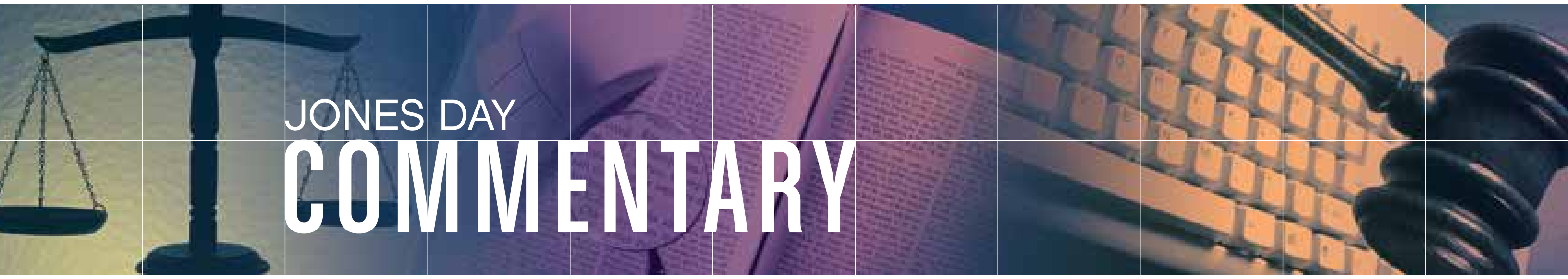
JONES DAY

MARCH 2013



SINGAPORE BUDGET 2013: KEY TAX MEASURES RELATING TO THE FINANCIAL SERVICES SECTOR

Singapore's Deputy Prime Minister and Minister for Finance, Tharman Shanmugaratnam, delivered the Singapore Budget Statement for the financial year 2013 in Parliament on February 25, 2013. The Minister has proposed a number of tax changes for the financial services sector relating to major tax incentive schemes that are due to expire in 2013. The following is a summary of the key proposed changes.

EXTENDING AND REFINING THE FINANCIAL SECTOR INCENTIVE ("FSI") SCHEME

There are currently 12 separate FSI awards that grant concessionary tax rates of 5 percent, 10 percent, and 12 percent on income derived by an FSI award recipient from various qualifying financial activities, including a 5 percent concessionary tax rate for an FSI-Islamic Finance ("FSI-IF") award recipient from qualifying activities relating to Islamic Finance. The Minister proposed that the FSI-IF award be allowed to expire on March 31, 2013 and that the remaining categories of awards be streamlined so that there will only be six categories of awards, namely:

1. FSI-Standard Tier ("FSI-ST")—12 percent
2. FSI-Fund Management ("FSI-FM")—10 percent
3. FSI-Headquarter Services ("FSI-HQ")—10 percent
4. FSI-Capital Markets ("FSI-CM") —5 percent
5. FSI-Credit Facilities Syndication ("FSI-CFS")—5 percent
6. FSI-Derivatives Market ("FSI-DM")—5 percent

The range of incentivized activities and financial instruments under the FSI-ST, FSI-CM, and FSI-CFS awards will be widened, and qualifying Islamic Finance activities under the FSI-IF award will be incentivized under the FSI-ST award instead at a 12 percent concessionary tax rate. In addition, with effect from February 25, 2013, withholding tax exemption will automatically be granted to an FSI-HQ award recipient on interest payments made by the recipient for qualifying loans during the tenure of its award. Save for the changes relating to Islamic Finance and the withholding tax exemption, all changes will take effect from January 1, 2014. Existing award recipients may continue under their awards until the end of their respective award tenures. Further details pertaining to these proposed changes will be released by the MAS by the end of June 2013.

EXTENDING AND REFINING THE QUALIFYING DEBT SECURITIES ("QDS") AND QUALIFYING DEBT SECURITIES PLUS ("QDS+") SCHEMES

Currently, companies in Singapore enjoy a concessionary tax rate of 10 percent on interest, discount, prepayment fees, redemption premium, and break cost ("Qualifying Income") derived from QDS, while qualifying individuals and qualifying nonresidents are exempt from tax on such Qualifying Income. To qualify as a QDS, a debt security must be substantially arranged by financial institutions in Singapore. The QDS scheme was to expire on December 31, 2013. The Minister has now proposed to extend the QDS scheme for another five years to December 31, 2018. The condition of "substantially arranged in Singapore" will be rationalized to make it easier for issuers to comply, and the rationalized condition will apply to debt securities issued during the extended period of January 1, 2014 to December 31, 2014.

Under the existing QDS+ scheme, which was due to expire concurrent with the QDS scheme on December 31, 2013, all investors are exempt from tax on Qualifying Income derived from QDS that are debt securities (other than Singapore Government Securities) with an original maturity of at least 10 years and Islamic debt securities. This is with the condition that any amount payable by the issuer to the investor of an Islamic debt security cannot be deductible against the income of the issuer accruing in or derived from Singapore or received in Singapore. One of the qualifying conditions under the QDS+ scheme is that the debt securities and Islamic debt securities cannot be redeemed, called, exchanged, or converted within 10 years from the date of their issue, which has proved to be a problem for many issuers. The Minister has now proposed to extend the QDS scheme for another five years to December 31, 2018, and will be refined to allow debt securities with standard early termination clauses to qualify for the QDS+ scheme, subject to conditions.

Details pertaining to the proposed changes to the QDS and QDS+ schemes will be released by the MAS by the end of June 2013.

EXTENDING THE APPROVED SPECIAL PURPOSE VEHICLE ("ASPV") SCHEME

Tax exemption is currently granted on (i) income derived by a Singapore-resident ASPV from approved asset securitization transactions and on (ii) payments liable to be paid by the ASPV for OTC financial derivatives in connection with an approved asset securitization transaction to a qualifying nonresident, provided that it issues at least S$20 million of QDS (unless otherwise approved by the Minister or such person as he may appoint). In addition, input Goods and Services Tax may be recovered by the ASPV at a fixed rate of 76 percent on qualifying business expenses incurred under approved securitization transactions. Stamp duty will be remitted on the instrument relating to the transfer of asset to it under an approved asset securitization transaction. The ASPV scheme was due to expire on December 31, 2013. With the proposed extension of the QDS scheme, the Minister has proposed that the ASPV scheme be similarly extended for another five years to December 31, 2018 for the continued development of the structured debt market. All conditions of the ASPV scheme will continue to apply.

EXTENDING THE TAX EXEMPTION OF INCOME DERIVED BY PRIMARY DEALERS FROM TRADING IN SINGAPORE GOVERNMENT SECURITIES

To encourage trading in Singapore Government Securities, tax exemption is currently granted on income derived by primary dealers from trading in Singapore Government Securities. The tax exemption was due to expire on December 31, 2013. The Minister has proposed that the tax exemption be extended for another five years to December 31, 2018.

ENHANCING THE TAX EXEMPTION OF UNDERWRITING OF OFFSHORE SPECIALIZED INSURANCE RISKS

Currently, approved specialized insurers and reinsurers enjoy tax exemption for a period not exceeding five years (subject to renewal) on qualifying income derived from qualifying offshore specialized insurance lines, namely terrorism, political, energy, aviation and aerospace, and agricultural risks. The Minister has proposed that the scheme be expanded with effect from February 25, 2013 to cover qualifying income derived from offshore Catastrophe Excess of Loss ("CAT-XOL") reinsurance layers providing coverage for more than one risk arising from a single event and against natural perils. Further details pertaining to the proposed change will be released by the MAS by the end of April 2013.

EXTENDING AND ENHANCING THE OFFSHORE INSURANCE BROKING BUSINESS SCHEME

Currently, a Singapore company that is licensed as a direct insurance and reinsurance broker may apply to the MAS as an approved company under the Offshore Insurance Broking Business scheme. Upon approval, the company will be granted tax incentive for a period of five to 10 years, during which the fees and commissions derived by the approved company from the provision of insurance (life or general insurance, or both) broking, and advisory services to its non-Singapore based clients (i.e., nonresidents who either do not have a permanent establishment in Singapore and do not carry on a business in Singapore, or who carry on operation in Singapore through a permanent establishment in Singapore but do not use funds from their operations in Singapore to finance the insurance premiums and brokerage fees and commissions) are subject to a 10 percent concessionary tax rate. The scheme was due to expire on March 31, 2013. The Minister has now proposed to extend the scheme for another five years so that the window period for application under the scheme will close on March 31, 2018. In addition, it is proposed that a new 5 percent-tier award be granted for the provision of qualifying offshore specialty insurance broking and advisory services with effect from April 1, 2013. Further details pertaining to the proposed changes will be released by the MAS by the end of April 2013.

EXPIRATION OF THE OFFSHORE INSURANCE BUSINESS SCHEME FOR ISLAMIC INSURANCE AND REINSURANCE

Under the Offshore Insurance Business Scheme, an approved insurer or reinsurer enjoys a 10 percent concessionary tax rate on qualifying income earned through its offshore life business or the general business of insuring and reinsuring offshore risks. In addition, approved insurers and reinsurers can enjoy a lower concessionary tax rate of 5 percent on qualifying income derived from the business of offshore Islamic insurance (*takaful*) and Islamic reinsurance (*retakaful*) under the Islamic Insurance and Reinsurance scheme, which will expire on March 31, 2013. The Minister has proposed that the incentive for *takaful/retakaful* be allowed to expire, and insurers who conduct offshore *takaful* and *retakaful* activities may instead qualify under the existing standard tier 10 percent Offshore Insurance Business Scheme. This effectively levels the playing field and provides for tax neutrality between traditional insurance/reinsurance and *takaful/retakaful* activities.

EXPIRATION OF THE FAMILY-OWNED INVESTMENT HOLDING COMPANIES ("FIHC") SCHEME

In 2008, the Minister introduced a tax exemption on specific Singapore-sourced investment income derived directly and all foreign-sourced income received directly by an approved FIHC for a period of five years. The Minister has proposed that the FIHC scheme be allowed to expire on March 31, 2013. Going forward, private clients will need to consider other alternatives for their wealth management and succession planning structures. Existing FIHCs that are incorporated before the expiration of the FIHC scheme will continue to enjoy the tax exemption indefinitely, as long as they continue to meet the specified conditions on or after April 1, 2013.

LAWYER CONTACT

For further information, please contact your principal Firm representative or one of the lawyers listed below. General email messages may be sent using our “Contact Us” form, which can be found at www.jonesday.com.

Irving Aw
Singapore
+65.6233.5990
iaw@jonesday.com