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## Singapore Flag & Financing Incentives

Singapore has a myriad of incentives for companies to both register their ships in Singapore and to locate their shipping and marine related businesses in Singapore. This article gives a brief snapshot of the incentives currently available.

### Registration fee under the Block Transfer Scheme (“BTS”)

Shipowners who intend to register their fleet in Singapore enjoy discounted registration fee payable for each vessel to be flagged in Singapore. Their vessels must meet the following minimum net tonnage (“NT”) criteria, and must all be registered within a reasonable period of time:

- > 2 ships of aggregate tonnage 40,000NT
- > 3 ships of aggregate tonnage 30,000NT
- > 4 ships of aggregate tonnage 20,000NT
- > 5 ships of any aggregate tonnage

Shipowners have to write in to the Maritime & Port Authority of Singapore (“MPA”) prior to registering their first vessel. If they qualify for the BTS, they enjoy a discounted rate of S\$0.50 per NT (as compared to the normal rate of S\$2.50 per NT). Under the BTS, the maximum registration fee per vessel is capped at S\$20,000 (as compared to the normal maximum of \$50,000).

### Tax exemption under section 13A of the Singapore Income Tax Act (“ITA”)

This exemption applies to a shipping enterprise’s income derived from the carriage of passengers, mails, livestock or goods and includes the income derived from time charter and bareboat charter. To qualify for this exemption the income must be derived from a Singapore registered ship which is plying in international waters (which includes plying between Singapore and other countries and between places outside Singapore), and:-

- (1) a shipping enterprise may be either the owner of Singapore-registered ships or just an operator of such ships, and may be resident or non-resident in Singapore for tax purposes; or
- (2) the shipping enterprise must be incorporated in Singapore in order to be registered as the owner of Singapore-registered ships.

The dividends of such shipping enterprise which is resident in Singapore can be distributed as tax-exempt dividend income.

### Approved International Shipping Enterprises (“AIS”) Scheme

The Singapore government’s objective for the AIS scheme is aimed at building up a critical mass of shipowners and managers which will eventually develop Singapore into a maritime centre. Since its birth, the AIS scheme has attracted major international shipowners and ship operators to relocate in Singapore.

AIS companies enjoy tax exemption (0% tax rate) on qualifying shipping income for 10 years. This status is subject to a yearly review, a major review every five years and renewable subject to certain terms and conditions.

A company may apply for AIS status if:-

- (1) it is an established international shipping company;
- (2) it has a demonstrable business plan; and
- (3) it is committed to expanding its shipping operations in Singapore.

#### **Approved Shipping Logistics (“ASL”) Scheme**

ASL companies are eligible for a concessionary tax rate of not less than 10% on their incremental income derived from providing freight and logistics services from Singapore. This concession is for five years and can be conditionally renewed for another five years.

A company may apply for the ASL status if it has:-

- (1) a strong track record;
- (2) a demonstrable business plan; and
- (3) a commitment to using Singapore as its base for logistics and freight management activities.

#### **Maritime Finance Incentive (“MFI”) Scheme**

The MFI Scheme encourages companies to use Singapore as their capital and funding base to finance both their maritime vessels and sea containers. Eligible ship or container leasing companies, funds, business trusts or partnerships get tax concessions for up to 10 years on their qualifying leasing income. The manager of the asset owning entity will be awarded a concessionary tax rate of *not less than* 10% on its qualifying management income. To allow asset owning flexibility in leasing and chartering options, operating and qualifying finance leases are covered under the MFI Scheme.

A company may apply for MFI status before 28 February 2011 if it has:-

- (1) a strong track record;
- (2) a demonstrable business plan; and
- (3) a commitment to expanding shipping and container financing operations in Singapore.

### Maritime Cluster Fund (“MCF”)

The MCF is set up by the MPA and aimed at facilitating the growth of the maritime cluster in Singapore. The MCF is available for the development of manpower, local training infrastructure and capabilities within the maritime industry. MCF schemes and programs are accessible to both companies and individuals.

### Internationalisation Finance (“IF”) Scheme

This scheme is managed by IE Singapore (International Enterprise), which is an agency under the Ministry of Trade and Industry of Singapore. IE Singapore’s mission is to promote overseas growth of Singapore based enterprises and international trade.

It is difficult for companies to obtain loans for overseas ventures as they are often associated with higher risks. The IF Scheme addresses this need through a system of co-sharing of default risks between IE Singapore and participating financial institutions (“PFIs”).

The extension of the IF Scheme till 31 January 2011 gives Singapore-based shipowners continued accessibility to financing for their overseas ventures. The IF Scheme allows companies access up to S\$50 million on a group basis of the following credit facilities to support their overseas expansion: (a) Asset-based financing (b) Structured loans and (c) Banker’s guarantee. Companies may apply if they meet the eligibility criteria below:-

- (1) The company must be Singapore-based, registered with the Accounting and Corporate Regulatory Authority (“ACRA”) and have at least three strategic business functions in Singapore. The purpose of the loan must be to support the company’s overseas expansion.
- (2) On a group basis, turnover must not exceed the following:
  - > Non-Trading Companies - Listing and privately-held: <S\$300 million
  - > Trading Companies - Listed: <S\$300million, Privately-held: <\$500million
- (3) Overseas business must complement the Singapore company’s core operations and result in economic spin offs to Singapore.

Loans under the IF Scheme are funded and administered by PFIs in the same way they do for their usual commercial loans. PFIs will conduct the credit assessment and due diligence for all applications, before submitting and recommending to IE Singapore for final approval.

### Singapore Budget 2010 (“SB 2010”)

The Singapore Government has recently released the SB 2010. The SB 2010 proposes many incentives to promote the maritime sector. The three proposed incentives are as follows:

- (1) Currently, ship brokers and Forward Freight Agreement (“FFA”) traders are taxed at the prevailing corporate rate. Under the new incentive, a company solely carrying out ship broking and/or FFA trading in Singapore will be granted a concessionary tax rate of 10%, subject to conditions. Interested taxpayers can apply to the MPA for this incentive starting 1 April 2010 to 31 March 2015. Successful applicants will enjoy this incentive for a period of five years. The MPA will release the implementation details by end March 2010.
- (2) Ship management fees derived on or after 22 February 2010 from the rendering of ship management services to related qualifying SPVs will be treated as qualifying income to be exempted from tax under section 13 of the ITA and AIS scheme, subject to conditions. The MPA will release the implementation details by end March 2010.
- (3) The expiry day of the MFI scheme will be extended from 28 February 2011 to 31 March 2016. Taxpayers applying for the MFI scheme during the period starting 1 March 2011 to 31 March 2016 will be given approval for a period of not more than five years.

### Concluding comments

An overview of the various schemes available shows that the tax incentives offered in Singapore are extremely proactive. In particular, the AIS scheme and the exemption of shipping incomes under section 13A of the ITA represent major tax concessions to international shipowners and operators.

While Singapore’s well developed business infrastructure and its ultramodern port facilities are well-known worldwide, the tax and financial incentives have been and continue to be the main ingredient in making Singapore the financial maritime hub it is today.