Date: 1 June 2016

ENHANCEMENTS TO THE FINANCE & TREASURY CENTRE SCHEME

1. Aim

1.1. This circular sets out the details of the enhancements to the Finance & Treasury Centre ("FTC") scheme announced in Budget 2016.

2. Treatment before Budget 2016

2.1. Before 25 Mar 2016, an approved FTC[1] enjoys a concessionary tax rate of 10% on income that is derived from approved —
- (a) qualifying activities[2] carried out on its own account, or
- (b) qualifying services[2] provided to its approved network companies ("ANCs"), which refers to —
  - (i) approved offices and associated companies outside Singapore; or
  - (ii) offices and associated companies in Singapore approved on or after 18 February 2005.

2.2. To qualify for the concessionary tax rate, the FTC must obtain funds directly from qualifying sources such as financial institutions in Singapore, banks outside Singapore and ANCs.

2.3. To facilitate the operations of an approved FTC, tax exemption[3] is granted on –
- (a) interest on loans obtained directly by the approved FTC from banks, non-bank financial institutions and ANCs outside Singapore;
- (b) interest on bonds held by persons who are not tax resident in Singapore;
- (c) loan rebate fees and price differentials in respect of securities lending or repurchase arrangements, where the funds are obtained directly by the approved FTC from outside Singapore,

which the FTC is liable to pay, provided the funds are used for its approved qualifying activities or services.

2.4. The scheme was scheduled to lapse after 31 March 2016.

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[1] An approved FTC in this circular has the same meaning as that defined under section 43G of the Singapore Income Tax Act.
[2] Qualifying activities and services are prescribed in the Income Tax (Concessionary Rate of Tax for Approved Finance and Treasury Centre) Regulations.
[3] The details of the tax exemption are found in Income Tax (Exemption of Interest and Other Payments for Economic and Technological Development) (No. 2) Notification 2003 [Gazette No. S499/2003].

3. Enhancements

3.1. Extension of scheme

3.1.1. The FTC scheme has been extended for another 5 years to 31 March 2021. With this extension, all applications and approvals for the FTC scheme must be made and obtained by 31 March 2021.

3.2. 8% concessionary tax rate

3.2.1 The scheme provides an enhanced concessionary tax rate of 8% for an approved FTC, with an increase in substantive requirements. The tenure of each award and renewal will be 5 years. This will apply to both new applicants and FTC renewal cases approved on or after 25 March 2016.

3.3. Funds obtained indirectly from ANCs

3.3.1. To give companies the flexibility to structure their FTC operations more efficiently, an approved FTC will be allowed to conduct qualifying activities using funds obtained indirectly from ANCs with effect from 25 March 2016. Funds obtained indirectly from ANCs should only include funds obtained from qualifying sources[4].

3.3.2. Where the funds are obtained indirectly from an ANC, all of the following must be fulfilled to avoid round-tripping risks:-

(a) All parties involved in the arrangement must be ANCs of the FTC.
(b) The ANC must have bona fide operations.
(c) The ANC must not be a company incorporated or branch registered in Singapore.
(d) There is a bona fide commercial reason to flow the funds through multiple ANCs.

3.3.3. Please refer to Annex 1 for some examples (not exhaustive) of bona fide commercial reasons to flow the funds through multiple ANCs.

3.3.4. In addition, the approved FTC must be able to track the funds through all the intermediate ANCs to the ultimate qualifying source of the funds and is expected to maintain proper documentation to substantiate to the Comptroller of Income Tax ("CIT") that the funds obtained directly or indirectly from ANCs originate from

[4] Qualifying sources of funds are prescribed in the Income Tax (Concessionary Rate of Tax for Approved Finance and Treasury Centre) Regulations.

qualifying sources. In the absence of such documentation, the CIT reserves the right to tax the income arising at the prevailing corporate tax rate.

3.4. Tax exemption on interest payments on deposits

3.4.1. The scope of tax exemption has also been expanded to cover interest payments made by the FTC on or after 25 March 2016, on deposits placed with the approved FTC by its non-resident ANCs, provided the funds are used for the conduct of qualifying activities or services.

4. Enquiries

4.1. If you have any queries regarding the above scheme, please contact EDB at 6832 6832 or clientservices@edb.gov.sg.

Annex 1: Examples of bona fide commercial reasons to flow the funds through multiple ANCs