

UN Subcommittee on Base Erosion and Profit Shifting Issues for Developing Countries

Singapore's Responses – 15 April 2014

1. How does base erosion and profit shifting affect your country?

Singapore supports the base erosion and profit shifting (BEPS) Action Plan and agrees that profits should be taxed in jurisdictions where real economic activities driving the profits take place. The main issues that Singapore faces on BEPS are where profits are not taxed in jurisdictions where real economic activities driving the profits take place.

This is caused primarily by the use of artificially contrived arrangements, which are essentially arrangements that do not have legitimate business substance and are conducted solely for tax avoidance.

Such arrangements erode our revenue base and are unfair to our other taxpayers.

2. If you are affected by base erosion and profit shifting, what are the most common practices or structures used in your country or region, and the responses to them?

Singapore has enacted general anti-avoidance provisions, as well as issued transfer pricing guidelines to deter BEPS.

length principle for related party transactions in accordance with international practices.

To ensure tax compliance, we have been reaching out to taxpayers to conduct transfer pricing consultation programs to remind our taxpayers of the importance of keeping robust transfer pricing documentation.

In addition, we have been concluding bilateral advance pricing arrangements with our treaty partners to ensure that the transactions of

Taken as a whole, these rules have helped Singapore to address BEPS concerns, but we are conscious of the need to update the rules continuously in line with changes in global tax rules.

3. When you consider an MNE's activity in your country, how do you judge whether the MNE has reported an appropriate amount of profit in your jurisdiction?

Singapore thinks that it is important to align taxation with substance. The allocation of profits in cross-border activities should follow where substantive economic activities are undertaken.

In our view, the best way to do this is to have robust transfer pricing related party transactions, in accordance with international practices.

Where there is no substance (i.e. functions, risks, assets) in a jurisdiction, a correctly applied transfer pricing would ensure that minimal profits are

guided in this regard.

In addition, we have a strict matching principle where tax deductions in our tax system have to be matched closely to the income that is being produced. For passive income like rental and interest income, any excess deduction would be disregarded and cannot be set off against other income. Furthermore, as dividends are not taxed in our one-tier corporate income tax system, interest expenses incurred to derive the dividends would not be allowed any tax deduction. Therefore, the risk of inflating interest expenses for the purpose of achieving a lower tax rate through excessive tax deduction is minimised.

4. What main obstacles have you encountered in assessing whether the appropriate amount of profit is reported in your jurisdiction and in ensuring that tax is paid on such profit?

Nil.

5. Do you agree that actions 4, 6, 8, 9, 10, 11, 12 and 13 are particularly important priorities for developing countries?

As there are considerable variations in country-specific issues between developing countries, and each tax jurisdiction has its unique features, it

would be difficult to generalise that some actions are more important priorities than others for developing countries as a whole.

Countries and tax jurisdictions would need to determine for themselves which Actions are their priorities with the paradigm of sovereignty in mind. For developing countries, it is important that the BEPS recommendations do not impede the growth of genuine substantive business activities which is development.

6. Which of these OECD's Action Points do you see as being most important for your country, and do you see that priority changing over time?

We think that transfer pricing is the most important aspect of the BEPS Action Plan.

As a business hub and gateway to Asia, it is important to have robust transfer pricing guidelines to ensure that profits are allocated to where economic activities take place and where value is created, pricing guidelines.

The continued correct application of the arms length principle to allocate profits based on function, risks and assets will help to ensure that profits are allocated based on where value is created.

7. Are there other Action Points currently in the Action Plan but not listed above that you would include as being most important for developing countries?

We would like to highlight that the focus on countering BEPS should be to grow the economic pie for every country, and not let the work be sidetracked by protectionism and development of rules for political expedience.

It is important, especially for developing countries, that the BEPS recommendations do not impede the growth of genuine substantive business

Fiscal characteristics and constraints of developing countries (e.g. fiscal prudence, small country, reliance on international trade) should be taken into account in the derivation of the BEPS rules.

In particular, tax incentives are a valuable tool for developing countries to spur investment in under-invested sectors and regions, and BEPS should not

take away such tools as long as they are geared towards real development and substantial economic activities.

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