

REITS in Singapore, Malaysia and Hong Kong compared

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Tax features

- Territorial tax system
 - Income accruing in or derived from
 - Income received in Singapore from outside Singapore
- Foreign dividends are tax exempt as offshore source income
- No dividend withholding tax
- Discretionary management can create a PE or source of income for the fund as 'doing business'
- Capital gains not taxable unless of an income nature
- Stamp duty

Singapore

Foreign dividend tax exemption

- Unilateral Tax Credit (for certain income)
 - dividend withholding tax
 - underlying tax (1 tier) if at least 25% ownership unless lower threshold applies under DTA's
- Exemption for remitted foreign sourced income (Section 13 (8) ITA).
 - Foreign 'headline tax rate' of 15%
 - Subject to foreign (underlying) tax
- Concession; International HQ incentive

Singapore Investment (Holding) Companies

REITS

SINGAPORE

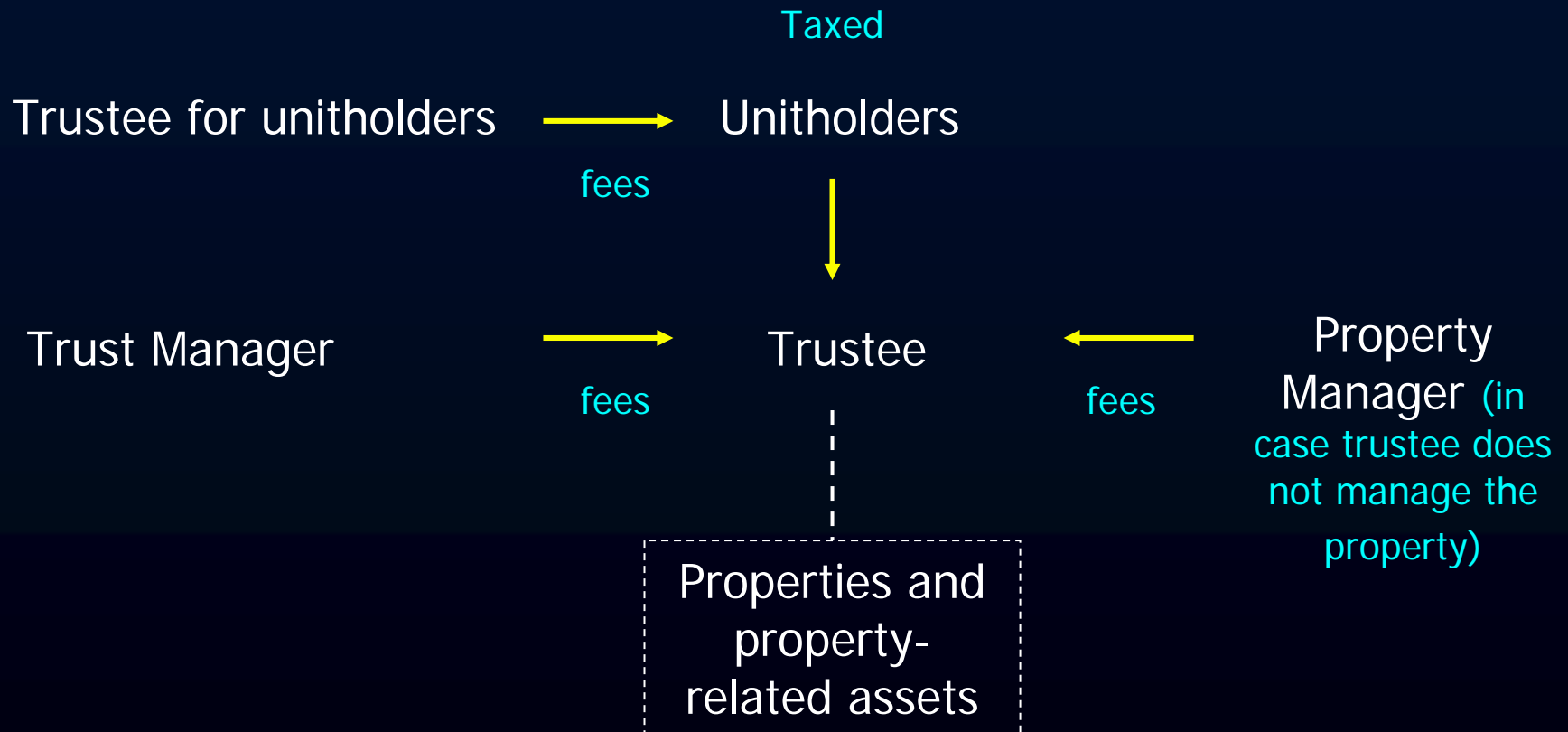
- Singapore trust
- Business Trust
- S-REIT

Resident Singapore trust or BT

- Taxed as a company for income tax
- Income taxed at normal rate (20% currently)
- Limited restrictions on distributions by BT
- Distributions exempted for unit holders
- BT can obtain COR and enjoy tax credits for foreign source income
- Free to distribute capital gains as exempt dividends

S-REIT

Singapore listed property trusts



Legal Framework

- Securities and Futures Act ('Act') and Regs
- Code on Collective Investment Schemes (Code) published by MAS
- Property Trust Guidelines (belonging to Code)
- Listing Manual of the Singapore Exchange (SGX-ST)
- Trust Companies Act

Trustee

- Independent trustee
- Functions and responsibilities: Code, Act and Regs, Trust Companies Act, Trust Deed and common law principles (principles of equity)

Trust Manager

- At least 5 years experience managing property trusts
- Required track record in Property Trust Guidelines
- Listing Manual prescribes functions
- If the manager will manage a portfolio of securities: a Capital Markets Service Licence from MAS will be required

Trust Deed

- Act and Regs spells out basic requirements
- Deals with the creation of the trust, terms of appointment of trustee and trust manager and details of the unit trust scheme
- To be approved by MAS

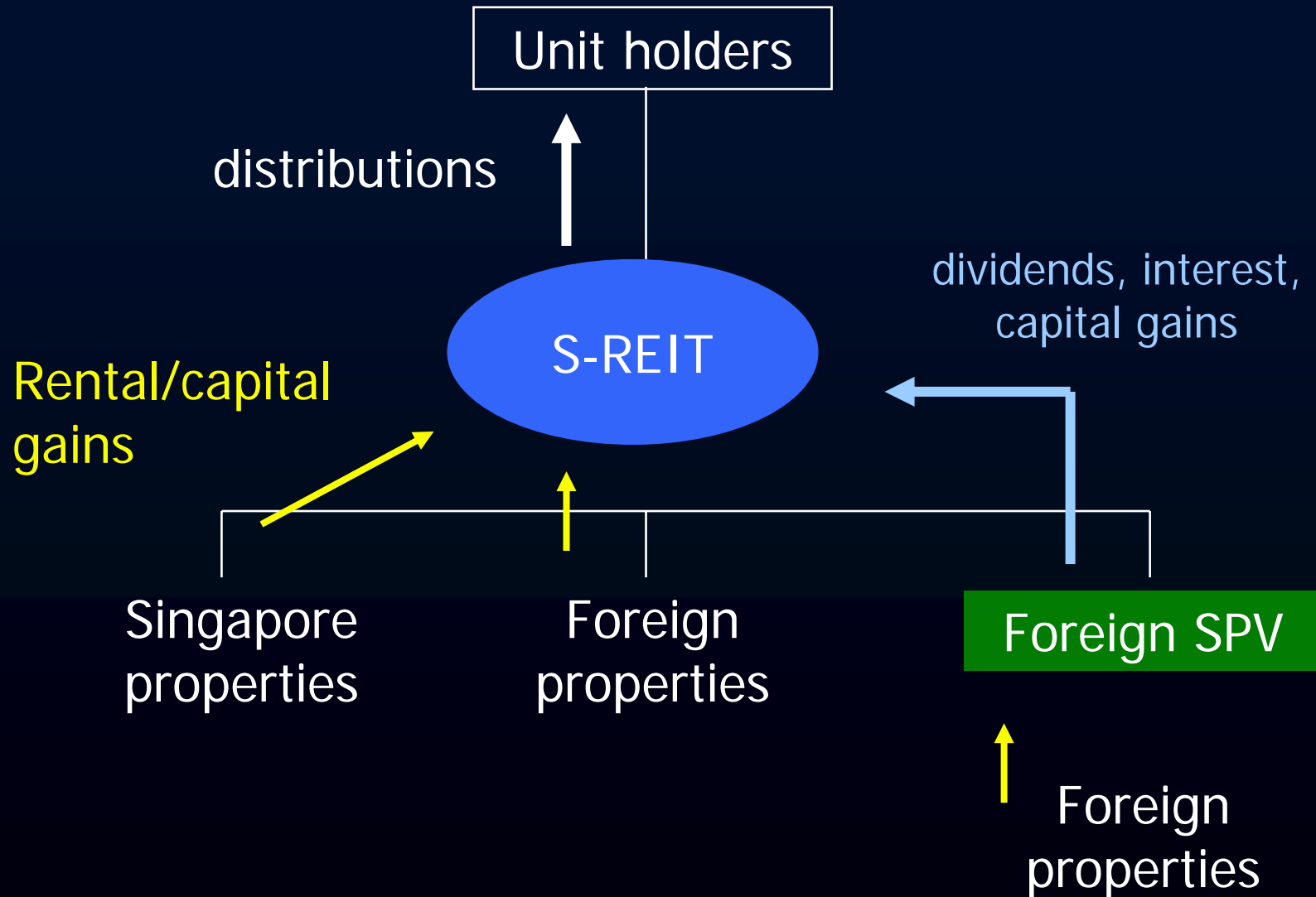
Miscellaneous

- Prospectus required in case of public offers in S'pore, in accordance with the Act and Regs and registered with MAS beforehand and reviewed by SGX-ST
- Prohibited activities: property development and investing in prop development securities, mortgages (except mortgage-backed securities)
- At least 35% of unit proceeds must be invested in property within 24 months from launch and at least 70% invested in real estate or related assets
- Investments must be properly diversified
- Maximum 35% of value of the property may be borrowed, except in case of 'A' rating by credit rating agency, in which case higher
- If rating will be influenced by credit enhancement: MAS to be consulted
- Related party transactions rules to be observed

Taxation

- Listed property trusts are taxable and unit holders tax exempt
- Tax ruling: trust is transparent and unit holders are taxed at prevailing income tax rate on distribution
- Foreign corporates taxed at concessionary 10% income tax rate with effect from 18 Feb 2005
- Foreign individuals not taxed
- Local parties taxed at normal income tax rate of 20% (but they can deduct related expenditure to generate the income)

Typical S-REIT structure



Singapore properties

- No stamp duty on transfer of real property to REIT
- Capital gains for income tax uncertain
- No stamp duty on transfer of units in REIT
- Capital gains treatment for REIT uncertain
- REIT distributions out of taxed income of REIT are tax exempt
- REIT distributions out of rental income: individuals tax free, foreign corporates taxed at 10% WHT and local corporates 20%
- REIT distributions out of untaxed gains: same potentially

Overseas properties

- Foreign tax considerations of situs country of property
- Ongoing operations overseas may or may not be taxable in Singapore for income tax
- Tax ruling required to obtain transparency for REIT ?
- Unit-holders would be tax exempt

MALAYSIA

Taxation of Malaysian REITS

- Income tax rate 27%
- The trust itself is taxable/unit holders tax exempt
- Trust is tax transparent if listed on the Malaysian stock exchange and meets the Securities Commission guidelines (M-REITS)
- M-REITS are tax exempt on net income provided 90% of total income is distributed to investors (tax credit for investors if 90% not met)

Taxation of Malaysian REITS

- Distributions made by listed REITS are subject to 15% final income tax for 5 yrs as of 1 January 2007 unless unit holder is FII
- FII's are subject to 20% for 5 yrs as of 1 January 2007
- Transfer of property is subject to stamp duty at rates ranging from 1-3% depending on the size of the transaction
- Exemption of stamp duty for transfer of property to M-REIT

HONG KONG

Taxation of Hong Kong REITS

- Income tax rate 17.5%
- The trust itself is taxable/unit holders tax exempt
- Transfer of property is subject to stamp duty at rates ranging from 0.75-3.75% depending on the size of the transaction

HK-REITS

- Code on REITS issued in July 2003
- Hong Kong trust listed on the HK SE making long term (>2 yrs) income producing investments in HK real estate
- Borrowing maximum of 35% of gross asset value
- 90% of net audited income to be distributed annually
- REIT subject to 16% Hong Kong Property Tax on 80% of rental income after deducting bad rental receivables
- Dividends from SPVs held by REIT are tax exempt
- SPVs are taxed normally
- No stamp duty exemptions
- Investors are not subject to HK Profits Tax on distributions
- Non-listed REITS would be taxed as normal trusts: trust is subject to Profits Tax on its income and investors are tax exempt