Tax incentives for offshore banking

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The withholding tax exemption of 1968

The first and most important incentive concerned the tax on interest. Before October 1968 Singapore levied a withholding tax of 40 per cent on interest paid to non-residents on foreign currency deposits. To place the new market on an equal footing with the Eurocurrency market, the government exempted from withholding tax the interest paid to non-residents who placed deposits with banks licensed to deal in foreign currencies. Ngiam describes this measure as the act that created the ACU.[1]

The exemption was subject to a condition that reflected its purpose. According to Chia, interest derived by non-residents from deposits with approved banks was exempt from income tax from 1968, provided that the non-resident did not carry on business or have a permanent establishment in Singapore.[2] The relief was therefore designed to attract money from abroad without eroding the domestic tax base. A non-resident depositor who placed funds in Singapore paid no tax in Singapore on the interest. A Singapore company with the same deposit remained taxable.

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The 10 per cent concessionary rate of 1973

The second incentive concerned the profits of the banks themselves. In January 1973 the tax on bank profits from offshore Asian dollar loans was reduced from 40 to 10 per cent, while the profits of loans to residents remained taxable at 40 per cent.[3] Chia, writing in 1977, refers to the provision as section 43A of the Income Tax Act.[4] The concession initially covered loans to non-resident borrowers. It did not cover the interbank dealings among ACUs in Singapore, which were taxed at 40 per cent while dealings with banks abroad enjoyed the 10 per cent rate.

That anomaly produced a two-tier quotation system that hindered dealing between ACUs within Singapore. In February 1977 the government announced that the 10 per cent rate would be extended to all offshore income of ACUs other than exchange profits and income from transactions with Domestic Banking Units and residents. The extension covered transactions among ACUs, dealings in negotiable certificates of deposit, bankers' acceptances and Asian dollar bonds, and took effect from the year of assessment 1978.[5] In Chia's list of 1977, income from interbank transactions with Domestic Banking Units, from loans to resident non-banks and from foreign exchange transactions remained taxable at 40 per cent.

Stamp duties, estate duties and liquidity rules

A series of smaller measures removed further frictions. In January 1972 the authorities abolished the 20 per cent liquidity ratio that licensed banks in the Asian dollar market had been required to hold against deposits. In March 1972 the stamp duty on bills of exchange, certificates of deposit and promissory notes was removed. In June 1973 stamp duties on offshore loan agreements were waived. Three years later non-resident holdings of foreign currency deposits became exempt from estate duty. Further concessions announced in March 1976 taxed commissions on offshore letters of credit at 10 per cent and exempted Asian dollar bonds held by non-residents from estate duty.[6]

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The estate duty exemption deserves notice in a book on wealth management. A wealthy depositor from Indonesia or Thailand who died with a deposit in Singapore would otherwise have exposed his heirs to Singapore estate duty. The exemption removed that risk and made Singapore a safer place to hold liquid family wealth. It anticipated, on a small scale, the later strategy of attracting private wealth that Chapters D.V and E.III examine. Singapore abolished estate duty for all deaths from 15 February 2008.[7]

Tax planning at the boundary

Wherever two tax rates meet, tax planning follows. Chia's paper of 1977 sets out with unusual candour how banks could arrange their transactions to bring income within the concession. A bank that wished to lend one million dollars to a Singapore company could lend the money instead to an offshore company, which deposited it back with the bank's ACU, from which the bank then lent to the resident borrower. The margin on the offshore loan was taxed at 10 per cent, while the domestic leg produced no taxable margin. Stamp duty on loan agreements could be avoided by executing the documents in Johor Bahru or Hong Kong. A loan of 10 million US dollars would otherwise have attracted stamp duty of 122,500 Singapore dollars.[8]

The authorities answered such schemes in part by reducing the charges that made avoidance worthwhile. The later amendment of the Stamp Duty Act, which capped the duty on such loan agreements at 500 Singapore dollars, is an example. The pattern recurs in later chapters of this book. Singapore has generally preferred to compete through low and clear rates combined with conditions of substance, and has tightened those conditions when it saw abuse. The family office incentives discussed in Chapter E.III follow the same logic.

From section 43A to the Financial Sector Incentive

The concessionary rate for ACU income remained the core of Singapore's tax policy for banking for more than three decades. It was eventually absorbed into the Financial Sector Incentive scheme, under which approved companies pay reduced rates on income from qualifying financial activities. Section 43J of the Income Tax

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Act 1947 provides for concessionary rates of 5, 10, 12 or 13.5 per cent on income derived on or after 1 January 2004. Amendments made in 2025 introduced a rate of 15 per cent for companies approved on or after 19 February 2025.[9] A rate of 15 per cent corresponds to the global minimum tax for large groups, which reduces the value of very low concessionary rates. The lineage from the 10 per cent rate of 1973 to the Financial Sector Incentive is direct.[10]

Notes

1. Bernauer, "The Asian Dollar Market", p. 48: "the government of Singapore in October 1968 exempted from withholding tax the interest paid to non-residents placing deposits with banks in Singapore licensed to deal in foreign currencies. Before this change, the withholding tax payable on deposit interest for non-resident deposits in foreign currencies was 40 percent.". Ngiam, "Singapore as a Financial Center", p. 359: the unit "was created by removing the withholding tax on interest paid to nonresidents for the placement of foreign currency deposits". ↩
2. Chia, "Tax Implications and the Asian Dollar Market", (1978) 20 *Mal LR* 16, at p. 18: "since 1968 interests derived from deposits by non-residents in approved banks in Singapore are exempt from income tax. However, the non-resident institution must not carry on a business in Singapore or have a permanent establishment in Singapore." ↩
3. Bernauer, "The Asian Dollar Market", p. 48: "in January 1973, the tax on bank profits from Asian dollar offshore loans was cut from 40 percent to 10 percent, while the tax on the profits of Asian dollar loans to local residents remained at 40 percent"; likewise Ngiam, "Singapore as a Financial Center", p. 359, footnote 2. ↩
4. Chia, "Tax Implications and the Asian Dollar Market", (1978) 20 *Mal LR* 16, at p. 22, where an illustration computes the "Tax at 10% under Section 43A". ↩
5. Chia, "Tax Implications and the Asian Dollar Market", (1978) 20 *Mal LR* 16, at pp. 19 and 23: in February 1977 the 10 per cent concessionary tax was

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extended "to cover all offshore income of ACUs other than exchange profits and income from transactions with domestic banking units and residents", with effect from the year of assessment 1978; the elimination of the "2-tier quote" in favour of a uniform 10 per cent rate. ↩

6. Bernauer, "The Asian Dollar Market", pp. 48 and 50, on the removal in March 1972 of the stamp duty on bills of exchange, certificates of deposit and promissory notes, the waiver of stamp duties on offshore loan agreements in June 1973, the estate duty exemption three years later, and the abolition in January 1972 of "the 20 percent liquidity ratio that licensed banks operating in the Asian dollar market were required to hold against deposits". Chia, "Tax Implications and the Asian Dollar Market", (1978) 20 *Mal LR* 16, at pp. 18–19, on the concessions announced in March 1976 for offshore letters of credit and the estate duty exemption for Asian dollar bonds purchased by non-residents and their deposits with ACUs. ↩

7. Estate duty was abolished in Singapore for deaths on or after 15 February 2008; see Inland Revenue Authority of Singapore, "Estate duty" (iras.gov.sg). ↩

8. Chia, "Tax Implications and the Asian Dollar Market", (1978) 20 *Mal LR* 16, at pp. 21–22 (Illustration 1), on the routing of a S$1 million loan through an offshore company to qualify for the 10 per cent rate and the resulting "Tax saving $ 6,000". Chia, "Tax Implications and the Asian Dollar Market", (1978) 20 *Mal LR* 16, at pp. 22–23 (Illustration 3): "A US$10 million loan would attract S$122,500 stamp duty", which could be avoided by executing the documents "in Johore Bahru or Hong Kong"; a later amendment of the Stamp Duty Act capped the duty at S$500. ↩

9. Income Tax Act 1947, s. 43J ("Concessionary rate of tax for financial sector incentive company"), as reproduced on lawplayer.com (accessed November 2026): s. 43J(1)(a) rates of "5%, 10%, 12% or 13.5%" for income derived on or after 1 January 2004; s. 43J(1)(b) rate of 15 per cent for companies approved on or after 19 February 2025 (Act 25 of 2025). ↩

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10. On the replacement of the ACU concessionary rate under s. 43A of the Income Tax Act by the Financial Sector Incentive scheme from 2004, see the Budget Statement 2004 and the relevant IRAS circulars. ↩

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