

1. Subject:

Whether:

- a. a company has a taxable presence in Singapore by virtue of it selling goods manufactured locally by a related entity to its Singapore customers and the provision of sales and marketing support services by another related entity in Singapore.
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2. Relevant background and facts:

- a. The company is incorporated in and a tax resident of Country A for Country A's income tax purposes. Its principal activities are those of manufacturing, marketing, distributing, and supporting Product X. The income derived by the company from the carrying on of its business is subject to tax in Country A.
- b. The company's wholly owned subsidiary, SingCo Pte Ltd ("**SG Co**") is incorporated and intends to be a tax resident in Singapore. Its principal activity is that of the manufacture of Product X. It has a place of business in Singapore with employee headcounts.
- c. SG Branch ("**SG Branch**") is the Singapore branch of a foreign related company. Its principal activity is that of the provision of sales and marketing support and after-sales services support to the customers for and on behalf of the company.
- d. The company is responsible for the manufacturing, assembly and testing, loading and configuring products to customer specification, procurement, research and development, marketing, sales and distribution and supply chain management of the group's products to customers located outside Country B.
- e. The company engages third party contract manufacturers to produce different product components. These third-party contract manufacturers are located outside Singapore whereby they undertake procurement, system assembly and initial testing. After the completion of initial testing, a fully assembled product (which includes the hardware components) from the contract manufacturers (the semi-finished goods) is routed/ shipped to the company in Country A to load the software onto the products and perform quality control procedures. Thereafter, the products are sold by the company through various channels of direct sales force, authorised distributors and integrator partners.

Arrangement with SG Co

- f. With the set-up of SG Co in Singapore, SG Co will be the group's global manufacturing and logistics hub by procuring from third-party suppliers located in Asia, assembling, and configuring Product X and drop-shipping to Asian customers. SG Co's activities include receiving hardware components, inventory put-away, assembling, programming, software loading, testing and distribution of the final products.
- g. Under the arrangement, SG Co will take over the role currently undertaken by the company (i.e., loading of the group's software and other manufacturing processes to produce the finished goods). The steps for the transaction flows are as follows:
 - i. The company has an existing sourcing agreement with the third-party contract manufacturer outside Singapore and purchases the hardware components from them. SG Co will purchase the semi-finished goods (the hardware components) from the company through a title transfer while the physical delivery of the semi-finished goods will be directly from the third-party contract manufacturer to SG Co.
 - ii. The semi-finished goods will be delivered to SG Co in Singapore to be loaded with the group's software. Title to the semi-finished goods belongs to SG Co who will fully complete all the production and manufacturing process required to produce the final product (the **"finished goods"**). All these activities will be undertaken by SG Co in Singapore. After the finished goods are manufactured by SG Co, it will remain in Singapore as SG Co's inventory.
 - iii. The company will sell the products by drop-shipping to its customers' location i.e. goods are shipped directly by SG Co to the end customer of the company. Once the company receives a purchase order from its customers, SG Co will move the finished goods inventory to the loading dock for pick up by the company's appointed third-party freight forwarders on its behalf and deliver straight to the customer.
 - iv. Title to the finished goods will be transferred from SG Co to the company at SG Co's loading dock in Singapore. To that extent, there is never any inventory of finished goods to be sold that the company maintains in Singapore. Where the customers are Singapore-based, the products will be sold to the local customers without the products physically leaving Singapore.
- h. SG Co is not involved in any customer development identification and solicitation, development of marketing activities, and also does not own any intangibles associated with the products it manufactures.

- i. SG Co will derive an arm's length return from the sale of the finished goods to the company based on a mark-up on the budgeted standard cost.
- j. Currently, it is not intended for SG Co to provide similar services (i.e., undertake manufacturing activities to produce finished goods) to any other parties but it is not precluded from providing similar services to any other parties.

Arrangement with SG Branch

- k. SG Branch is the group's sales and marketing entity in Singapore. It provides sales and marketing support and after-sales services (such as maintenance and software support services) support to the customers for and on behalf of the company, supported by employees in Singapore. However, the company is solely responsible for warranty obligations and repairs.
- l. SG Branch does not provide similar services to any other parties but is not precluded from providing similar services to any other parties.
- m. SG Branch derives an arm's length return based on a mark-up on its costs and expenses incurred in relation to its designated services it provides to the company.
- n. SG Branch does not have any authority to conclude contracts for and on behalf of the company.
- o. The company has no fixed place of business nor employees based in Singapore. Singapore is also not the place where the customer contracts are negotiated and concluded. SG Co's and SG Branch's place of business will not be at the disposal of the company.

3. Relevant legislative provision:

- a. Income Tax Act 1947 – Section 12(1)

4. The ruling:

- a. The company does not have a taxable presence in Singapore by virtue of it selling goods manufactured locally by SG Co to its Singapore customers and the provision of sales and marketing support services by SG Branch.

5. Reason(s) for the decision:

- a. The company does not have a fixed place of business in Singapore, nor employees based in Singapore. The company sells the finished goods to

the customers and the contracts are negotiated and concluded outside Singapore.

- b. The company does not store nor maintain any inventory of goods in Singapore.
 - c. The delivery of the finished goods to the customers in Singapore are performed by third-party freight forwarders who are providing the delivery services in the ordinary course of their business.
 - d. The services provided by SG Branch are support services in nature and SG Branch does not have any authority to conclude contracts for and on behalf of the company.
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