



# Doing Business in...

MGI International Tax and Business Guide

# SINGAPORE

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# 1 **DISCLAIMER**

This booklet, which contains information on Singapore in brief, has been prepared by MGI Jason Mah & Associates (JMA), a member of MGI, for the purpose of informing those who might be interested in doing investments or mergers and acquisitions in Singapore.

All the information given in this booklet might change from time to time, so the reader should double-check the information that is needed.

In the course of the preparation of this booklet, enough care has been taken. The JMA apologizes for the inaccuracies that might occur, no responsibility, however, can be taken for them. The user is recommended to take professional guidance before committing any business in Singapore. It should be noted that JMA would be ready to provide further information or assistance without any obligation at the following contact addresses and numbers.

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## **2 INTRODUCTION**

### **2.1 Regulatory Constraints and Reliefs**

Businesses in Singapore operate in what is, for the most part, a free-market economy. Most industries are open to foreign investors, and multinational corporations are viewed as valuable contributors to economic growth. They are encouraged to use Singapore as an international business center and to establish operational headquarters that provide management services for their subsidiaries, associated companies or branches in other countries.

Restrictions are generally not imposed on the percentage of foreign ownership of businesses operating in Singapore. Foreign investment, however, must be approved by the relevant government department or statutory board, normally the Economic Development Board (EDB), the Monetary Authority of Singapore (MAS) or the Trade Development Board (TDB).

#### **Government Attitude and Incentives**

The Singapore government actively encourages free enterprises by providing tax and financial incentives to attract both local and foreign investment. These incentives are usually granted to industries that use high technology and skilled labour and require relatively few natural resources. In granting these incentives, the government does not differentiate between foreign and local investment capital.

#### **Tax System**

Company and individual income taxes are the principal taxes. Singapore levies estate duty, a goods and services tax and various minor taxes.

#### **Corporate Rates and Effective Rate after Distribution**

Income of both resident and non-resident companies is taxed at a rate of 24.5% with effect from the year of assessment 2002. A withholding tax on dividends paid to shareholders is levied at the same rate, but this tax is treated as paid (franked) to the extent of corporate income tax already paid on distributed profits.

If the cumulative 24.5% withholding tax deemed withheld on dividends exceeds the amount of cumulative corporate income tax paid on company profits, the company must remit the excess amount to the tax authorities.

The amount of tax deemed withheld on dividends paid to a resident shareholder may be credited against the shareholder's total tax liability. To the extent the credit exceeds the resident's tax liability, it is refundable.

Non-resident companies may distribute after-tax profits without incurring any additional tax liability. The tax liability of a non-resident shareholder is satisfied through the 24.5% withholding tax.

### **Individual Rates and Expatriate Taxation**

Income of residents is taxed at graduated rates ranging from 2% to 28%.

Employment income of non-residents and income of public entertainers is subject to a 15% withholding tax, except that employment income is exempt from tax if the period of employment is less than 60 days in a calendar year. A 24.5% withholding tax is levied on income from self-employment, non-exempt interest income, directors' fees, royalties and rents. Abatement or exemption of withholding tax may be available to income recipients resident in countries that have concluded tax treaties with Singapore.

### **Financial Reporting and Audit Requirements**

Companies incorporated under the Companies Act must maintain books of accounts that sufficiently explain the transactions and financial position of the company. All amounts shown in the profit and loss account and in the balance sheet must be quoted in Singapore currency.

Every company must appoint auditors to report on the company's financial statements at the annual general meeting of shareholders.

## **3 THE COUNTRY**

### **3.1 Geography/Statistics**

The Republic of Singapore is situated 137 kilometres north of the equator at the southeastern end of the Straits of Malacca, the seaway connecting the Pacific and Indian Oceans. The island is linked to the southern most point of the Malaysian Peninsula by a 1.1 kilometres causeway and 3.5 kilometres linkway (Tuas second link).

The republic comprises Singapore island and 57 small islands, 24 of which are sizable and inhabited. The total land area of the republic is 647.5 square kilometers including that of the smaller islands. Approximately 50% of Singapore Island has been developed for residential, commercial and industrial use, and 1.7% is used for agriculture. The land area of Singapore is being increased by land reclamation schemes that are creating approximately half a new hectare (about one and one quarter new acres) of land a day.

Some of the small islands have become important refinery centers for multinational petroleum companies. One of the larger developed islands, Sentosa, is a recreational and conference centre linked by a short causeway to the main island.

Based on mid-2000 statistics, Singapore has a population of 3.59 million, approximately 10% of whom are older than 60 and another 23% of whom are younger than 15. Life expectancy is approximately 70 years for men and 75 years for women.

Singapore's climate is warm and humid throughout the year but moderated by prevailing sea breezes. The average maximum temperature is 31°C (88°F) and the average minimum, 24°C (75°F). These do not vary notably in different seasons. Approximately 200 centimetres (approximately 78 inches) of rain fall every year, with the heaviest rainfall occurring between the months of November and February.

The republic is made up of a heterogeneous population observing many religions. The predominant ethnic group is Chinese (77.4%), followed by Malays (14.2%), Indians (7.2%) and others (1.2%). The national language is Malay, but Mandarin, English and Tamil are also official languages. The language of business is English.

According to the 2000 Singapore Statistics, Buddhists and Taoists account for 52% of the resident population aged 10 years and older, Moslems account for 15%, Christians for 13% and Hindus for 3%.

## **3.2 Economy**

Singapore has an open economy with strong service and manufacturing sectors and excellent international trading links derived from its entrepot history. Extraordinarily strong fundamentals allowed Singapore to weather the effects of the Asian financial crisis better than its neighbours, but the crisis did pull GDP growth down to 1.3% in 1998 from 6% in 1997. Projections for 1999 GDP growth are in the -1% to 1% range. Rising labour costs and appreciation of the Singapore dollar against its neighbours' currencies continue to be a threat to Singapore's competitiveness. The government's strategy to address this problem includes cutting costs, increasing productivity, improving infrastructure, and encouraging higher value-added industries. In applied technology, per capital output investment, and labour discipline, Singapore has key attributes of a developed country.

Singapore's economy has grown steadily in recent years, as the number of firms engaging in business services, commerce and transportation continues to increase. The banking, finance, communications and international services sectors have all been growing rapidly. GDP growth for 1994 through 1996 averaged 8% per year. The potential rate of GDP growth for 1997 through 1999 is estimated at 5% to 7% per year. Singapore has revised downwards the GDP rates for 1999, 2000 and 2001 to 1% to 2% due to the lack of confidence in Information Technology.

Unemployment remained low, at a rate of less than 3% between 1990 and 1996, reflecting the vitality of the economy, while inflation for 1996 as a whole averaged 1.4%. Unemployment for 1997 to 2001 has crept up to 3.5% but should not pose a problem in 2002.

This has affected Singapore adversely due to the Republic's heavy investment and commitment in this industry. Nevertheless, Singapore remains committed to Finance and Information Technology industries and expects 2002 to reverse the GDP trend.

## **3.3 Currency and Banking**

The monetary unit in Singapore is the Singapore dollar (S\$). Fully backed by gold and official foreign reserves, the Singapore dollar is rated as one of the world's strongest currencies by the International Monetary Fund (IMF).

The Board of Commissioners of Currency, Singapore (BCCS) is the sole authority empowered to issue currency in Singapore. The BCCS seeks to ensure the integrity of the currency and to provide the highest standard of service to banks and to the public. It ensures that demand for currency notes and coins is met effectively and efficiently, enforces the highest degree of protection for BCCS assets and custody items, and manages the currency fund.

The Monetary Authority of Singapore (MAS) regulates financial institutions in Singapore. The MAS performs the functions normally associated with a central bank, except for the issuance of currency. The Board of Commissioners of Currency, Singapore (BCCS) is responsible for issuing Singapore currency notes and coins. Under statutory regulations, the BCCS must maintain external assets, such as gold and major world currencies, fully sufficient to back the domestic currency.

The MAS regulates the banking system in Singapore in accordance with the Banking Act. In October 1993, amendments were made to the Banking Act to enhance the regulatory framework in Singapore in line with developments in the international financial markets and to strengthen the country's financial system. The last amendment to the Act was in 1984. Almost all banks are members of the Association of Banks in Singapore, which governs the conduct of banks.

### **3.4 Government/Politics**

The Republic of Singapore is a parliamentary democracy with universal suffrage and compulsory voting.

The present parliament consists of 83 members elected by secret ballot in single-member constituencies and Group Representation Constituencies, and six Nominated Members of Parliament (NMPs) appointed by the President. The provision for NMPs was included in the Constitution in 1990 to provide for a wider representation of views in parliament. The President is empowered to appoint up to nine NMPs for a term of up to two years, on the recommendation of a Special Select Committee of Parliament. The parliament has a life of five years from its first sitting, but it may be dissolved earlier.

In January 1991, parliament enacted a constitutional amendment requiring the President to be elected by the citizens of Singapore for a term of six years. The President is empowered to veto government budgets and appointments to public office. The cabinet is led by the Prime Minister, who is appointed by the President as the Member of Parliament who commands the confidence of the majority of the Members of Parliament. On the advice of the Prime Minister, the President also appoints cabinet ministers, who are collectively responsible to parliament.

The People's Action Party (PAP) is currently the governing party in Singapore. Having won nine successive general elections, the PAP has been in power since 1959.

### **3.5 Legal System**

The republic's constitution guarantees citizens of the Republic of Singapore freedom and liberty.

The Attorney General's Chambers, granted an independent status by the Constitution, is responsible for the legal process and its administration. The Constitution contains safeguards ensuring the independence of judges in exercising their duties.

Singapore follows the tradition of British common law. The Supreme Court, which consists of the Chief Justice and judges of the Supreme Court, is made up of the High Court, the Court of Appeal and the Court of Criminal Appeal. Other courts include Subordinate Courts and the Syariah Court. The Syariah Court applies Muslim law to Muslims involved in disputes concerning marriage, divorce and maintenance. Because Singapore is a member of the British Commonwealth of Nations, the final court of appeal is the judicial committee of the Privy Council in the United Kingdom, except for certain cases, such as those involving internal security.

## **4 FORMS OF BUSINESS ENTERPRISE**

A limited liability company is the most form of business entity in Singapore. A company, which may be either private or public, may be limited by shares or by guarantee. To be considered private, a company must meet the following requirements:

- Restrict the right to transfer its shares;
- Not have more than 50 shareholders; and
- Prohibit public subscription for its shares or debentures.

A private company is not permitted to invite the public to deposit money with it.

Certain private companies are exempt from specified statutory regulations, such as the requirement to file statutory accounts and the restriction on loans to directors. A private company may be classified as an exempt private company if either of the following applies:

- It limits the number of its shareholders to 20, and no beneficial interest in its shares is held directly or indirectly by a corporation; or
- The government wholly owns it, and the Minister of Finance declares it to be exempt.

### **4.1 Sole Proprietorship**

Most businesses may be carried on in the form of a sole proprietorship or a partnership. All sole proprietorships and partnerships must be registered under the Business Registration Act, 1973. Changes in partnership particulars require notification to the Registry of Companies and Businesses.

### **4.2 Partnership**

In a partnership, the partners are jointly liable for partnership debts and obligations. The liability of the partners to settle the partnership debts and obligations is unlimited and may not be limited. In order to avoid possible disputes, it is preferable that a partnership agreement is drawn up.

### **4.3 Limited Partnership**

The concept of a limited partnership is not practiced in Singapore.

## 4.4 Branches of Foreign Corporations

Before a foreign corporation commences operations in Singapore, it must be registered with the Registry of Companies and Businesses. The following documents must be submitted:

- Copy of the corporation's certificate of incorporation;
- Copy of its charter, statutes, or memorandum and articles of association;
- List of its directors and a list of its local directors, if applicable;
- Memorandum of appointment stating the names and addresses of two agents in Singapore, together with a statutory declaration verifying the execution of this memorandum;
- Statutory declaration by the agents; and
- Notice of the location of the corporation's registered office in Singapore.

Within two months of its annual general meeting in the country of its incorporation, the corporation must forward to the Registry of Companies and Businesses a copy of its annual financial statement as well as an audited financial statement of its Singapore branch operations. It must also notify the Registry of Companies and Businesses of any change in its corporate data within one month of the occurrence of the change.

## 4.5 Limited Companies

The 2 types of limited companies in Singapore are:

### **Private Limited Companies**

No. of shareholders is limited to 50 or less.

### **Public Listed Companies**

No. of shareholders can be more than 50 members and the company may raise capital by offering shares and debentures to the public. A public company must register a prospectus with Registrar before making any public offer of shares and debentures.

## 4.6 Trust Funds

There are essentially three types of trusts:-

The Fixed Trust that is for named beneficiaries in defined shares. The settler settles property by transferring legal ownership to the trustee, subject to conditions on how the trustee is to apply the proceeds of such property.

The Discretionary Trust that the trustee is given powers to decide, within defined limits, the share of each discretionary beneficiary. This type of trust provides greater flexibility and consequently is more effective where tax planning is concerned.

The Unit Trust that takes the form of an enterprise that distributes proceeds only to those who subscribe to the trust in defined shares. The beneficial interest is divided into unit trusts and sold to unit holders.

A trustee may be an individual person (who himself may be a beneficiary), a professional adviser or a trust company.

#### **4.7 Joint Ventures**

A joint venture may take the form of equity investment in a limited liability company or may be a partnership. Accordingly, the laws of companies or partnerships, as appropriate, govern joint ventures.

#### **4.8 Co-operatives**

The co-operative concept was introduced in Singapore as early as 1924 at a time when money-lending was a roaring business. There were, at that time, no institutions, finance companies or banks which wage earners, who were struggling to make ends meet, could depend upon for financial relief in times of need.

The Straits Settlement Co-operative Societies Ordinance was passed in 1924 and came into force on 1 January 1925. The first thrift and loan society to be established was the Singapore Government Servants' Co-operative Thrift and Loan Society Ltd, which was registered on 7 October 1925, with 32 members. Between 1925 and 1940, 43 thrift and loan societies were formed to cater to the needs of civil servants, teachers, customs officers as well as those working in the private sector.

The growing number of societies made it necessary to create a central organization to enable co-ordination and collaboration. Thus on 16 November 1933 the Singapore Urban Co-operative Union Ltd was established. In July 1954 its name was changed to Singapore Co-operative Union Ltd and in May 1972 to Singapore National Co-operative Union Ltd. The Co-operative Societies Act, 1979, revised the earlier legislation and the Singapore National Co-operative Federation was accordingly established on 18 September 1980.

The most significant development of the co-operative movement in Singapore was the launching of the co-operative ventures by the National Trades Union Congress and its affiliated unions. The NTUC Seminar on the "Modernisation of the Labour Movement" held in November 1969 recommended that the trade

union movement set up its own co-operatives. Within a span of nine years (1970 – 1979) 13 co-operatives were established by the labour movement. Many of the co-operatives, for example, NTUC FairPrice, NTUC Income, and NTUC Childcare set up during that time are now household names.

## **5 DIRECT TAXATION**

### **5.1 Income tax - individuals**

Income tax for a year of assessment (which coincides with the calendar year) is payable on the income derived in the year immediately preceding the year of assessment.

Income tax is charged on individuals, whether resident or not, on all income accruing in or derived from Singapore. Where the source is outside Singapore, the income is liable to Singapore income tax only if such income is received in Singapore by a resident. Non-residents are exempt from taxation on such receipts.

Singapore residents are defined as individuals who normally reside in Singapore, except for temporary absences, or individuals who are physically present or exercise employment (other than as a director of a company) in Singapore for at least 183 days.

Income tax is payable on assessable income less personal reliefs. Assessable income includes business and employment income; dividends, rent and interest less tax deductible expenses and approved donations. A resident is entitled to various personal reliefs depending on his circumstances and these include wife and child reliefs and statutory contributions to provident funds.

A resident individual is assessed on his chargeable income at graduated rates of tax starting at 2.5% and the top personal tax rate is 28%. Appendix A sets out the existing rates and revised rates for the years of assessment 2000 respectively. Non-resident individuals will be assessed at 15% on their employment income and at (26% for 2000) on income from other sources.

With effect from the year of assessment 1994, unilateral tax credit will be given for the foreign tax paid on all employment income from all countries remitted into Singapore. This relief applies also to directors' fees earned abroad. The relief will be limited to the lower of the tax payable in Singapore on the foreign income or the actual amount of foreign tax paid.

### **5.2 Income Tax - Companies**

The tax year (known as the year of Assessment) runs from 1 January to 31 December of each year.

Income tax for a Year of Assessment is computed on the basis of the income derived in the preceding calendar year from all sources. In the case of a trade,

business, profession or vocation, when the accounting year ends on a date other than 31 December, the Inland Revenue Authority of Singapore (IRAS) normally accepts the accounting year as the basis year instead of the calendar year. Under such circumstances, tax is assessed on the basis of the income for the accounting year ending within the year preceding the Year Of Assessment.

Singapore resident companies are liable to income tax on income accruing in or derived from Singapore, and on foreign income (including profits of a foreign branch) remitted to Singapore. Non-resident companies are liable to income tax on income accruing in or derived from Singapore.

A company is treated as resident of Singapore if it is managed and controlled in Singapore.

Trading profits and other income are liable to income tax at 27% for year of assessment 1996, 26% for assessment 1997 and subsequent years of assessments, whether retained or distributed. However, various incentives may eliminate or substantially reduce the rates. (Refer Section on Incentives.) The IRAS issues a Notice of Assessment once accounts together with an income tax computation have been submitted. The tax payable under the assessment ordinarily must be paid within one month or an objection lodged within 30 days. The IRAS reserves the right to demand payment notwithstanding the appeal lodged.

### **5.3 Tax on Capital Gains**

There is no capital gains tax in Singapore except for the disposal of real properties and disposal of shares of Real Property Company.

With effect from 15 May 1996, any persons (except those trading in properties or shares) who dispose of any real property or shares of Real Property Company within 3 years from the date of purchase will be subject to tax. The taxable profit will be computed based on the holding period: -

<b>Holding Period</b>	<b>Taxable profit</b>
Not more than 1 year	100% of gain from disposal
More than 1 year but not more than 2 years	2/3 of gain from disposal
More than 2 years but not more than 3 years	1/3 of gain from disposal
More than 3 years	Nil

Similar, the deductible loss from disposal of real properties and shares of Real Property Company is computed based on the holding period follow the same basis above.

## 5.4 Withholding Taxes

Withholding tax must be deducted from dividends to the extent they are not franked, as well as from interest, rent and royalties including management and technical fees paid to non-residents.

### ***Withholding Tax Rate***

Effective from Year of Assessment 2001, the withholding tax rate for payments (other than those subject to the 15% final withholding tax) to non-residents is 25.5% on the gross amount.

The withholding tax rate applicable to interest, royalties and rents for any movable properties paid to a non-resident who does not carry out operations in or from Singapore is 15% of the gross amount. The reduced tax of 15% will be a final tax.

### ***Withholding Tax for Non-Resident Company***

A company who is liable to pay to another person not known to him to be resident\* in Singapore any income listed below is required to withhold tax and remit the amount to the Comptroller within 10 days after the payment date.

### ***Type of Income***

- interest, commission or fee in connection with any loan or indebtedness;
- royalty or payments for the use of or the right to use any movable property;
- fee for the use of or the right to use of or the right to use scientific, technical, industrial or commercial knowledge or information or for the rendering of assistance or service in connection with the application or use of such knowledge or information;
- management fee;
- rent or other payments under any arrangement or arrangement for the use of any movable property;
- payment of any remuneration to any non-resident director;
- gain from disposal of real property within 3 years;
- gain from disposal of shares in private companies where assets are mainly real properties

## 5.5 Gifts Tax (Collection of Cess)

Cess is a tax levied at the rate of 1% on all cessable items sold by tourist hotels, tourist food establishments and tourist public houses. It is collected by the Singapore Tourism Board (STB) under the Singapore Tourism (Cess Collection) Act. The Inland Revenue Authority of Singapore (IRAS) is the agent appointed by STB for the administration and collection of Cess.

## **5.6 Death Duties (Estate Duty)**

When a person dies, the assets (both movable and immovable) left by him from his estate. Estate duty is payable on the value of the estate. Under the Estate Duty Act, estate duty is also payable on insurance policies, gifts made by the deceased before death and etc.

When a person is appointed under the Will to administer the estate, he is known as an Executor. If there is no Will, he is an Administrator. The Executor/Administrator should apply to the Court to obtain a Grant of Representation (Probate or Letters of Administration), file estate duty forms with the Commissioner of Estate Duties and pay the estate duty and interest.

After the estate duty and interest are fully settled, he can extract the Grant of Probate/ Letters of Administration and distribute the assets according to the deceased's Will or the Interstate Succession Act (if the deceased did not make a Will).

## **5.7 Taxation of Foreign Enterprises and Operations**

Relief is given in respect of foreign taxes arising on foreign source income remitted to Singapore. The relief is given whether or not Singapore has a tax treaty with the foreign country. If there is a tax treaty it will specify the method of credit or deduction. If not, the domestic Singapore tax legislation ("unilateral relief") will apply not only in respect of income from Commonwealth countries which allow reciprocal relief but also for specified categories of income earned in specified non-treaty countries

## **5.8 Branch Profits Tax**

There is a territorial concept of taxation in Singapore. The profits of a Singapore company's foreign branch are only liable to tax if remitted to Singapore. The taxable trading profits of a foreign company's Singapore branch are calculated and taxed on the same basis as for a Singapore resident company.

## **6 EXCHANGE CONTROLS**

Singapore residents and foreign investors, both corporations and individuals, are allowed to exchange currency freely. No exchange-control approval or formalities are required for payments, remittances or capital transfers in any currency.

### **6.1 Repatriation of Earnings and Royalty**

Interests, commissions, fees and other payments in connection with loans or indebtedness, royalties, rentals from movable property and management and technical fees paid to non-residents are generally subject to withholding tax in Singapore. However, payments for interest, royalties and rental from movable property derived from Singapore to a non-resident may have the withholding tax reduced or exempted by the tax treaties agreed between the countries. There is no withholding tax on the payments of dividends.

The withholding tax rate for Year of Assessment 2002 is 24.5%. No withholding tax is required for royalty payments made to a non-resident accruing on or after 1 January 2001 for shrink-wrap software and 23 February 2001 for downloadable software for end user, site license and software bundled with computer hardware.

### **6.2 Restrictions on amounts that can be taken out of the country**

There are no such restrictions applicable to the amount funds transferred from Singapore.

### **6.3 Local Borrowing**

The money lending in Singapore has seen vast changes as a result of the introduction of new and more sophisticated business financing and consumer credit services. However, the regulators have set down rules to ensure that the primary objectives of lending monies are made to those only to those with credibility standings.

### **6.4 Emigrants**

The Government discourages its people to change citizenships, however, encourages local investors to venture overseas on work and businesses related assignments in overseas even if it is for long periods. There are no major impositions by the authority here to prevent the change of citizenship of its people.

## **6.5 Inheritances**

The Public Trustee has set up a confidential “Wills Registry” on 1 January 2001. The registry will act as a central information center for all wills that are drawn up. The information available on the Wills will be useful to solicitors and testators in any subsequent Wills that are to be drawn up by the testators or, upon the death of the testators, in the administration of their estates. Estate duty is payable on the aggregate market value of the assets of a deceased at the time of his death.

## **6.6 Immigrants**

Foreigners entering Singapore to begin employment must obtain permission from the Comptroller of Immigration under the Immigration Act. Two types of permits are issued. Employment passes are issued to foreigners who earn a basic salary exceeding S\$2000 per month or who hold acceptable university degrees or diplomas issued by a polytechnic or recognized educational institute in Singapore. Applications for employment passes must be made through a local sponsor or employer. A foreign worker who does not qualify for an employment pass must apply for a work permit, for which the employer pays a levy.

Obtaining employment passes for applicants who are senior executives of large foreign corporations, qualified specialists or person wishing to start up new industrial, financial or service undertakings generally are not difficult.

The government provides three schemes under which non-Singapore citizens may become permanent residents. These include the following:

- The S\$1.5 million deposit scheme, designed for those with substantial financial resources;
- The professional skilled-technical personal scheme, for people who are employed in Singapore on employment passes and work permits;
- Female foreigners married to Singaporeans.

## **6.7 Contract Workers/Temporary Residents**

Foreign nationals intending to enter Singapore to take up employment or to establish a business must apply for employment pass before arrival. Approval or permission is usually granted before entry, and then finalized after arrival. Professional visit passes permitting short-term work assignments in Singapore are issued to foreign nationals such as consultants, installation personnel and entertainers.

Dependents' passes must be stamped into the passports of wives and children of all persons to whom employment passes have been issued. Application forms for

these passes may be obtained at Singapore immigration after arrival and must be signed by the employment pass holder. A dependent's pass states that the holder is not to engage in any paid employment without the written consent of Singapore Immigration. Effectively, this means that wives and children are not allowed to work in Singapore, although exceptions are made. Fields in which wives have obtained consent to work include teaching, advertising, journalism, medicine, broadcasting and cultural activities such as dance and music.

Visitors' passes or visas are not required for visitors holding a valid UK or US passport.

## **7 OTHER FORMS OF TAXATION**

### **7.1 Sales Tax/Goods & Services Tax/Value Added Tax (VAT)**

Sales tax of 1% applies to food and beverages at licensed restaurants.

A goods and services tax (GST) will be charged on the supply of goods and services in Singapore and on goods and services imported into Singapore. The tax will be imposed at a general rate of 3%. However, some supplies will be taxed at a nil or zero rate, and some will be exempted. GST is paid at each step along the chain of transactions involving the goods or services until the end-user is reached. It is the consumer or end-user that will ultimately bear the tax.

Businesses liable to account for GST will be required to register with IRAS. However, not everyone who makes taxable supplies in the course of business will be required to register. If the total value of taxable supplies falls below S\$1 million per year, the supplier will not be obliged to register. Only registered businesses will be able to charge GST.

### **7.2 Stamp Duty**

Stamp duties are imposed on a wide variety of legal documents.

#### ***Contract note stamp duty on trading of stocks in Singapore***

The contract note stamp duty on stock transactions has been reduced from 0.1% to 0.5% of the contract value.

#### ***Waiver of stamp duty on loan agreements for SES listed stocks***

To support the development of stock lending and borrowing activities of SES stocks and to encourage the growth of stock options trading, loan agreements for the lending and borrowing of Singapore stocks for Approved Securities Companies, Asian Currency Units and residents outside Singapore, are exempt from stamp duty.

### **7.3 Property Taxes**

Property tax is payable at a rate of 12% for industrial, commercial and let out residential properties with effect from 1 July 1996. The concessionary tax rate for owner-occupied residential properties will remain at 4%.

## **7.4 Payroll Tax**

### **Skills Development Fund**

Employers are subject to a Skill Development Fund (SDF) levy of 1% on the emoluments of employees earning up to S\$1000 per month. The SDF is used to promote training in skills relevant to Singapore's economic restructuring efforts and provides grants to employers. Because of the importance of education and retraining in Singapore's strategy for economic improvement, the types of training courses qualifying for SDF grants may be expanded.

### **Medisave**

Medisave, the national health plan, is designed to meet the basic needs of the average Singaporean. It is funded through monthly CPF contributions equivalent to 6% of wages (3% from the employer, 3% from the employee) for individuals ages 16 to 34; 7% for ages 35 to 44; and 8% thereafter. The overall ceiling on an individual's account is S\$19,000, with any excess going into the CPF ordinary Account. Withdrawals may be made from the Medisave Account to help pay hospitalisation and medical insurance expenses incurred by the account holder or by any immediate family member, including spouse, children or parents.

## **7.5 Fringe Benefit Tax (Incentives Tax)**

In order to encourage foreign investments, Singapore grants a number of significant tax incentives, which have the effect of eliminating or substantially reducing the 26% tax rate. The government particularly wishes to stimulate manufacturing, trade, tourism, transport, communications and new technology, including the provision of services in that field. The incentives are given under the Singapore Economic Expansion Incentives Act.

## **7.6 Tariff**

Singapore levies the following types of taxes:-

- Income Tax
- Property Tax
- Goods & Services Tax
- Betting Duty
- Stamp Duty
- Private Lotteries Duty
- Estate Duty

## **7.7 Thin Capitalisation Rules**

The rule is not applicable in Singapore.

## **7.8 Transfer Pricing**

Transfer pricing policies existing in related parties should be adopted on a consistent basis from year to year and should be reflecting at arm's length prices.

## **8 LABOUR RELATIONS AND SOCIAL SECURITY**

### **8.1 Labour Market**

In June 1996, Singapore had a workforce of 1.8 million. The labour market remained tight, with average unemployment at 2% in 1996. The largest employers were the manufacturing and commerce sectors, which each employed 23% of the workforce. They were followed by financial and business services (14%), transportation and communications (11%) and construction (7%). Agriculture, fishing, quarrying and utilities are among the sectors that account for the remaining 22%.

### **8.2 The right to work - nationals**

Almost all Singaporeans entering the labour market have at least a primary school education, above the age of 16 years and are literate in English. The literacy rate of the workforce is 93%, one of the highest in Asia. The Economic Development Board (EDB) has set up three craftsmen training centers, three institutes of technology and eight specialized training units to ensure that trainees and professional participants receive up-to-date training of the highest standards to satisfy the needs of industries.

### **8.3 The right to work – non-nationals**

Any foreigner who wishes to work in Singapore must obtain either an employment pass or a work permit from the Ministry of Manpower (MOM).

The 2 types of employment passes are eligible for non-nationals are:

#### **(1) P Pass**

For those who hold acceptable degrees, professional qualifications or specialist skills and are seeking professional, administrative, executive or managerial jobs or who are entrepreneurs or investors.

A P1 Pass will be issued if the applicant's basic monthly salary is more than S\$7,000 whereas a P2 Pass will be issued if the applicant's basic monthly salary is more than S\$3,500 and up to S\$7,000.

## **(2) Q Pass**

### **Q1 Pass**

Who basic monthly salary is more than S\$2,000 and who possess acceptable degrees, professional qualifications or specialist skills.

### **Q2 Pass**

A Q2 Pass is issued on exceptional grounds to foreigners who do not satisfy any of the above criteria. Such applications will be considered on the merits of each case.

A work permit is required for foreign workers earn S\$2,000 or less per month, which is in accordance with the Employment of Foreign Workers Act. Singapore Work Permit Department has set up control measures to regulate the flow of foreign workers and, in particular, moderate the increase of unskilled foreign workers in Singapore. By imposing levies and limits on the number of foreign workers a company can employ, the department ensures that economic objectives are met and that the total workforce, including both local and foreign workers, benefits from Singapore's growth.

## **8.4 The Employer – Employee Relationship**

An employer can be:

- any person, company, association or body of persons employing an employee.
- the owner of any vessel on which an employee is employed.
- any manager, agent or person responsible for the payment of wages
- to an employee on behalf of an employer.

The term “employee” means:

- any person who is employed in Singapore; and
- any Singaporean who is employed under a contract of service or other agreement entered into in Singapore to work as a master, seaman or an apprentice on board a vessel.

“Employed” means employed under a contract of service.

“Contract of service” is a contract in which the relationship between employer and employee is established. The factors determining the existence of a contract of service include the employer's control over payment, hours of work, dismissal, substitution of workers and method of working.

## **8.5 Labour Regulations**

The Employment Act and the Industrial Relations Act regulate employment and labour relations. Terms and conditions of service negotiated between unions and management are embodied in collective agreements that must be certified by the Industrial Arbitration Court. The National Wages Council, which represents government, management and unions, recommends guidelines for annual wage adjustments.

Singapore does not have a legal minimum wage. Some typical average wages include the following: factory workers in electronics plants----S\$900 to S\$1050 per month, excluding overtime; secretaries----S\$2000 to S\$2800 per month, over 13 months (12 monthly salaries plus one bonus of a month's salary are earned in a year); technicians with five years' experience----S\$1800 to S\$2400 per month; and sales managers selling technical products----S\$3500 to S\$4000 per month, over 13 months, with performance bonuses.

Working conditions are regulated by Part IV to the Employment Act, which applies to employees whose monthly salary does not exceed S\$1600. The act provides that the standard working week is 44 hours; with pay for overtime at one and one-half time the normal hourly basic rate of pay. Pay for time worked on holidays and normal days off is twice the normal rate. Overtime may not exceed 72 hours per month.

### **Employee Benefits**

The Employment Act provides minimum benefits for the employee. An employee is entitled to pay sick leave of up to 14 days in a year but if hospitalization is necessary, this may be extended to 60 days. Eleven public holidays are celebrated in Singapore. An employee is also entitled to seven day's annual leave for the first year of service and an additional one day's leave for every subsequent 12 months' continuous service with the same employer, up to a maximum of 14 days.

## 9 GRANTS AND INCENTIVES

### 9.1 Sources of Assistance

A variety of tax incentives are available to encourage foreign investment in certain sectors of the economy. These are administered by the Economic Development Board (EDB), the Trade Development Board (TDB) and/or the Monetary Authority of Singapore (MAS). A summary of the major incentives is summarized below.

Tax Incentives	Qualifying Activities	Minimum Requirements	Tax Concessions
Approved Cyber Trader	Eligible offshore trading income from transactions over the Internet.	Carrying out of international Trading and marketing activities via the Internet or other e-commerce platforms.	10% on offshore trading transactions; 50% Investment Allowance on the cost of qualifying new fixed investments; full/partial exemption on withholding taxes on qualifying payments.
Approved International Shipping	Shipping.	International shipping companies whose operations are controlled and managed from Singapore. Minimum 10% of its fleet must be Singapore registered ships.	Tax exemption for profits from operating non-singapore-registered ships outside Singapore.
Approved International Trader (AIT)	Trading in commodities, rubber, timber, edible oils, coffee, cocoa, metals and minerals and bulk chemicals, and selected manufactured goods.	Minimum annual turnover of US\$100 million, minimum annual total business spending of S\$2 million.	10% tax on income from trading in approved commodities.

Approved Oil Trader (AOT)	Oil trading.	International oil trading companies with minimum annual turnover of US\$100 million, minimum annual total business spending of S\$500,000.	10% tax on income from international oil trading activities and oil futures contracts.
Business Headquarters (BHQ)	Using Singapore as regional headquarters for business operations.	Qualify for incentive such as Pioneer Service, or Development and Expansion Incentive.	Pioneer Services, Development and Expansion Incentive, Investment Allowance, Approved royalty, etc.
Development & Expansion Incentive	Eligible manufacturing and service activities.	Company must engage in new projects or expand or upgrade its operations in Singapore. The new project or expansion/upgrading must generate significant economic spin-offs for Singapore.	Corporate tax rate of not less than 10% for up to 10 years with provision for extension.
Operational Headquarters (OHQ)	Eligible headquarters management and support activities.	The Operational Headquarters should provide approved services for related companies outside Singapore.	Income arising from the provision in Singapore of approved services will be taxed at 10%. Tax exemption on dividend income from approved overseas subsidiaries and associated companies. Incentive will be up to ten years with provision for extension.

Overseas Enterprise Incentive	Approved overseas investments and projects.	Companies must be at least 50% owned by Singapore citizens or permanent residents and incorporated and resident in Singapore for tax purposes.	Exemption of corporate tax on qualifying income for up to ten years.
Pioneer Status	Eligible manufacturing and service activities.	<p>The project introduces technology, know-how or skills which are substantially more advanced than that of the average level prevailing in the industry; and</p> <p>There are no companies in Singapore performing a similar activity without being awarded the pioneer incentive.</p>	Exemption of corporate tax on profits arising from pioneer activity. Tax relief period is five to ten years.

## 9.2 Grants Available

The Local Enterprise Technical Assistance Scheme (LETAS) aims to help local enterprises that are seeking external expertise to modernize and upgrade their operations. Financial support may be given to help defray the cost of engaging the expert for an approved short-term assignment. The level of support depends on the scope, depth and effectiveness of the assignment and its relevance to Singapore's economic development policies. Generally, assistance is provided up to 70% of allowable costs (i.e. consultancy fee paid to the external expert). For

overseas consultant, allowable costs may also include return airfares and accommodation expenses in Singapore.

To be eligible for the scheme, an enterprise must have at least 30% local shareholding. Its fixed assets (defined as net book value of factory building, machinery and equipment) must not exceed \$15 million. If the company is in the service sector, the employment size must not exceed 200 employees.

## **10 QUALITY OF LIFE**

### **10.1 Housing**

The majority of Singaporeans live in Housing and Development Board (HDB) high-rise flats. These flats are available for purchase by Singaporeans at subsidized rates and on favourable credit terms. The flats are constructed as part of integrated communities with social and recreational facilities.

Because accommodation in Singapore is expensive, employers usually provide expatriates with housing allowances. Available accommodation ranges from traditional colonial-style bungalows to modern, centrally air-conditioned apartments and condominiums.

Many families can afford full-time household help in Singapore, including full-time man-servants or female servants, who cook, perform general house cleaning and baby-sit; gardeners; and chauffeurs. Foreign domestic help is also common in Singapore. However, a monthly foreign worker levy has to be paid to the government for the employment of each foreign worker.

### **10.2 Education**

The general literacy rate of the population ages 10 years and older was 93% in 2000. Education in Singapore emphasizes English-language instruction as well as the study of native languages.

Private schools in Singapore include English-language schools following the British education system and a well-established American School. Other schools specifically cater to French, German, Dutch, Indonesian and Swiss children, as well as to Japanese children up to the junior high-school level. The United World College of South East Asia provides instruction for college students.

Foreign nationals attending school in Singapore must obtain student passes issued by the Singapore Ministry of Education.

### **10.3 Communications & Transport**

The two satellite stations and six major submarine cable networks of Singapore Telecom give Singapore an excellent telecommunications network. Full postal and telecommunications services are provided by 64 Singapore Post branches. Postal services are available 24 hours a day at certain branches. In addition, 51 postal agents provide basic postal services.

Businesses and individuals may also benefit from the use of Televue, a videotext system that assists them in many different kinds of information gathering and communications. More recently, Singapore Telecom launched Singnet, a bulletin-board-based system that makes available an international network of databases and information. Its newlink service provides access to local news, on-line banking and industry news. In addition to Singnet, two other Internet service providers operate in Singapore.

To limit the number of cars, Singapore levies duties that approximate 150% of open market value (OMV) and import duty of 45% of OMV on the sale of new motorcars. In addition, as of 1 May 1990, any person wishing to register a vehicle must first obtain a vehicle entitlement, through bidding. Current certificates of entitlement (COE) cost from S\$20,000 to S\$50,000, depending on the engine capacity of one's car and the market demand and supply of COEs. Two-car families are rare.

Singapore has an extensive and efficient bus service and ample air-conditioned metered taxis, which charge reasonably low fares. The Mass Rapid Transit, a subway system, helps to reduce travel time considerably.

Convenient access to the port and airport is afforded by Singapore's extensive network of highways and roads. Modern and sophisticated port facilities enable Singapore to maintain its position as the world's busiest port as measured by shipping tonnage. The Malaysian government operates a railway system that links Singapore to most major states on the Malaysian peninsula.

## **10.4 Social Security Benefits**

### **Central Provident Fund**

A Central Provident Fund has been established to provide for old age. The maximum statutory contribution is \$1,200 per month for each employee and employer at a rate of 20% on the employee's remuneration and \$1,200 for the employer at a rate of 20% from 1 July 1994. The accumulated contribution may be withdrawn on reaching the age of 55 years or on leaving the country permanently.

The Central Provident Fund (CPF) is a government-sponsored social insurance programmed. All employees in the private sector except foreign workers must contribute to the CPF, and employers must make supplementary contributions. The maximum contribution for employees is 20% of wages and for employers, 20%.

Contributions paid into the CPF are allocated primarily to an employee's Ordinary Account in the CPF. Additional accounts are the Special Account and the Medisave Account. Subject to certain restrictions, employees may make pre-retirement withdrawals from their Ordinary Accounts to purchase residential property, home insurance, commercial property and securities, and for education. Generally, withdrawals from the Special Account may be made for hardships.

The maximum amount that may be withdrawn to buy commercial real property other than undeveloped land should not be more than the purchase price or 70% of the value of the property at the time of purchase, whichever is lower. For residential property, CPF members may withdraw up to 100% of the property value at the time of purchase or the purchase price, whichever is lower. Both schemes are restricted to properties that are built on freehold or leasehold land with a remaining lease of 60 years.

Individuals may also withdraw up to 80% of their "investible savings" to buy certain approved shares, loan stocks (hybrid debt instruments that are subordinate to bonds) and unit trusts under two CPF investment programmed, the Basic and Enhanced Investment Schemes. "Investible savings" are the balances in the Ordinary and Special Accounts that exceed minimum reserves of S\$45,000 and S\$50,000 for the Basic and Enhanced Investment Schemes, respectively. In addition, CPF money invested in a home is included in the calculation of investible savings.

Investment in gold is allowed under both programmed but is restricted to 10% of investible savings. The Enhanced Investment Scheme also allows the purchase of government bonds, banks deposits, fund management accounts and endowment insurance policies.

PF withdrawals----of both employee and employer contributions and of interest credited to the CPF account----are tax exempt. Individuals may make withdrawals when they reach 55 years of age and have set aside a minimum sum in their Retirement Account or, if they become permanently disable or permanently leave Singapore and Malaysia, at an earlier time. The minimum sum is to ensure that they have a regular income to meet their basic needs during retirement. The CPF contribution rates for employees in the various age group and wage categories is table in the various age group and wage categories is table in the Appendix D: Social Security Costs no. 1.

### **Foreign Workers Levy**

Foreign workers in the construction, marine and manufacturing industries and foreign domestic servants and other general services workers who are employed on work permits in Singapore are exempt from the CPF scheme. However, their employers must pay the government a monthly levy. For the construction and marine industries, the amount of levy is dependent on whether these workers are skilled or unskilled. The levy for skilled workers in the construction industry is S\$100, and the unskilled workers, S\$470 in the marine industry; the levy for skilled workers is S\$100 and S\$385 for unskilled workers. For the manufacturing industry, the levy is based on the dependency level for foreign workers. The levy is S\$330 if the dependency is 35% or less and S\$450 if the dependency exceeds 35%. The levy for foreign domestic maids and other general services workers is S\$345. The foreign workers levy is tabled in the Appendix D: Social Security Costs no. 2.

## Appendix A

### Rate of Tax - Individuals

The rates of tax chargeable for an individual resident in Singapore are as follows:

<b>Chargeable Income \$</b>	<b>Rate Payable %</b>	<b>Gross Tax Income \$</b>	<b>Chargeable Payable \$</b>	<b>Rate %</b>	<b>Gross Tax \$</b>
On the first 7,500	2	150	On the first 100,000		12,775
On the next 12,500	5	625	On the next 50,000	22	11,000
On the first 20,000		775	On the first 150,000		23,775
On the next 15,000	8	1,200	On the next 50,000	23	11,500
On the first 35,000		1,975	On the first 200,000		35,275
On the next 15,000	12	1,800	On the next 200,000	26	52,000
On the first 50,000		3,775	On the first 400,000		87,275
On the next 25,000	16	4,000	Above 400,000	28	
On the first 75,000		7,775			
On the next 25,000	20	5,000			

For YA 2001, a 10% rebate is given on the tax payable before the GST related rebate (max \$500).

## **Appendix B**

### **Rate of Tax – Companies**

Corporate tax rate for year of assessment 2001 (for companies whose financial period ended in 2000) is 25.5% of Chargeable Income.

## **Appendix C**

### **Main Allowances**

All expenses that can be proved to be incurred in order to obtain the necessary sales turnover for the period unless specifically disallowed by Singapore's Income Tax Act.

## Appendix D

### Social Security Costs

(1) The Central Provident Fund Contribution Rates for employees in the various age groups and wage categories are as follows:

	AGE OF EMPLOYEE							
	55 years and below		Above 55-60 years		Above 60-65 years		Above 65 years	
Total amount of the employee's wages for the calendar month	Contributions payable by the employer for the calendar month	Amount recoverable from the employee's wages for the calendar month						
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Not exceeding \$50	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Exceeding \$50 but not exceeding \$200	<u>16%</u> of the employee's wages for the month	Nil	6%	Nil	3.5%	Nil	3.5%	Nil
Exceeding \$200 but not exceeding \$363	a. <u>21%</u> of the employee's total wages for the month; and  b. <u>1/3</u> of the difference between the employee's total wages for the month and \$200.	a. <u>5%</u> of the employee's total wages for the month; and  b. <u>1/3</u> of the difference between the employee's total wages for the month and \$200.	6%	Nil	3.5%	Nil	3.5%	Nil
			$\frac{1}{4}$	$\frac{1}{4}$	$\frac{1}{6}$	$\frac{1}{6}$	$\frac{1}{9}$	$\frac{1}{9}$

Exceeding \$363	a. <u>36%</u> of the employee's ordinary wages for the month up to \$2,160; and	a. <u>20%</u> of the employee's ordinary wages for the month up to S\$1,200; and	18.5% max \$1,100	12.5% max \$750	11% max \$660	7.5% max \$450	8.5% max \$510	5% max \$300
	b. <u>36%</u> of the total additional wages payable to the employee in the month	b. <u>20%</u> of the total additional wages payable to the employee in the month	18.5%	12.5%	11%	7.5%	8.5%	5%

Note:

- The rates in columns (2), (4), (6), and (8) represent the amounts payable by the employer in the first instance. The rates in columns (3), (5), (7) and (9) represent the amounts that are recoverable from the employee's wages.
- For employees in the above 55 to 60, above 60 to 65 and above 65 age groups, replace the figures underlined in columns (2) and (3) with the corresponding figures in columns (4) to (9).
- The contributions should be rounded off the nearest dollar. An amount of 50 cents should be regarded as an additional dollar.
- When recovering from the employee's wages, the cents should be dropped.

(2) Foreign Workers Levy (FWL) (WEF 1 April 1998)

Type of Foreign Workers	Levy Per month (for each worker)	Levy for part-time employment
1. Domestic worker	\$345	\$12 per day, up to \$345 per month
2. Construction workers		
Skilled	\$100	\$4 per day, up to \$100 per month
Unskilled	\$470	\$16 per day, up to \$470 per month
3. Manufacturing workers		
Up to 40% of workforce	\$330	\$11 per day, up to \$330 per month
Above 40% to 50% of total workforce	\$400	\$14 per day, up to \$400 per month
4. Marine workers		
Skilled	\$100	\$4 per day, up to \$100 per month
Unskilled	\$385	\$13 per day, up to \$385 per month
5. Harbour craft workers		
Skilled	\$100	\$4 per day, up to \$100 per month
Unskilled	\$330	\$11 per day, up to \$330 per month
6. Process industry maintenance workers		
Skilled	\$100	\$4 per day, up to \$100 per month
Unskilled	\$440	\$15 per day, up to \$440 per month
7. Conservancy workers	\$440	\$15 per day, up to \$440 per month
8. Workers in other sectors	\$330	\$11 per day, up to \$330 per month

Note:

The grace period for payment of levy is 14 days after the end of the month for which the levy is due and payable. The penalty for late payment of levy is 2% per month or \$5 (whichever is greater).