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Singapore's talent, tax regime and ease of doing business make it a solid choice for treasury and finance centres

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Growth in Asia-Pacific is forecast to remain strong in the decade ahead; the International Monetary Fund's latest regional economic outlook forecasts growth of 5.3 percent during 2016-17.

With increased cash flow and revenue growth, international companies from mid-caps through to large multinational corporations will continue to look at markets in Asia as a highly advantageous location for establishing or expanding their finance and treasury centres (FTCs).

Even in the midst of rising competition from regional centres in Asia, Singapore remains a compelling FTC hub in Asia-Pacific.

A centralised treasury

What underpins the decision to set up a FTC is the ability to centralise operations and, therefore, save money. In essence, FTCs are a highly efficient way to reduce the tax burden, centralise risk management, improve liquidity and enhance yield on cash.

KPMG research[1] found that multinational companies are increasingly building their treasury model along regional lines. It appears that the economic fragmentation of markets, differing regional supply and demand profiles and increase global competition has limited the effectiveness of a single global treasury centre.

Instead, regional treasury centres and global treasury centres with specialised decentralised business units are coming into favour. Some sectors in particular, such as the commodity trading industry, tend to prefer a global treasury centre with some decentralised treasury activities.

This is in part because of sharp contrasts in commodity dynamics in different regions and therefore the need for regional risk management expertise.

There can be challenges in moving to a centralised model in the Asia-Pacific region, as compared to Europe, largely due to varying country regulations, languages and currencies, and cultural diversity in the Asian states.

However, as the global economy becomes increasingly influenced by the "Asian Century", we expect that more multinationals will look to establish global or regional treasury footprints in Asia.

The shift towards centralisation of functions provides countries with opportunities to attract regional treasury management activities, thereby seeing competition between governments to attract the setting up of FTCs within their borders.

In anticipation, we can expect Hong Kong and Singapore to continue to position themselves strongly to capitalise on this emerging trend.

The competition

Hong Kong has been hot on the heels of Singapore in terms of ambition to be a regional FTC centre. The autonomous territory has a well-established financial centre, and has introduced measures to attract more FTCs to the region.

The Special Adminstrative Region has a similarly attractive tax regime, with a low headline tax rate of 16.5%, and no withholding tax on interest and dividends, in addition to a concessionary tax rate of 8.25% on qualifying treasury income under a recently introduced corporate treasury centre incentive.

It also excels in financial services and capital markets, particularly a vibrant equity market with more than double the number of companies listed on its stock exchange as compared to Singapore.

Singapore's pull

Singapore has made a concerted effort to attract multinationals to set up their regional or global FTCs there.

In April 2016, to maintain its competitiveness relative to other locations, Singapore reduced tax rates on treasury centres. An enhanced FTC incentive reduced the corporate tax rate from 10% to 8% on fees, interest and gains from qualifying services and activities, albeit with an increase in qualifying criteria.

Singapore also provided a withholding tax exemption on interest payments on loans from non-resident banks, as well as loans and deposits from non-resident approved network companies. The scope of tax exemption is being expanded to cover interest payments on deposits by the FTC's non-resident approved offices and associated companies.

Further, there are no thin capitalisation rules in Singapore that limit the amount of debt funding required, but care should be taken to determine whether interest payments are fully tax deductible.

Singapore retains its competitive edge as an FTC centre not only with its lower concessionary rate of 8% and extensive tax treaty network (83 as compared with Hong Kong's 35), but also through other non-tax factors. Beyond tax incentives, the same KPMG research we link to above also shows companies placing a high value on non-tax factors such as banking efficiency, ease of doing business and the availability of talent.

Singapore is a regional risk management and treasury hub and an acclaimed asset and wealth management centre. The city state was ranked the largest FX trading centre in the Asian time zone and third largest globally after London and New York in the Bank for International Settlements' Triennial OTC derivatives survey 2016, with more than half a trillion US dollars traded a day.

With its impressive education system and better air quality, Singapore is often cited as providing a higher quality of living when compared with Hong Kong.

In addition, Singapore has a long-established relationship with the ASEAN and with India, and enjoys proximity to Australia and New Zealand.

As one of the founding members of the ASEAN, Singapore has preferential investment and business policies with nine other territory members, harmonising regulatory standards and promoting a single integrated market in the community. Singapore also has preferential trading arrangements with 61 countries, compared to Hong Kong's six.

Gateway for investment

Although Hong Kong is perceived as the gateway to China due to its proximity, preferential policies in dealing with China and its status as an offshore renminbi centre, Singapore has gradually entered this market and established itself as a regional gateway for cross-border renminbi arrangements.

The Chongqing Connectivity Initiative, the third government-led project between Singapore and China that was first announced by Chinese President Xi Jinping during his state visit to the Republic in November 2015, is instructive. As of 2016, there were more than US$4.5 billion worth of deals brokered between Singapore banks and Chongqing companies.

The location of Singapore has led it to become a gateway for Chinese investment; there are now around 6,500 Chinese companies in Singapore, many of which have set up regional FTCs in the region.

These factors, together with Singapore's recognition as a highly cosmopolitan business environment bridging the East and the West, give it an edge over Hong Kong. In fact, Singapore was ranked second overall in The World Bank's *Doing Business 2017 report*, after New Zealand.

"The main consideration for choosing Singapore is neither tax nor tax incentives, but rather Maersk's commercial presence and Singapore's rule of law and high business ethics"

Emil Andersen
Head of Regional Treasury Center Singapore
Group Finance & Risk Management, Maersk

Conclusion

Singapore is doubtless a key choice location for companies to undertake strategic and sophisticated treasury activities. Its economy is highly diversified, with success in foreign exchange and commodities trading, integrated resorts, biotechnology as well as traditional industries like banking and property, and developing the finance technology (FinTech) space.

While having a higher cost of doing business relative to its Asian neighbours, Singapore has managed to attract many international companies to establish treasury centres here, due to its high standard of banking infrastructure and financial capabilities.

The education and training environment in Singapore is bolstered by Asian campuses of world-class institutions which contribute to the talent pool. Further, this is bolstered by Singapore's tax competitiveness, which sets it out as a key competitor in the regional FTC market.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

[1] Source: The Structure, Role and Location of Financial Treasury Centres: A Process of Evolution by KPMG in Singapore

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