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## **A GUIDE TO DOING BUSINESS IN SINGAPORE**

*The guide is intended to provide general information only. You should obtain specific advice on the legal, tax and/or financial implications of your specific requirements. There is no substitute for professional advice which is up-to-date and tailored to your own needs.*

### **Introduction**

Singapore is an island city state often regarded as the bridge between the East and the West. In many ways, the business environment in Singapore exemplifies this East meets West culture. Business transactions are generally conducted according to the practices of the West, but certain Eastern values are still very much entrenched in the society.

### **Government and Economy**

Singapore is a Republic with an elected President. She has a parliamentary system based on the British model, a colonial legacy.

Singapore is social-democratic country. The Government takes an active role in setting the economic direction without stifling the spirit of free economy.

### **Legal Framework**

The Singapore legal system is largely based on the English common law system. Being a former British colony, Singapore received her laws from Britain. The influence of English law has decreased over the years as the judiciary and legal profession of Singapore mature.

Generally speaking, there are two major sources of law in Singapore: legislation and case law. There are also conventions binding on Singapore concerning some international matters such as air transport or sea shipment.

The courts in Singapore comprise the Supreme Court and the Subordinate Courts. The Supreme Court comprises the Court of Appeal and the High Court. The Court of Appeal is Singapore's highest judicial tribunal. The Subordinate Courts comprises the District Courts, Magistrate Courts, Juvenile Courts, Coroners' Courts and Small Claims Tribunals.

Apart from the Supreme Court and the Subordinate Courts, there are some other tribunals set up to hear disputes on specific areas of law in Singapore, notably the Syariah Court, Industrial Arbitration Court and Military Court.



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## **Business Organisation Structures**

A person who wishes to do business in Singapore may choose to operate the business through any one of the following business organisation structures:-

### *Company*

A company incorporated under the Companies Act (Cap. 50) is a separate legal entity from its owners. Several consequences flow from this separate legal personality. For example, a company may sue and be sued in its own name, own property in its own name and the owners of the company are generally not liable for the debts of the company.

There are various types of companies under the Companies Act (Cap. 50) and they may be categorised according to different characteristics (e.g. public companies versus private companies). By far, the most common type of company to be incorporated under the Companies Act (Cap. 50) is the private company limited by shares.

Private companies may be incorporated with one director and one shareholder, and are exempted from appointing professionally qualified secretaries. The single director and shareholder can be the same person, but a sole director also may not concurrently be the company secretary. At least one director must be ordinarily resident in Singapore. The incorporation of companies may be done on-line via the website of the Registry of Companies and Businesses "www.acra.gov.sg".

Dormant companies (i.e. those which have not had any significant accounting transactions in a financial year) and small exempt private companies (i.e. private companies in the shares of which no beneficial interest is directly or indirectly held by any corporation and which has not more than 20 shareholders and which annual revenue is below SGD5 million) will not be required to have their accounts audited by an external auditor. The private exempt company may dispense with holding its AGM for any year, if this is unanimously agreed to by its shareholders voting at a meeting called to decide on such dispensation.

### *Branch of Foreign Company*

Instead of incorporating a local company to conduct business, some foreign companies may choose to register a Singapore branch under the Companies Act (Cap. 50). A Singapore branch of a foreign company is part of the same legal entity as the foreign company at its head office and branches of the foreign company in other parts of the world.

Setting up a branch in Singapore may allow taking advantage of certain benefits in international tax planning. A foreign company incorporating a branch need not have any directors resident in Singapore but it must appoint at least 2 local residents (includes expatriates with employment passes) as its agents under a Memorandum of Appointment or power of attorney.



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Once registered, the branch of the foreign company is subject to filing and reporting requirements under the Companies Act (Cap. 50). In addition to the audited accounts of its Singapore branch, the foreign company will usually also be required to file the accounts of its head office with the Registrar of Companies and Businesses annually. For this reason, not many foreign companies choose to register a branch. However, foreign banks and financial institutions may need to register branches to do business in Singapore in order to comply with capital adequacy requirements imposed by the relevant authority in Singapore.

#### *Representative Office*

Foreign companies in the manufacturing, trading, trade logistics and trade-related services sectors may establish a representative office in Singapore to undertake promotional and liaison activities on behalf of its head office or overseas branches.

A representative office may not engage in any trading or business, lease any warehousing facilities, conclude contracts, issue invoices/receipts, open/receive letters of credit or provide services for a fee. It is supposed to be a temporary establishment for foreign companies to assess the business environment in Singapore before making investment decisions.

#### *Sole Proprietorship*

A sole proprietorship is an individual carrying on business on his own behalf. In order to carry out business as a sole proprietor, one needs to register the business under the Business Registration Act (Cap. 32). There are exceptions to registration, for example licensed hawkers and taxi drivers are exempt from registration. Certain professions such as lawyers, accountants, doctors and architects are governed by other statutes and are therefore exempt from registration under the Business Registration Act (Cap. 32).

The sole proprietorship is not a separate legal entity. As such, the sole proprietor is personally liable for the debts of the business.

#### *Partnership*

A partnership is defined under the Partnership Act (Cap. 391) as a relationship that subsists between persons carrying on business in common with a view of profit. The Act also sets out some rules for determining the existence of a partnership.

Like a sole proprietorship, the business of the partnership has to be registered under the Business Registration Act (Cap. 32). The minimum number of partners in a partnership is 2 and the maximum number is generally 20.

As a partnership is not a person in law, the income derived from a partnership cannot be assessed under the partnership's name. The share of adjusted profit/loss from the partnership will be assessed under the individual partners' names and taxes will be levied accordingly.



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As far as third parties are concerned, each partner is jointly and severally liable for the debts of the partnership although the partners may agree among themselves on apportionment of liability.

#### *Limited Partnership*

A Limited Partnership is not a separate legal entity. A Limited Partnership has 2 types of partners viz. general partners and limited partners. The former are liable for all debts and obligations of the firm whilst the latter (who contributed capital or property at the time of entering into the partnership) would not be liable for the debts or obligations of the firm beyond their contribution. The limited partners do not take part in the management of the firm and have no authority to bind the firm.

This structure may appeal to passive investors who want limited liability and do not wish to play an active role in the management of the firm. It can be used for private equity and fund investment businesses.

#### *Limited Liability Partnership*

A Limited Liability Partnership is a separate legal entity. It has characteristics of a partnership and a company. Like a company, the Limited Liability Partnership has perpetual succession and it can own property in its own name. The LLP is a body corporate and has legal personality separate from its partners. Any change in the partners of a LLP does not affect its existence, rights or liabilities.

Any individual or body corporate may be a partner in a LLP. This includes a natural person, company, foreign company or another LLP. Members of a Limited Liability Partnership are also generally not personally liable for the debts of the Limited Liability Partnership.

The members may agree on how profits and losses are to be shared as well as how the business is to be run. In this respect, it resembles a partnership.

This structure may appeal to professionals who wish to enjoy the benefit of limited liability whilst organised as partnerships.

### **Approvals, Licences and Permits**

Apart from registration with the Registry of Companies and Businesses, certain businesses are subject to further regulatory control by other government agencies in Singapore. Special approvals or licences may have to be obtained before the relevant business activity can commence. Some of the businesses which require special approval or licence include finance companies, insurance companies, travel agents and private schools.

For more information on approvals, licences and permits, you may visit the following websites:-

<http://business.gov.sg/>  
[www.traderegister.gov.sg](http://www.traderegister.gov.sg)



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## **Dispute Resolution**

There are several options available for resolving civil disputes in Singapore including:-

### *Litigation*

Going to trial at a court of law has been the traditional dispute resolution mechanism. These days, getting a trial date in Singapore is relatively fast. The Singapore Courts have also embraced technological advancement by introducing a slew of information technology initiatives such as electronic filing and videoconferencing facilities to allow witnesses outside Singapore to testify in court. The vision is to develop a paperless litigation system and to achieve a more efficient way of presenting cases in court.

One important consideration here is that a judgement of the Singapore Court is only enforceable in Singapore and in countries with which Singapore has entered into bilateral or multilateral treaties for reciprocal enforcement of judgements. A Singapore Court judgement would not be enforceable, for example, in the United States of America.

### *Arbitration*

This is basically a consensual process by which parties to a dispute submit their differences to one or more impartial persons known as arbitrators for a final and binding decision. It is less formal than a trial and hearings are conducted in private, therefore ensuring confidentiality.

The Singapore International Arbitration Centre provides facilities for international and domestic commercial arbitration and its rules are based largely on the UNCITRAL Arbitration Rules and the Rules of the London Court of International Arbitration with some modifications.

One main advantage of this dispute resolution mechanism is that an arbitral award may be enforced domestically and internationally in over 120 countries (including the United States of America) as a judgement of the courts in the enforcement country.

### *Mediation*

Mediation is a voluntary process in which a neutral party known as the mediator helps the parties to negotiate with each other to resolve their dispute amicably. To a certain extent, the success of this dispute resolution mechanism hinges on the desire of the parties to reach an amicable settlement. This dispute resolution mechanism may therefore be ideal for parties who wish to maintain their business relationship. The mediator will not impose his views on the parties, and it is up to the parties whether they wish to come to a settlement.

The Singapore Mediation Centre provides mediation and other alternative dispute resolution services. The Centre has recently developed an on-line mediation initiative on the website "DisputeManager.com". The suite of services currently available on the website include:-

- E-settlement
- Mediation
- Neutral Evaluation
- Singapore Domain Name Dispute Resolution Policy

## **Foreign Investment**

Some of the government agencies and bodies responsible for promoting foreign investment and administering incentives to investors include:-

### *Economic Development Board*

The [Economic Development Board](#) is the lead national agency responsible for planning and executing strategies to sustain Singapore's attractiveness as a global hub for business and investment. It administers a number of incentive schemes such as the Pioneer Incentive scheme and the Development and Expansion Incentive scheme.

It works closely with other agencies to promote innovation and develop human, intellectual, financial and cultural capital in Singapore.

### *International Enterprise Singapore*

Formerly the Singapore Trade Development Board, International Enterprise Singapore is the national agency to help Singapore-based companies who are willing and able to grow and internationalise successfully, and to encourage the growth of Singapore's external economy.

It also promotes Singapore as a hub for Small and Medium-sized Enterprises (SMEs) by attracting enterprises from other countries to be based here, so that they can collaborate with International Singapore Companies (ISCs) to venture into the region.

### *Monetary Authority of Singapore*

The Monetary Authority of Singapore regulates all elements of monetary, banking and financial aspects of Singapore. It oversees a wide range of tax incentives specifically for the financial sector.

## Tax

Under the Income Tax Act (Cap. 134), tax will be imposed on the income of any person accruing in or derived from Singapore or received in Singapore from outside Singapore. Hence, there are 2 bases of taxation in Singapore viz. territorial and remittance.

Under the territorial basis, income is liable to Singapore tax if the source of the income is in Singapore whilst under the remittance basis, income having a source outside Singapore is liable to Singapore tax only if it is received in Singapore, unless specifically exempt from tax.

Income tax is levied on the income of companies based on the prevailing corporate rate whilst income tax is levied on the income of individuals based on a progressive scale of rates.

### *Corporate Income Tax*

With effect from Year of Assessment 2008, the corporate tax rate has been reduced to 18%. Tax will only be imposed at the corporate level and Singapore dividends in the hands of the company's shareholders are tax exempt.

With effect from YA2006, losses of up to \$100,000 incurred by the company in the current year can be carried back for one year. With Group Relief, a company is able to utilise loss items of another company within the same group to offset its current year assessable income. Gains from exercise of stock options granted in respect of overseas employment will be exempted from tax even if they are exercised in Singapore and gains from exercise of stock options granted for Singapore employment will be taxed in Singapore regardless of where the options are exercised.

The principal piece of legislation granting tax incentives to promote Singapore economic and industrial development is the Economic Expansion Incentives (Relief from Income Tax) Act (Cap. 86). There are also some tax incentives to encourage the growth of selected industries found in the Income Tax Act (Cap. 134).

Family-owned investment holding companies enjoy the same scope of exemptions that individuals currently enjoy on Singapore and foreign-sourced investment income.

Financial sector tax incentives include-

- 5% concessionary tax rate for income derived from qualifying Shariah-compliant activities, specifically in the areas of lending, fund management, insurance and reinsurance. All investors of qualifying *sukuks* (Islamic bonds), including resident non-individual investors will also enjoy tax exemption on income from Qualifying Debt Securities.
- concessionary rate of 10% on income derived by licensed insurance and reinsurance brokers from offering insurance broking and advisory services to offshore clients.
- Financial Sector Incentive scheme (extended to 2013).
- Fund Management Industry Incentives
- Enhanced Approved Trustee Company Scheme
- Equity Capital Market Incentives
- Treasury Industry Incentives
- Financial Sector Incentive Scheme
- Extension of Concessionary Rate for Interest Income from Qualifying Debt Securities

Some other tax incentives include:-

- Tax Deduction for Special Reserves of General Insurance Companies
- Development and Expansion Incentive
- Enhanced Deduction for Research and Development Expenses
- Approved International Shipping Enterprise Scheme
- Unilateral Tax Credit Scheme
- Unlimited flow-through of exempt dividends
- Overseas Talent Recruitment Scheme and Not-Ordinarily-Resident Scheme
- Equity Remuneration Incentive Scheme
- Start-Up Tax Exemption Scheme
- Maritime Finance Incentive

Singapore is a popular choice for businesses in view of its competitive tax rates and the great number of Avoidance of Double Taxation Agreement signed with other countries. For a list of these countries, please see <http://www.iras.gov.sg/>.

#### *Individual income tax*

All tax residents are required to pay income taxes. One is considered a tax resident for a particular Year of Assessment (YA) if one is:

- a Singapore citizen; or
- a Singapore Permanent Resident (SPR) and has established his/her permanent home in Singapore; or
- a foreigner who has stayed in Singapore for **183 days or more** in the year preceding the YA; or
- a foreigner (who is not a director of a company) who has worked in Singapore for 183 days or more in the year preceding the YA.

Tax-residents may claim expenses, donations and tax reliefs. The tax rate ranges from 0% to 20%.

Non-residents may claim expenses and donations but are not eligible to claim tax reliefs. The tax rate is 15% or the resident rate, whichever is the higher tax amount. Director fees, consultant fees and all other incomes are taxed at 20%.

#### *Good and Services Tax*

A person who makes a taxable supply of goods and services in Singapore in the course or furtherance of his business is required to register himself as a GST-registered trader if the taxable supplies exceed S\$1 million in a period of 12 months. The GST-registered trader has to charge GST on goods and service provided by him (i.e. output) and pay GST on raw materials, machinery and equipment and services purchased by the business (i.e. input). GST charged on output is known as output tax while GST paid on input is known as input tax. Where the output exceeds the input tax, the GST-registered trader will have to pay the difference to the Inland Revenue Authority of Singapore. Where the input tax exceeds the output tax, the Inland Revenue Authority of Singapore will refund the difference to the registered business. With effect from 1 July 2007, the GST rate will be 7% on domestic consumption.

The only exemptions are for the sales and leases of residential properties and most financial services. Export of goods and international services are zero-rated.

### *Estate Duty*

Estate Duty is not payable for deaths occurring on or after 15 Feb 2008. With the abolition of estate duty, Singapore would be a more attractive place for wealth to be invested and built up, whether by Singaporeans or foreigners who bring their assets to Singapore.

### **Labour and Employment**

The duties of an employer in Singapore are found in legislation and case law. Some of the main statutes that impose duties on the employer include:-

#### *The Employment Act (Cap. 91)*

This Act protects certain classes of employees (as defined in section 2 of this Act) by providing minimum terms of service that cannot be contracted out or diluted to the detriment of these employees.

Whilst this Act covers the classes of employees referred to above, Part IV of this Act which deals with more basic terms of service such as rest days, shift work, holidays, retrenchment benefits, leave and hours of work only applies to workmen (as defined under this Act) and other employees whose monthly salaries do not exceed S\$1,600.

#### *Factories Act (Cap. 104)*

“Factory” is defined in this Act. There are various obligations on a person who uses or occupies a factory. These include observing obligations relating to registration, cleanliness, overcrowding, ventilation, lighting, drainage, sanitary conveniences and so forth.

Certain requirements under this Act have recently been extended to non-industrial buildings such as canteens, hotels, restaurants, laboratories and medical and veterinary centres.

#### *Workmen's Compensation Act (Cap. 354)*

An employer is liable to pay compensation in accordance with the provisions of this Act if a workman under its employment is accidentally injured in the course of employment. “Workman” is a defined term under this Act.

This Act imposes other duties on the employer including compulsory insurance. Certain categories of employers are such as companies fully owned by the government, international shipping lines, international oil companies, banks and finance companies and employers of all persons employed otherwise than by way of manual labour are exempted from the requirement to take up compulsory insurance.

## *The Central Provident Fund Act (Cap. 36)*

Employers are required by law to contribute to the Central Provident Fund (“CPF”). The CPF was essentially set up as an old-age savings scheme for employees. With time, the scheme has evolved into a comprehensive social security savings system providing financial security in old age in meeting the needs of its members in retirement, healthcare, home-ownership, family protection and asset enhancement.

Under the scheme, employers are to ensure that CPF contributions are paid monthly for its employees at the rates set out in the Central Provident Fund Act (Cap. 36). The employer is entitled to recover a percentage of that contribution from the employee through deductions from the employee's wages. This occurs when wages are paid out.

For illustration purpose, the contribution rate applicable to an employee who is 50 years and below is currently 33% of the employee's wages for the month (up to an ordinary wage ceiling as stipulated from time to time). The employer is entitled to recover from the employee an amount equivalent to 20% of the employee's wages for the month (subject to caps stipulated from time to time).

## *Other relevant legislation*

The employer will also have to be mindful of other relevant legislation such as the Retirement Age Act (Cap. 274A) because an employer who dismisses any employee (who is below the prescribed retirement age under the Retirement Age Act (Cap. 274A)) on the ground of age would be guilty of an offence under that Act. Currently, the prescribed retirement age in Singapore is 62 years. There are exceptions such as in the case of police officers, cabin crew and teaching staff of universities and polytechnics.

There are a number of other legislation affecting employment relations including those relating to employment of foreign workers, immigration, industrial relation, trade union and national service.

## **Intellectual Property Regime**

Singapore is one of the best intellectual property regimes in the Asia-Pacific region. It has an established legal system for protecting and enforcing intellectual property rights, and has been constantly ranked amongst the top most IP-protective country in Asia.

Singapore is also a member of various intellectual property treaties, conventions and organisations such as the Paris Convention, Berne Convention, Madrid Protocol, Nice Agreement, Patent Co-operation Treaty, Budapest Treaty, Agreement on Trade-related aspects of intellectual property rights (TRIPS) and the World Intellectual Property Organisation (WIPO).

Initiatives to encourage greater commercialisation of intellectual property rights include the Patent Application Fund Plus (PAF PLUS) scheme administered by the Economic Development Board. aimed at encouraging inventors to patent their inventions and promoting innovation amongst inventors, start-ups and SMEs.

## Business Etiquette

Singaporeans are generally quite accustomed to the Western style of doing business. For foreigners doing business in Singapore, it might be useful to know that:-

- Due to the high humidity and heat, jackets are generally not required for men at business meetings.
- One should avoid touching, hugging or kissing a member of the opposite sex at business meetings as the act might be misconstrued as a form of harassment. Handshake is a better option.
- When making introduction for the first time to members of some major ethnic groups in Singapore such as the Chinese, Malay and Indians, do note that:-
  - The Chinese place their family name first followed by their personal name (e.g. Toh See Kiat).
  - The Malays do not use a family name. They use their personal name followed by **bin** (son of) or **binti** (daughter of) before their father's personal name (e.g. Mohamed bin Ismail).
  - The Indians use their personal name followed by s/o (son of) or d/o (daughter of) and the father's personal name (e.g. Nachiappan Chettiar s/o Letchimaniam Chettiar).

## Living in Singapore

Suffice to say that living conditions in Singapore are among the best in Asia and inflation rate in Singapore is also comparatively lower than most other countries. The standard of hygiene is high while the crime rate is low.

Some of the websites which provide information on living in Singapore are:-

[www.contactsingapore.org.sg](http://www.contactsingapore.org.sg)  
[www.singapore-directory.com](http://www.singapore-directory.com)

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