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Tax Update

Dear Clients & Friends

Qualifying Debt Securities ("QDS") Scheme enhanced and renewed

The Qualifying Debt Securities Scheme (the "**QDS Scheme**") was first initiated in 1998 as a tax incentive to promote the development of an active bond market. Under the QDS Scheme, subject to certain conditions being met, qualifying income (such as interest, discount income, break cost, prepayment fee, and redemption premium) derived from QDS is:

(i) exempt from tax (including withholding tax) if derived by a person who is not resident in Singapore and who does not use funds from such person's operations through a permanent establishment in Singapore (if any) to acquire the QDS; and

(ii) taxed at a concessionary rate of 10 per cent. if derived by companies and bodies of persons in Singapore.

The QDS Scheme was due to expire on 31 December 2008.

The Government announced in the Budget Statement 2008 that the QDS Scheme would be renewed and enhanced. On 23 May 2008, the Monetary Authority of Singapore issued a circular FSD Cir 03/2008 (the "**MAS Circular**") entitled "*Enhancement to and renewal of the tax incentive scheme for Qualifying Debt Securities ("QDS")*" to explain the details of the renewal and enhancement of the QDS Scheme.

Renewal of the QDS Scheme

The MAS Circular states that the QDS Scheme will be renewed for another five years, and accordingly the QDS Scheme will continue to apply to QDS issued during the period from 1 January 2009 to 31 December 2013.

Enhancement of the QDS Scheme

In addition, the MAS Circular provides that the tax incentives for the QDS Scheme will be enhanced under a new QDS Plus ("**QDS+**") Scheme.

Under the QDS Plus Scheme, income tax exemption is granted on qualifying income derived by any investor from QDS issued during the period from 16 February 2008 to 31 December 2013 provided:

(i) the QDS have an original maturity date of at least 10 years; or

(ii) in the case of Islamic debt securities which are QDS, where the amount payable under such securities to investors is not deductible against any income of the issuer that is accruing in or derived from Singapore.

The enhancement of the QDS scheme for QDS with an original maturity date of at least 10 years will however not be applicable to QDS that are redeemable, convertible, callable or exchangeable within 10 years from the date of issue. Similarly, QDS that are "re-opened" with a resulting tenure of less than 10 years to original maturity date will not enjoy the enhancement.

Should you have any further queries as to how this may affect your business, please do not hesitate to get in touch with your usual contact at Allen & Gledhill LLP or any member of our Tax Practice Group:

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