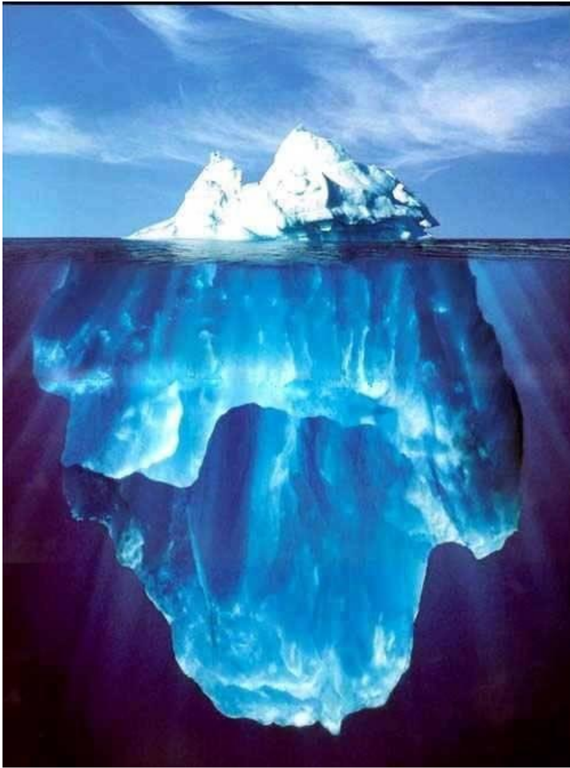


Taxation in Mauritius and Singapore

Caveat:

This presentation of slides is intended as a guide for general information only, and the application of its contents to specific situations will depend on the particular circumstances involved. Accordingly, users should seek appropriate professional advice regarding any particular problems that they encounter, and this presentation should not be relied on as a substitute for this advice. While all reasonable attempts have been made to ensure that the information contained in this presentation is accurate, we accept no responsibility for any errors or omissions it may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies on it.

This presentation is based on "reasonable working knowledge" of the tax systems of the respective countries and not on "expert knowledge" of the said tax systems.

Two countries – different or similar?

Mauritius

Singapore

Cape Comorin
Kandy
Batticaloa
Colombo
SRI LANKA
Galle
Tiladummati Atoll
Malosmadulu Atoll
Fadiffolu Atoll
Ari Atoll
Male
Nilandu Atoll
Mulaku Atoll
Kalumadulu Atoll
Haddummati Atoll
MALDIVES
Suvadiva Atoll
Addu Atoll
Songkhla
Kota Baharu
Pattani
George Town
Strait of Malacca
Banda Aceh
Medan
Kelang
Pematangsiantar
Simeulue
Sibolga
SINGAPORE
Nias
Pekanbaru
Bukittinggi
Sumatra
Padang
Siberut
Jambi
Mentawai Is.
Lahat
Palembang
Bengkulu
Bandar Lampung
Bogor
Bandung
Victoria
Mahé
BRITISH INDIAN OCEAN TERR. (U.K.)
Chagos Archipelago
Diego Garcia
Agalega Islands (Mauritius)
Cocos (Keeling) Is. (Aust.)
Tromelin (Fr)
Cargados Carajos Shoals (Mauritius)
INDIAN OCEAN
Port Louis
MAURITIUS
Rodrigues (Mauritius)

Singapore

SINGAPORE TAX SYSTEM

Singapore

A small island city-state located in the heart of Southeast Asia, Singapore has an area of about 685.4 sq km. However, its small physical size belies its great economic strength and resilience. Despite the limitations of a small domestic economy and lack of natural resources, Singapore has established itself as one of the world's top trading nations, and

is consistently voted as one of the world's best business locations. Singapore's strategic location and political stability have made it an attractive oasis for many foreign

corporations seeking to target Asian markets.

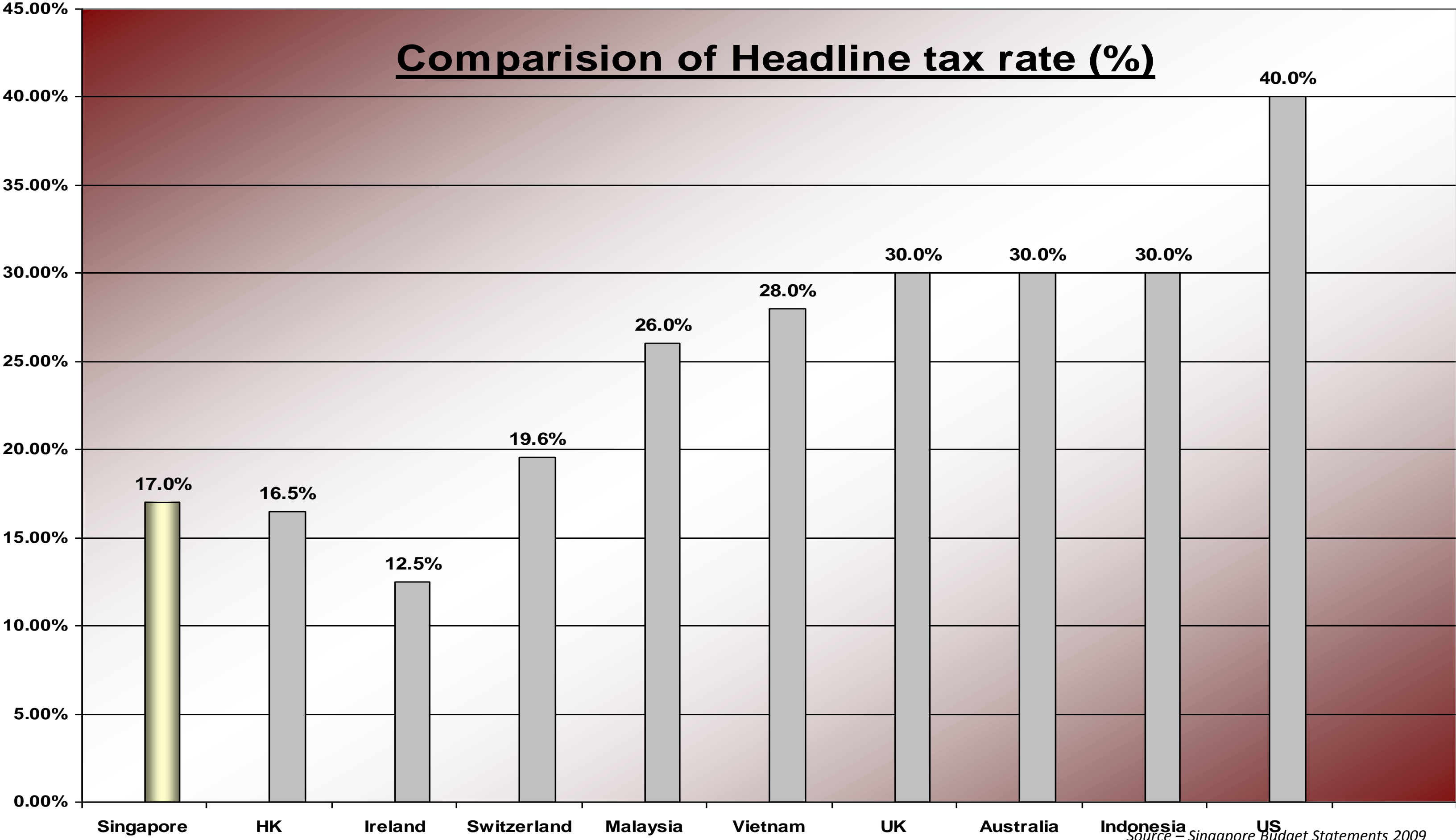
Advantages of Singapore Tax

- Income tax is levied on income accruing in or derived from Singapore, i.e. on Singapore source income as well as on ***earned income outside Singapore but remitted*** to Singapore.
- Stamp duty is imposed mainly on instruments relating to immovable property, stocks and shares.
- Estate duty had been removed from the tax regime with effect from February 2008.

Individual Income tax

- Individuals are liable to income tax on their Singapore source income. There is no capital gains tax or withholding taxes on dividends.
- Interest derived on or after 1 January 2005 with approved bank or finance companies is exempted from tax.
- The graduated tax rate is from 0% to 17%. (reduced to 17% from 18% in 2009 Budget)
- Temporary expansion of scope of foreign-sourced income exemption

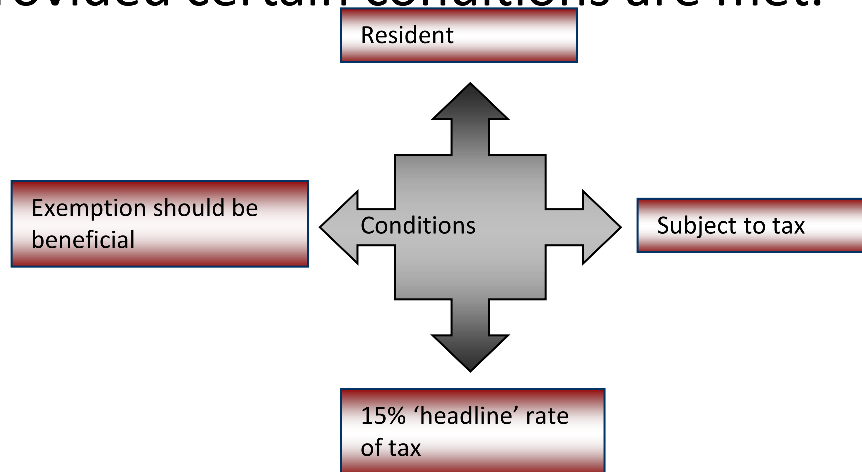
Singapore Tax Overview



Foreign-Sourced Income Exemption (FSIE)

- Foreign-sourced income
  - Taxable only if remitted
  - Exemption of certain remitted foreign-sourced income
    - Dividends, Service income, Branch profits

    provided certain conditions are met.



Exemption of Foreign Sourced Income

A Singapore tax resident company can enjoy tax exemption on its foreign-sourced dividends, foreign branch profits, and foreign-sourced service income that is remitted into Singapore on or after 1st Jun 2003 if the following conditions are met:

- The highest corporate tax rate (headline tax rate) of the foreign country from which the income was received is at least 15%; and
- The foreign income had been subjected to tax in the foreign country from which they were received. The rate at which the foreign income was taxed can be different from the headline tax rate.

To enjoy the tax exemption, a company has to furnish the following information in its Form C and Appendix for Additional Information on Income and Deduction (Form IRIN 301):

- Nature and amount of income received;
- Country from which the income is received;
- Headline tax rate of the foreign country; and
- Confirmation that foreign tax has been paid in the country from which the income was received. Otherwise, company has to prove that income was exempt in the foreign country due to incentive granted for substantive business.

Foreign-Sourced Income Exemption (FSIE)

- Recent Developments
  - Temporary tax exemption on all foreign-sourced income remitted
  - Earned or accrued on or before 21 Jan 2009 and remitted to Singapore between 22 Jan 2009 to 21 Jan 2010
  - Temporary lifting of "subject to tax" and "foreign headline tax rate" conditions
  - Foreign-sourced incomes in the nature of foreign interest, rental or royalty income, which are not covered by current FSIE scheme, can qualify under temporary administrative exemption as discussed above

Corporate Tax

- A company is taxed at a flat rate on its chargeable income regardless of whether it is a local or foreign company. With effect from YA2008 corporate income tax rate reduced by 2% to 18%. It is applicable to all companies incorporated in Singapore.
- By Budget 2009, for YA2010 onwards, this rate has been further reduced to 17%.

Basis Period and Year of Assessment

Income is assessed on a preceding year basis. This means that the basis period for any Year of Assessment (YA) is the financial year ending in the year preceding the YA. For example, if your financial year end is 31 Dec of each year, the basis period for YA 2011 is 1 Jan 2010 to 31 Dec 2010.

If your company's first set of accounts cover a period of more than 12 months from the date of incorporation, the income must be apportioned to two YAs because the basis period for each YA cannot exceed 12 months. Please see example as follows:

Example

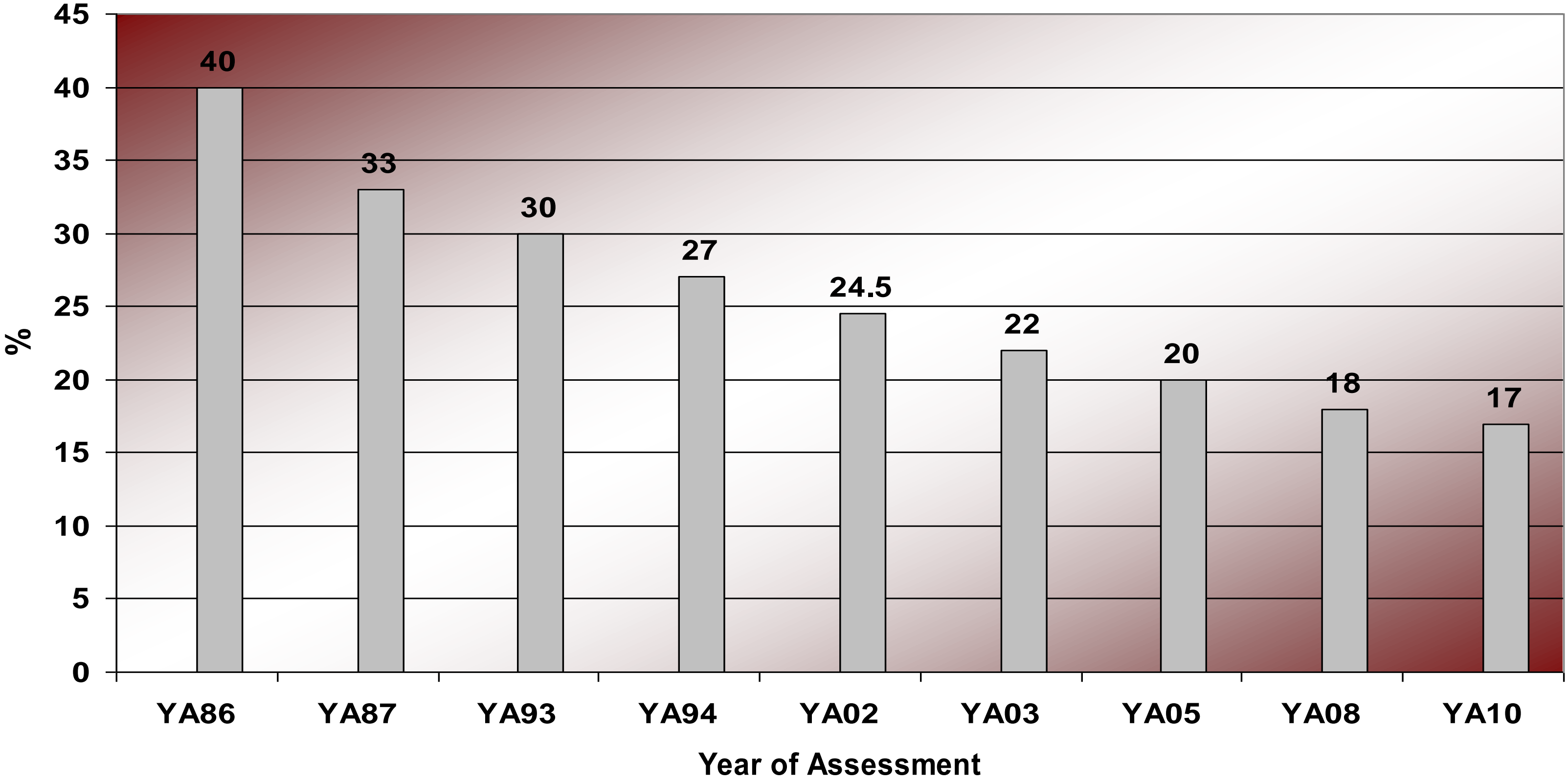
Company A is incorporated in Singapore on 15 Apr 2009. The financial year end of the company is 30 Jun. Company A's first set of accounts is prepared for the period from 15 Apr 2009 to 30 Jun 2010.

As the first set of accounts covered a period of more than 12 months, there are two relevant YAs as follows:

YA	Basis period
2010 (1st YA)	15 Apr 2009 - 30 Jun 2009
2011 (2nd YA)	1 Jul 2009 - 30 Jun 2010

It is therefore necessary to apportion the profits / losses on time basis to YA 2010 and YA 2011 respectively and prepare tax computations for the two YAs for tax submission in 2011.

Singapore Tax Overview



Source – Singapore Budget Statements 2009

Corporate Tax

- Corporate tax rate – 17%(YA10), 8.5% up to $300,000
- Tax losses / unutilised capital allowances
  - Carry forward indefinitely (subject to change in ownership test)
  - Group relief (current year loss items only)
  - Carry back - up to S$200,000 for 3 yrs (temporary) or S$100,000 for 1yr
- Tax Incentives (eg: for shipping, fund management, finance & treasury, manufacturing and trading activities)
- No capital gains tax
- No withholding tax on dividend payments
- No thin capitalisation or earning stripping rules

What is Taxable Income

A company is liable to pay tax on income accrued in or derived from Singapore or income received in Singapore from outside Singapore in respect of:

- gains or profits from any trade or business
- income from investment such as dividends, interest and rental
- royalties, premiums and any other profits from property
- other gains of an income nature

What is **not** Taxable Income

Capital gain is not taxable. Examples of receipts that are capital in nature are:

- Gains on sale of fixed assets
- Gains on foreign exchange on capital transactions

Income may be exempted from tax under the provisions of the Singapore Income Tax Act. Some examples are:

- Exempt shipping income derived by a shipping company
- Foreign-sourced dividends, branch profits & service income received by a resident company that satisfies the qualifying conditions.

Tax Deductions and Reliefs

Deductions are allowed for expenses that are incurred wholly and exclusively in producing the company's taxable income during the financial period. Generally, an expense is deductible if it satisfies all the following conditions:

- It is a proper commercial deduction (i.e. not private or domestic);
- It is revenue in nature (i.e. everyday working or operating expenses);
- It is not a contingent liability (i.e. not estimated); and
- It is not prohibited under the Income Tax Act.

Corporate taxation - Contd.

- No controlled foreign company rules
- Extensive treaty network – 60 Comprehensive
- Other Singapore Structures (Trust, LLP, Business trust, etc)
- Strong IP protection
- Stable, responsive, pro-business government, sound economic fundamentals, High standard of regulation
- Maritime and Finance Hub
- No estate duty

Corporate taxation - Contd

- Singapore taxes are on territorial basis. Accordingly, a Singapore company is taxable on its income accrued in or derived from Singapore, and offshore income only when remitted to Singapore.
- However, tax exemption will be granted to a Singapore tax resident company on foreign sourced dividends, foreign branch profits and foreign sourced service income (collectively "specified foreign income") received in Singapore – subject to satisfaction of conditions.

Tax exemption on New Companies

- For new companies, tax exemption granted on up to S$100,000 of the chargeable income excluding Singapore franked dividends will be exempted from tax for any of its first 3 full consecutive Year of Assessments ("YA").
- Effective from YA 2008, a further 50% exemption is given on the next S$200,000 on a qualifying company's normal chargeable income (excluding Singapore franked dividends).

Tax exemption on New Companies

- Conditions to qualify for the above tax exemption are:
  - Be a Singapore incorporated company;
  - Be a tax resident in Singapore for that particular YA;
  - Have no more than 20 shareholders throughout the basis period relating to the particular YA; and
  - With effect from YA2009 minimum requirement of shareholding liberalized to at least one is an individual shareholder holding at least 10% of total number of issued ordinary shares instead of have all shareholders be individuals throughout the basis period relating to the particular YA.

Partial Tax Exemption Scheme for Companies

- If the company does not satisfy the qualifying conditions mentioned above, the company will be qualified for the partial tax exemption scheme.
- With effect from Year of Assessment 2008, a partial tax exemption is given to companies on normal chargeable income of up to S$300,000.
- The following is the summarized of the tax exemption scheme for companies.
- First $10,000 @75% = $7,500 exempt = $2,500 taxable
- Next $290,000 @50% = $145,000 exempt = $145,000 taxable
- Net taxable only $ 1,47,500

India – Singapore DTAA

- At par with Mauritius
  - Qua Capital Gains
- Subject to LOB clause
- In keeping with India's demand for avoiding double non taxation and Singapore's demand for level playing filed

Audit Exemption

- Dormant Company (having no income or actual expenses, except annual maintenance expenses e.g. audit and secretarial fees)

- Exempt Private Company having not more than S$5 million annual revenue (pro-rated if less than 1 year)

* Exempt private company = Not more than 20 shareholders + shares not owned by any corporation (directly or indirectly)

Mauritius Tax System

Mauritius

- Island Country in Indian Ocean.
- Known for Three S's-
  - Sun
  - Sand
  - Sea
- 2nd largest source of FDI into India
- No tax on capital gains under domestic law.- India does not tax CG of M Co under DTAA
- DTAA with India has blessings of Indian SC.

Tax Rates for Different types of companies

TAXATION TABLE

TAXATION RATE After the application of Income Tax (Foreign Tax Credit) Regulations 1995			
TYPE OF INCOME	**GBC 1**	**GBC 2**	**DOMESTIC CO**
Trading and Other Income	3%	0	15%
Dividends from a country with at least 15% headline Tax	0	0	0
Dividends from Zero Tax Jurisdiction	3%	0	15%
Interests from Mauritius Banks	0	0	15%
Interests from Other Banks	3%	0	15%
Capital Gains Tax	0	0	0
Any Income taxed previously at 15%	0	0	0

GBC 1 Companies

A company holding a GBC1 is engaged in a whole range of activities including those involving capital raising from public. These activities include:

- Offshore insurance, re-insurance.
- Management of funds and assets.
- Operational headquarters and employment services.
- Consultancy services and trading.
- Shipping and ship management.
- Aircraft financing and leasing.
- Leasing and franchising.
- Information and telecommunications technology services.

GBC 1 Companies - Contd

The companies holding GBL1 are characterized by their provisions for protection of investors and consequently are required to file annual audited financial statements with the Financial Services Commission.

It is one of the vehicles used to access the Mauritius network of Double Tax Avoidance Treaties. It also provides the confidentiality required by the investors, as its registers are not opened to the general public.

GBC 1 companies - Contd.

- Permitted by Financial Services Commission to do any of the permitted activities *globally*.
- By Budget 2010, it is proposed that such companies can also *do business within* Mauritius.
- This amendment not extended to GBC 2 companies.

STOP PRESS

GBC 1 Companies – access to DTAA

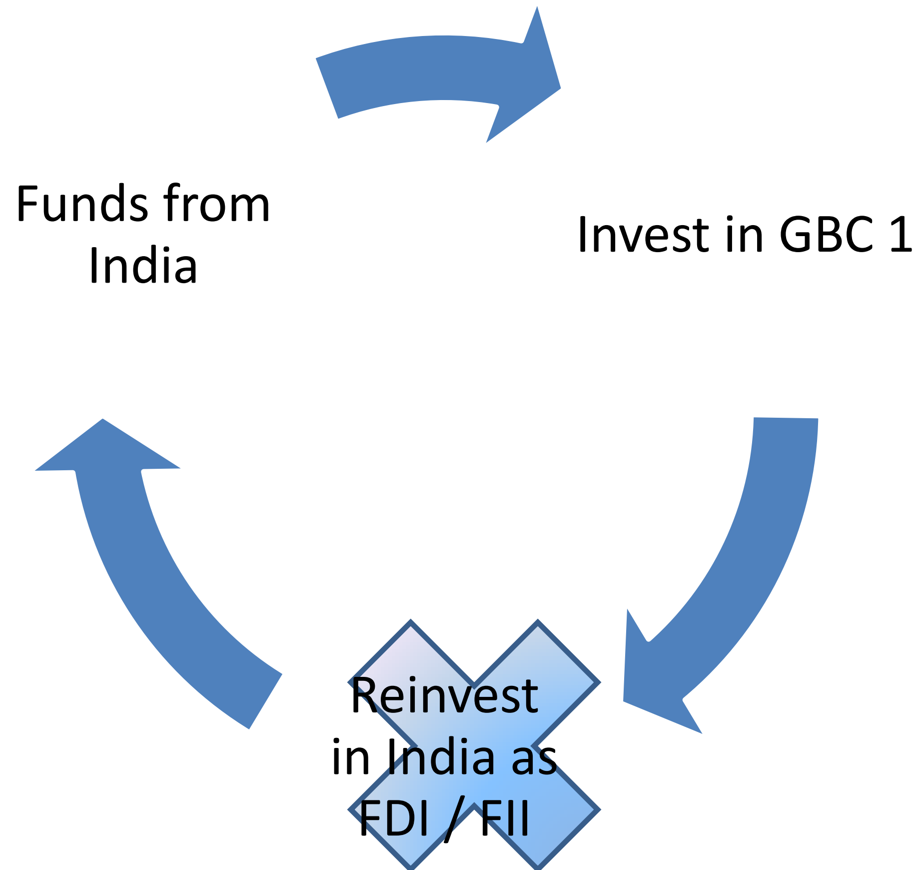
To take advantage of Mauritius' network of tax treaties, a company holding a GBC1 can be used and must be structured to be fiscally resident in Mauritius. This is achieved by:

(i) Appointing two local directors.
(ii) Appointing a local secretary.
(iii) Establishing a bank account in Mauritius for operations in Mauritius.
(iv) Maintaining books and records in Mauritius.

Taxation

Companies holding a GBC1 will be taxed at 15%, subject to the Income Tax (Foreign Tax Credit) Regulation GN 80 of July 1996. It introduced elaborate provisions on the calculation of net foreign source income and foreign tax credits (with or without evidence), which may reduce considerably the effective tax burden to either zero or 3%.

Round tripping not permitted by RBI



Foreign Tax Credit

- A GBC 1 pays tax at the rate of 15% in Mauritius, but is entitled to certain foreign tax credit. Where a GBC 1 pays foreign tax elsewhere and can show proof that it has actually paid tax at the rate of 15% or more on its foreign income earned, it is entitled to claim a 15% foreign tax. The foreign tax credit is available only if documentary evidence can be provided to the effect that tax has been actually paid. This 15% foreign tax credit will offset the 15% tax liability of the GBC 1 will have in Mauritius on the foreign income; thus rendering the tax paid in Mauritius to nil.

Foreign Tax Credit

- According to the foreign tax credit (regulations) Act 1996, a GBC 1 which does not pay tax on its foreign income, is presumed to have paid tax elsewhere.
- Upon application of this presumption, it will be able to claim a deemed tax credit of 80% out of the full 15% tax rate, thus rendering the effective tax rate at 3%.
- If the GBC 1 does not pay tax else where on its foreign income, it will have a nominal tax liability of only 3% in Mauritius.

Foreign Tax Credit – Example 1

Credit in Ordinary Manner

- M Co earns Royalty from I Co – US$ 100,000
- TDS from India @ 10.5575%
- Actual Tax paid in India = $ 10,558
- Tax in Mauritius @ 15% = $ 15,000
- Net Tax to be paid in Mauritius= $ 4,442

Deemed credit

- M Co earns Royalty from I Co – US$ 100,000
- TDS from India @ 10.5575%
- Actual Tax paid in India = $ 10,558;
- Tax in Mauritius @ 15% = $ 15,000
- Deemed Credit @ 80% of $ 15,000 = $ 12,000
- Net Tax to be paid in Mauritius= $ 3,000

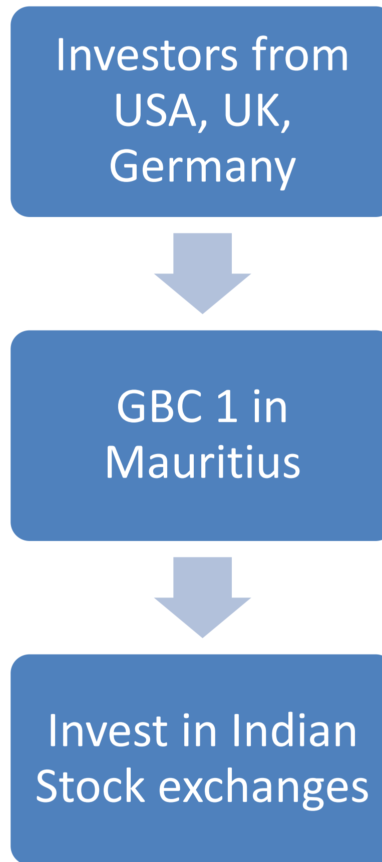
Foreign Tax Credit – Example 2

Credit in Ordinary Manner

- M Co earns Dividends from I Co – US$ 100,000
- TDS from India = NIL
- Actual Tax paid in India = $ 15,000 (DDT – Credit available)
- Tax in Mauritius @ 15% = $ 17,250 (15% of 100,000 + 15,000)
- Net Tax to be paid in Mauritius= $ 2,250

Deemed credit

- M Co earns Dividends from I Co – US$ 100,000
- TDS from India = NIL
- Actual Tax paid in India = $ 15,000 (DDT)
- Tax in Mauritius @ 15% = $ 17,250 (15% of 100,000 + 15,000)
- Deemed Credit @ 80% of $ 17,250 = $ 13,800
- Net Tax to be paid in Mauritius= $ 3,450



The FII Route

Global investors converge at Mauritius to enter India as FII

FDI from Mauritius

ODI from India

- Take advantage of DTAA between Mauritius and target

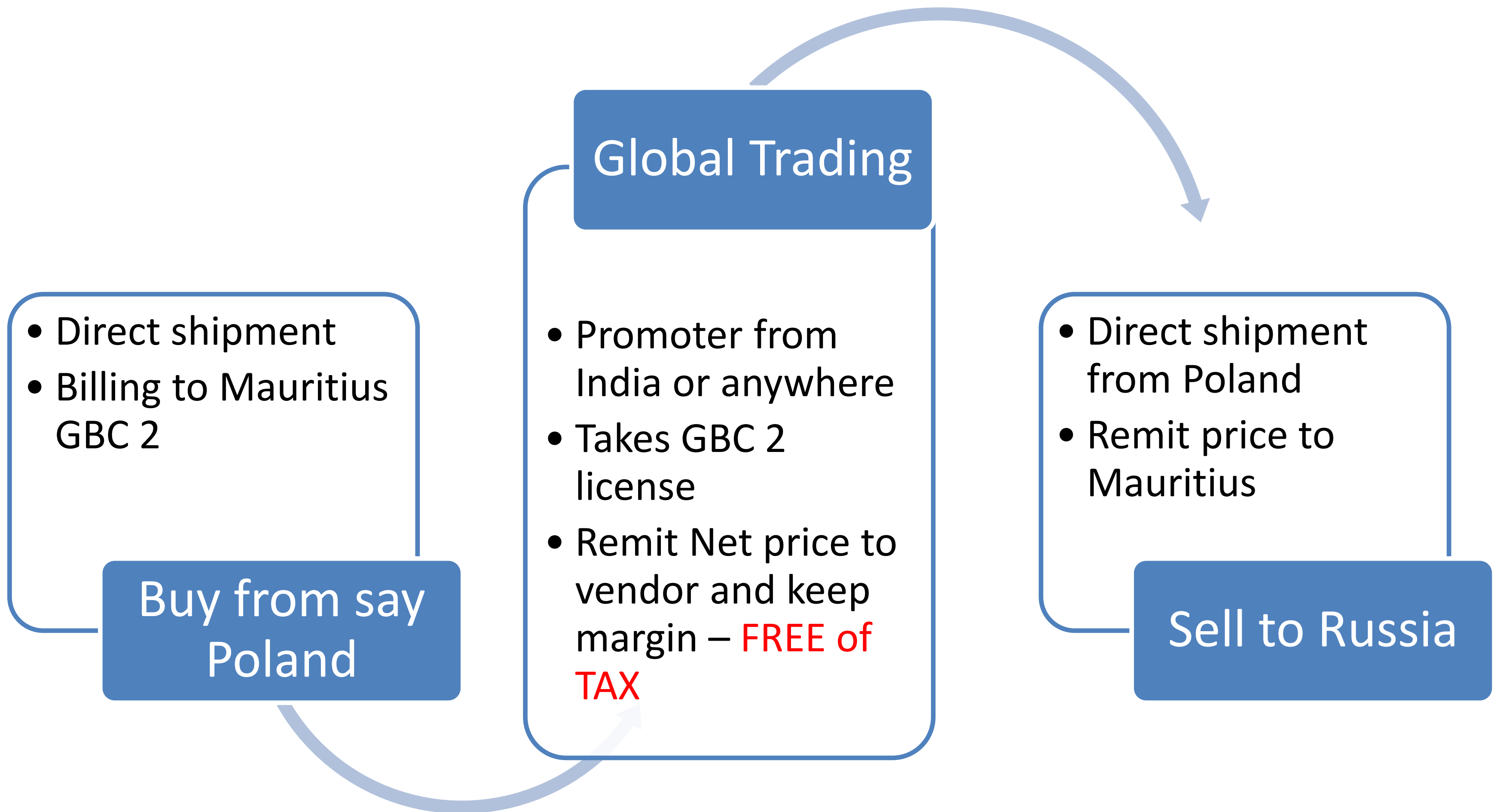
- Dividends from target may be parked in Mauritius and reinvested globally
- Capital gains on divestment of target – low / no taxes

GBC 2 Companies

A company holding a GBC2 provides the confidentiality required by the international investors, as its registers are not opened to the general public. It is not subject to taxation and is suited for holding and managing private assets and funds.

It therefore cannot access the treaty network, as it is not “liable to tax” in Mauritius

GBC 2 Example



ODI from India

- No treaty between India / Mauritius and Target

- Dividends from target may be parked in Mauritius and reinvested globally
- Capital gains on divestment of target -no taxes

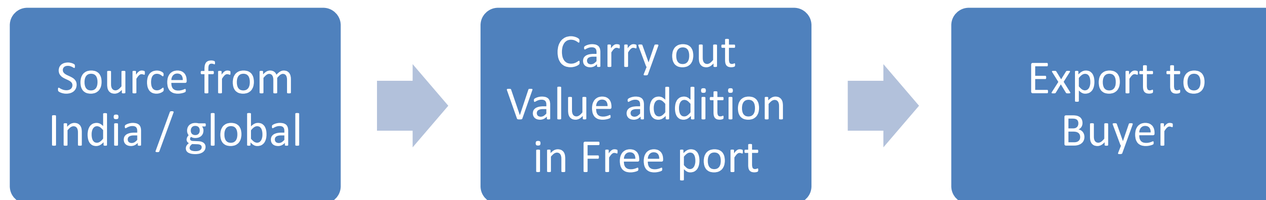
Domestic Companies

A domestic company is a company registered under the Companies Act 2001 by the Registrar of Companies. It is the only type of company that can transact locally and is often used as a Mauritius Holding Company to access the Double Taxation Avoidance Treaties signed by Mauritius.

Domestic Companies

Freeport Business

- Low tax of 3% in Mauritius



- PTA with several African countries
- Quota regime
- Similar benefits to Holding Companies and RHQ companies

Essential Characteristics of GBC 1, 2 and Domestic Companies

	GBC 1	GBC 2	DOMESTIC CO
Registered Office in Mauritius	Yes	Yes	Yes
Minimum Number of Shareholder	1	1	1
Corporate Shareholder	Allowed	Allowed	Allowed
Limited Life	Allowed	Allowed	Allowed
Minimum Capital Requirement	None	None	None
Minimum Number of Shares	1	1	1
Bearer Shares	No	No	No
Par Value Shares	Allowed	Allowed	Not Allowed
No Par Value Shares	Allowed	Allowed	Allowed
Access to Double Taxation Avoidance Treaties signed by Mauritius	Yes	No	Yes

Taxation – Effective Rate	3%	Zero	15%
Minimum Number of Directors	1	1	1
Corporate Directorship	Not Allowed	Allowed	Not Allowed
Resident Secretary in Mauritius	Yes	Optional	Yes
Registered Agent in Mauritius	No	Yes	No
Management Company in Mauritius	Yes	No	No
Annual General Meeting	Yes	Optional	Yes
Filing of Annual Return	No	No	Yes
Filing of Audited Reports	Yes	No	Yes
Freeport Activities	Not Allowed	Not Allowed	Allowed
Dormant Company	Allowed	Allowed	Allowed
Off-the-shelf Company	No	Yes	No
Migration into and out of Mauritius	Allowed	Allowed	Allowed
Change of Status	Allowed	Allowed	Allowed

Foreign Branch	Yes	No	Yes
Processing Fee - FSC	$500	$100	N/A
Annual Licence Fee - FSC	$1,500	$235	N/A
Annual Licence Fee - ROC	$65	$65	$65
Incorporation Time	14 Days	3 Days	2 Days

Tax Sparing Credit

- Credit allowed for taxes spared in other country
- Tax sparing credit is for specified taxes spared
- Almost all such tax sparing have been substituted due to change in law
- Whether credit can be claimed for taxes spared due to new legislation?

THANK YOU