific region. Its connectivity by air, sea, and land makes it an ideal hub for international trade and commerce.
2. **Political Stability and Strong Governance:** The country maintains political stability, a reliable legal system, and a corruption-free environment, ensuring a safe and conducive business environment for foreign investors.
3. **Pro-Business Environment:** Singapore offers a conducive business ecosystem with low bureaucracy, efficient regulatory frameworks, ease of doing business, and a commitment to protecting intellectual property rights.
4. **Skilled Workforce:** It has a highly skilled and multilingual workforce, backed by quality education and training programs, providing a competitive edge for various industries.
5. **Tax Incentives:** Singapore's attractive tax regime, with a relatively low corporate tax rate of 17% and various tax incentives and schemes, makes it appealing for foreign investors.

This favorable tax policy in Singapore attracts both capital and talent from developed countries. For example, Eduardo Saverin, one of the co-founders of Facebook, renounced his U.S. citizenship in 2011 before Facebook went public. He reportedly took this action primarily for tax reasons. By doing so, he avoided a substantial capital gains tax upon the social media giant's IPO. This move allowed him to become a resident of Singapore, a country known for its favorable tax system. Singapore doesn't levy capital gains tax, which made it an attractive option for wealthy individuals seeking to manage their tax liabilities. Saverin's decision to move to Singapore was seen as a strategic move to minimize his tax obligations, given the more favorable tax environment compared to the United States.

4. Impact and Future Prospects

Among the many benefits and advantages of Singapore's corporate income tax system, these three main parts are crucial role to attract and positive impact on foreign investment as follows:

- **Competitive Tax Rates:** Singapore's 17% corporate tax rate, along with various

incentives and exemptions, attracts businesses to establish operations in the country.

- Tax Incentives: Singapore offers targeted incentives for R&D, financial services, and global trading companies, reducing the effective tax burden for qualifying businesses.
- Stability and Infrastructure: Singapore's political stability, efficient legal system, and robust infrastructure contribute to a conducive business environment.

These factors, along with Singapore's overall stability and strategic location, contribute to its appeal as a destination for foreign investors.

Increased foreign investment can have significant economic implications such as job creation, technology transfer and economic growth.

First, foreign investment leads to new business, creating jobs locally as well as growth in supported industries generates additional jobs in related sectors. Foreign companies also bring advanced technologies, improving local skills. In addition, research and development activities contribute to innovation and a knowledge-based economy. Lastly, productivity increase and infrastructure development can be expected. Modern production methods enhance productivity and economic output. Collaboration with local authorities improves infrastructure, supporting economic growth.

While these impacts are generally positive, effective management of foreign investment terms is crucial for long-term economic development aligned with local goals.

With current Singapore's corporate income tax system and its impacts, we could carefully expect the potential future trends or developments in Singapore's tax policies and their anticipated impact on attracting foreign investment.

As the digital economy continues to grow, Singapore may explore ways to address the taxation of digital services and transactions, ensuring that its tax policies remain relevant in the evolving business landscape. And there might be more focus on sustainability, with Singapore possibly giving tax benefits to businesses that adopt eco-friendly practices and technologies, supporting global environmental goals. To stay competitive in the tech-driven global economy, Singapore may enhance incentives for research and development, artificial intelligence, and emerging technologies, fostering innovation and technological advancements.

In conclusion, Singapore's corporate income tax system, with its low rates and strategic incentives, serves as a linchpin in fostering an investment-friendly climate. These policies, complemented by Singapore's overall business environment, facilitate job creation, technology transfer, and economic growth, cementing its position as a global investment hub. As Singapore continues to refine its tax policies, it is poised to sustain its allure and remain a magnet for foreign investors seeking a conducive and tax-efficient business environment.

<References>

Corporate income tax. (n.d.). MOF. <https://www.mof.gov.sg/policies/taxes/corporate-income-tax>

Briefing, A. (2021, January 6). Comparing tax rates across ASEAN - ASEAN Business News. ASEAN Business News.

Briefing, A. (2021b, January 6). Taxation in ASEAN: an Introduction - ASEAN Business News. ASEAN Business News.

Kyung, J. J. (2022). A study on motives of Inward FDI in ASEAN: Static and Dynamic Analysis.

O'Donnell, C. T. a. P. (2012, May 12). Facebook Co-Founder Saverin renounces citizenship. CNBC.