

Labuan IBFC Editorial

Labuan GIFT Programme vs. Singapore Global Trader Programme

By
Shanker Iyer

Founder and Chairman of Iyer Practice Advisers (Singapore and Hong Kong)

INTRODUCTION

In 2011, Labuan International Business and Financial Centre (Labuan IBFC) introduced the Global Incentives for Trading programme (GIFT) in order to increase its competitiveness as a centre for international trading companies. Singapore has had its Global Trader Programme (GTP) in place for over 20 years. This article will compare and contrast the two programmes.

BACKGROUND

GIFT PROGRAMME

The Global Incentives for Trading (GIFT) programme was established in 2011 to encourage companies to use Malaysia as an international trading base. In order to use the programme, companies must operate via a Labuan International Trading Company (LITC); however, operational offices can be based anywhere in Malaysia (e.g. Kuala Lumpur or Iskandar Malaysia). GIFT focuses on traditional commodities such as petroleum and petroleum-related products. It is supervised by the Labuan Financial Services Authority (Labuan FSA).

GLOBAL TRADER PROGRAMME

The Global Trader Programme (GTP) was established 10 years earlier in 2001 to facilitate and develop international trading facilities in Singapore, as well as to create a vibrant and conducive environment for global trading companies to establish their regional trading headquarters in Singapore. It replaced programmes that had previously been in place since 1989 and 1990 (Approved Oil Trader and Approved International Trader schemes, respectively). As the programme has been in place for many years, it is now focusing on helping Singapore develop non-traditional trading industries, such as consumer goods and industrial machinery. This programme is supervised by International Enterprise Singapore (IE Singapore), an agency of Singapore's Ministry of Trade and Industry.

BENEFITS

The primary benefit of these programmes is to provide a concessionary tax rate in respect of qualifying income. GIFT currently provides a lower concessionary tax rate than the GTP.

GIFT PROGRAMME

GIFT, supervised by Labuan FSA, provides a concessionary tax rate of 3% on qualifying income for a renewable period of five years. This rate applies to qualifying income, with a focus on non-Malaysian Ringgit and international trading income.

An LITC set up purely as a liquefied natural gas (LNG) trading company is entitled to a 100% income tax exemption for the first three years of its operation, if that company was licensed before 31 December 2014.

Other incentives applicable for a LITC are:

- 100% Malaysian tax exemption on director fees paid to a non-Malaysian director
- 50% Malaysian tax exemption on gross employment income of non-Malaysian professional traders
- Malaysian tax exemption on dividends received by or paid from the LITC
- Malaysian tax exemption on royalties received from the LITC
- Malaysian tax exemption on interest received by residents or non-residents from the LITC.

PRODUCT FOCUS

As noted above, the GTP has been in place for many years, and has attracted a number of international trading companies to use Singapore as its base. It is now looking to develop as a trading centre for newer commodities (such as consumer goods and industrial machinery). As GIFT is newer than the GTP, its focus is to attract more of the traditional trading industries (such as petroleum and agricultural products).

GIFT PROGRAMME

GIFT covers the trading of physical and related derivative instruments in any currency other than the Malaysian Ringgit (MYR) of:

- Petroleum and petroleum-related products (including LNG)
- Agricultural products
- Refined raw materials
- Chemicals
- Base minerals.

The company may enter into transactions with non-resident counterparties in any currency other than MYR. However, for petroleum, petroleum-related products and coal, it may deal with residents provided the currency is not MYR.

GLOBAL TRADER PROGRAMME

GTP provides a concessionary tax rate of between 5-10% on qualifying income for a renewable period of three to five years. All GTP companies enjoy a flat tax rate of 5% on qualifying LNG trades.

Qualifying income includes:

- Profits from principal trades of physical goods
- Commissions earned from brokering physical trades
- Profits from trading derivatives.

Eligible physical trades are only those with offshore parties or other GTP companies on both the buy and sell legs of the transactions.

The rate awarded by IE Singapore depends on which tier the company is eligible for. Other than for those companies trading LNG, the 5% rate is only available to companies able to meet the Tier 1 conditions (which in practice can only be met by the very largest global trading houses).

GLOBAL TRADER PROGRAMME

GTP covers qualifying income from:

- Petroleum and petroleum-related products (including LNG)
- Agricultural commodities and bulk edible products
- Building and industrial materials
- Consumer products
- Industrial products
- Machinery components
- Minerals
- Electronic and electrical products
- Carbon credits.

KEY REQUIREMENTS

In order to qualify for each programme, companies must meet certain requirements. These requirements ensure that the companies have sufficient substance in those territories and are conducting the level of business that the host country is looking to attract.

GIFT PROGRAMME

Companies are required to operate as a LITC and have a registered office in Labuan IBFC. However, they may have an operational office anywhere in Malaysia.

These companies must also have a minimum annual turnover of USD 100 million and minimum local business spend of MYR 3 million (approximately USD 850,000) payable to Malaysian residents. Companies are also required to employ at least three professional traders earning a minimum salary of MYR 15,000 (approximately USD 4,000) per month and who are tax residents of Malaysia.

GIFT companies are exempted from fulfilling the above numerical criteria for the first five years.

The minimum local business spend of MYR 3 million per year should be billed to Malaysian entities and may include freight charges, bank charges, commissions, depreciation, entertainment, insurance costs, office maintenance, manpower costs, professional fees, rental of office space, skills development fund, telecommunications, transport and travel, utilities, warehousing and storage fees.

The annual licence fee is MYR 40,000 (approximately USD 11,000).

GLOBAL TRADER PROGRAMME

Prior to the GTP incentive being awarded, companies are expected to have shown some track record of operation and have Singapore bank lines in place. Hence, unless the trader is a large global player, it is often recommended that the trader is operational in Singapore for some time before making the application.

Companies are required to demonstrate the following criteria:

- Substantial physical trade
- Significant local business spending
- Sizable employment of trading professionals
- Strategic headquarter functions.

The levels required to meet the substantial physical trade criteria are higher than those required of GIFT participants and must be met from the first year of the company's operation (compared with at the end of five years for GIFT participants). The requirements increase from Tier 3 (the introductory level of the programme with a 10% concessionary rate) to Tier 1 (the highest level of the programme with a 5% rate). These levels are not published by IE Singapore and are subject to a degree of negotiation.

The significant local business spending must be expenditure paid to Singapore-based entities that are directly attributable to GTP activities. The list of relevant expenditure is very similar to that of GIFT.

Trading professionals in Singapore are expected to include decision makers, who have authority in the following functions or activities in relation to GTP transactions: senior management, procurement and sourcing, sales and marketing, and risk management. These trading professionals must be tax residents of Singapore.

It is also expected that some strategic headquarter functions are based in Singapore. These include: strategic management, finance and treasury management, risk management, market research, logistics management, human resource management, information technology and network services, global procurement, and customer management.

The net effect of all the above items is to ensure that companies applying for the GTP have sufficient track record and substance in Singapore.

CONCLUSION AND OTHER CONSIDERATIONS

The differences in the requirements and benefits of each programme reflect its different objectives. GIFT is a newer programme, in which its primary appeal is the lower tax rate offered of 3% and the fact that Malaysia is a lower cost jurisdiction than Singapore. These are factors that may especially appeal to smaller or less established trading companies.

On the other hand, the GTP has been in place for many years and includes many of the largest global players in each sector. Singapore is currently not looking to compete merely on low tax rates, but also on its history as a centre for international trading. In the traditional trading industries, IE Singapore is only looking to attract well-established players. It is currently focusing on growing Singapore as a centre for trading in newer industries (such as industrial machinery).

Therefore, when considering which programme might be most appropriate for an individual company, the company should consider its own position within its industry and its ability to meet the various requirements in the short and medium-term.

SUMMARY OF COMPARISON

	GTP 	GIFT 
Scheme established	2001 (Replaced existing schemes set up in 1989/1990)	2011
Current number of participants	Approximately 400	Fewer than 50
Tax rate	5-10%	3%
Other tax incentives (specifically under scheme)	None	Incentives for Non-Malaysian Employees/Directors No WHT on royalties/interest
Products covered by scheme	Traditional & newer (e.g. consumer products/industrial machinery) commodities	Traditional commodities (energy, agriculture, minerals)
Requirements to enter scheme	Higher requirements	Lower requirements (annual requirements do not need to be met for first 5 years)

Shanker Iyer is the founder and chairman of Iyer Practice Advisers (Singapore and Hong Kong) (www.iyerpractice.com). He can be contacted at shanker@iyerpractice.com.



LABUAN IBFC INCORPORATED SDN BHD (817593D)

SUITE 3A-2, LEVEL 2 BLOCK 3A
PLAZA SENTRAL, JALAN STESEN SENTRAL
KL SENTRAL, 50470 KUALA LUMPUR
MALAYSIA

TEL +6 03 2773 8977
FAX +6 03 2780 2077
EMAIL info@libfc.com

FOR MORE INFORMATION, LOG ON TO WWW.LIBFC.COM

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