

IRAS e-Tax Guide

Securities Lending and Repurchase Arrangements



INLAND REVENUE
AUTHORITY
OF SINGAPORE

Published by
Inland Revenue Authority of Singapore

Published on 29 Jun 2012

Disclaimers

IRAS shall not be responsible or held accountable in any way for any damage, loss or expense whatsoever, arising directly or indirectly from any inaccuracy or incompleteness in the Contents of this e-Tax Guide, or errors or omissions in the transmission of the Contents. IRAS shall not be responsible or held accountable in any way for any decision made or action taken by you or any third party in reliance upon the Contents in this e-Tax Guide. This information aims to provide a better general understanding of taxpayers' tax obligations and is not intended to comprehensively address all possible tax issues that may arise. While every effort has been made to ensure that this information is consistent with existing law and practice, should there be any changes, IRAS reserves the right to vary our position accordingly.

© Inland Revenue Authority of Singapore

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording without the written permission of the copyright holder, application for which should be addressed to the publisher. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

Table of Contents

	Page
1 Aim.....	3
2 At a glance	3
3 Glossary	4
4 Background.....	8
5 Qualifying securities lending and repo arrangements	8
6 Economic ownership.....	9
7 Tax treatment of gain/loss from transfer of securities or collateral under qualifying securities lending and repo arrangements.....	10
8 Tax treatment of actual distribution and compensatory payment arising from qualifying securities lending and repo arrangements ...	14
9 Tax treatment of other related payments	16
10 Administrative requirements	17
11 Contact information.....	17
12 Updates and Amendments	18
Annex 1 – Transferor (whether or not Singapore-based) receives distribution from Singapore-based transferee	20
Annex 2 – Transferor (whether or not Singapore-based) receives compensatory payment from Singapore-based transferee....	22
Annex 3 – Singapore-based transferor receives compensatory payment from non Singapore-based transferee	24

Securities Lending and Repurchase Arrangements

1 Aim

- 1.1 This e-Tax guide gives details on the income tax treatments and tax concessions of qualifying securities lending and repurchase (“repo”) arrangements under Section 10N of the Income Tax Act (“ITA”)¹.
- 1.2 It is relevant to any person who engages in securities lending and repo arrangements.

2 At a glance

- 2.1 When a person needs certain securities for the purpose of, say covering short sale, it can enter into a securities lending arrangement to borrow the securities. It is obliged to provide collateral and return the borrowed securities at a later date.
- 2.2 On the other hand, when a person has certain securities but needs cash, it can enter into a securities repo arrangement to sell the securities for cash with the agreement that the securities will be sold back to it at a later date.
- 2.3 Both arrangements involve transferring of ownership of the securities but only temporary. If the arrangement is a qualifying arrangement, the person who originally owns the securities will not be treated as having sold the securities.
- 2.4 Briefly, this is the tax position for qualifying arrangements:

	Securities lending arrangement		Securities repo arrangement	
	Lender	Borrower	Seller	Buyer
Is gain/loss arising from transfer of securities taxable/deductible?	No	Yes ²	No	Yes ²
Is dividend or interest subjected to tax if it is not exempt from tax?	Yes	No	Yes	No

- 2.5 Please refer to the paragraphs below for further details.

¹ This e-Tax guide replaces the IRAS’ e-Tax guide on “IRAS guide on securities lending and repurchase (“REPO”) arrangement” published on 23 Nov 2001.

² When the transfer is made by the person in the normal course of its trade or business.

3 Glossary

3.1 Borrowing fee

This is a fee payable by a borrower to a lender under a securities lending arrangement for the use of the borrowed securities.

3.2 Compensatory payments

These refer to payments made by the transferee to the transferor which are of equal value to the distributions of the transferred securities or collateral that the transferee never receives.

3.3 Equivalent securities

Equivalent securities (including securities used as collateral) are securities which are identical in type, nominal value, description and amount to the transferred securities and collateral.

However, certain corporate events may make it impossible for the transferee to return equivalent securities to the transferor. In such situations, the equivalent securities will mean:

	Corporate events affecting transferred securities or collateral	Equivalent securities
(i)	Conversion, sub-division or consolidation	Securities into which the transferred securities or collateral have been converted, sub-divided or consolidated
(ii)	Redemption	Proceeds from the redemption of transferred securities or collateral
(iii)	Takeover	Cash or securities representing the proceeds of acceptances
(iv)	Call on partly-paid securities	Paid-up securities (provided the transferor has paid to the transferee the sum due on the call)
(v)	Capitalisation issue	Transferred securities or collateral together with the securities allotted by way of bonus
(vi)	Rights issue	<ul style="list-style-type: none">• Transferred securities or collateral together with the securities allotted, where the transferor has directed the transferee to take up the rights issue and has paid to the transferee any sum due on the issue; or

	Corporate events affecting transferred securities or collateral	Equivalent securities
		<ul style="list-style-type: none"> Transferred securities or collateral together with the proceeds from the disposal of the rights, where the transferor has directed the transferee to sell the rights
(vii)	Distributions in the form of securities or a certificate which may be exchanged for securities or an entitlement to acquire securities	Transferred securities or collateral together with the securities or certificate or entitlement equivalent to those allotted
(viii)	Any event similar to (vii) above	Transferred securities or collateral together with or replaced by a sum of money or securities equivalent to that received in respect of such event

3.4 **Loan rebate fee**

This is a fee payable by a lender to a borrower when the borrower provides cash collateral to the lender for the transferred securities under a securities lending arrangement.

3.5 **Price differential**

This is generally the difference between the sale and repurchase price under a securities repo arrangement and is payable by the seller to the buyer.

3.6 **Securities lending arrangement**

This is an arrangement where a person (“lender”) lends its securities to another (“borrower”) in exchange for collateral. The borrower is obliged to return the transferred securities or their equivalent to the lender, either on the lender’s demand or within the period of the arrangement. When the lender receives the transferred securities or their equivalent, it returns the transferred collateral or its equivalent to the borrower.

Under the arrangement, the lender transfers the legal ownership of the securities to the borrower. However, it retains the economic ownership of the transferred securities. Please refer to paragraph 6 on the definition of economic ownership.

The collateral provided by the borrower can be cash or other securities. Like the lender, the borrower also transfers the legal ownership of the collateral to the lender but retains the economic ownership of the transferred collateral.

A securities lending arrangement is usually initiated by the borrower to cover a short sale, fail trade or other settlement or for market arbitrage or hedging activity.

3.7 Securities repo arrangement

This is an arrangement where a person (“seller”) sells its securities to another (“buyer”) for cash and the buyer agrees to sell back the transferred securities or their equivalent at a specified price on an agreed future date or on the seller’s demand.

Under the arrangement, the seller transfers the legal ownership of the securities to the buyer but retains the economic ownership of the transferred securities. Please refer to paragraph 6 on the definition of economic ownership.

A securities repo arrangement is usually initiated by the seller who has the securities but needs cash.

3.8 Singapore-based transferee

A Singapore-based transferee means a transferee who is resident in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore) or which is a permanent establishment in Singapore.

3.9 Singapore-based transferor

A Singapore-based transferor means a transferor who is resident in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore) or which is a permanent establishment in Singapore.

3.10 Transferee

This refers to a person who receives the transferred securities or collateral. It, therefore, includes:

- (i) the borrower who receives transferred securities under a securities lending arrangement;
- (ii) the lender who receives the transferred collateral under a securities lending arrangement; and
- (iii) the buyer who receives the transferred securities under a securities repo arrangement.

3.11 Transferor

This refers to a person who transfers the securities (including securities used as collateral) to another person. It, therefore, includes:

- (i) the lender who lends the transferred securities under a securities lending arrangement;
- (ii) the borrower who provides the transferred collateral under a securities lending arrangement; and
- (iii) the seller who sells the transferred securities under a securities repo arrangement.

3.12 Transferred collateral

These are securities which the borrower passes over to the lender as collateral under a securities lending arrangement.

3.13 Transferred securities

These are securities which the lender passes over to the borrower under a securities lending arrangement or seller passes over to the buyer under a securities repo arrangement.

4 Background

- 4.1 A securities lending arrangement involves a lender and a borrower of securities. The lender would transfer the securities to the borrower. In return, the borrower would transfer cash or securities as collateral to the lender. When the borrower subsequently returns the transferred securities or their equivalent to the lender, the lender will return the transferred collateral or its equivalent to the borrower³.
- 4.2 In a securities repo arrangement, the seller sells the securities to a buyer for cash with an agreement that the buyer would sell back the transferred securities or their equivalent to the seller at a later date³.
- 4.3 Both securities lending and repo arrangements, therefore, require the transfer of securities or collateral (“transferred securities or collateral”) and the subsequent return of the transferred securities or collateral or their equivalent (“equivalent securities”).
- 4.4 Under the arrangements, legal titles change hands although the transferor continues to retain the economic ownership of the transferred securities or collateral.
- 4.5 Based on ordinary tax rules, the gain or loss arising from the securities lending and repo arrangements is taxable or allowable in the hands of the transferor and transferee at each transfer if it is derived in the normal course of a business or trade.

5 Qualifying securities lending and repo arrangements

- 5.1 If the securities lending and repo arrangements were qualifying arrangements, instead of applying the general tax position, including that in paragraph 4.5, the tax treatment and concessions explained in paragraphs 7 and 8 would apply. These tax treatment and concessions apply to qualifying securities lending and repo arrangements entered into on or after 23 November 2001.
- 5.2 Securities lending and repo arrangements are treated as qualifying arrangements when the following conditions are satisfied:
- (i) the transferred securities or collateral do not involve stocks or shares of unlisted Singapore resident companies; and
 - (ii) the transferor continues to bear the risks and retains the economic ownership of the transferred securities or collateral

³ In this e-Tax guide:

- The lender who lends the securities, the borrower who provides the collateral and the seller of the securities are collectively referred to as transferors.
- The borrower who receives the securities, the lender who receives the collateral and the buyer of the securities are collectively referred to as transferees.

Please refer to paragraphs 3.10 and 3.11 of the glossary.

during the period of the securities lending or repo arrangement although the legal titles are passed to the transferee. Please refer to paragraph 6 on the definition of economic ownership.

6 Economic ownership

6.1 The requirements for economic ownership are not limited to the transferor's entitlement to the distributions on the transferred securities or collateral. The transferor is considered to have retained the economic ownership of the transferred securities or collateral if the following elements are present in a securities lending or repo arrangement:

	Factors	Conditions
(i)	Structure of arrangement	It must be documented in writing.
(ii)	Risks and rewards of the transferred securities or collateral	The transferor must continue to assume the risks and retain the rewards, including the return of transferred or equivalent securities by the transferee.
(iii)	Distributions on the transferred securities or collateral	The transferee must pass on the distributions on the transferred securities or collateral or make compensatory payments of equal value to the transferor. Please see details on distributions and compensatory payments in paragraph 8.
(iv)	Right to receive any part of the total consideration payable under the securities lending or repo arrangement	Transferor must not dispose of such right.
(v)	Arm's length consideration	Transferor and transferee must transact on arm's length basis and not enter into the arrangement with a view to avoid, reduce or defer Singapore tax.
(vi)	Transferee's reasons for acquiring securities	The transferee must acquire the securities for one or more of the following acceptable commercial reasons: <ul style="list-style-type: none"> • To settle a sale of securities • To replace the securities obtained under an earlier securities lending or

	Factors	Conditions
		repo arrangement <ul style="list-style-type: none"> • To on-lend the transferred securities to another person • To fulfill obligations of an uncovered written option position • To hedge and arbitrage • To manage liquidity through repo arrangement • To hold the transferred securities as collateral against the obligations of the counterparty to the securities lending or repo arrangement • Such other purposes the Minister (or such person as the Minister may appoint) may allow

7 Tax treatment of gain/loss from transfer of securities or collateral under qualifying securities lending and repo arrangements

Tax treatment for transferor

7.1 Under a qualifying securities lending or repo arrangement, the transferor retains economic ownership of the transferred securities or collateral. The transferor only temporarily allows the transferee to use the transferred securities or collateral.

7.2 Accordingly, for income tax purposes, no gain or loss will be recognised when:

- (i) the transferor transfers the transferred securities or collateral to the transferee. Such transfer is not regarded as a disposal of the securities or collateral by the transferor; and
- (ii) the transferee subsequently re-transfers the equivalent securities to the transferor. Such re-transfer is not regarded as a re-acquisition of the securities by the transferor.

7.3 But when an actual disposal takes place, the transferor has to recognise the gain or loss. Actual disposal can arise under these situations:

	Event which takes place after the transfer of securities or collateral	When is transferor regarded as making an actual disposal?
(i)	Redeems the transferred securities	At the time of redemption

	Event which takes place after the transfer of securities or collateral	When is transferor regarded as making an actual disposal?
(ii)	Transferor directs the transferee to accept the take-over offer	At the time the take-over offer is due for acceptance
(iii)	Transferor instructs the transferee to sell the transferred securities to the issuer as a result of a share buyback	At the time the sale to issuer occurs Under the ITA, the proceeds may be regarded as disposal proceeds or dividend ⁴ . However, for qualifying securities lending and repo arrangements, the proceeds shall be regarded as disposal proceeds in all cases.
(iv)	Either the transferor or transferee defaults and the securities lending or repo arrangement is terminated	Equivalent securities may not be returned but the obligations of both transferor and transferee are set off against each other. The transferor will be regarded as having disposed of the transferred securities in consideration of the collateral at the time the securities lending or repo arrangement is terminated. The transferor will, however, not be regarded as having disposed of the transferred securities or collateral if at the time the transferee defaults, the transferor immediately applies the collateral placed by the transferee to re-acquire securities equivalent to the transferred securities.
(v)	Event such as those under 3.3(vii) and 3.3(viii)	Parties involved should seek clarification from the Comptroller of Income Tax on how such cases should be treated for income tax purposes.

7.4 The gain or loss from the actual disposal is taxable or deductible if the transferor carries on the transactions in the normal course of its trade or business.

⁴ The proceeds may be regarded as dividends under Section 10J if certain conditions are satisfied.

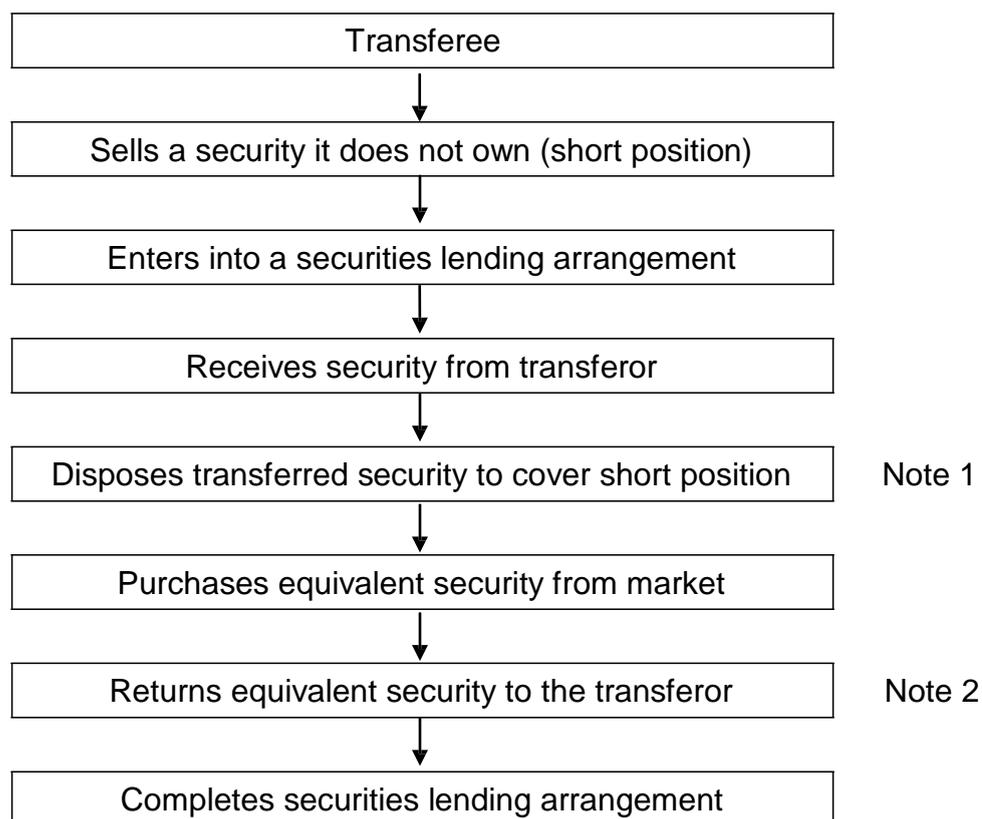
- 7.5 There is no specific maximum period imposed on a securities lending or repo arrangement to qualify for this tax treatment.

Tax treatment for transferee

- 7.6 A transferee may make a gain or loss from:
- (i) selling the transferred securities or collateral to another person other than the transferor; and
 - (ii) returning the equivalent securities to the transferor subsequently.

The gain or loss is taxable or allowable if the transferee carries on these transactions in the normal course of its trade or business. Such gain or loss made by investment companies assessed under section 10A of the ITA is also taxable or deductible.

- 7.7 The illustration below shows when the gain or loss arising from the transferee's short selling will be recognised for income tax purposes:



Note 1: The transferee is to recognise the gain or loss when it disposes of the transferred securities to another person other than the transferor to cover its short position.

Note 2: The transferee is to recognise the gain or loss when it returns the equivalent securities to the transferor.

- 7.8 The securities lending and repo arrangement can be terminated under the various events described in paragraph 7.3. As such, the transferee may not be able to purchase from the market and return the equivalent securities to the transferor. When such event takes place, the transferee is deemed to have returned the equivalent securities to the transferor and completed the arrangement. Consequently, the transferee is required to recognise the gain or loss.
- 7.9 In calculating the gain or loss, the transferee must first determine the market value of the transferred securities at the time he borrows them. This market value is then used as the cost of the transferred securities and the sale price of equivalent securities.
- 7.10 Below is an example on a step-by-step computation of the gain or loss under a securities lending arrangement for a transferee with accounting year ending on 31 Dec:

	Date of transaction	Transaction price or market value of securities, as the case may be
Transferee short sells securities it does not own	29 Dec 2010	\$20,000 (A) (consideration received from short sale)
Transferee borrows transferred securities to cover short position	31 Dec 2010	\$10,000 ⁵ (B) (market value of transferred securities at date of borrowing)
Transferee buys equivalent securities from the market to return to the transferor	1 Jul 2011	\$15,000 (C) (purchase cost of equivalent securities)

The securities lending arrangement is completed on 1 Jul 2011 when the transferee returns the equivalent securities to the transferor.

Year of Assessment 2011 - Deemed gain on short sale (29 Dec 2010)

$$\begin{aligned}
 &= A - B \\
 &= \$20,000 - \$10,000 \\
 &= \underline{\underline{\$10,000}}
 \end{aligned}$$

Year of Assessment 2012 - Actual loss when transferee buys equivalent securities from market to return to transferor (1 Jul 2011)

$$= B - C$$

⁵ The market value of the transferred securities at the time of the transfer, which is \$10,000, is taken as the cost of the transferred securities and the sale price of the equivalent securities.

= \$10,000 - \$15,000
= \$(5,000)

Overall net gain for transferee over two accounting years
= \$10,000 - \$5,000
= \$5,000

8 Tax treatment of actual distribution and compensatory payment arising from qualifying securities lending and repo arrangements

8.1 In order for a transferor to be considered as the economic owner of the transferred securities or collateral under a qualifying securities lending or repo arrangement, when a distribution (e.g. a dividend or interest) is paid on the transferred securities or collateral, the transferee has to:

- (i) pass on such distribution to the transferor if the transferee receives the distribution; or
- (ii) make a payment of equal value to the distribution to the transferor if the transferee does not receive the distribution (“compensatory payment”).

8.2 This requirement is consistent with the terms of standard market agreements such as Global Master Securities Lending Agreement, Overseas Securities Lender’s Agreement and Global Master Repurchase Agreement.

8.3 However, in order not to prevent or discourage the buy/sell trades in repo markets where compensatory payments are not made, the transferee is not required to make compensatory payment if the repo arrangement relates to Singapore Government Securities⁶, qualifying debt securities⁷ and foreign debt securities⁸.

8.4 The tax treatment of actual distribution and compensatory payment is explained in the following paragraphs.

Tax treatment of actual distribution passed on by Singapore-based transferee

8.5 The Singapore-based transferee will not:

- (i) be taxed on the actual distribution received on the transferred securities or collateral; and

⁶ “Singapore Government securities” has the same meaning as in Section 43N(4) of ITA

⁷ “Qualifying debt securities” has the same meaning as in Section 13(16) of ITA

⁸ “Foreign debt securities” has the same meaning as in Section 10N(12) of ITA

- (ii) be allowed a deduction for the passing on of the distribution to the transferor.

8.6 Instead, the transferor (or the ultimate transferor in a chain) is regarded as the recipient of the actual distribution on the transferred securities or collateral. The transferor will, therefore, be taxed on the distribution passed on by the Singapore-based transferee. The nature of the distribution received by the transferor will follow the nature of the actual distribution received by the Singapore-based transferee. Please refer to Annex 1 for details on the tax treatment of actual distribution a transferor receives from a Singapore-based transferee.

Tax treatment of actual distribution passed on by non Singapore-based transferee

8.7 Where the distribution is passed on by a non Singapore-based transferee, it would be treated as if the transferee makes a compensatory payment. The tax treatment of compensatory payment in paragraphs 8.8 to 8.10 would apply.

Tax treatment of compensatory payment made by transferee

8.8 A transferee may not always hold the transferred securities or collateral for the entire period of the securities lending or repo arrangement. The transferee could have delivered them to meet its short selling obligation. The transferee could have also transferred them under another securities lending or repo arrangement.

8.9 As such, the transferee could not have received any actual distributions on the transferred securities or collateral. However, the transferee should still make a compensatory payment to the transferor. The transferee will be allowed a deduction for such payment if it is a revenue expense wholly and exclusively incurred in the production of the transferee's income.

8.10 The transferor, on the other hand, will be taxed on the compensatory payment as follows:

Transferee	Transferor	Tax treatment of the compensatory payment in the hands of the transferor
Singapore-based	Singapore-based	<p>The compensatory payments will be assessed at the same tax rate as would be applicable to the distribution on the transferred securities or collateral.</p> <p>Please refer to Annex 2 for details on the tax treatment of the compensatory payment.</p>

Transferee	Transferor	Tax treatment of the compensatory payment in the hands of the transferor
Singapore-based	Non Singapore-based	<p>Generally, the compensatory payments will be assessed at the same tax rate as would be applicable to the distribution on the transferred securities or collateral.</p> <p>The payment is subject to withholding tax in accordance with the provisions of the ITA, unless tax exemption⁹ or waiver of the obligation to withhold tax is granted.</p> <p>Please refer to Annex 2 for details on the tax treatment of the compensatory payment.</p>
Non Singapore-based	Singapore-based	<p>All compensatory payments will be regarded as separate and distinct foreign income. This means that they do not follow the nature of the distributions on the transferred securities or collateral and will be subject to tax based on normal tax rules.</p> <p>Please refer to Annex 3 for details on the tax treatment of the compensatory payment.</p>
Non Singapore-based	Non Singapore-based	Not applicable

9 Tax treatment of other related payments

- 9.1 Where the borrowing fee, 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, they would be deemed to be derived from Singapore and hence, subject to Singapore tax.

⁹ Please refer to the Income Tax (Exemption of interest and other payments for economic and technological development) (No. 3) Notification 2003 (S/N S500/2003).

- 9.2 Singapore withholding tax is applicable if the borrowing fee, loan rebate fee and price differential are payable or paid to non-resident transferor or transferee, unless tax exemption¹⁰ or waiver of obligation to withhold tax is granted.
- 9.3 The deductibility of the borrowing fee, loan rebate fee or price differential is subject to the existing tax rules.

10 Administrative requirements

- 10.1 The transferor and transferee, or their agent, have to maintain proper records of the securities lending or repo arrangement. Such records include documents showing distributions passed on, compensatory payments made, economic ownership remains with the transferor, etc. The records are to be retained for a period of 5 years. Upon request, transferor, transferee or its agent is to submit full particulars of such records to Comptroller of Income Tax.

11 Contact information

- 11.1 If you have any enquiries or need clarification on this Guide, please call 1800-356 8622.

¹⁰ Please refer to the Income Tax (Exemption of interest and other payments for economic and technological development) (No. 3) Notification 2003 (S/N S500/2003).

12 Updates and Amendments

S/N	Date of amendment	Amendments made
1	29 Jun 2012	<p>Updated the example in paragraph 11 of the original e-Tax guide on the transferee's short sale transaction that straddles two accounting years with current dates (see paragraph 7.10).</p> <p>Paragraphs 13 and 16 of the original e-Tax guide on exemption of withholding tax for borrowing fee, loan rebate fee and price differential have been replaced with the applicable gazette order under section 13(4) in footnote 10.</p> <p>Paragraph 30 of the original e-Tax guide on exemption of withholding tax for pure manufactured payment has been replaced with the applicable gazette order under section 13(4) in footnote 9.</p> <p>The terms "manufactured payment" or "pure manufactured payment" in paragraph 18 onwards of the original e-Tax guide have been replaced with "distribution" and "compensatory payment" to be consistent with S10N of ITA.</p> <p>Paragraphs 21 to 23 and 25 and Appendices C to G of the original e-Tax guide in respect of the following have been removed as they are no longer relevant with the introduction of one-tier corporate tax system:</p> <ul style="list-style-type: none"> • administrative procedure for passing on of Singapore dividends and related tax credits; • giving notice to Central Depository (Pte) Ltd or relevant Depository Agents for passing on Singapore dividends and related tax credits; and • failure to give such notice. <p>Paragraphs 14, 17 and 31 and Appendix A of the original e-Tax guide on tax treatment of borrowing fee, loan rebate fee, price differential and manufactured payment have been removed. The summarised tax position is now in paragraph 9 or Annexes 1 to 3.</p>

S/N	Date of amendment	Amendments made
		Appendix B of the original e-Tax guide on tax treatment of manufactured and pure manufactured payments has been updated and replaced with Annexes 1 to 3.

Annex 1 – Transferor (whether or not Singapore-based) receives distribution from Singapore-based transferee

Nature of the actual distribution received by Singapore-based transferee	Tax treatment (follow nature of actual distribution)	
	Singapore-based transferor	Non Singapore-based transferor
One-tier Singapore dividend paid by a listed Singapore resident company	Tax exempt	Tax exempt
Interest from qualifying debt securities issued by a Singapore issuer	<ul style="list-style-type: none"> • Qualifying individual¹¹ – tax exempt • Financial Sector Incentive Standard-Tier (“FSI-ST”) company – 12%¹² • Company (other than FSI-ST company) and body of persons – 10% 	<ul style="list-style-type: none"> • Qualifying individual – tax exempt • Qualifying non-resident person¹³ – tax exempt • All other non-resident persons – 17% or 20%, whichever is applicable
Interest from non-qualifying debt securities issued by a Singapore issuer	<ul style="list-style-type: none"> • Qualifying individual – tax exempt • All other persons – 17% or individual income tax rates 	<ul style="list-style-type: none"> • Qualifying individual – tax exempt • All other non-resident persons – transferee has to withhold tax at 15%, 17% or 20%, whichever is applicable
Foreign dividend or interest	<ul style="list-style-type: none"> • Individual – tax exempt for dividend and interest not received through partnership in 	Not subject to Singapore tax

¹¹ A qualifying individual refers to an individual whose distribution or compensatory payment is not derived through a partnership in Singapore or from the carrying on of a trade, business or profession.

¹² This concessionary tax rate applies to income derived on or after 1 January 2011 as provided in the Income Tax (Concessionary rate of Tax for Financial Sector Incentive Companies) Regulations. The concessionary tax rate is 10% for income derived during the period from 1 January 2004 to 31 December 2010.

¹³ Qualifying non-resident person refers to (i) a non-resident person who does not have any permanent establishment in Singapore; (ii) a non-resident person who carries on any operation in Singapore through a permanent establishment in Singapore where the funds used by that person to acquire the qualifying debt securities are not obtained from the operation.

Nature of the actual distribution received by Singapore-based transferee	Tax treatment (follow nature of actual distribution)	
	Singapore-based transferor	Non Singapore-based transferor
	<p>Singapore</p> <ul style="list-style-type: none"> • FSI-ST company - 12% if payment derived from loan of foreign securities¹⁴ • All other persons – exempt¹⁵, 17% or individual income tax rates <p><u>Note:</u> The Singapore-based transferor may submit relevant receipts to claim tax credits for foreign tax suffered by the Singapore-based transferee.</p>	

¹⁴ Please refer to the Income Tax (Concessionary rate of tax for Financial Sector Incentive Companies) Regulations.

¹⁵ The income would be exempt from tax if it falls within Section 13(8) of ITA.

Annex 2 – Transferor (whether or not Singapore-based) receives compensatory payment from Singapore-based transferee

Nature of distribution not received by the Singapore-based transferee , but for which compensatory payment is made	Tax treatment (generally follow same tax rate as would be applicable to distribution)	
	Singapore-based transferor	Non Singapore-based transferor
One-tier Singapore dividend paid by a listed Singapore resident company	Tax exempt	Tax exempt
Interest from qualifying debt securities issued by a Singapore issuer	<ul style="list-style-type: none"> • Qualifying individual – tax exempt • FSI-ST company – 12% • Company (other than FSI-ST company) and body of persons – 10% 	<p><u>Singapore-based transferee is a financial institution¹⁶</u></p> <ul style="list-style-type: none"> • Specified non-resident person¹⁷ – tax exempt <p><u>Singapore-based transferee is not financial institution:</u></p> <ul style="list-style-type: none"> • Qualifying individual – tax exempt • Qualifying non-resident person – tax exempt <p>All other non-resident person - 17% or 20%, whichever is applicable</p>
Interest from non-qualifying debt securities issued by a Singapore issuer	<ul style="list-style-type: none"> • Qualifying individual – tax exempt • All other persons – 17% or individual income tax rates 	<p><u>Singapore-based transferee is a financial institution</u></p> <ul style="list-style-type: none"> • Specified non-resident person – tax exempt <p><u>Singapore-based transferee is not a financial institution</u></p> <ul style="list-style-type: none"> • Qualifying individual – tax exempt

¹⁶ The financial institution includes a bank, merchant bank, licensed securities company, etc

¹⁷ Specified non-resident person refers to a person neither resident in Singapore nor a permanent establishment in Singapore who enters into qualifying securities lending or repo arrangement as a principal.

Nature of distribution not received by the Singapore-based transferee , but for which compensatory payment is made	Tax treatment (generally follow same tax rate as would be applicable to distribution)	
	Singapore-based transferor	Non Singapore-based transferor
		All other non-resident persons – transferee has to withhold tax at 15%, 17% or 20%, whichever is applicable
Foreign dividend or interest	<ul style="list-style-type: none"> • Individual – tax exempt for dividend and interest not received through partnership in Singapore • FSI-ST company - 12% if payment derived from loan of foreign securities • All other persons – exempt, 17% or individual tax rates <p><u>Note:</u> The Singapore-based transferor cannot claim tax credit as no actual foreign tax was suffered by the Singapore-based transferee</p>	<p><u>Singapore-based transferee is a financial institution:</u></p> <ul style="list-style-type: none"> • Specified non-resident person – tax exempt <p><u>Singapore-based transferee is not financial institution:</u></p> <ul style="list-style-type: none"> • Qualifying individual – tax exempt <p>All other persons – transferee has to withhold tax at 15%, 17% or 20%, whichever is applicable</p>

Annex 3 – Singapore-based transferor receives compensatory payment from non Singapore-based transferee

Nature of distribution not received by non Singapore-based transferee , but for which compensatory payment is made	Tax treatment for Singapore-based transferor
Not a tax consideration	<p>All compensatory payments received from the non Singapore-based transferee are regarded as separate and distinct foreign income.</p> <p>The Singapore-based transferor is assessed on arising or remittance basis and the following exemption or tax rates may apply:</p> <ul style="list-style-type: none"> • Individual – tax exempt if not received through partnership in Singapore • FSI-ST company - 12% • All other persons – 17% or individual income tax rates <p>The Singapore-based transferor may claim tax credit under existing provisions in the ITA.</p>