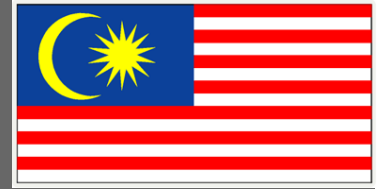

MASTERCLASS ON OIL & GAS TRADING: GLOBAL INCENTIVES FOR TRADING (GIFT) VS GLOBAL TRADING PROGRAMME (GTP)

SHANKER IYER
IYER PRACTICE ADVISERS
SINGAPORE | HONG KONG
15 May 2015



BACKGROUND TO INCENTIVE SCHEMES



Global Incentives for Trading (GIFT)

Established in 2011

- To encourage companies to use Malaysia as international trading base
- Operate via a Labuan International Trading Company (LITC), but operational offices can be based anywhere in Malaysia (e.g. Kuala Lumpur or Iskandar)
- Focus on traditional commodities (such as petroleum and petroleum-related product)



Global Trader Programme (GTP)

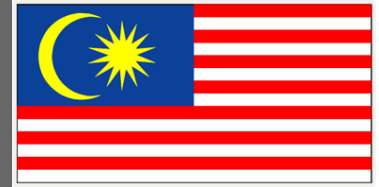
Established in 2001 (replaced other schemes previously in existence)

- To facilitate and develop international trading facilities in Singapore
- To create a vibrant and conducive environment for global trading companies to establish regional trading headquarters in Singapore
- Initial focus on traditional commodities, now focus on developing non-traditional trading industries (such as consumer goods, industrial machinery)

Trading Incentives

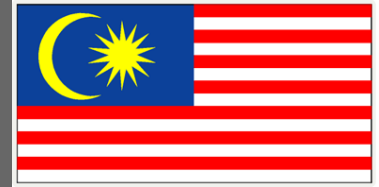


BENEFITS



Provides a concessionary (3%) tax rate on qualifying income for a 5 year period (renewable)

- Tax rate applies to qualifying income (focus on non-MYR, and international trading income)
- The Scheme is supervised by Labuan Financial Services Authority (LFSA)
- The annual licence fee is RM 40,000



Other incentives applicable to LITCs

- 100% exemption on director fees paid to non-Malaysian director
- 50% exemption on gross employment income for 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 resident or non-resident from the LITC



Provides a concessionary (5 – 10%) tax rate on qualifying income for a renewable period of 3 – 5 years

- Tax rate applies to qualifying income (focus on international trading income)
 - All GTP companies enjoy a flat rate of 5% on qualifying LNG trades
- Rigorous conditions apply (scheme aims to target well-established international traders)



Concessionary tax rate only applicable to qualifying income from qualifying transactions. Qualifying income is:

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

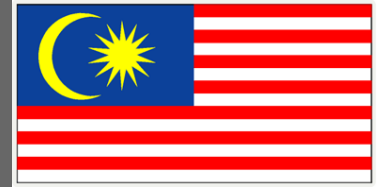


- Eligible physical trades are only those with offshore parties or other GTP companies on both the buy and sell legs of the transactions.
- The rate awarded by IE Singapore depends on which tier the company is eligible for. Other than for those companies trading LNG, the 5% rate is only available to companies able to meet the Tier 1 conditions.

Trading Incentives



PRODUCT FOCUS



List of products covered by GIFT scheme

- Petroleum and petroleum-related products including liquefied natural gas (LNG)
- Agriculture products
- Refined raw materials
- Chemicals
- Base minerals

In any currency other than Ringgit



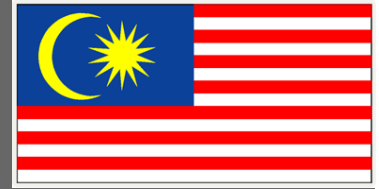
List of products covered by GTP scheme:

- Petroleum & Petroleum Products
- Agricultural Commodities and Bulk Edible Products
- Building & Industrial Materials
- Consumer Products
- Industrial Products
- Machinery Components
- Minerals
- Electronic & Electrical Products
- Carbon Credits

Trading Incentives



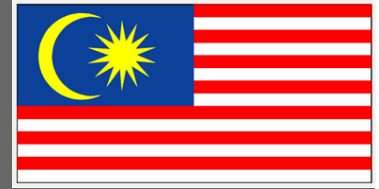
KEY REQUIREMENTS



Companies are required to fulfill the following annual criteria:

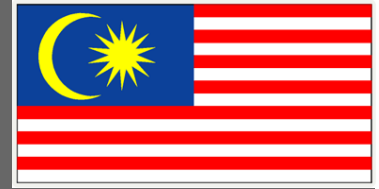
- Must operate as a Labuan International Trading Company (LITC), but operational office can be anywhere in Malaysia
- Minimum turnover of USD 100 million
- Minimum local business spend of RM 3 million payable to Malaysian residents (see next slide for further details of this)
- To employ at least 3 professional traders earning minimum RM 15,000 per month and are tax resident of Malaysia

Companies are exempted from numerical criteria for first 5 years.



Minimum local business spend of RM 3 million per year can include (billed to Malaysian entities):

- Bank charges
- Commissions
- Depreciation
- Entertainment
- **Freight Charges**
- Insurance costs
- Office maintenance
- Manpower costs
- Professional fees
- Rental of office space
- Skills development fund
- Telecommunications
- Transport & travel
- Utilities
- Warehousing
- Storage fees



LITC can enter into the following transactions:

- Non-resident counterparties in any currency other than Ringgit
- However, for petroleum, petroleum-related products and coal it may deal with residents provided currency is not Ringgit



Prior to the incentive being approved, companies are expected to:

- Have shown some track record of operating
- Have Singapore banking lines in place



Companies are required to fulfill the following annual criteria:

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



Examples of strategic headquarter functions:

- Strategic management
- Finance and treasury management
- Risk management
- Market research
- Logistics management
- Human resource management
- Information technology & network services
- Global procurement
- Customer management



Other Requirements:

- The level required to meet the substantial physical trade criteria are higher than those required of GIFT participants and must be met from the 1st year of the company's operation.
- The requirements increase from Tier 3 (with 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.



Significant local business spending can include (billed to Singapore entities)

- Bank charges
- CPF contributions
- Commissions
- Depreciation
- Entertainment
- **Freight Charges**
- Insurance costs
- Office maintenance
- Manpower costs
- Professional fees
- Rental of office space
- Skills development fund
- Telecommunications
- Transport & travel
- Utilities
- Warehousing costs

All spending must be directly attributable to GTP activities



Trading professionals include

- Staff who are decision makers and have authority in the following activities in relation to the GTP transactions
 - Senior Management
 - Procurement / Sourcing
 - Sales / Marketing
 - Risk Management
- Must be tax resident of Singapore





Qualifying physical transactions are:

- Principal physical trades with offshore parties on both the buy and sell legs
 - Other GTP companies in Singapore are considered offshore parties for purposes of determining whether a transaction is qualifying
- Domestic exports and local sales to non-GTP Singapore-based entities will be considered as non-qualifying trades





COMPARISON OF SCHEMES

Comparison of Schemes

	GIFT 	GTP 
Scheme established	2011	2001 (Replaced existing schemes set up in 1989/1990)
Current number of participants	Fewer than 50	Approximately 400
Tax Rate	3%	5-10%
Other tax incentives (specifically under scheme)	Incentives for Non-Malaysian Employees / Directors No WHT on royalties / interest	None

Comparison of Schemes

	GIFT 	GTP 
Products covered by scheme	Traditional commodities (energy, agriculture, minerals)	Traditional & newer (e.g. consumer products / industrial machinery) commodities
Requirements to enter scheme	Lower requirements (annual requirements do not need to be met for first 5 years)	Higher requirements
Other considerations	<ul style="list-style-type: none"> • Newer trading centre • Lower cost of operations 	<ul style="list-style-type: none"> • Well-established as an international trading base. • Strong legal system • Extensive banking system



Labuan IBFC

International Business
and Financial Centre, Malaysia

Thank You

Disclaimer

This presentation should not be regarded as offering a complete explanation of the matters referred to and is subject to changes in law. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Labuan IBFC cannot accept any responsibility for loss occasional to any person acting or refraining from action as a result of any material in this presentation. The republication, reproduction or commercial use of any part of this presentation in any manner whatsoever, including electronically, without the prior written permission from Labuan IBFC Inc. is strictly prohibited.