

SINGAPORE AS A HOLDING DOMICILE FOR YOUR CHINA OPERATIONS

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Both Hong Kong and Singapore provide viable domiciles for a holding company... But what are the differences?

Singapore doesn't usually come onto the radar for most folks when it comes to holding China investments, but in the changing dynamics of emerging Asia, that is beginning to change. While the use of holding companies to own foreign-invested China businesses has long been corporate practice, these have tended to concentrate on Hong Kong and, in the past, other offshore jurisdictions such as the British Virgin Islands or similar exotic domiciles. In fact, 15 years ago, the practice was endemic. The reasoning behind this was as follows:

1. TAX ADVANTAGES. Offshore jurisdictions provide tax benefits to companies based there as normally they do not levy income tax on transactions made externally from their territory. Quite simply, you do business in China, and you can bring those profits back to say the BVLs without further tax. Hong Kong is slightly different as a rate of tax is levied, however for years it provided (and still does) a useful tool to hold a China operation. Its documentation is bilingual (English and Chinese), it's inexpensive to set up such companies, and inexpensive to maintain them.

2. SECRECY. Or, in professional parlance, "non-disclosure." Many offshore jurisdictions keep the identity of the directors and shareholders (the beneficial owners) secret. Hong Kong doesn't, however the practice is advantageous for certain businesspeople who like to keep the extent of the value of their business and involvement with it private. More recently, this mechanism has come under fire, especially from the U.S.

IRS, who suspect – and quite rightly in many cases – that the non-disclosure path leads to tax evasion, now illegal in many countries.

3. KEEPING CHINA AT ARM'S LENGTH. Having a company sited between the main China operations and the foreign investor directly would, it was thought, limit any fallout from China if things went bad. Should business in China turn turtle, the subsidiary would take the rap and contain the financial damage without it reaching the ultimate parent.

While the use of offshore jurisdictions in remote island states has probably had its peak, Hong Kong remains a viable destination for holding a business investment into China. It is largely considered a trustworthy destination to hold a business as Hong Kong company records are



available for public inspection and there is no secrecy. It does however, levy a 16.5 percent income tax rate on business conducted within its borders, and the profits sourced outside Hong Kong might obtain tax exemption under the tax authority's approval. Although the tax authorities in Hong Kong are taking a more aggressive position on such tax exemption applications – which makes the whole process more complicated to handle for tax payers – that 16.5 percent rate is still attractive when compared with many Western countries even if the tax exemption fails. Furthermore, Hong Kong's ease of banking, its status as a financial center, and its excellent administration and infrastructure make the running of a Hong Kong company inexpensive and easy to maintain. An annual audit, some annual filing fees, and it's done without the need to be physically present. Hong Kong's distinct advantage is its being the gateway to China. It enjoys proximity in terms of geographical location, while the sharing of resources is readily possible between a Hong Kong holding company and a PRC subsidiary – translating to significant cost savings.

THE TAX ADVANTAGES OF ASEAN MEMBERSHIP

While Hong Kong will continue to be the primary service center for Mainland China, it may not always be the best jurisdiction to hold a China business. The main determinant here is whether your company has investments in more than one Asian country, China included. A further driver is the growing plethora of Chinese businesses wanting to break out of the mainland and establish ventures overseas.

Where Hong Kong does unfortunately have a major flaw as an offshore financial center – although this doesn't affect using Hong Kong companies for Mainland China ownership – is the fact that it is not a sovereign nation in its own right. Instead, it must follow protocol from Beijing and, as such, Hong Kong can by itself only sign double tax agreements with other countries, but not double tax treaties (only agreements signed by China can be called treaties).

On the other hand, Singapore is a sovereign for

country and has tax treaties with 86 countries, and additional status as a member of ASEAN which neither Hong Kong nor China possess. The ASEAN member country status provides Singapore with free trade access to all of the ASEAN countries. China (including Hong Kong) has a separate free trade agreement with ASEAN, however it is not as far reaching as the tax treatments that ASEAN members enjoy.

The implications of this are that if your business is going to sell products and services to both China and within ASEAN – Singapore may well prove to be the better domicile. Outbound investment from China is finding Singapore a convenient base for developing trade and business throughout Asia.



SINGAPORE'S LOW TAX SME INCENTIVE

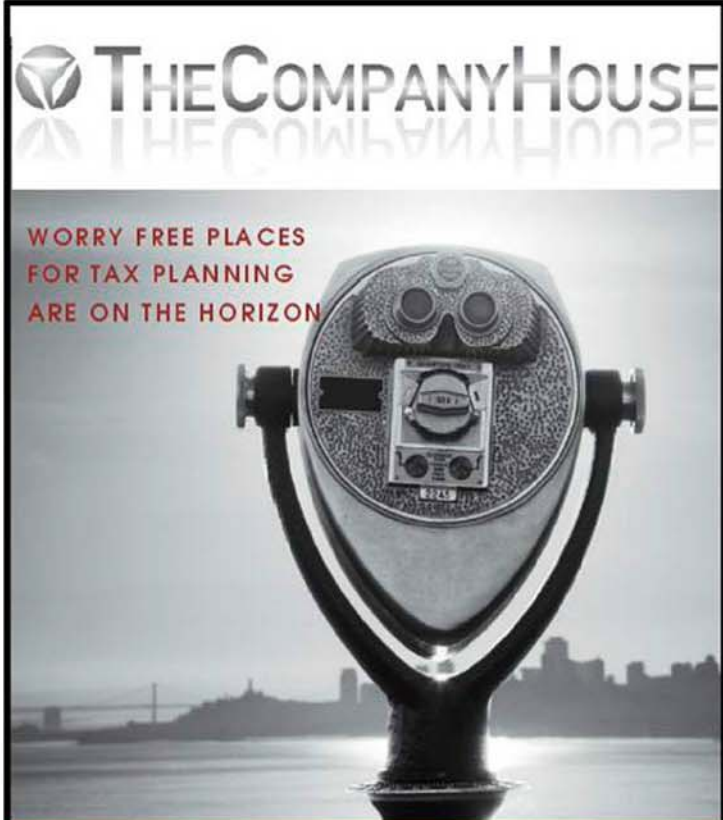
Hong Kong has a slightly lower corporate tax rate than Singapore at 16.5 percent (Singapore corporate income tax is 17 percent). However, Singapore offers an attractive tax incentive to local companies in which the first S\$400,000 (US\$312,000) is taxed at 6.375 percent, provided certain conditions are met. This is highly attractive companies in which the first S\$400,000 (US\$312,000) is taxed at 6.375 percent, provided certain conditions are met. This is highly attractive for SMEs, many of whom are stretched for capital at the start-up phase. Providing this tax alleviation is a welcome initiative by the Singapore government, and represents a bonus that Hong Kong does not provide.

REPATRIATION OF PROFITS

Neither Singapore nor Hong Kong levy dividend tax, therefore, all dividends received by companies in either jurisdiction can be freely remitted elsewhere.

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As the phenomena of China's massive growth over the past decade since it acquired WTO membership have gathered apace, it has changed the way and the inherent financial structures in place throughout Asia. Singapore has stepped up to the plate and has secured a place as a favorable tax jurisdiction from which to target Asia. The decision regarding where to best place a holding company therefore now depends upon one simple question – will your business remain purely China-focused – or will it expand throughout Asia? ~



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