

**Committee on Subsidies
and Countervailing Measures**

Original: English

SUBSIDIES

Replies to Questions from the EUROPEAN COMMUNITY¹
Regarding the New and Full Notification of SINGAPORE²

The following communication, dated 22 March 1999, has been received from the Permanent Mission of Singapore.

Questions

A. In document G/SCM/N/6, Singapore notified the following subsidies:

- 1. International Trade Incentives provided under Part VII of the Economic Expansion Incentives (Relief from Income Tax) Act (Chapter 86).**
- 2. Double Tax Deduction Scheme provided under Sections 14(B) and 14(C) of the Income Tax Act.**
- 3. Production for Export Incentive provided under Part VI of the Economic Expansion Incentives (Relief from Income Tax) Act (Chapter 86).**

The Community would like to know the current situation as regards these prohibited subsidies. In particular, when have they been phased out and when will enterprises cease to benefit from them?

The Community would also like to know the current status of the MAS Rediscounting Scheme for Pre-Export and Export Bills of Exchange, which was also included in the above notification.

Replies

International Trade Incentive (ITI)

The ITI is no longer in operation since 1986. We had notified it to the WTO in 1995 as a matter of procedure since it was still existent in our Economic Expansion Incentives Act (EEIA). We are still waiting for an opportune time to remove the ITI from the EEIA, i.e. when the EEIA is next amended.

¹ G/SCM/Q2/SGP/7

² G/SCM/N/38/SGP

Double Tax Deduction (DTD) Scheme

The DTD Scheme has been amended and brought into conformity with the Agreement on Subsidies and Countervailing Measures in August 1998. The key change is the removal of the export condition to qualify for the DTD Scheme. Please refer to Annex 1 for a copy of the amended law under which the DTD is granted.

Production for Export Incentive

The Economic Development Board (EDB) no longer accepts applications for the Production for Export Incentive. The Production for Export Incentive granted to the remaining "live" case will expire on 30 June 1999 and will not be renewed.

MAS Rediscounting Scheme for Pre-Export and Export Bills of Exchange

The MAS Rediscounting Scheme will be terminated with effect from 1 April 1999.

Question

B. In addition, as regards the remainder of document G/SCM/N/38/SGP, publicly available information reveals that investment incentives play a key role in Singapore's economy. The Government of Singapore established the Economic Development Board, which administers the different subsidy programmes. Prior to obtaining subsidies, companies need to make an application to the Economic Development Board, which exercises considerable discretion in approving projects for incentives. In addition, the conditions attached to many of the incentive schemes limit their availability to certain enterprises. These factors mean that most of the following incentive schemes are, either in law or in fact, specific under Article 2 of the Subsidies Agreement, and Singapore is requested to notify them in accordance with Article 25.2, using the standard format, or to explain why they are not considered to be subject to notification.

- (a) **Pioneer Status**
- (b) **Investment Allowance Scheme (IAS)**
- (c) **Expansion Incentive**
- (d) **Development and Expansion Incentive**
- (e) **The Double Tax Deduction for R&D Expenses**
- (f) **Approved Foreign Loan Scheme**
- (g) **Automation Leasing Scheme (ALS)**
- (h) **Local Enterprise Technical Assistance Scheme (LETAS)**
- (i) **Local Enterprise Finance Scheme (LEFS)**
- (j) **Regionalization Finance Scheme (RFS)**

Reply

It is not necessary to notify the incentives highlighted in the EC's query as they clearly do not fall within the meaning of specificity under Article 2 of the Agreement on Subsidies and Countervailing Measures ("the Agreement"). The incentives are not specific within the meaning of Article 2. They are not specific in law or in fact. They are generally available and are governed by clear and objective criteria with regards to eligibility and support level. (The eligibility criteria for each highlighted incentive can be found in Annex 2.) The incentives have benefited a broad base of industries and enterprises.

With regards to the EC's comment that companies have to apply to the Economic Development Board (EDB) for the incentives, this is a very common practice in many countries (including the EU), where the granting of incentives requires the approval of the administering body. In the case of most of

our investment incentives, the administering body is the EDB. EDB's approval is based on a set of clear and objective criteria for each incentive to ensure consistent and equitable treatment for all investments. As the criteria for each incentive are adhered to by EDB, the incentives are therefore not specific within the meaning of Article 2. Likewise for other incentives administered by our other economic agencies.

ANNEX 1

Income Tax Act

Further deduction for expenses relating to approved trade fairs, exhibitions or trade missions or to maintenance of overseas trade office.

14B. (1) Subject to this section, where the Comptroller is satisfied that the expenses specified in subsection (2) have been incurred by an approved company or firm resident in or having a permanent establishment in Singapore for the primary purpose of:

- (a) promoting the trading of goods or the provision of services; or
- (b) the provision of services in connection with the use of any right under a master franchise or master intellectual property licence where the company or firm is the holder of the franchise or licence,

there shall be allowed a further deduction of the amount of such expenses in addition to the amount allowed under section 14.

(2) The expenses referred to in subsection (1) are:

- (a) expenses in establishing, maintaining or otherwise participating in an approved trade fair, trade exhibition, trade mission or trade promotion activity;
- (b) expenses in maintaining an approved overseas trade office; or
- (c) market development expenditure for the carrying out of any approved marketing project.

(2A) The Minister may specify the maximum amount of expenditure (or any item thereof) to be allowed under subsection (1).

(3) No deduction shall be allowed under this section in respect of:

- (a) any expenses which are not allowed as deductions under section 14;
- (b) travelling, accommodation and subsistence expenses or allowances for more than the approved number of employees taking part in the approved trade fair, trade exhibition, trade mission, trade promotion activity or the approved marketing project;
- (c) any expenses incurred during its tax relief period (or qualifying period in the case of investment allowance) by a company which is given tax relief under the Economic Expansion Incentives (Relief from Income Tax) Act; and
- (d) any expenses relating to an approved overseas trade office:
 - (i) which are incurred in the establishment of the approved overseas trade office;
 - (ii) by way of remuneration, travelling, accommodation and subsistence expenses or allowances for more than the approved number of employees of the approved overseas trade office;

- (iii) which are specifically excluded as a condition for the approval of the overseas trade office under this section;
- (iv) which are incurred after the end of the approved number of years from the date of establishment of the approved overseas trade office; and
- (v) which are incurred by a firm or company having a permanent establishment subject to tax in the country in which the approved trade office is established.

(3A) As soon as any amount of further deduction is allowed to any company under this section, section 14E, 14J or 14L, a sum equal to that amount shall be credited to an account (referred to in this section as the further deduction account) to be kept by the company for the purposes of any of those sections.

(3B) Where for any year of assessment a further deduction account of a company is in credit, the company shall:

- (a) debit from that account such amount as would have been the chargeable income had the further deduction not been allowed or the amount of the credit in that account, whichever is the less; and
- (b) credit the amount debited under paragraph (a) to an account to be called a tax exempt account which shall be kept by the company for the purposes of this section, sections 14E, 14J or 14L,

and any remaining balance in the further deduction account shall be carried forward to be used by the company in the first subsequent year of assessment when the company has chargeable income had the further deduction not been allowed, and so on for subsequent years of assessment until the credit in the further deduction account has been fully used.

(3C) Where a tax exempt account of a company is in credit at the date on which any dividends are paid by the company out of the amount credited to that account, an amount equal to those dividends or to that credit, whichever is the less, shall be debited to the tax exempt account.

(3D) Section 13B (4) to (7) shall apply, with the necessary modifications, in respect of any dividend paid out of the tax exempt account of the company.

(3E) Notwithstanding anything in this section, where it appears to the Comptroller that in any year of assessment:

- (a) any further deduction which has been allowed under this section, sections 14E, 14J or 14L; or
- (b) any dividend, including a dividend paid by a holding company, which has been exempted from tax in the hands of any shareholder,

ought not to have been so allowed or exempted, as the case may be, the Comptroller may, within the year of assessment or within six years after the expiration of that year of assessment thereof:

- (i) make such assessment or additional assessment upon the company or any such shareholder as may be necessary in order to make good any loss of tax; or
- (ii) direct the company to debit its tax exempt account with such amount as the circumstances require.

(4) In this section:

"approved" means approved by the Minister or such person as he may appoint;

"market development expenditure" means:

- (a) approved expenses directly attributable to the carrying out of market research or obtaining of market information, including any feasibility study;
- (b) expenses in respect of advertisements placed in approved media;
- (c) expenses incurred on approved promotion campaigns; or
- (d) approved expenses incurred in the design of packaging, or in the certification of goods or services where such certification is carried out by an approved person;

"master franchise" means any agreement under which the franchisor authorizes or permits the franchisee to use in Singapore or overseas a business system owned or controlled by the franchisor, including the sub-franchising of the business system;

"master intellectual property licence" means any licence under which the licensor authorizes or permits the licensee to use in Singapore or overseas the rights under a patent, copyright, trademark, design or know-how, including the sub-licensing of the same.

ANNEX 2

Eligibility Criteria for EDB's Incentive Schemes Highlighted by the EC

Scheme	Objective and Eligibility Criteria
Pioneer Incentive	<p>To encourage creation of industries not yet established in Singapore or not established on a scale adequate for Singapore's economic needs.</p> <p>Criteria:</p> <ol style="list-style-type: none"> 1. Project introduces into an industry technology, know-how or skills which are substantially more advanced than the average industry level. 2. There are either no companies in Singapore performing a similar activity; or <p>Companies performing a similar activity are/have been awarded a pioneer incentive.</p>
Development and Expansion Incentive	<p>To encourage companies to expand, upgrade and invest in high value-added activities in Singapore.</p> <p>Criteria:</p> <ol style="list-style-type: none"> 1. Project must generate significant economic spin-offs for Singapore.
Expansion Incentive	<p>To encourage the increased manufacture of any product that has economic value and the increased provision of specified service activities.</p> <p>Criteria:</p> <ol style="list-style-type: none"> 1. Minimum investment of S\$10 million in new productive equipment and machinery.
Approved Foreign Loan Incentive	<p>To assist companies to access offshore financing for investments in productive equipment.</p> <p>Criteria:</p> <ol style="list-style-type: none"> 1. Minimum loan of S\$200,000. 2. Tax relief should not result in increase in tax liability in foreign country.
Investment Allowance	<p>To encourage investment in equipment for greater productivity and to upgrade the technology of the industry.</p> <p>Criteria:</p> <ol style="list-style-type: none"> 1. Investment results in greater efficiency in resource utilization. 2. Investment introduces new technology into existing industry.

Scheme	Objective and Eligibility Criteria
Investment Allowance (cont'd)	<p>3. Project is significantly more efficient in resource utilization than the industry average.</p> <p>4. Project produces parts and components used by other industries.</p>
Double Deduction for R&D Expenses	<p>To encourage companies to engage in R&D activities in Singapore.</p> <p>Criteria:</p> <ol style="list-style-type: none"> 1. R&D project must be done in Singapore. 2. R&D must have economic spin-offs.
Resource Productivity Scheme (formerly known as Automation Leasing Scheme)	<p>To encourage and assist companies in Singapore to invest in equipment and systems which enhance the utilization of scarce resources such as labour, water and land.</p> <p>Criteria:</p> <ol style="list-style-type: none"> 1. Project should result in substantial savings in manpower, land or water.
Regionalization Finance Scheme	<p>To assist enterprises in the setting up of overseas operations.</p> <p>Criteria:</p> <ol style="list-style-type: none"> 1. Singapore-registered company with not more than 49% foreign shareholding. 2. Overseas operation must have economic linkages and generate spin-offs for Singapore. 3. Fixed productive assets (defined as book value of factory, building, machinery and equipment) must not exceed S\$30 million.
Local Enterprise Technical Assistance Scheme (LETAS)*	<p>To help enterprises which are seeking external expertise to modernize and upgrade their operations.</p> <p>Criteria:</p> <ol style="list-style-type: none"> 1. Not more than 70% foreign shareholding. 2. Fixed productive assets (defined as book value of factory, building, machinery and equipment) must not exceed S\$15 million. 3. If in the service industry, must have an employment size not exceeding 200 workers.

* Administered by Singapore Productivity and Standards Board.

Scheme	Objective and Eligibility Criteria
Local Enterprise Finance Scheme (LEFS)*	<p>To encourage and assist enterprises to upgrade, modernize and expand their operations.</p> <p>Criteria:</p> <ol style="list-style-type: none">1. Not more than 70% foreign shareholding.2. Fixed productive assets (defined as book value of factory, building, machinery and equipment) must not exceed S\$15 million.3. If in the service industry, must have an employment size not exceeding 200 workers.
