

Incorporation of Private Limited Liability Companies in Singapore and Hong Kong

In the 21st century, Southeast Asia has become especially attractive to start a business, in particular Singapore and Hong Kong (special Administrative Region of the People's Republic of China). This is due to their low taxes, a simple procedure of incorporation, clear laws, a developed business environment, freedom of movement of capital and appreciable support of Government. The most common form of business incorporation within these areas is creation of limited liability Company, and peculiarities of such process will be covered in this paper.

According to Singapore Company Act and the Hong Kong Companies Ordinance, private limited liability companies are legal entities separated from their members, which shareholders are only liable for the debts of the company according to the amount of investment in the company's share capital (this paper covered incorporation of only private limited liability companies as the most popular in both areas.).

Process of incorporation of such companies in these two regions quite similar and easy. Initially, it is necessary to allocate the requirements for establishment a limited liability company, such as requirements for a director, shareholders, secretary, share capital and registered address.

The LLC must have at least one shareholder, a company director and a secretary. In Singapore must be one resident director, while in Hong Kong this position is allowed to obtain by the foreigners. There is no limit on the number of additional locals or foreign directors a company can appoint. Directors must be at least 18 years of age and must not be bankrupted or convicted for any malpractice in the past. There is no requirement for directors to be shareholders, non-shareholders can also be appointed as directors. In both regions a private limited company can have a minimum of 1 and maximum of 50 shareholders and there are no requirements regarding their residency. According to Section 171 of Singapore Companies Act, every company must appoint a qualified company secretary. It has to be noted that in case of a sole director/shareholder, the same person cannot act

as the company secretary. A Secretary must be a natural person who is ordinarily resident in Singapore. A private limited company in Hong Kong must have a local resident company secretary – individual or body corporate. The sole shareholder and director cannot act as the company secretary.

Turning to the share capital it is a big advantage that the minimum share capital for registering a limited liability company in Singapore is 1 SGD (the Singapore dollar). In June 2014, the Hong Kong Companies Act has abolished authorized share capital and the nominal value of shares. According to the Companies Law, there is no minimum share capital required, except for companies requiring special permits or licenses such as insurance companies, bank, financial institutions and traveling agencies. Moreover, the existing capital is easy to raise.

In order to register a company, one must provide a local address as the registered address of the company. The registered address must be a physical address (can be either a residential or commercial address). It is important to note that in Hong Kong a person does not need to rent an office and hire a secretary. There are agencies that can provide such service. Under the local laws a secretary can be the same person for a lot of companies; also the office of a given agency may be the registered office address of many different companies.

The next important issue is the company registration procedure. Company registration procedure in Singapore is fully computerized by Singapore Registrar of Companies. As a result, the Singapore incorporation process is quick and efficient, thereby the company can be incorporated in 1-2 days. There are two distinct steps involved in the Singapore company setup procedure: Company Name Approval and Company Registration. The first step is to choose and reserve a name for the company. Company name approval is obtained by filing the application with the Company Registrar. After that the company's Memorandum and Articles of Association must be drafted. A second step is to register a company at the Company Registrar. Such process is based on the following documents: company name and registered address, description of the company's activities, Memorandum of Association and Articles of Incorporation, company business

profile. After registration the Company Registrar will send an official email notification confirming the incorporation of the company. The tricky issue is that Singapore Law does not allow foreign individuals or entities to self-register a company. That is why one must hire a professional firm or lawyer to register a Singapore company.

In order to register a private limited liability company in Hong Kong the investor must follow a few basic steps. Firstly, choose a suitable company name that will not infringe any intellectual property rights. The applications for the company incorporation are submitted to the Companies Registry in Hong Kong. Depending on the business field in which they operate, LLC may need to obtain special permits and licenses. These documents can be obtained from the Trade and Industry Department of Information. Secondly, prepare and submit to the Companies Registry in Hong Kong following documents: the Articles of Association, a completed incorporation form, a notice to the Business Registration Office and details about the share capital as well as about the shareholders. After registration the Certificate of Incorporation and the Business Registration Certificate can be issued either in electronic form or in a hard copy.

One of the important advantages of incorporation of private limited companies in Singapore and Hong Kong is "Friendly" tax policy. Singapore has one of the lowest corporate taxes in Asia. According to the Singapore Income Tax Act 0% tax is payable by the companies earning profits up to \$100,000 for the first three years of their business. After three years, profits earned up to \$300,000 are taxable at 8.5%. The corporate income tax is capped at 17% on profits earned in the range of \$300,001 to \$2,000,000. According to the Inland Revenue Ordinance (Chapter 112) in Hong Kong, the income tax is set at 16.5%, 15% for unincorporated businesses. In order to attract to Singapore more investment, the corporate tax rate has been steadily declining. This budding company income 100 000 Singapore dollars tax free, while income from 200 000 to 300 000 average tax rate is 8.4%.

Summarizing, there is no one answers to the question of which of these two regions is by far the most attractive for doing business there. Considering the above, the process of incorporation of the private limited companies is quite fast and similar for both, as for procedural mechanisms and in terms of the preparation of documentation. In this case, the choice is made in accordance with the scope of future activities. Companies that plan to work mainly with China, usually choose Hong Kong. Those who are more focused on markets in Europe and America prefer Singapore.

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