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M&A TAX

Singapore as a regional investment centre

PwC M&A Tax team in Singapore

Deals are all we do. We are fully dedicated to the transaction market.

No other firm offers the range of services we provide.

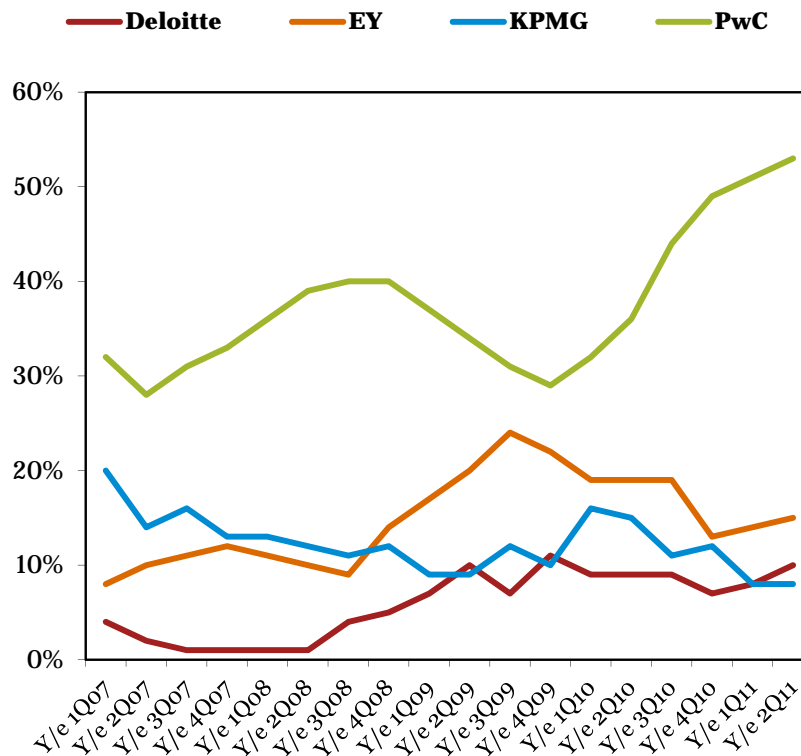
Clients tell us that our process makes a difference.

- M&A tax specialists who work exclusively on corporate transactions
- Over 10 full time specialists in Singapore
- Broad and in-depth experience of cross border transactions in Singapore and in the region
- Experience in almost every major industry
- Integrated with similar M&A tax teams in Asia (China, Hong Kong, Japan, Australia, Malaysia, Indonesia, India) and globally
- Strong recognition by private equity market, investment advisors and relevant legal counsel in Singapore

Reputation vs. usage

M&A, Singapore

Leading reputation



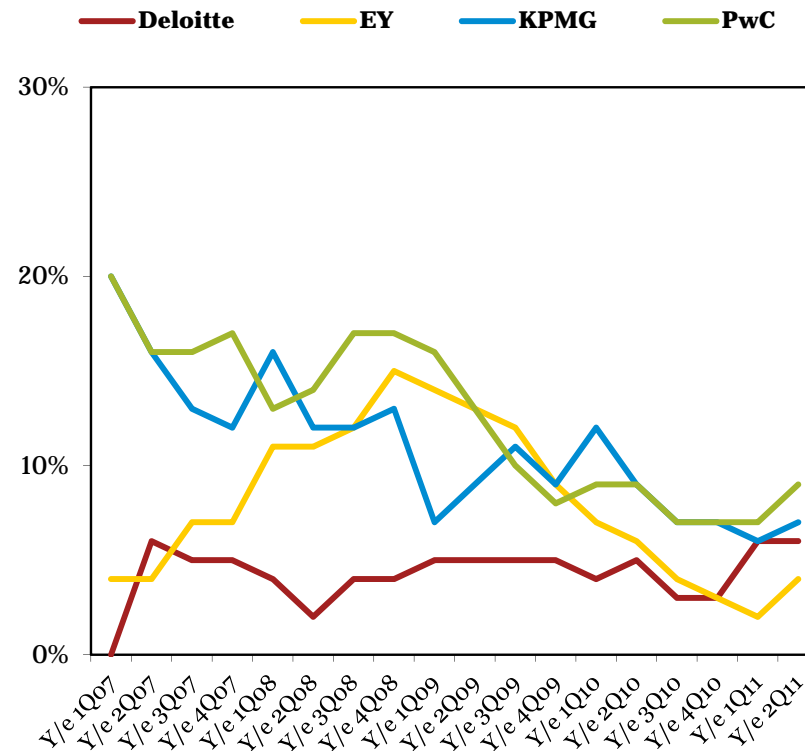
Question: SR1. Please can you mention the firm that you feel has the strongest reputation for M&A?

Base: 102 primary buyers of tax services, (y/e Q2 2011)

Question added : Q4 2000

PwC Source: The Global Tax Monitor , an independent survey conducted by research agency TNS

Usage



Question: U1X. For M&A, could you tell me which tax adviser(s), if any, your company used in the past 12 months?

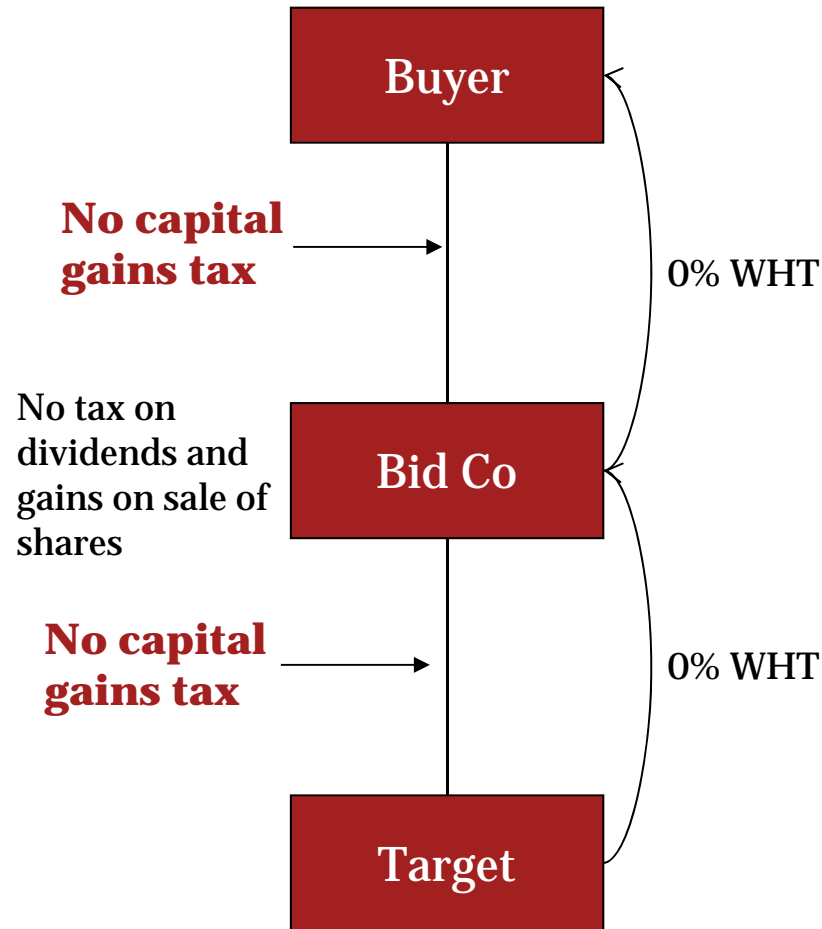
Base: 102 primary buyers of tax services, (y/e Q2 2011)

Question added : Q4 2000

Tax Efficient Holding Jurisdiction

1. Benefits of tax efficient holding jurisdiction
2. Singapore as a holding company location
3. Holding jurisdictions - Key advantages, issues and practical aspects for inbound investments into Indonesia

A “perfect” holding structure



- No tax on dividends paid by Target
- Bid Co does not tax dividends, capital gains
- No tax on dividends paid by Bid Co
- No stamp duty, capital duty or other similar taxes in connection with transactions involving shares of Bid Co.
- No CFC, thin capitalisation rules, or exchange control rules in jurisdiction of Bid Co.

Singapore – Choice for a holding company location

- **Competitive tax rates**
 - Headline tax rate 17% but often reduced by tax incentives
- **Dividends and capital gains exemption regime**
 - Approved holding company status provides exemption from gains on sale of shares in approved subsidiaries
- **Attractive Tax Treaty network (currently 64 Treaties in-force)**
 - But Treaties often do not allocate capital gains taxing rights to Singapore

Singapore – Choice for a holding company location

- **Foreign dividend income**
 - Dividends taxable in Singapore only if received in Singapore
 - Dividends retained offshore can be distributed overseas without triggering any tax in Singapore
 - Dividends received in Singapore can also be exempt provided:
 - Overseas headline tax rate is at least 15%; and
 - Some overseas tax has been paid unless exempt under a tax exemption
 - Section 13(12) exemption may still be available if conditions are not met

Singapore – Choice for a holding company location

- **Lack of controlled foreign corporation (CFC) type legislation**
- **No thin capitalisation rules**
- **Sophisticated environment with no exchange control restraints**
- **Business friendly political environment**
 - Low set up and maintenance costs
 - Various financial incentives and grants available
- **Tax incentives available**
 - Regional Headquarters / International Headquarters
 - Global Trader Programme

Indonesia

- **Corporate tax rate of 25%**
- **Withholding tax rate of 20% on dividend distribution**
 - Effective tax rate of 40% for foreign investors
- **Capital gains tax of 5% on gross consideration**

Indonesia - Common inbound holding jurisdictions

| Countries | Dividend WHT rate | Capital gains protection under Tax Treaty? |
|------------------|--------------------------|---|
| Singapore | 10% or 15% | No |
| Hong Kong # | 5% or 10% | Yes |
| Netherlands | 10% | Yes |

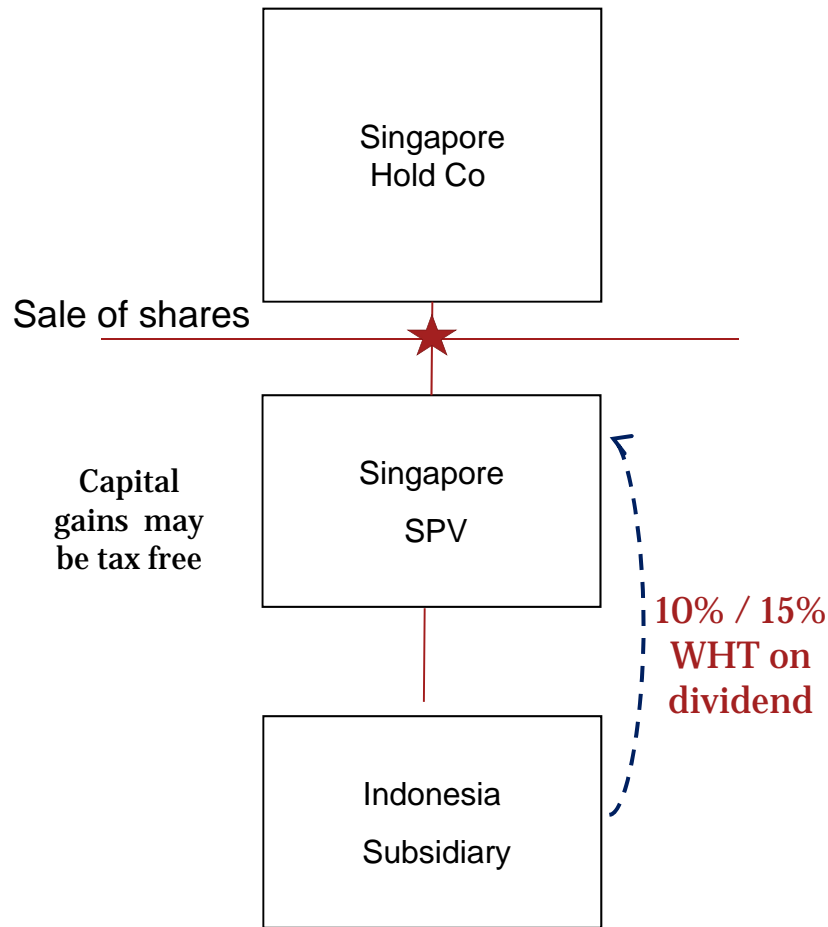
* Subject to conditions

Treaty signed with Indonesia on 23 March 2010, pending ratification. Earliest possible effective dates: 1 April 2012.

- Domestic dividend WHT rate: 20%
- Exchange control regulations:
 - Approval required for transfers of >IDR 100 million

Indonesia - Indonesia inbound via Singapore

Advantages



- 10% WHT on dividends provided Sing SPV holds at least 25% shares of Indonesia subsidiary, or else 15% WHT. Sing SPV needs to produce COR to Indonesian tax authorities.
- Dividends will be tax exempt in Singapore in hands of Sing Hold Co and Sing SPV
- No capital gains tax on sale of shares of Sing SPV unless considered revenue in nature
- Gains will not be taxable in Indonesia provided Sing SPV is not considered a conduit company and Sing Hold Co has substance in Singapore. Else capital gains tax will apply at 5% on gross proceeds.

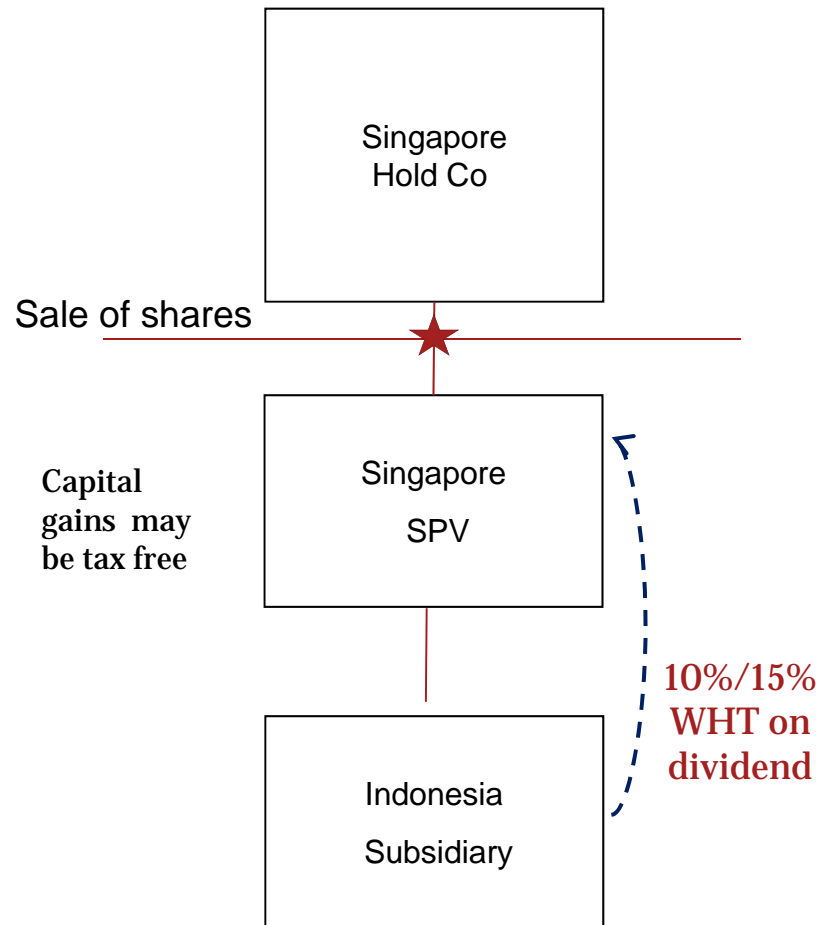
Indonesia - Indonesia inbound via Singapore

Advantages

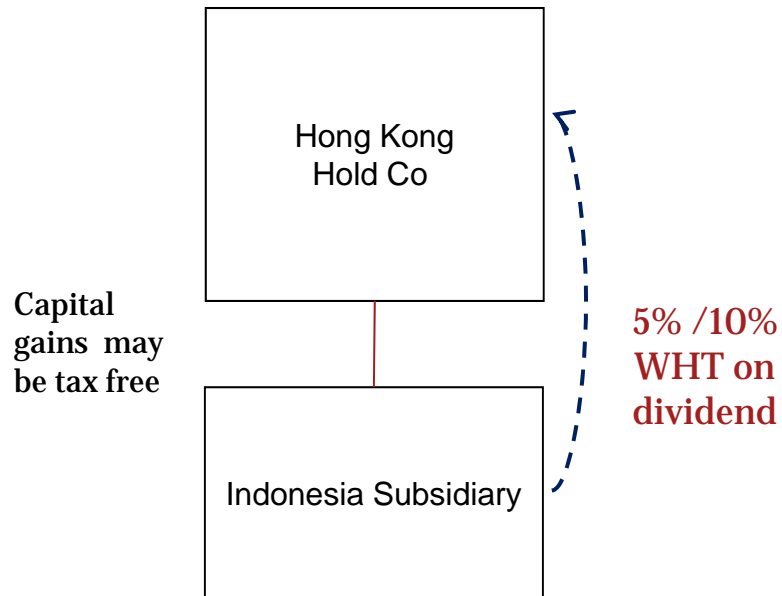
- Singapore is not in list of 'Tax Haven' countries considered by Indonesia

Issues

- No specific capital gains article in the tax treaty which provides capital gains protection
- Indonesian tax authorities may be able to access information about the share transfer at the Singapore level through exchange of information mechanism.



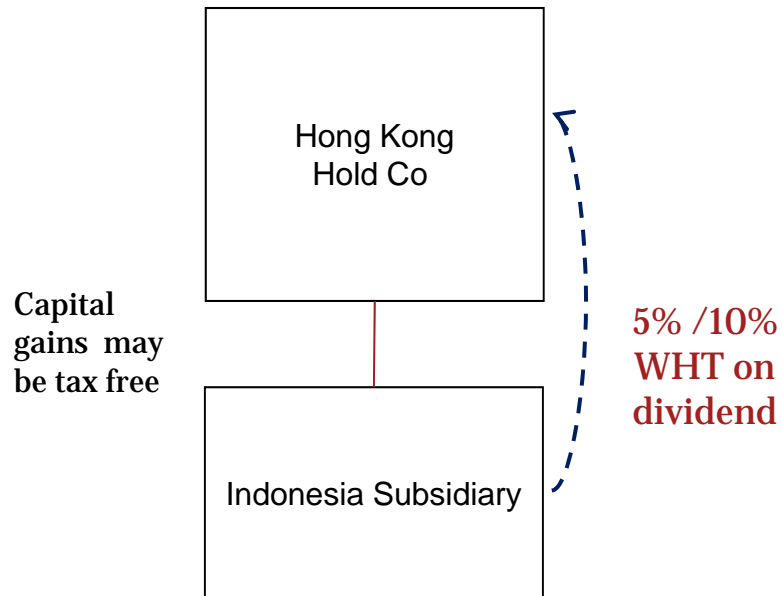
Indonesia - Indonesia inbound via Hong Kong



Advantages

- 5% WHT on dividends provided Hong Kong Hold Co holds at least 25% shares of Indonesian subsidiary, else 10% WHT.
- Dividends will be tax exempt in Hong Kong
- No capital gains tax upon exit in Indonesia under capital gains article in the tax treaty
- Gains may be taxable in Hong Kong unless considered capital in nature.

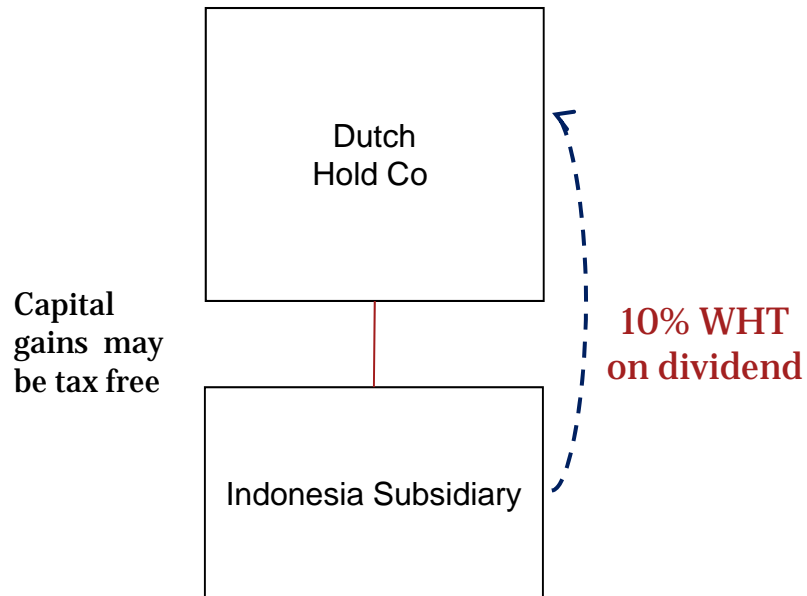
Indonesia - Indonesia inbound via Hong Kong



Issues

- Indonesia may not allow reduced WHT rate under tax treaty if dividends are not subject to tax in Hong Kong – this is under discussion re: HK/Indonesia DTA
- Indonesia – HK tax treaty has a standalone article which allows the contracting party to apply its domestic laws and measures concerning tax avoidance.
- Indonesia – HK tax treaty has a 2004 OECD model Exchange of Information article.
- Indonesia taking a strong stance in allowing treaty benefits to be accessed.

Indonesia - **Indonesia inbound via the Netherlands**



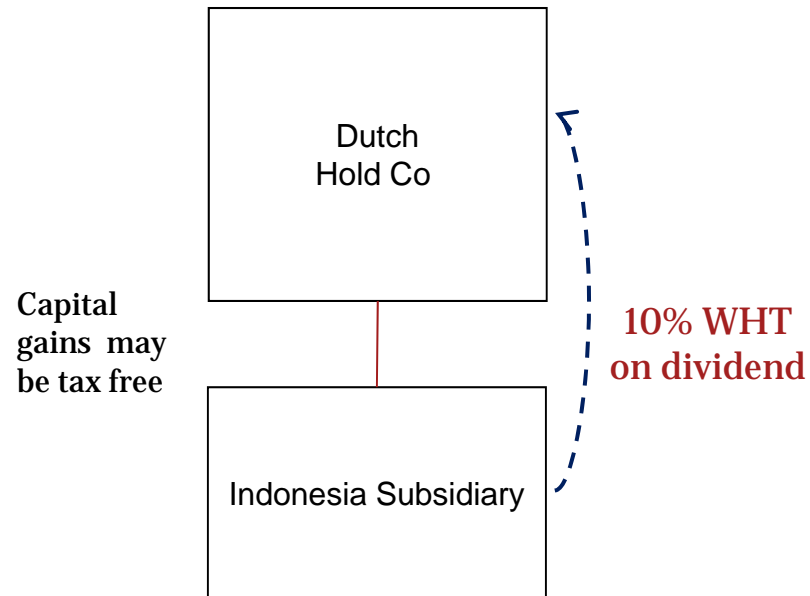
Advantages

- 10% WHT on dividends
- Dividends will be exempt from tax in the Netherlands under the participation exemption regime
- No capital gains tax upon exit in Indonesia under capital gains article in the tax treaty
- Capital gains will be exempt in the Netherlands under the participation exemption regime

Indonesia - **Indonesia inbound via the Netherlands**

Issues

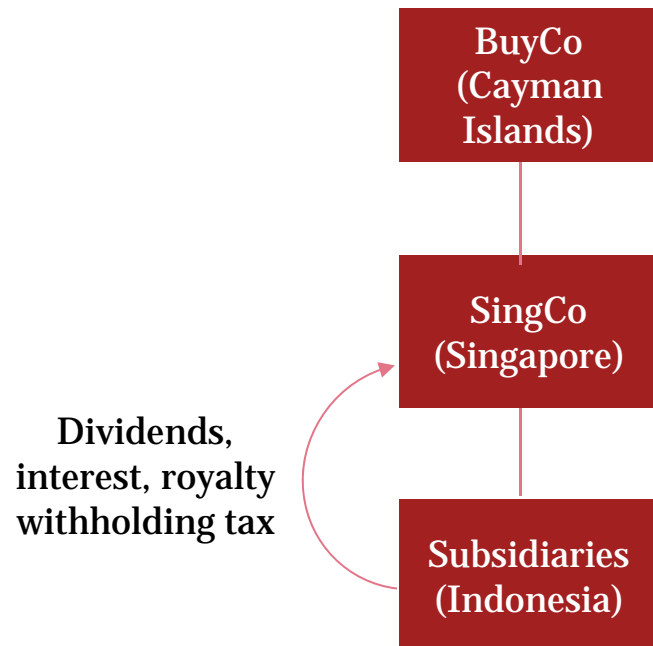
- Beneficial ownership test
- Substance requirement



Substance Requirement

To obtain treaty relief, the DGT regulations now require “an entity or individual”, that is the owner of the income, to demonstrate that it is not considered to be misusing the tax treaty, by satisfying these tests:

- A company whose shares are listed on any Stock Exchange and traded regularly.
- A Bank, or
- Any other company which meets the following requirements:
 1. the establishment of the company in the tax treaty partner country and the way the transaction is structured/schemed, are not merely done to enjoy tax treaty benefits.
 2. the business activities are managed by the company’s own management which has sufficient authority to carry out the transaction.
 3. the company has employee(s).
 4. the company has activities or active business.
 5. income derived from Indonesia is taxable in the recipient’s country.
 6. the company does not use more than 50% of its total income to fulfill its obligations to other parties, such as interest, royalty, or other payments.



Thank you

If you have any questions, please contact Hwee Seng at (65) 6236 3669 or email at hwee.seng.lim@sg.pwc.com

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