

23 NOVEMBER 2001

IRAS GUIDE ON SECURITIES LENDING AND REPURCHASE ('REPO') ARRANGEMENT

This guide seeks to explain the Singapore income tax treatment of qualifying securities lending¹ and repo² arrangements as well as certain tax concessions that Government has decided to grant for qualifying transactions, with the aim to further develop our securities market.

EFFECTIVE DATE

2 The tax treatment and concessions as set out in this guide shall apply to qualifying securities lending and repo arrangements entered into on or after 23 Nov 2001³, where the securities and collateral under the arrangement are those other than stocks and shares in unlisted Singapore resident companies. For the purpose of this guide, qualifying securities lending and repo arrangements refer to those arrangements satisfying the conditions stated in paragraph 4 of this guide. It is the Government's intention to introduce legislation to give effect to the provisions in this guide.

QUALIFYING ARRANGEMENT

3 Both securities lending and repo arrangements involve the transfer of securities or collateral, and the subsequent retransfer of equivalent securities or collateral. Under such arrangements, economic ownership of the transferred securities or collateral remains with the transferor (i.e. the lender in the securities lending arrangement or the repo seller in the repo

¹ A securities lending arrangement is usually initiated by a person who seeks to borrow securities ("borrower") from a person who has such securities ("the lender") to cover a short sale or fail trade, or to engage in other settlement, market arbitrage or hedging activity. Under the arrangement, the lender transfers the legal ownership of the securities to the borrower in exchange for collateral from the borrower. Under the arrangement, the borrower also agrees to return securities equivalent to the borrowed securities to the lender upon lender's demand or within a certain specified period of time at which time the lender returns the collateral to the borrower. During the lending period, the lender remains entitled to the economic benefits and assumes the risk of securities.

² A repo is typically initiated by a person ("the seller") who has the securities but needs cash. Therefore the seller agrees to sell the securities to a person ("the buyer") who has the cash and who agrees to sell back the securities or the equivalent securities to the seller at a later date or on demand at a specified price.

³ For transactions entered into before 23 Nov 2001, the tax treatment set out in paragraph 6 may apply as long as these are qualifying transactions according to paragraph 4 of this guide.

arrangement) even though the transferor does not retain legal title to the transferred securities or collateral.

4 The tax treatment as set out in this guide is based primarily on the principle that, and hence will apply only if, the economic ownership of any transferred securities or collateral under a securities lending or repo arrangement remains with the transferor of the securities or collateral, and the transferee merely seeks to borrow the securities to carry out certain contracted market activities or to use the securities as collateral for cash provided. For the purpose of this guide, economic ownership is considered to have remained with the transferor of securities or collateral under any such arrangement only if the following conditions are met –

- (a) the transferor must retain the risks and rewards associated with ownership of the transferred securities or collateral, which shall include the return of transferred or equivalent securities⁴ by the transferee to the transferor;
- (b) except for the circumstances stated in paragraph 19, any distributions in respect of the transferred securities or collateral must be passed on to the transferor, or manufactured payments of equal value must be made to the transferor;
- (c) the transferor must not have disposed of the right to receive any part of the total consideration payable under the securities lending or repo arrangement;
- (d) the transferor and transferee must deal with each other at arm's length and they must not enter into the securities lending or repo arrangement for the purpose of avoiding, reducing or deferring Singapore tax;
- (e) the transferee (i.e. the borrower in the securities lending arrangement or the repo buyer in the repo arrangement) must acquire the securities under the arrangement for one or more of the following commercial purposes –
 - (i) to settle a sale of securities, whether present or future and whether agreed or not when the securities were transferred and whether by the transferee or another person;
 - (ii) to replace, in whole or in part, the securities obtained by the transferee under an earlier securities lending or repo arrangement;
 - (iii) to on-lend the securities to another person;

⁴ Please refer to paragraph 5 of this guide for the definition of "equivalent securities"

- (iv) to fulfill exercise obligations arising from an uncovered written option position;
 - (v) for hedging and arbitrage purposes involving securities and futures transactions;
 - (vi) (in the case of repos) for liquidity management purposes;
 - (vii) to be held, without being disposed of, as collateral against the obligations of the counterparty to the securities lending or repo arrangement;
 - (viii) such other purposes as the Minister (or such person as the Minister may appoint) may allow; and
- (f) the securities lending or repo arrangement must be documented in writing.

TRANSFER OF SECURITIES OR COLLATERAL UNDER A SECURITIES LENDING OR REPO ARRANGEMENT

5 As mentioned in paragraph 3, a securities lending or repo arrangement involves the transfer of securities or collateral and retransfer of equivalent securities or collateral. The concept of equivalent securities, including securities used as collateral, generally means securities which are identical to the transferred securities in type, nominal value, description and amount. Where identical securities cannot be returned because of a corporate event after the date of the transfer, the term “equivalent securities” will be taken to include –

- (a) in the case of a conversion, sub-division or consolidation, the securities into which the transferred securities have been converted, sub-divided or consolidated;
- (b) in the case of redemption, the proceeds of the redemption;
- (c) in the case of a takeover, the cash or securities representing the proceeds of acceptances;
- (d) in the case of a call on partly-paid securities, the paid-up securities (provided that the transferor has paid to the transferee the sum due on the call);
- (e) in the case of a capitalisation issue, the transferred securities together with the securities allotted by way of bonus;
- (f) in the case of a rights issue, where the transferor has directed the transferee to take up the issue and has paid to the

transferee any sum due on the issue, the transferred securities together with the securities allotted under the rights issue, or where the transferor has directed the transferee to sell the rights, the transferred securities together with the proceeds from the disposal of the rights;

- (g) in the event that distributions are made in the form of securities or a certificate which may be exchanged for securities or an entitlement to acquire securities, the transferred securities together with the securities or certificate or entitlement equivalent to those allotted; and
- (h) in the case of any event similar to the foregoing, the transferred securities together with or replaced by a sum of money or securities equivalent to that received in respect of such event.

6 On the basis that economic ownership remains with the transferor in a securities lending or repo arrangement, the Government will not, for income tax purposes, regard the transfer of securities and collateral under a securities lending or repo arrangement as a disposal by the transferor of the securities, subject to paragraphs 7 and 8 below. Likewise, the transfer back of equivalent securities will also not be regarded for income tax purpose as a re-acquisition of the securities. Accordingly, no gain or loss will be recognised by the transferor as a result of the transfer of securities or collateral under the arrangement for income tax purpose. The Government has also decided that no specific maximum period shall be imposed on a securities lending or repo arrangement to qualify for the above treatment.

7 While a transfer of securities under a securities lending or repo arrangement may not be regarded as a disposal for income tax purposes for reason stated in paragraph 6 above, an actual disposal may be triggered and recognized for income tax purpose as a result of certain events occurring subsequent to the transfer. The events include:

- (a) a redemption of the securities transferred;
- (b) a take-over offer which the transferor has directed the transferee to accept;
- (c) a situation where one of the parties defaults and the securities lending or repo arrangement is terminated.

In instances (a) & (b), the transferor will not be regarded as having disposed of the transferred securities up to the time of redemption or the time due for acceptance of the take-over offer, as the case may be. But the transferor will be regarded for income tax purpose as making a disposal of the transferred securities through the transferee at the time of redemption or at the time due for acceptance of the take-over offer. In the event where one of the parties defaults [as in (c) above], equivalent securities may not be returned but the

obligations of both parties are set-off against each other. The transferor will be regarded as having disposed of the transferred securities in consideration of the collateral. However, if at the time the transferee defaults, the transferor immediately applies the collateral placed by transferee to re-acquire securities equivalent to the transferred securities, then the transferor will not be treated as having disposed of his securities.

8 For events other than those stated in paragraph 7 above, for example, events as specified in paragraphs 5(g) or (h) above that occur during the course of a securities lending or repo arrangement, parties involved should seek the necessary clarification from the Comptroller of Income Tax on how such cases should be treated for income tax purposes.

9 The securities transferred may also be subject to a buy-back by the issuer, where the transferor directs the transferee to sell the transferred securities to the issuer pursuant to the buyback. Under the provisions of Singapore Income Tax Act, although the proceeds received pursuant to a share buyback may be regarded as disposal proceeds or, if certain conditions⁵ are satisfied, as a dividend, the Government has decided that proceeds received by a transferee under a securities lending or repo arrangement pursuant to a share buyback shall be regarded as disposal proceeds in all cases.

GAIN OR LOSS FROM SHORT SALE OF TRANSFERRED SECURITIES

10 Generally, any gain or loss made by a person, including the borrower in a securities lending arrangement and repo buyer in a repo arrangement, from short selling of transferred securities (or selling of borrowed securities) in the course of his trade or business ("short seller") is taxable or allowable. For investment companies assessed under section 10A of Singapore Income Tax Act, the Government has decided that the whole amount of profit from short selling will, subject to paragraph 11, be assessable to tax.

11 The Government has decided that, in the case where the subsequent return of equivalent securities by the short seller to the transferor takes place in a subsequent accounting year, any gain or loss of the short seller will be recognized as follows:

- (a) the disposal by the short seller of the transferred securities will give rise to a gain or loss;
- (b) the subsequent return of equivalent securities by the short seller to the transferor will similarly give rise to a gain or loss;
- (c) in calculating the gain or loss of short seller, the market value of the transferred securities at the time of the transfer will be taken

⁵ Section 10J of Singapore Income Tax Act

as both the cost of the transferred securities and the sale price of the equivalent securities of the short seller;

- (d) where transferred securities are subject to a redemption in cash, or there is a takeover-offer made which the transferor (e.g. lender or repo seller) has directed the transferee (e.g. borrower or repo buyer) to accept, or the securities lending or repo arrangement is expired or terminated under circumstances such as default or cessation of the transferee's business, the transferee (e.g. borrower or repo buyer) will be deemed to have closed the short sale and returned the transferred securities to the transferor and shall be taxed at that time on the profits derived therefrom.

The following example illustrates how the gain or loss arising from a short-sale transaction which is completed in a subsequent accounting year will be recognized for a company with an accounting year ending 31 Dec:

Securities of XYZ co.	Date of transaction	Market transaction price/Market value, as the case may be, of securities
Co. ("short seller") short sells securities it does not own	29 Dec 2001	\$200 [A]
Co. borrows securities to deliver	31 Dec 2001	\$100 [B]
Co. buys securities from market to return to lender	1 July 2002	\$150 [C]

The gain or loss of the short seller is determined as follows:

- (a) Date of short-sale (29 Dec 2001)

Deemed Gain [for Year of Assessment 2002]
 = Consideration received for the short sale [A] less cost of securities (market value of securities on date of borrowing i.e. 31 Dec 2001)[B]
 = \$200 - \$100
 = \$100

- (b) Date company buys securities from market to return to lender (1 Jul 2002)

Gains [for Year of Assessment 2003]
 = Market value of securities on date of borrowing i.e. 31 Dec 2001(which is the deemed sales price)[B] less purchase cost of securities [C]
 = \$100 - \$150

= \$(50)

The net gains assessed is therefore (a) + (b) i.e. \$100 - \$50 = \$50.

BORROWING FEE

12 The fee payable by a borrower to a lender in respect of securities lending (“borrowing fee”) is an income to the lender. Where the borrowing fee is borne directly or indirectly by a resident of or permanent establishment in Singapore or is deductible against any income accruing in or derived from Singapore, the fee would be deemed to be derived from and be subjected to tax in Singapore. If the lender deriving such fee is a non-resident, tax should be withheld on the fee.

13 However the Government has decided that cross-border payment of borrowing fee (excluding any payment of borrowing fee to any permanent establishment in Singapore) will be exempt from tax where the payor is the Monetary Authority of Singapore (MAS), a bank, merchant bank, licensed securities company or any financial institution in Singapore approved by MAS for the purpose of this exemption. Existing principles in Singapore Income Tax Act will continue to apply to determine the deductibility of the borrowing fee.

14 The tax treatment before and after the above tax concession is summarised in the table shown in Appendix A.

LOAN REBATE FEE AND PRICE DIFFERENTIAL

15 A loan rebate fee in relation to a securities lending transaction is payable by a lender to a borrower when cash collateral is given by the borrower to the lender in respect of the borrowed securities. As for the price differential in relation to a repo arrangement, it is generally the difference between the purchase and repurchase price and is payable by the repo seller to the repo buyer.

16 Where the payment of loan rebate fee or price differential is borne directly or indirectly by a resident of or permanent establishment in Singapore or is deductible against any income accruing in or derived from Singapore, the loan rebate fee or price differential would be deemed to be derived from and be subjected to tax in Singapore. Unless specific tax exemption is granted, tax will have to be withheld on such fee or price differential payable to a non-resident. In this regard, the Government has decided that loan rebate fees and price differential paid to non-residents (excluding any payment to permanent establishments in Singapore) shall be exempt from tax in the following circumstances –

- (a) the payor is MAS, a bank, merchant bank, licensed securities company or a financial institution in Singapore approved by MAS for the purpose of this exemption, which has entered into

the relevant securities lending arrangement as principal, or the abovementioned payors have invested the cash collateral in deposits with a bank in Singapore and onward pay the interest received on the deposit to the provider of the cash collateral;

- (b) in the case of a price differential, the payor is MAS, a bank, merchant bank, licensed securities company or a financial institution in Singapore approved by MAS for the purpose of this exemption, which has entered into the relevant repo arrangement as principal; or
- (c) the payor is an approved Finance and Treasury Centre (FTC) and the transactions are entered into with overseas banks, financial institutions or approved network companies for the purposes of the FTC's qualifying activities under section 43G of Singapore Income Tax Act.

17 The tax treatment before and after the above tax concession is summarised in the table shown in Appendix A.

MANUFACTURED PAYMENTS

18 In order for a transferor to be considered as the economic owner of the securities transferred under a qualifying securities lending or repo arrangement, it is one of the requirements that where a distribution (e.g. a dividend or interest) is paid on the underlying securities or collateral, the transferee will have to pass on the distribution or make a payment of equal value (“manufactured payment”) to the transferor to compensate the transferor for such underlying income. This requirement is consistent with the terms of standard market agreements such as Global Master Securities Lending Agreement (GMSLA), Overseas Securities Lender’s Agreement (OSLA) and Global Master Repurchase Agreement (GMRA). Appendix B sets out in greater detail the tax treatment of manufactured payment in various situations.

19 The Government recognizes, however, that in the repo markets, parties may enter into “buy/sell transactions” where manufactured payments are not made. In order not to prevent or discourage buy/sell trades, the requirement to make a manufactured payment shall not apply to buy/sell transactions in Singapore Government Securities, qualifying debt securities as defined under Singapore Income Tax Act and foreign debt securities.

Tax Treatment in cases where transferee receives an actual distribution

20 Where a Singapore-based⁶ transferee of transferred securities (other than stocks or shares of unlisted Singapore resident company) receives a

⁶ Singapore-based transferee refers to transferee who is resident in Singapore or is a permanent establishment in Singapore except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore

distribution on the underlying securities in respect of which the transferee is required to pass on to the transferor, the Government has decided that the transferor (or the ultimate transferor in a chain) will be regarded as the recipient of the distribution passed on. In other words, the receipt and subsequent passing on of the distribution by the transferee are ignored for income tax purposes.

21 In line with the above treatment, the tax credit in respect of dividend paid by a listed Singapore resident company, and credit for foreign taxes suffered by the Singapore-based transferee as reflected in the foreign tax vouchers, will be treated as belonging to the transferor (or in a chain, the ultimate transferor) and not the transferee.

22 In order to facilitate the passing on of the distribution as well as the passing on of the tax credit on dividend paid by a listed Singapore resident company to the ultimate transferor, the Singapore-based transferee will have to give notice to the Central Depository (Pte) Ltd (CDP) or the relevant Depository Agents (“DAs”) within 30 days from the date of payment of distribution that he is not the economic owner of that distribution. However, the above requirement to give notice to CDP or DAs within the stipulated period may be waived in cases where CDP or the DAs, as the case may be, act on behalf of the transferee and where CDP or the DAs will undertake, inter alia, to put in place a proper system of control over the passing on of distribution from the transferee to the transferor under a qualifying securities lending and repo arrangement, and the issuance of subsidiary income tax certificates. The above system of control must be verified by an external auditor. For all other cases where waiver is not granted e.g. where an undertaking is not received from CDP or DAs, the requirement for the Singapore-based transferee to give notice to CDP or DAs within 30 days from the date of payment of distribution must strictly be adhered to.

23 In cases where waiver to give notice to CDP or DAs is not granted and the Singapore-based transferee fails to give notice within the stipulated period, appropriate penalties under the Singapore Income Tax Act will be imposed. In addition, the transferee will not be entitled to any deduction for any payment made to the transferor, while the Singapore-based transferor will be taxed on such payment received from the transferee at 24.5% or the individual income tax rates, as the case may be, with the date of accrual to be taken as the date of payment of dividend by the issuer of the security. Appropriate penalties under the Singapore Income Tax Act will also be imposed on those Singapore-based transferees who have claimed the tax credit and/or have onward declared distribution of Singapore dividend to their own shareholders.

24 Where the transferee is not based in Singapore, the case would be treated as one where the transferee has not received the actual distribution. The treatment as set out in paragraphs 26-29 would thus apply.

25 Appendix C provides details of the administrative procedures to be complied with for the purpose of passing on different types of distribution, including Singapore dividend, Singapore interest and foreign dividend/interest.

Cases where transferee does not receive an actual distribution

26 Situations where a transferee receives a distribution on the underlying securities are expected to be less common. It is more likely that a transferee under a securities lending arrangement would not continue to hold the transferred securities, but would have delivered them to a purchaser pursuant to a short sale or on-lent them to another borrower. Under such circumstances, the transferee should make a pure manufactured payment of equal value to the transferor.

27 In this case, the transferee will be allowed a deduction for the manufactured payment provided it is revenue expenditure wholly and exclusively incurred in the production of the income of the transferee. On the other hand, the manufactured payments would be taxed in the hands of the transferor.

28 Conceptually, a pure manufactured payment is a distinct item of income and should not have the character of the underlying income. However, where the transferee is based in Singapore, the Government has decided that transferor shall generally be taxed on the manufactured payment at the same rate as would be applicable to an underlying distribution. For example, manufactured interest on a qualifying debt security would be taxed at 10% if the Singapore-based transferor receiving the manufactured interest is a company. However, where the manufactured payment represents Singapore dividend on listed Singapore shares, no tax credit would be granted to the Singapore-based transferor on such manufactured payment. Instead, the transferor will be taxed on a gross basis at 24.5% or the individual income tax rates, as the case may be.

29 Where the manufactured payments are received by a Singapore-based transferor from a transferee based outside Singapore, the Government has decided that the manufactured payments will be regarded as separate and distinct payments subject to taxation in accordance with ordinary tax rules. That is, the rate of tax on such manufactured payments would not be based on the rate as would be applicable to an underlying distribution as in the case where the transferee is based in Singapore.

30 Where a Singapore-based transferee makes a pure manufactured payment to a non-resident person, the payment is subject to withholding tax in accordance with the provisions of Singapore Income Tax Act. However, the Government has decided that such payments (excluding any payment to any permanent establishment in Singapore) will be exempt from tax if the payor is MAS, a bank, merchant bank, licensed securities company or a financial institution approved by MAS for the purpose of this exemption.

31 The tax treatment before and after the above tax concessions is summarised in the table shown in Appendix A.

RECORD KEEPING

32 Any transferor or transferee or its agent, as the case may be, entering into a securities lending or repo arrangement or making a manufactured payment is required to maintain proper records of arrangements entered into and distributions made. Such records shall be retained for a minimum of 7 years and full particulars of such records shall be made available to Comptroller of Income Tax upon request.

OTHER MATTERS

33 Notwithstanding the tax treatment set out in this guide, it shall not be construed to limit the right of Comptroller of Income Tax to counter any tax avoidance under the provisions of Singapore Income Tax Act. The Government will continue to monitor and if necessary, review the tax treatment set out in this guide.

34 Clarifications on the content of this guide may be directed to IRAS at telephone number 3512127 or 3512121.

INLAND REVENUE AUTHORITY OF SINGAPORE
NOVEMBER 2001

Appendix A

Nature of Payment	Existing concessionary tax treatment	Concessionary tax treatment under a qualifying securities lending and repo arrangement
1) borrowing fee	<p>10% concessionary rate of tax on borrowing fee derived by ACU or ASC from loan of foreign securities to certain specified person</p> <p>Tax exemption on borrowing fee derived by non-resident lender (excluding PE in Singapore) from loan of foreign securities⁷ to ACU or ASC</p> <p>In all other cases, the borrowing fees derived from Singapore are taxable</p>	<p>10% concessionary rate of tax on borrowing fee derived by ACU or ASC from loan of foreign securities to certain specified person</p> <p>Tax exemption on borrowing fee derived by non-resident lender (excluding PE in Singapore) from loan of securities (other than unlisted shares or stock issued by Singapore resident company) to certain financial institutions (including ACU and ASC) in Singapore</p> <p>In all other cases, the borrowing fees derived from Singapore are taxable</p>
2) loan rebate fee & price differential	<p>Tax exemption on loan rebate fee derived by non-resident (excluding PE in Singapore) from cash collateral placed with Singapore lender which is an approved bank</p> <p>Tax exemption on price differential on certain Repo transaction, which is paid by approved OHQ or approved FTC to bank outside Singapore</p> <p>In all other cases, the loan rebate fee and price differential derived from Singapore are taxable</p>	<p>Tax exemption on loan rebate fee or price differential derived by non-resident (excluding PE in Singapore) where the payment is made by certain financial institutions in Singapore</p> <p>In all other cases, the loan rebate fee and price differential derived from Singapore are taxable</p>

⁷ Foreign securities are defined as securities issued by a company not incorporated nor resident in Singapore and denominated in foreign currency.

Nature of Payment	Existing concessionary tax treatment	Concessionary tax treatment under a qualifying securities lending and repo arrangement
3)manufactured payment	<p>10% concessionary rate of tax on manufactured payment derived by ACU or ASC from loan of foreign securities to certain specified person.</p> <p>Tax exemption on manufactured payment derived by non-resident (excluding PE in Singapore) from loan of foreign securities to ACU or ASC</p> <p>In all other cases, manufactured payment derived from Singapore would be taxable</p>	<p>10% concessionary rate of tax on manufactured payment derived by ACU or ASC from loan of foreign securities to certain specified person.</p> <p>Tax exemption on manufactured payment derived by non-resident lender (excluding PE in Singapore) from loan of securities (other than unlisted shares or stock issued by Singapore resident company) to certain financial institutions (including ACU and ASC) in Singapore</p> <p>In all other cases, manufactured payment derived from Singapore would be taxable</p>

ACU – Asian Currency Unit of a financial institution

ASC – Approved Securities Company

OHQ – Company granted the Operational Headquarters status

FTC – Finance and Treasury Centre

TAX TREATMENT OF MANUFACTURED PAYMENTS WHERE TRANSFEREE RECEIVES ACTUAL DISTRIBUTION

Tax status of transferor and transferee	Nature of Distribution				
	Taxable dividend paid on shares issued by a listed Singapore resident company	Interest from qualifying debt security issued by a Singapore resident company or permanent establishment in Singapore	Interest from non-qualifying debt security issued by a Singapore resident company or permanent establishment in Singapore	Tax-exempt dividend paid on a listed share of a Singapore resident company	Foreign dividend or interest
Both transferor and transferee are based in Singapore	Pass On	Pass On	Pass On	Pass On	Pass On. The amount of foreign tax to be allowed would be the amount of foreign tax suffered by the transferee as shown on the foreign tax voucher.
Transferee is based in Singapore and transferor is based outside Singapore	Pass On	Pass On	Pass on but transferee will have to withhold tax at 15% or 24.5% as the case may be.	Pass On	Pass on.
Transferee based outside Singapore and transferor based in Singapore	The tax treatment for pure manufactured payments (see Table below) would apply.				

TAX TREATMENT OF PURE MANUFACTURED PAYMENTS

Tax status of transferor and transferee	Nature of Distribution from underlying securities				
	Taxable dividend paid on shares issued by a listed Singapore resident company	Interest from qualifying debt security issued by a Singapore resident company or permanent establishment in Singapore	Interest from non-qualifying debt security issued by a Singapore resident company or permanent establishment in Singapore	Tax-exempt dividend paid on a listed share of a Singapore resident company	Foreign dividend or interest
Both transferor and transferee are based in Singapore	<p>Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.</p> <p>Transferor is taxed on the manufactured payment at rate applicable to the underlying dividend, but without any tax credits.</p> <p>In other words, transferor is taxed at 24.5% or individual income tax rate applicable to the underlying dividend, as the case may be, but</p>	<p>Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.</p> <p>Transferor is taxed on the manufactured payment at rate applicable to the underlying interest.</p> <p>In other words, under the debt market incentive scheme, transferor would be taxed at 10% if it is a financial institution or a company.</p>	<p>Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.</p> <p>Transferor is taxed on the manufactured payment at rate applicable to the underlying interest.</p> <p>In other words, transferor is taxed at 24.5% or individual income tax rate applicable to the underlying interest, as the case may be.</p>	<p>Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.</p> <p>Transferor is taxed on the manufactured payment at rate applicable to the underlying dividend.</p> <p>In other words, transferor is in this case exempt from tax on payment.</p>	<p>Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.</p> <p>Transferor is taxed on the manufactured payment at rate applicable to the underlying dividend or interest.</p> <p>In other words, transferor is taxed at 24.5% or individual income tax rate applicable to the underlying dividend or interest, as the case</p>

Tax status of transferor and transferee	Nature of Distribution from underlying securities				
	Taxable dividend paid on shares issued by a listed Singapore resident company	Interest from qualifying debt security issued by a Singapore resident company or permanent establishment in Singapore	Interest from non-qualifying debt security issued by a Singapore resident company or permanent establishment in Singapore	Tax-exempt dividend paid on a listed share of a Singapore resident company	Foreign dividend or interest
	without tax credits.				may be, <u>but without any foreign tax credit</u> Where the transferor is an Asian Currency Unit (ACU) of a bank or an approved securities company (ASC), the concessionary rate of tax of 10% on manufactured payment derived from loan of foreign securities to certain specified person as stipulated in ACU and ASC Regulations shall continue to apply.
Transferee is based in Singapore and transferor is based outside Singapore	Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.	Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.	Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.	Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.	Transferee may (subject to tax provisions governing the deductibility) claim a tax deduction for the manufactured payment.

Tax status of transferor and transferee	Nature of Distribution from underlying securities				
	Taxable dividend paid on shares issued by a listed Singapore resident company	Interest from qualifying debt security issued by a Singapore resident company or permanent establishment in Singapore	Interest from non-qualifying debt security issued by a Singapore resident company or permanent establishment in Singapore	Tax-exempt dividend paid on a listed share of a Singapore resident company	Foreign dividend or interest
Where transferee is a financial institution	The non-resident transferor is tax exempt (i.e. no withholding tax).	The non-resident transferor is tax exempt (i.e. no withholding tax).	The non-resident transferor is tax exempt (i.e. no withholding tax).	The non-resident transferor is tax exempt (i.e. no withholding tax).	The non-resident transferor is tax exempt (i.e. no withholding tax).
Where transferee is not a financial institution	Transferee will have to withhold tax at 15% or 24.5% as the case may be.	The non-resident transferor is tax exempt (i.e. no withholding tax).	Transferee will have to withhold tax at 15% or 24.5% as the case may be.	The non-resident transferor is tax exempt (i.e. no withholding tax).	Transferee will have to withhold tax at 15% or 24.5% as the case may be.

<p>Transferee is based outside Singapore and transferor is based in Singapore</p>	<p>Transferor is taxed on the basis that the manufactured payment is a separate and distinct payment from transferee to transferor. Tax treatment is thus based on ordinary tax rules.</p> <p>Hence, transferor (other than a financial institution which is taxed on an arising basis) is taxed on the foreign income and is allowed foreign tax credits in accordance with the present provisions in the Income Tax Act.</p>	<p>Transferor is taxed on the basis that the manufactured payment is a separate and distinct payment from transferee to transferor. Tax treatment is thus based on ordinary tax rules.</p> <p>Hence, transferor (other than a financial institution which is taxed on an arising basis) is taxed on the foreign income and is allowed foreign tax credits in accordance with the present provisions in the Income Tax Act.</p>	<p>Transferor is taxed on the basis that the manufactured payment is a separate and distinct payment from transferee to transferor. Tax treatment is thus based on ordinary tax rules.</p> <p>Hence, transferor (other than a financial institution which is taxed on an arising basis) is taxed on the foreign income and is allowed foreign tax credits in accordance with the present provisions in the Income Tax Act.</p>	<p>Transferor is taxed on the basis that the manufactured payment is a separate and distinct payment from transferee to transferor. Tax treatment is thus based on ordinary tax rules.</p> <p>Hence, transferor (other than a financial institution which is taxed on an arising basis) is taxed on the foreign income and is allowed foreign tax credits in accordance with the present provisions in the Income Tax Act.</p>	<p>Transferor is taxed on the basis that the manufactured payment is a separate and distinct payment from transferee to transferor. Tax treatment is thus based on ordinary tax rules.</p> <p>Hence, transferor (other than a financial institution which is taxed on an arising basis) is taxed on the foreign income and is allowed foreign tax credits in accordance with the present provisions in the Income Tax Act. In the case where the transferor is an Asian Currency Unit (ACU) of a bank or approved securities company (ASC), the 10% concessionary rate of tax on manufactured payments as provided in the present ACU and ASC regulations shall continue to apply.</p>
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Appendix C

Administrative procedures for passing on the distribution under a qualifying securities lending and repurchase (“repo”) arrangement

Procedure for Passing On of Manufactured Payment (in respect of Singapore dividend) by Singapore-based Transferee

1 Where a Singapore-based transferee receives an actual distribution of Singapore dividend on shares issued by a listed Singapore resident company through Central Depository (Pte) Ltd (“CDP”) or the relevant DAs–

- (a) the transferee is required to submit a declaration form (Appendix D) to CDP (in the case of shares held in a direct account) or the relevant Depository Agent (“DAs”) (in the case of shares held through a sub-account) within 30 days from date of payment of distribution indicating that he is not the economic owner of the distribution;
- (b) CDP or DAs should inform the Comptroller of Income Tax (CIT) of late submissions of declaration forms;
- (c) waiver of the requirement for a transferee to submit the declaration form to CDP or DAs as the case may be, within the stipulated period may be considered by CIT in cases where CDP or DAs act on behalf of the transferee and where CDP or DAs undertake, inter alia, to put in place a proper system of control over the passing on of the actual distribution from the transferee to the transferor and the issuance of subsidiary income tax certificates (see paragraph 3 below);
- (d) CDP and DAs are required to maintain records including the declarations received from the transferee (if it is applicable) and details of distribution passed on. They are required to provide CIT with particulars thereof in such form and at such time as CIT may require [The items of particulars that CDP and DAs are required to keep are outlined in Appendix G. Supporting documents must also be maintained]. CDP and DAs may also be required to provide CIT the dividend tape or to update the existing dividend tape, if it is applicable, in such manner and at such time as CIT may require.

2 Transfer of tax credits in respect of Singapore dividends paid by a listed Singapore resident company will be based on the forms set out in Appendices D, E and F. Details of the procedures are as follows –

- (a) under the guide, a transferee is required to make manufactured payments to the transferor. In conjunction with such payment, the transferee shall, subject to paragraph 2(b), endorse the

original tax voucher, and attach it to a copy of the form set out in Appendix E duly completed, and onward deliver both these documents to the transferor⁸;

- (b) transferees who are banks, merchant banks or other financial institutions licensed or approved by MAS may, however, apply to CIT (Attention: Rulings & Tax Policy Branch) in writing for consent to issue subsidiary income tax certificates, subject to terms and conditions as may be imposed by CIT and in such form and manner as specified by CIT. This is in lieu of adopting the process in 2(a) (i.e. endorsing the original tax vouchers and using the endorsement form set out in Appendix E). For CDP and nominee companies which have already been granted approval by CIT to issue subsidiary income tax certificates to the beneficial owners, they need not apply to CIT again for consent to issue the subsidiary income tax certificates under a qualifying securities lending and repo arrangement. These companies are however required to -
- (i) inform CIT that they are issuing or planning to issue subsidiary income tax certificates pursuant to qualifying securities lending or repo arrangements;
 - (ii) indicate clearly on the subsidiary income tax certificates issued under a qualifying securities lending or repo arrangement entered into on or after 23 Nov 2001 that these are certificates issued under such an arrangement. For this purpose, the company should also forward a draft of the proposed format of the subsidiary income tax certificates to be issued under the qualifying securities lending or repo arrangements;
 - (iii) prepare a list, in the format specified in Appendix G, at the time subsidiary income tax certificates are issued. The list has to be duly certified by an external auditor or by two authorized signatories of the company. This list is to be submitted together with the original vouchers (to be stamped "cancelled" to prevent any reuse) as and when requested by CIT;
 - (iv) include as part of the annual external audit, the system of control over the issuance of subsidiary income tax certificate under the qualifying securities lending or repo arrangement;

⁸ Intermediate transferors will, in turn, add their endorsement to the form in Appendix E and onward pass this together with the original tax voucher.

- (v) include in statements of account issued to their account holders, an advice to the effect that if the account holder is a transferee under a qualifying securities lending or repo arrangement –
 - (aa) he is not entitled to any dividend income or tax credit on the shares in respect whereof he is a transferee under a qualifying securities lending or repo arrangement; and
 - (bb) he⁹ is required to submit to CDP or the DAs a declaration form¹⁰ within 30 days from the date of payment of dividend
- (c) all transferees endorsing tax vouchers and endorsement forms as contemplated in paragraph 2(a) or issuing subsidiary income tax certificates as contemplated in paragraph 2(b) shall retain, for a period of at least 7 years, originals or copies of documents received, endorsed or passed on by them.

Requirement for Singapore-based Transferee to give Notification to CDP or DAs

3 As indicated in paragraph 1(c) above, and paragraph 22 of the main guide, the requirement for a Singapore-based transferee, who receives dividend paid by a listed Singapore resident company, to give notice to CDP or DAs within 30 days from the date of payment of the dividend may be waived if CDP or DAs submit an undertaking that they would maintain, inter alia, a proper system of control over the passing on of distribution from the transferee to the transferor under a qualifying securities lending or repo arrangement. The above system of control must be verified by an external auditor. Any application by CDP or DAs for the above waiver shall be made to the Comptroller of Income Tax (Attn: Rulings & Tax Policy Branch).

Procedure for Claiming Tax Credit in respect of Singapore Dividend by Singapore-based Transferor

4 An ultimate Singapore-based transferor may claim the tax deducted at source in respect of Singapore dividends paid by a listed Singapore resident company when he files his tax return with CIT, subject to the following conditions –

⁹ It is not necessary to include (bb) in the advice if waiver for transferee to submit the declaration form has been granted to DA concerned.

¹⁰ In the form of Appendix D of this guide

- (a) CIT will only grant the claim where he is satisfied that it is *bona fide*, and that all administrative formalities have been complied with;
- (b) the claimant must submit either the original tax voucher duly endorsed to him, together with a completed endorsement form as set out in Appendix E, or the original subsidiary income tax certificate received by him. For this purpose, a duplicate/replacement tax voucher or subsidiary income tax certificate (including one with the words “duplicate” or “copy”) is not acceptable;
- (c) the claimant must also submit a completed declaration form (Appendix F) confirming that the claimant is the ultimate transferor under a qualifying securities lending or repo arrangement.

Procedure to be Complied With by Singapore-based Transferor who Receives Distributions other than Singapore Dividend

5 Where the ultimate transferor receives an actual distribution other than a Singapore dividend paid by a listed Singapore resident company, the ultimate transferor must submit, together with his tax return, the following:

- (a) either the original tax voucher duly endorsed to him, together with a completed endorsement form as set out in Appendix E, or the original subsidiary income tax certificates received by him, if it is applicable. For this purpose, a duplicate/replacement tax voucher or subsidiary income tax certificate (including one with the words “duplicate” or “copy”) is not acceptable;
- (b) a completed declaration form (Appendix F) confirming that the claimant is the ultimate transferor under a qualifying securities lending or repo arrangement.

Others

6 Only tax vouchers and subsidiary income tax certificates which are securely printed in a manner acceptable to CIT may be transferred under these procedures. Where CIT considers that tax vouchers or subsidiary income tax certificates do not provide sufficient assurance of genuineness, CIT reserves the right to reject attempted transfers of credit based on the tax vouchers or subsidiary income tax certificates under these procedures.

Appendix D

NOTICE OF SINGAPORE DIVIDEND# RECEIVED BY A TRANSFEREE UNDER A QUALIFYING* SECURITIES LENDING OR REPURCHASE (“REPO”) ARRANGEMENT

To Central Depository (Pte) Ltd (CDP)/ Depository agent (DA)** (State the name of the agent)

I/We**,

Name	
NRIC / FIN / Passport / Company registration number**	
Place of incorporation (for company)	
Contact Address	
Contact Telephone No., Fax & E-mail	

hereby give notice that I/we** am/are the transferee under a qualifying* securities lending or repo arrangement in respect of securities described in the attached voucher. I/We** confirm that I/we** shall not be entitled to any tax credit, if applicable, in respect of the income described in the said voucher. The particulars of the transferor of the transferred securities are as follows:

Name of the transferor of the transferred securities	
NRIC / FIN / Passport / Company registration number** of the transferor of the transferred securities	
Contact address of the transferor of the transferred securities	

_____ (Authorised signatory)

Name:

Identification No.

Designation:

Date:

excluding Singapore dividend from unlisted companies
* as defined under Singapore Income Tax Act
** delete whichever is not applicable

IMPORTANT NOTES

- (1) This notice shall be completed only by any Singapore-based transferee who receives an actual distribution on the underlying securities under a qualifying securities lending or repo arrangement.
- (2) Information provided in this form will be conveyed to the Comptroller of Income Tax, Singapore. Under Singapore Income Tax Act, there are penalties for giving any incorrect information or for not giving this notice within a stipulated period.

SBL/Repo Form 1

FORM OF ENDORSEMENT**To Comptroller of Income Tax**

Name, NRIC / FIN / Passport / Company Registration number** and contact address of transferee (endorser)	Name, NRIC / FIN / Passport / Company Registration number** and contact address of transferor (endorsee)	Date of transfer of securities from transferor to transferee under a qualifying* securities lending or repurchase arrangement	Signature on behalf of Endorser (with name, identification number and designation)	Date of Endorsement

* as defined under Singapore Income Tax Act

** delete whichever is not applicable

SBL/Repo Form 2

Appendix F

DECLARATION BY ULTIMATE TRANSFEROR IN RESPECT OF SINGAPORE DIVIDEND# AND OTHER ACTUAL DISTRIBUTION RECEIVED UNDER A QUALIFYING* SECURITIES LENDING OR REPURCHASE (“REPO”) ARRANGEMENT

To Comptroller of Income Tax

I/We**,

Name(s) of Ultimate Transferor	
NRIC / FIN / Passport / Company Registration No.**	
Place of incorporation (for company)	
Contact Address	
Contact Telephone No., Fax & E-mail	

hereby confirm that I/we** am/are the economic owners of the securities referred to in the attached voucher/certificate, which I/we** have transferred under a qualifying* securities lending or repo arrangement. I/We** further confirm that I/we** have received payment representative of the income referred to in the said voucher/certificate.

_____ (authorized signatory)

Name:

Identification No:

Designation:

Date:

excluding Singapore dividend from unlisted companies

* as defined under Singapore Income Tax Act

** delete whichever is not applicable

IMPORTANT NOTES

- (1) This declaration shall be completed by any Singapore-based transferor who receives any actual distribution from a Singapore-based transferee under a qualifying securities lending or repo arrangement. Under Singapore Income Tax Act, there are penalties for giving any incorrect information or making a false declaration.
- (2) This declaration form is to be submitted together with either of the following:
 - (i) SBL/Repo Form 2 and the original tax vouchers; or
 - (ii) subsidiary income tax certificates;at the time the transferor files his income tax return.

SBL/Repo Form 3

**ISSUE OF SUBSIDIARY INCOME TAX CERTIFICATE (SITC)
UNDER A QUALIFYING SECURITIES LENDING OR REPURCHASE* ARRANGEMENT**

List of beneficial owners where SITCs¹¹ have been issued for the following:

Particulars of Original Tax Certificates

Name of Issuing Company	:		Gross Dividend/Interest*	:	
Total Stocks/Shares held	:		Singapore/Foreign* Income Tax Deducted	:	
Gross Dividend Rate	:		Net Dividend/Interest*	:	
Warrant Number	:				
Date of payment	:				

Date of Issue of SITC	SITC Serial No.	Name of the Party (i.e. the transferee) From Whom the Original Voucher was Received	Date of Securities Lending or Repurchase Arrangement	Name, NRIC/ FIN/ Passport No./ Company registration No. of Beneficiary (i.e. transferor) & Nationality/ Place of Incorporation	Address, if known	Number of Shares Held, if applicable	Gross Dividend/ Interest*	Singapore /Foreign* Income Tax Deducted
					Sub-Total Balance unallocated (If any)			
					Total :			

Certified by Name and designation of the external auditor or 2 authorised signatories of the company

* delete whichever is not applicable

¹¹ Records and copies of original vouchers should be kept. In addition, these original vouchers should be stamped "cancelled" to prevent any reuse subsequently.