

Global Trader Programme and the Finance and Treasury Centre incentive



Global Trader Programme (GTP)

Overview

The GTP is administered by the International Enterprise (IE) Singapore, and is targeted at supporting global trading companies undertaking qualifying transactions in qualifying commodities and products. The objective is to attract companies to use Singapore as a base to conduct their international physical trading activities.

The GTP offers a concessionary income tax rate of 5 or 10 percent on qualifying income for a period of 3 (entry-level award) or 5 years (renewable, subject to approval). The scheme is available for application up till 31 March 2021.

The GTP is granted subject to meeting certain minimum qualifying criteria, negotiated and set by the IE Singapore. The quantitative requirements include minimum annual physical turnover, minimum annual local business spending and minimum trading professionals employed throughout the incentive period. There is an expectation of the GTP company to eventually perform strategic functions beyond international trading, such as strategic management, risk management, market research, product portfolio development, marketing and sales planning. There could also be other factors to be considered when evaluating the GTP application, like related party transactions and group manufacturing turnover.



Enhancement under Budget 2017

To facilitate and encourage more trading activities in Singapore and simplify the GTP, the GTP will be enhanced as follows:

- a) The requirement for qualifying transactions to be carried out with qualifying counterparties will be removed. Consequently, concessionary tax rate will be granted on income derived by approved GTP companies from qualifying transactions with any counterparty (including counterparties in Singapore);
- b) Concessionary tax rate will be granted to approved GTP companies on physical trading income derived from transactions in which the commodity is purchased for the purposes of consumption in Singapore or for the supply of fuel to aircraft or vessels within Singapore; and
- c) Concessionary tax rate will be granted to approved GTP companies on physical trading income attributable to storage in Singapore or any activity carried out in Singapore which adds value to commodity by any physical alteration, addition or improvement (including refining, blending, processing or bulk-breaking) (so-called "value-added activities").

The enhancements in (a) to (c) will apply to qualifying income derived on or after 21 February 2017 by approved GTP companies from qualifying transactions.

However, the substantive requirement to qualify for the GTP will be increased for new or renewal incentive awards approved on or after 21 February 2017. Further details will be released by IE Singapore by May 2017.

Our comments

Prior to 21 February 2017, GTP companies would have to segregate both buy and sell transactions with qualifying and non-qualifying parties, as well as exclude physical trading income arising from the following activities:

- Commodity purchased for consumption in Singapore or supply of fuel to aircraft or vessels within Singapore
- Storage or any activity in Singapore which adds value by physical alteration, addition or improvement

The need to track counterparties in both buy and sell leg of the transactions, trace the consumption destinations of certain commodities, and identify the local value add components in trading transactions, has posed practical challenges for many GTP companies.

The enhancements to the GTP have undoubtedly alleviated the administrative and compliance burden of GTP companies in support of a competitive and simplified tax incentive. Nonetheless, GTP companies should still pay attention to the classification of qualifying and non-qualifying income and expenses, as well as the allocation basis of indirect expenses, which continue to be a focus area of review by the Inland Revenue Authority of Singapore (IRAS).

The increase in substantive requirements is in line with Singapore's position as a Base Erosion and Profit Shifting (BEPS) Associate, in which Singapore has committed to align its tax incentives with the location of economic substance and nexus of value creation.

Existing GTP companies should review their internal controls, sales and purchase accounting and incentive compliance framework to benefit from the GTP enhancements. Companies looking at applying or renewing their GTP status should also evaluate their financial projections to assess their abilities to meet the increased substantive requirements, and have timely discussions with IE Singapore.



Finance and Treasury Centre (FTC)

Overview

The FTC incentive aims to encourage corporations to use Singapore as a base for conducting treasury management activities for themselves or for their affiliates in the region.

One key benefit of the FTC incentive is the concessionary income tax rate of 8 percent (as opposed to the prevailing corporate income tax rate of 17 percent) applied on the qualifying income derived by approved FTCs. To qualify for the concessionary income tax rate, the income would have to be derived from qualifying services and activities using funds from qualifying sources, such as funds obtained from financial institutions in Singapore, banks outside Singapore and approved network companies. The scheme is available for application till 31 March 2021.

An approved FTC is also eligible for withholding tax exemption on interest payments, such as on loans obtained from banks, non-bank financial institutions and approved network companies outside Singapore, provided the funds are used for its qualifying activities or services.

The FTC incentive period is limited to five years, with possible extension of another five years depending on the FTC's commitment to undertake further expansion plans in terms of its FTC activities / services and professional headcount.

Enhancement under Budget 2017

It was announced in Budget 2017 that the qualifying counterparties for certain transactions of approved FTCs would be streamlined to reduce

the FTCs' compliance burden. For instance, qualifying activities such as "transacting or investment in stocks and shares of companies which are neither incorporated nor resident in Singapore" has been revised to "transacting or investment in stocks and shares of any company".

The enhancement would apply to new or renewal FTC incentive awards approved from 21 February 2017.

Our comments

Currently, income derived from qualifying activities carried out and qualifying services rendered to its approved network companies by an approved FTC would qualify for concessionary tax rate.

"Qualifying activities" means certain activities carried out by an approved FTC on its own account involving qualifying counterparties, like foreign banks, overseas companies, or persons who are non-residents nor not having permanent establishments in Singapore.

"Qualifying services" means certain services provided in Singapore by an approved FTC to its approved network companies involving qualifying counterparties, like Singapore banks, or persons who are non-residents or not having permanent establishments in Singapore.

It is administratively cumbersome and sometimes difficult to obtain confirmation that the counterparties involved are qualifying counterparties for FTC purpose. The streamlining of qualifying counterparties for certain transactions of approved FTCs will reduce the administrative and compliance burden of the approved FTCs.



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How KPMG can help

KPMG's Enterprise Incentive Advisory unit is a specialised team made up of professionals with extensive experience assisting clients with incentive applications and negotiations, as well as with extensive experience formulating and administering incentives in previous roles in government agencies.

With our experience, we can assist your business in the following areas:

- Assess whether your business meets the qualifying conditions to benefit from the GTP and the FTC incentive, taking into consideration your company's financial projections and business plan for the Singapore operations.
- Liaise and negotiate with relevant authorities for the initial incentive application as well as the renewal of the incentive on behalf of the company.
- Review your internal controls and processes with a view to benefit from the enhancements introduced in Budget 2017.

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