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**Tax Exemption Scheme to qualify for Family-owned Investment Holding Companies (FIHC) in Singapore.** **December 2009**

The Singapore government has announced that its tax concessions to individuals are now extended to individuals who invest through a qualifying Family-owned Investment Holding Company (FIHC).

The tax concessions, which apply to the extent that the relevant income would have been exempted from tax if derived or received directly by an individual, are as follows:

- All foreign-sourced income received in Singapore is exempted from tax; and
- Specified Singapore-sourced investment income derived from financial instruction (except where the specified Singapore-sourced investment income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession) is exempted from tax.

The following income accrued, derived or received in Singapore on or after April 1 2008 by a qualifying FIHC incorporated before April 1 2013 shall be exempted from tax:

a. Any dividend paid by any company resident in Singapore;

b. Any interest, discount, prepayment fee, redemption premium or break cost from debt securities;

c. Any payment from Islamic debt securities;

d. Any income from any annuity, except income from:

    i. Any annuity purchased by the employer of an individual in lieu of any pension or other benefit payable during his employment or upon his retirement; and

    ii. Any annuity purchased under the Supplementary Retirement Scheme;

e. Any income from any insurance policy, except income referred to in Section 10(3) of the Income Tax Act ("ITA");

f. Any distribution made by the trustee of any collective investment scheme constituted as a unit trust (excluding any real estate investment trust) authorised under section 286 of the Securities and Futures Act (Cap. 289) and the units of which are offered to the public for subscription, that is income or deemed to be income of the individual;

g. Any distribution made by any trustee of a real estate investment trust of any income of the kinds referred to in Section 43(2A)(a)(i) to 43(2A)(a)(iv) of the ITA:

    i. rental income or income from the management or holding of immovable property but not including gains from the disposal of immovable property;

    ii. income that is ancillary to the management or holding immovable property but not including gains from the disposal of immovable property and Singapore dividends;

    iii. income (excluding Singapore dividends) that is payable out of rental income or income from the management or holding of immovable property in Singapore, but not out of gains from the disposal of such immovable property;

    iv. distribution from an approved sub-trust of the real estate investment trust out of rental income or income from the management or holding of immovable property but not including gains from the disposal of immovable property.

h. Any distribution made by any restricted authorised scheme out of income derived from Singapore or received in Singapore, that is income or deemed to be income of the individuals;

i. Any fee or compensatory payment from securities lending or repurchase arrangements;

j. Any distribution made by any registered business trust;

k. The interest derived from the deposit of moneys with an approved bank or a finance company licensed under the Finance Companies Act in Singapore;

l. Any income from any structured product offered by a financial institution; and

m. Any income arising from sources outside Singapore and received in Singapore.

   It is important to note that an FIHC incorporated before April 1 2013 can qualify for the tax FIHC tax incentive scheme if it satisfies the specified conditions stated:

- for basis period beginning prior to April 1 2013 where an FIHC fails to satisfy the specified conditions for any basis period falling within the period during April 1 2008 and March 31 2013, the company will not enjoy tax exemption on income stated above for the basis period concerned. The FIHC can however enjoy the tax exemption in any subsequent period falling within the period during April 1 2008 and March 31 2013, if it is able to satisfy the specified condition in the subsequent period.

- for basis period on or after April 1 2013 can continue to enjoy the tax incentive scheme so long as it meets the specified conditions for the basis period on or after April 1 2013. The company will be permanently excluded from the scheme and will not be able to enjoy this incentive scheme in any subsequent basis period.

Any expenses incurred by a qualifying FIHC in excess of its specified income will not be allowed to be set-off against other taxable income of the FIHC. These expenses will be disregarded.

The specific conditions for a qualifying FIHC to qualify for the tax incentive scheme are:

a. the principal activity of the FIHC is holding or making investments;

b. the immediate shareholders of the FIHC throughout the basis period for any Year of Assessment are all individuals and the individuals are connected persons where the relation is established by blood or established by adoption;

c. where an immediate shareholder is not an individual, this shareholder must be a trust, a nominee company or another FIHC whose immediate beneficiaries or shareholders respectively are individuals connected to the individuals of the first-mentioned FIHC;

d. the FIHC is administered, or all the financial assets held under the FIHC are managed/advised by a financial institution in Singapore that is licensed or approved or exempted from such licensing or approval by the Monetary Authority of Singapore;

e. the assets held by the FIHC were not transferred (unless transacted at market terms and conditions) from any business carried on in Singapore by any person and the income in relation to those assets derived by that person from that business in Singapore was not or would not be, as the case may be, exempted from tax;

f. FIHC shares were not transferred (unless transacted at market terms and conditions) to its existing shareholder by virtue of whom enable it to be a qualifying FIHC, where at any time prior to such transfer, it was carrying on a business in Singapore which generated income that was not or would not have been if not for the transfer, exempted from tax; and

g. the transactions with the FIHC-related parties are carried out on an arm’s-length basis.