Singapore Budget 2011 Synopsis

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MICA (P) 177/12/2010
Printed by Hock Cheong Printing Pte Ltd

At a glance

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Introduction

Hongbaos and tough love

More than a decade ago, I lived and worked in the UK. Budget speeches there always left me feeling tied down and robbed by Her Majesty's lawmakers. So it was a relief to come to Singapore where I have always found the Budget speeches to be nothing short of inspiring. But this Budget 2011 felt more like an education in harsh truths, sweetened with hongbaos.

There were plenty of hongbaos. Tax rebates, growth dividends, utilities rebates, child development credits, Medifund top-ups… it is a very long list. These were the short term measures, to share the surplus, help people deal with rising costs and further the cause of social mobility.

The long term measures were more interesting, more educating. First was the lesson in prudence. The Government is returning the S$4b that it drew from reserves to fund the Budget 2009 Resilience Package. No hesitation. No "let's wait and see". No "let's wait until after the election". It has stopped raining, so we put the money back, and one day we or our grandchildren will be thankful. This return of funds to reserves also speaks to the astonishing rebound of the economy – that the country is able to fund an unprecedented S$6.6b package for households and return S$4b to reserves.

There was a second lesson in prudence with increases to employer CPF contributions, despite concerns over rising business costs. Businesses will not be happy about this increase, though they will understand and accept it. Businesses will however be disturbed by the significant increases in the Foreign Worker Levy (FWL) that were announced. It is likely the Minister anticipated a negative reaction – and yet the FWL is set to be increased. This brings us to the second lesson: the Government is really very serious about increasing productivity even if bitter pills have to be administered now. There is a compelling reason.

The Minister highlighted a key long term economic and social threat – the spectre of imported inflation. Singapore imports almost all of its food, fuel and other commodities. And everyone seems to be sure that commodity prices are trending inexorably in one direction: up.

The strategies to fight inflation, particularly imported inflation, were laid out in the Budget speech. The most interesting of these is to grow Singaporeans' real income through productivity-driven growth. The target is to grow real incomes (i.e., after adjusting for inflation) by 30% over this decade. It is an ambitious target, and to achieve it the Government will significantly increase funds available to promote productivity and innovation. For example the PIC alone could now fund more than half the investment that an SME business makes in this area. There are also enhancements to various grants and a whopping S$1b additional allocation to the National Productivity Fund. Businesses had better access these funds and crack on with innovation because the higher FWL is here to stay. That's what is known as tough love.

There are several industry-specific targeted measures which show the Government listens to industry feedback and is prepared to act if appropriate. Various incentives in the maritime sector will be streamlined, strengthened and improved. There are also improvements in the tax regimes for companies in the banking, trading, logistics and biomedical sectors.

Measures which were not quite what we hoped for, but…

Many, including me, had called for a lowering of the top marginal personal income tax rate from 20% to 17% to be in line with the corporate tax rate. Instead of lowering the top marginal rate, the Government proposed changes to the personal income tax bands in a way which delivers a benefit to all taxpayers, but mostly to middle and upper-middle-income earners. This is a welcomed move and enhances the progressive nature of Singapore's tax system. Singapore's personal income tax burden, even at the top-end, remains highly competitive by international standards.

Another item prominent among pre-budget wishes was to exempt foreign income from tax completely. Such exemption already exists for individuals. Corporations, however, still pay income tax on certain types of foreign income. Many would like to see this removed for good reasons. Instead, in Budget 2011, the Government proposed a new method of computing foreign tax credits, allowing them to be calculated on a pooled basis. Now if this sounds highly technical, it is. Nevertheless I believe that some companies will benefit significantly from this change, thus encouraging them to repatriate earnings to Singapore while achieving permanent reductions in effective tax rates.

In conclusion…

The depth and clarity of thinking behind a Singapore Budget was again evident this year. Frankly, it makes a mockery of most pre-budget wishes. And that is how it should be, because the Government has access to more comprehensive data than most individuals, companies or institutions. More than anything, this Budget will be remembered as the time when the message about the importance of productivity and innovation was nailed down and when Singapore started on the home stretch to becoming a pre-eminent knowledge based and inclusive society.

Russell Aubrey
Head of Tax Services

18 February 2011

Business tax

Business tax

Corporate income tax rate

Current

The corporate income tax rate is 17% with a partial tax exemption for normal chargeable income of up to S$300,000 as follows:

- 75% exemption of up to the first S$10,000; and
- 50% exemption of up to the next S$290,000.

For lower levels of normal chargeable income, the effective rates are 4.25% on the first S$10,000 and 8.5% on the next S$290,000 of normal chargeable income.

Proposed

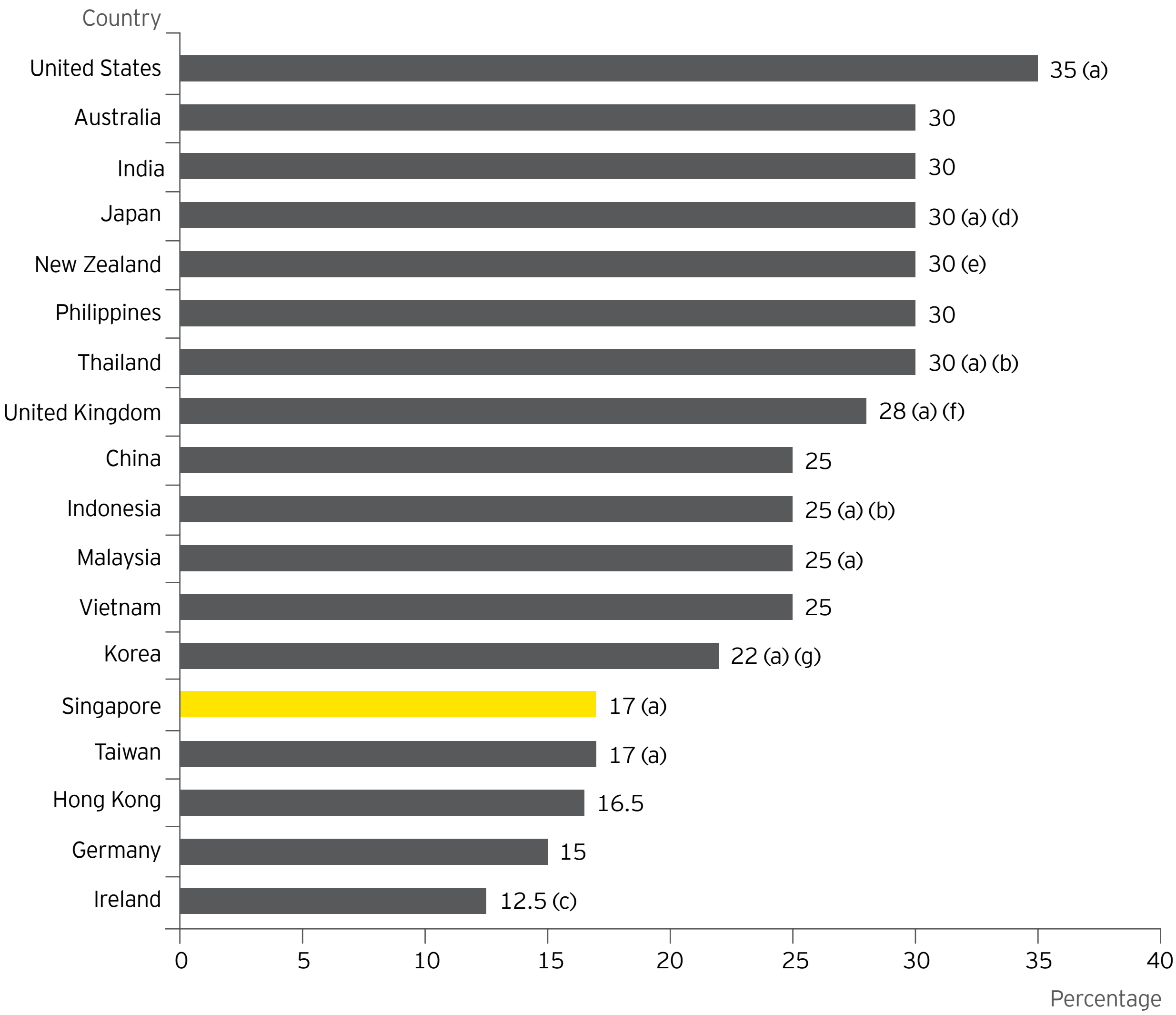
The Minister did not propose a reduction in the corporate income tax rate. The headline tax rate stays at 17% and the partial tax exemption threshold remains as before.

Points of view

- At 17%, Singapore's corporate income tax rate is already one of the lowest headline corporate tax rates in the world. This rate is only 0.5% higher than the current Hong Kong corporate tax rate of 16.5% and 4.5% higher than the corporate tax rate of 12.5% in Ireland on trading income.
- After taking into account the partial tax exemption, a company in Singapore with S$500,000 of normal chargeable income will have an effective tax rate of only 11.8%. For YA 2011, after taking into account the one-off corporate income tax rebate, the effective tax rate is further reduced to 9.8%. This is notably lower than the 16.5% tax rate in Hong Kong and is also lower than the 12.5% tax rate in Ireland.
- Without taking into account the one-off corporate income tax rebate, only with normal chargeable income exceeding S$5.2 million and S$577,000 would a company in Singapore be paying tax at an effective rate higher than 16.5% and 12.5% respectively. After taking into account the one-off corporate income tax rebate for YA 2011, Singapore's effective tax rate would be higher than 16.5% and 12.5% only if the normal chargeable income exceeds S$7.2 million and S$798,000 respectively.
- Singapore's corporate income tax rate of 17% is clearly competitive at the present time. Fiscal fine tuning is more important and indeed more effective than blanket give-aways in the form of an across the board corporate income tax rate reduction. Double deduction reliefs and various other tax incentives such as the PIC will reduce the effective tax rate well below the headline tax rate of 17%, especially for SMEs. A further enhancement to benefit SMEs that can be considered in the future is to increase the threshold for partial tax exemption.
- The 3% rate difference between corporate income tax of 17% and the top marginal personal income tax rate of 20% remains. Self-employed individuals, depending on their level of income, may find it more attractive to corporatise their businesses in view of the lower corporate income tax rate and partial tax exemptions. However, the additional costs of operating a company, e.g., audit and secretarial fees, will also have to be taken into account before such a decision is made.
- Lower tax rates are available under the various tax incentive regimes. Qualifying companies may enjoy concessionary tax rates ranging from 0% to 15%. The attractiveness of applying for tax incentives with tax rates of above 10% continues to be challenged.

Business tax

Prevailing corporate income tax rates in selected countries as at 1 January 2011



Notes:

(a) Lower rates or partial tax exemption are applicable for lower income bands or companies with smaller paid-up capital

(b) Listed companies meeting certain conditions may enjoy lower rates

(c) A higher rate is applicable for certain non-trading income and other activities

(d) Proposed to be reduced to 25.5% from tax year beginning on or after 1 April 2011

(e) To be reduced to 28% from the April 2011/March 2012 income year

(f) To be reduced to 27% from 1 April 2011

(g) To be reduced to 20% from 1 January 2012

The above rates are the top corporate income tax rates, excluding dividend withholding tax, surcharges, trade tax, or other state and local taxes, where applicable.

Business tax

Corporate income tax rebate and SME cash grant

Current

The corporate income tax rate is 17% with a partial tax exemption for normal chargeable income of up to S$300,000 as follows:

- 75% exemption of up to the first S$10,000; and
- 50% exemption of up to the next S$290,000.

Proposed

A corporate income tax rebate will be granted for YA 2011. The rebate will be 20% of the corporate income tax payable, capped at S$10,000.

For small companies which may not benefit fully from the corporate income tax rebate as they pay very little taxes, a one-off SME cash grant will be provided. The grant will be based on 5% of the company's revenue for YA 2011, subject to a cap of S$5,000. The company must, however, have made CPF contributions in YA 2011.

Companies will automatically receive the higher of the corporate income tax rebate or the grant when the IRAS assesses their YA 2011 corporate income tax returns.

Points of view

- The IRAS has clarified that:
  - the corporate income tax rebate will be given to all companies including registered business trusts regardless of tax residency status and eligibility for concessionary corporate tax rates, except income of a non-resident company that is subject to final WHT;
  - companies do not need to apply for the corporate income tax rebate or the SME cash grant. The IRAS will compute the amount which a company will receive when companies file their YA 2011 income tax return by the 30 November filing deadline. The IRAS will release more details regarding the payment of the SME cash grant in April 2011. Subject to further details to be released, it appears that companies will only receive the rebate or cash grant at the end of 2011;
  - as the corporate income tax rebate or the SME cash grant is computed after the IRAS receives the Form C, neither the tax rebate nor the cash grant will be taken into account in the determination of the estimated chargeable income of a company;
  - to be eligible for the SME cash grant, a company or registered business trust must have made CPF contribution for at least one employee (which may include any shareholder or director who is an employee) during the basis period for YA 2011. If no CPF contribution is made, the company or registered business trust will only be eligible for the corporate income tax rebate;

- a company will be required to refund to the IRAS the SME cash grant which it has previously received if the revised tax assessment for YA 2011 results in additional tax payable and the corporate income tax rebate is higher than the SME cash grant. A corporate income tax rebate will be allowed instead;
- where a company has both concessionary and normal income, the corporate income tax rebate will be computed based on the aggregate gross tax payable for both concessionary and normal income. The SME cash grant will be computed based on the aggregate revenue as shown in Box 35 of the Form C; and
- the SME cash grant is not taxable.

- The scheme will provide some relief to companies, especially SMEs which are facing increasing business cost pressures. The SME cash grant will provide some relief to companies that are loss making or have little chargeable income.
- The benefit of the corporate income tax rebate to companies may have to be considered when claiming group relief.
- Companies may consider deferring capital allowances claim in YA 2011 to maximise the benefit of corporate income tax rebate.
- To qualify for the SME cash grant, the company must have made CPF contribution for at least one employee. Companies which are members of a group where another company within the group employs all of the group's employees, will not qualify.

Business tax

Enhancement of the PIC scheme

Current

The PIC scheme confers 250% tax deduction or allowance for the first S$300,000 of qualifying expenses incurred on each of the following six qualifying activities along the innovation value chain:

- R&D expenditures;
- investments in design;
- acquisition of IP;
- registration of IP;
- investments in automation; and
- training.

The balance of any expenditure in excess of S$300,000 qualifies for 100% tax deduction or allowance, except for qualifying expenditure incurred on R&D done in Singapore. Such qualifying expenditure incurred on R&D done in Singapore qualifies for 150% tax deduction.

In computing the tax deduction or allowance, the expenditure is the amount net of grant or subsidy by the Government or any statutory board.

The PIC scheme is effective from YA 2011 to YA 2015.

In addition, a combined expenditure cap of S$600,000 applies for each of the qualifying activities for YA 2011 and YA 2012.

For YA 2011 to YA 2013, businesses can elect to convert up to S$300,000 (but not less than S$1,500) of qualifying tax deductions or allowances into cash payout of up to S$21,000 for each YA. To convert the qualifying tax deductions or allowances into cash, the businesses must have:

- incurred qualifying expenditure and are entitled to the PIC scheme during the basis period for the qualifying YA;
- active business operations in Singapore; and
- at least three local employees (Singapore citizens or permanent residents with CPF contributions excluding sole proprietors, partners under contract for service and shareholders who are directors of the company). A business is considered to have met this requirement if it contributes CPF on the payrolls of at least three local employees in the last month of its basis period for the qualifying YA.

Proposed

To further encourage pervasive innovation and raise productivity efforts, the PIC scheme is simplified and enhanced in four main areas:

- the quantum of tax deduction or allowance is increased to 400% of expenditure (up from 250% currently), for the first S$400,000 spent on each qualifying activity (up from S$300,000 currently);
- PIC benefits will be made available to R&D done abroad, not just R&D done in Singapore as is currently the case;
- businesses will be allowed to combine the S$400,000 expenditure cap per year for YA 2013 to YA 2015 into a new ceiling of S$1,200,000 over the three years. Businesses will therefore be able to claim a 400% deduction for the first S$1,200,000 of expenditure on each activity that they incur for YA 2013, YA 2014 and YA 2015 combined. This will give businesses more flexibility to plan their investments. Currently, businesses are already allowed to combine their caps for YA 2011 and YA 2012; and
- a simpler and enhanced cash conversion option where taxpayers can opt to receive, in lieu of tax deduction benefits, a cash payout of 30% of the first S$100,000 of qualifying expenditure, up to S$30,000.

The above enhancement is effective immediately from YA 2011 to YA 2015.

The combined expenditure cap for YA 2011 and YA 2012 will now be S$800,000 for each qualifying activity. For YA 2011 to YA 2012, businesses can opt to convert up to a combined cap of S$200,000 of total qualifying expenditure into a cash payout. The maximum combined cash payout for YA 2011 and YA 2012 is therefore S$60,000 (S$200,000 x 30%). For YA 2013, the maximum cash payout is S$30,000 (S$100,000 x 30%).

All other existing conditions of the PIC scheme continue to apply. The IRAS will issue further details on the enhancement in June 2011.

Points of view

- The Government has indicated that the enhancement of the PIC scheme is akin to a cut in the corporate tax liability of a taxpayer who invests in increasing productivity. As an example, if a company spends S$100,000 on automation equipment, the enhanced PIC allowance would reduce its tax liability as shown below:

	Normal rules without PIC S$	With PIC S$	With enhanced PIC S$
Net profit per account	1,000,000	1,000,000	1,000,000
Less: Expenditure on automation equipment	(100,000)	(100,000)	(100,000)
Less: Additional tax allowance/deduction	-	(150,000)	(300,000)
Chargeable income (before partial exemption)	900,000	S$750,000	S$600,000
Tax at 17%, with partial exemption	127,075	101,575	76,075
		Tax savings of S$25,500 (approximately 25% of qualifying expenditure)	Tax savings of S$51,000 (approximately 51% of qualifying expenditure)

- Cash payout option: If a company spends S$400,000 on any one of the qualifying activities and, instead of claiming a 400% deduction it converts up to S$100,000 of its qualifying expenditure at the rate of conversion of 30%, the additional tax savings is S$119,500.

	With PIC	With enhanced PIC
Cash payout option	Convert S$300,000 of qualifying tax deduction or allowance into cash of S$21,000	Convert S$100,000 of qualifying expenditure into cash of S$30,000
Tax effect	S$21,000 + [(S$850,000 – S$300,000) x 17%] = S$114,500	S$30,000 + (S$300,000 x 400% x 17%) =S$234,000
	← Additional tax savings = S$119,500 →	

- Currently, the amount of conversion should not be less than S$1,500 of qualifying deduction or allowance per year. The IRAS has clarified that under the enhanced PIC scheme, the amount of conversion should not be less than S$400 of qualifying expenditure per year.

- The value of cash conversion under the enhanced cash conversion option is equivalent to 7.5% of qualifying tax deduction or allowance [i.e. S$30,000/(S$100,000 x 400%)]. This is only marginally higher than the rate of 7% used currently for calculating cash conversion. Given the prevailing corporate tax rate of 17%, it may not necessarily be beneficial for taxpayers to convert their qualifying expenditure into cash.

- R&D done abroad: The PIC scheme is now expanded to cover expenditure for R&D done abroad. This is a much welcomed move as it is often inevitable for companies stepping up on R&D activities to have components of such activities conducted overseas such as where facilities for segments of the R&D may not be available in Singapore, or expertise in that area of R&D is not available locally. These companies can now benefit from the PIC scheme for expenditure incurred on R&D done abroad.

- The table below illustrates how the enhancement of the PIC scheme on R&D activities would benefit businesses which have R&D activities conducted both in and outside Singapore.

	Qualifying expenditure incurred on R&D done in Singapore under section 14DA of the ITA	Other expenditure on R&D done in Singapore	Expenditure on R&D done outside Singapore	Total
Cost incurred	S$500,000	S$250,000	S$500,000	
Current PIC scheme	S$1,050,000 (S$300,000 x 250% + S$200,000 x 150%)	S$250,000	S$500,000	S$1,800,000
Enhanced PIC scheme				
Scenario 1 – 400% tax deduction claimed on qualifying expenditure incurred on R&D done in Singapore	S$1,750,000 (S$400,000 X 400% + S$100,000 x 150%)	S$250,000	S$500,000	S$2,500,000
Scenario 2 – 400% tax deduction claimed on expenditure incurred on R&D done outside Singapore	S$750,000 (S$500,000 x 150%)	S$250,000	S$1,700,000 (S$400,000 x 400% + S$100,000)	S$2,700,000

- The above table also shows that the order of claim under the enhanced PIC scheme may yield different results. It is hoped that businesses will be allowed the flexibility to decide on the order of claim.
- We understand that the R&D conducted overseas must be related to the trade carried out by the businesses. This is not unexpected as the existing R&D rules for tax deduction on overseas R&D expenditure require the R&D to be related to the trade carried out by the business and a declaration to this effect has to be made by the taxpayer.
- For R&D outsourced to an R&D organisation and undertaken in Singapore, 60% of the expenditure incurred is deemed to be qualifying expenditure for purposes of the PIC scheme, subject to a cap of S$300,000. We believe that similar treatment may be applied under the enhanced PIC scheme for expenditure on R&D outsourced to an R&D organisation outside Singapore.

Business tax

Foreign tax credit pooling system

Current

Subject to certain exemptions, foreign income is subject to tax when received or deemed received in Singapore. Foreign income may therefore be subject to double taxation – once in the foreign country and again when it is received or deemed received in Singapore. Relief from double taxation is provided under section 50, 50A or 50B of the ITA. Such relief takes the form of a credit against Singapore tax payable or foreign tax credit in short.

To qualify for the foreign tax credit, the taxpayer must satisfy the following conditions:

- he is a tax resident in Singapore for the relevant basis year;
- the foreign income is subject to tax both in the foreign country from which the income is derived and in Singapore; and
- if Singapore has a DTA with that foreign country, the foreign tax has been paid or is payable in accordance with the provisions of the DTA;

  or

  if Singapore does not have a DTA with that foreign country, the income is specified under section 50A of the ITA.

The foreign tax credit is computed on a source-by-source and country-by-country basis, for each particular stream of foreign income received in Singapore. The amount to be granted is capped at the lower of the foreign tax paid and the Singapore tax payable on the same foreign income. Any excess of foreign tax paid over the Singapore tax payable cannot be used to reduce the Singapore tax payable on other streams of foreign income.

Proposed

The Government will introduce foreign tax credit pooling to give businesses greater flexibility in their claim of foreign tax credits, reduce their Singapore taxes payable on remitted foreign income, as well as to simplify tax compliance.

Under the foreign tax credit pooling system, foreign tax credit is computed on a pooled basis, rather than on a source-by-source and country-by-country basis for each particular stream of income. The amount of foreign tax credit to be granted will be based on the lower of the pooled foreign taxes paid on the foreign income and the pooled Singapore tax payable on such foreign income.

Resident taxpayers can elect for the foreign tax credit pooling system if the following conditions are fulfilled:

- foreign income tax is paid on the foreign income in the foreign jurisidiction from which the foreign income is remitted;
- the headline tax rate of the foreign jurisdiction from which the foreign income is remitted is at least 15% at the time the foreign income is received in Singapore; and
- there is Singapore tax payable on the foreign income and the taxpayer is entitled to claim for foreign tax credit under section 50, 50A or 50B of the ITA on that foreign income.

This will take effect from YA 2012. The IRAS will release further details by end June 2011.

Points of view

- The foreign tax credit pooling system will support resident companies that are globalising and earning a larger share of their income overseas. It allows the excess of foreign tax paid over the Singapore tax payable on one stream of remitted foreign income to be used to reduce the Singapore tax payable on other stream of remitted foreign income, and hence reduces the overall tax payable of the companies.

- Where any of the conditions for the foreign tax credit pooling are not met or where the taxpayer chooses not to elect for the foreign tax credit pooling system, the existing rules for claiming foreign tax credit will apply, i.e., the foreign tax credit will be computed on a source-by-source and country-by-country basis for each particular stream of foreign income.

- Subject to conditions, foreign service income, foreign dividends and foreign branch profits (referred to as specified foreign income) may be exempt from tax under the FSIE scheme. If the conditions for both the FSIE scheme and the foreign tax credit pooling system were met, the taxpayer can choose to benefit from either scheme.

- Where the foreign tax paid is greater than the Singapore tax payable on the specified foreign income for the FSIE scheme, it may be more beneficial for the taxpayer to elect for the foreign tax credit pooling system instead. This will allow the excess of foreign tax paid over the Singapore tax payable on such specified foreign income to be used to set off against the Singapore tax payable on other streams of remitted foreign income which does not qualify under the FSIE scheme - see illustration in Box 1.

- Taxpayer should time the remittance of the various streams of foreign income to reap the benefits under the foreign tax credit pooling system. Using the same illustration, if the dividend income is received in Year 1 and the interest and royalty income are received in Year 2, the benefits of the foreign tax credit pooling system will not be realised.

- For foreign dividends, the existing foreign tax credit rules under sections 50 and 50A of the ITA provide for the tax paid by the dividend paying company in respect of its income out of which the dividends are paid, i.e., the underlying tax, to be taken into account in determining the foreign tax paid. This is provided that the shareholding threshold prescribed in the DTA (if any) or section 50A of the ITA is met. We believe that the pooled foreign taxes for the foreign tax credit pooling system should similarly include any underlying tax.

- Certain income, although received from outside Singapore, is considered to be derived from a Singapore source. For example, dividend and interest income received from outside Singapore by a bank, and income received from services rendered outside Singapore by a service company. Notwithstanding this, under the terms of the DTA or section 50A of the ITA, the taxpayer is able to claim foreign tax credits for the foreign tax paid on such income. We believe that such income and the foreign tax paid thereon should similarly be allowed to be pooled under the foreign tax credit pooling system.

- Where the foreign tax credit pooling system does not fully eliminate the incremental Singapore tax liability on the foreign income, the taxpayer should consider whether it is beneficial to remit the foreign income into Singapore or to continue to keep the foreign income offshore and explore other ways of utilising the foreign income without triggering any Singapore tax liability.

- Unutilised foreign tax credits in any particular YA will be disregarded. It will be even more welcomed if the foreign tax credit pooling system is further enhanced to allow unutilised foreign tax credits to be carried back or carried forward just like the unabsorbed capital allowances and tax losses.

Box 1 - Illustration

	Country A	Country B	Country C	Total	
Nature of foreign income	Dividend S$	Interest S$	Royalty S$	S$	
Foreign income remitted	1,000,000	500,000	300,000	1,800,000	
Withholding tax rate	20%	10%	15%		
Foreign taxes paid	200,000	50,000	45,000	295,000	(A)
Existing foreign tax credit and FSIE systems					
Singapore tax payable @ 17%	-	85,000	51,000		
Less: Foreign tax credits	-	(50,000)	(45,000)		
Net Singapore tax payable	*Exempt under FSIE*	35,000	6,000	41,000	
New foreign tax credit pooling system					

The taxpayer elects for dividend from Country A to be included under the foreign tax credit pooling system instead of exemption under FSIE scheme.

Singapore tax payable @ 17% ($1,800,000 x 17%)	306,000	(B)
Foreign tax credits (lower of (A) or (B))	(295,000)	
Net Singapore tax payable	11,000	

Assumptions

- Partial tax exemption does not apply as chargeable income on other sources of income is more than S$300,000.
- No direct expenses incurred to derive the foreign income.

Business tax

Deductions for cost of parent company's shares acquired through an SPV for EEBR schemes

Current

A company can enjoy tax deduction on the cost it incurred on the shares for fulfilling its obligations under its EEBR schemes, if it buys back its own shares from the market or buys its parent company's shares from the parent company. The shares have to be "treasury shares" for the purpose of enjoying the tax deduction under the ITA.

No tax deduction is allowed on the cost recharged to a company by its parent company, in respect of its parent company's newly issued shares to fulfil the company's EEBR obligations.

Proposed

In recognition that a company may set up SPVs to act as trustees to acquire its parent company's shares for its EEBR schemes, the Government will grant tax deduction to a company for the cost it incurred to acquire its parent company's shares through an SPV for the fulfilment of its EEBR obligations where:

- the SPV is set up, as a company or a trust, solely to administer the EEBR scheme(s) for companies within the group; and
- the SPV acquires the parent company's shares from the parent company or the market and holds them in trust for the employees of the companies within the group for the EEBR scheme(s).

The tax deduction is based on the lower of:

- the amount paid by the company to the SPV for the parent company's shares; and
- the cost incurred by the SPV to acquire the parent company's shares,

less any amount recovered from the company's employees for the parent company's shares.

This will take effect from YA 2012, which relates to the basis period in which the company is eligible to claim a tax deduction in respect of the shares and:

- applies the parent company's shares for the benefit of its employees under its EEBR scheme through an SPV; or
- is liable to pay the SPV for the shares transferred,

whichever is later.

As is currently the case, no deduction will be allowed in respect of the cost incurred by the company in the purchase of its parent company's newly issued shares through the SPV.

The IRAS will release further details by end June 2011.

Points of view

- It is common for MNCs or large Singapore groups to set up SPVs to administer their EEBR schemes. The proposed change is therefore welcomed as it removes the undue tax disadvantage that these companies have been experiencing as a result of the structure that they have adopted for the administration of their EEBR schemes.
- We understand that the SPVs need not be owned by the company or the group.
- The proposed change is not restricted to new SPVs; existing SPVs can also qualify as long as the conditions are met. For a company with any existing SPV which meets the conditions, we understand that tax deduction will be allowed to the company as long as the shares are held by the SPV to fulfill obligations under the company's EEBR schemes from YA 2012 onwards. This is notwithstanding that such shares may be acquired by the SPVs prior to YA 2012.
- We also understand that where the shares from the parent company are acquired by the SPV, the cost incurred by the SPV refers to the actual costs incurred by the parent company in acquiring such shares from the market. Therefore, where the parent company sells its shares to the SPVs at a price higher than its acquisition cost, the excess will not be allowed for tax deduction.
- An SPV may buy back the parent company's shares at different times and at different prices. When the company pays the SPV for the shares transferred to its employees, it will be entitled to tax deduction based on the lower of the actual cost incurred by the SPV and the actual amount paid by the company to the SPV, less any amount recovered from the company's employees for the shares. There are provisions in the ITA which stipulate how the cost incurred to acquire treasury shares is to be determined for purposes of ascertaining the tax deduction amount allowed currently. It is likely that the same methods will be used to calculate the cost incurred by the SPV.
- It appears that the proposed tax deduction will be granted irrespective of where the SPV is set up. EEBR schemes for employees of Singapore companies which belong to an overseas group are likely to be administered by overseas SPVs.

Business tax

Enhancement of the concession for enterprise development

Current

Under the concession for enterprise development, any person who carries on a business will be treated as having commenced the business operation on the first day of the accounting year in which it earns its first dollar of business receipts. Hence, all allowable revenue expenses incurred in the accounting year in which a business earns its first dollar of business receipts, including those incurred prior to the day on which the business earns its first dollar of business receipts, will be tax deductible. If the expenses are not fully setoff against assessable income in that YA, the unutilised losses are available to be carried forward for setoff against future taxable income or transferred to a related company under the group relief system if the applicable conditions are satisfied.

This concession does not apply to companies to which the provisions of section 10E apply. Section 10E applies to companies carrying on the business of making investments which includes the business of letting of immovable properties.

Proposed

To facilitate the starting up of businesses, the enterprise development concession will be enhanced to allow businesses to claim pre-commencement revenue expenses incurred in the accounting year immediately preceding the accounting year in which they earn their first dollar of business receipts.

The proposed enhancement is effective from YA 2012. Businesses are allowed to claim pre-commencement revenue expenses incurred in the accounting year 2010 if the first dollar of business receipts is earned in the accounting year 2011.

All other existing conditions of the current concession apply. Therefore, companies to which the provisions of section 10E apply will continue to be excluded from this enhancement to the concession.

The IRAS will release further details by end June 2011.

Points of view

- This concession does not displace the case law rule that a business could have commenced before any business receipt is received. So long as a business is able to show that it has started trading, revenue expenses incurred from that date, which may be earlier than the first day of the accounting period preceding the accounting period when the first dollar of business receipts is earned, would qualify for tax deduction.

- We understand that prior year pre-commencement revenue expenses will be deemed to be incurred in the year the first dollar of business receipts is earned. As such, any tax deduction benefit will not be available for the YA relating to the year the expenses are incurred through the group relief system.

- Where the first accounting period covers more than 12 months, the IRAS is likely to restrict the allowable expenses under this concession to that applicable to the 12 months preceding the first year of business receipts.

- Depending on the accounting date adopted and the date the first dollar of business receipts is earned, businesses may be able to claim revenue expenses for close to two years before the first dollar of business receipts. This should be welcomed by businesses which have a long gestation period.

- Currently, the concession for enterprise development applies automatically to all businesses unless an earlier business commencement date can be established. No election is required to be made. It is likely that the enhancement of the concession would also be given automatically.

Business tax

New MSI

Current

Singapore currently has a suite of tax incentives targeted at ship operators, maritime lessors and providers of certain supporting shipping services. The tax incentives are as follows:

- section 13A of the ITA;
- AIS scheme;
- MFI;
- ASL scheme; and
- FFA trading incentive.

These incentives have different incentive tenures and application windows (if any).

In addition, WHT tax exemption is granted on a case-by-case basis on qualifying payments made in respect of qualifying foreign loans taken to finance the construction or purchase of ships, subject to conditions.

Proposed

All existing tax incentives for the maritime sector will be streamlined and consolidated under the new MSI with effect from 1 June 2011. New enhancements will also be introduced under the MSI. Existing incentive recipients will transit automatically to the MSI from 1 June 2011.

There are three broad categories under the MSI:

- international shipping operations;
- maritime (ship or container) leasing; and
- supporting shipping services.

International shipping operations
This category aims to attract ship operators to base their operations in Singapore and encourage the registration of ships with the Singapore Registry of Ships.

Existing entities enjoying tax benefits under section 13A of the ITA and AIS scheme will transit to this category of the MSI. Such entities will, subject to certain conditions, enjoy automatic WHT exemption on qualifying payments made in respect of qualifying foreign loans taken to finance the purchase or construction of both Singapore-flagged and foreign-flagged ships, without having to apply for such an exemption on a case-by-case basis.

Automatic WHT exemption in respect of foreign-flagged ships will apply only to approved ship operators under the MSI.

A new award will be introduced for qualifying entry players whereby they will enjoy similar tax benefits as the current AIS scheme but for a non-renewable tenure of five years. The sunset clause for this new award will be 31 May 2016.

Maritime (ship or container) leasing
This category aims to promote the growth and development of ship and container financing in Singapore.

Existing entities enjoying tax benefits under the current MFI scheme will transit to this category of the MSI and enjoy the same tax benefits. The sunset clause for this category is 31 May 2016.

Approved ship lessors will, subject to conditions, enjoy automatic WHT exemption on qualifying payments made in respect of qualifying foreign loans taken to finance the purchase or construction of both Singapore-flagged and foreign-flagged ships, without having to apply for such an exemption on a case-by-case basis.

Supporting shipping services
This category aims to encourage supporting shipping providers to base their operations in Singapore, and to encourage more shipping conglomerates to conduct their ancillary activities here.

Under this category, a new five-year award will offer 10% concessionary tax rate on incremental qualifying income derived from the provision of qualifying supporting shipping services which will include:

- ship management, ship agency and shipping freight/logistics services (currently covered under the ASL scheme);
- ship broking and FFA trading (currently covered under the ship broking and FFA trading incentive); and
- qualifying corporate services.

The sunset clause for this category of MSI award will be 31 May 2016.

The MPA will release further details by end May 2011.

Points of view

- While the MSI aims to simplify and consolidate the tax incentives for the maritime sector, it also seeks to enhance and promote Singapore as an International Maritime Centre with the introduction of new enhancements. Certainty of WHT exemption for qualifying payments on loans to purchase or construct ships is indeed a welcome move for the maritime sector given that such WHT cost can be very substantial.
- We await the definition of "qualifying payments" and "qualifying foreign loans". As the proposed automatic WHT exemption is for the purchase or construction of ships, it would appear that interest payable on a foreign loan taken up by a shipping company to acquire 100% of the shares in an SPC owning a ship that is registered with the Singapore Registry of Ships would not be covered.
- It is to be noted that under the proposed MSI scheme, automatic WHT exemption on foreign loans in respect of foreign-flagged ships is applicable only to approved ship operators. For a non-approved ship operator, specific application for WHT exemption will have to be made and approval will be on a case-by-case basis.
- We welcome the new award for entry players as it allows time for smaller players to build up their base in Singapore. The award is for a non-renewable tenure of five years. However, we understand that such entry players can continue to enjoy tax exemption if they meet the conditions for the existing AIS scheme after the expiry of their initial incentive award.
- We await the definition of "qualifying corporate services". When section 13A of the ITA and the AIS scheme were enhanced to include ship management services, corporate services such as administrative and accounting services were not included. A shipping group that is currently headquartered in Singapore providing corporate services to group companies in and outside Singapore will have service income which does not qualify for tax concession under any of the existing maritime sector incentives. With the latest enhancement, this issue would appear to be resolved.
- It also remains to be clarified whether the "qualifying corporate services" will apply only to an MSI parent company which performs services to approved MSI companies and approved network companies (where at least 25% of their ordinary shares are owned directly or indirectly by the approved MSI parent company).

Business tax

Liberalisation of the WHT exemption regime for banks

Current

Banks licensed under the Banking Act or approved under the MAS Act and gazetted as "Approved Banks" under the ITA can enjoy WHT exemption on interest and other payments falling within the ambit of section 12(6) of the ITA made to their branches or other banks outside Singapore under an existing remission for inter-bank/inter-branch payments granted under section 92(2) of the ITA.

Banks can also enjoy various WHT class exemptions on payments made to non-bank non-residents relating to specific transactions, subject to conditions (e.g., payments made relating to OTC financial derivatives, structured products and securities lending).

The remission and some of the exemptions do not have any sunset clause.

The exemption on interest and other payments is not extended to finance companies or other non-bank financial institutions.

Proposed

To facilitate access to a wider range of funding sources for their lending business and strengthen Singapore's position as a regional funding centre, the following enhancements will be made to the WHT exemption regime for banks with effect from 1 April 2011:

- WHT exemption will be granted on interest and other payments falling within the ambit of section 12(6) of the ITA made by the following entities to all non-resident persons (excluding PEs in Singapore) if the payments are made for the purpose of their trade or business:
  - banks licensed under the Banking Act or approved under the MAS Act;
  - finance companies licensed under the Finance Companies Act; and
  - approved financial institutions licensed under the Securities and Futures Act that engage in lending as part of their regulated activity of dealing in securities in Singapore (such as investment banks).

The WHT exemption covered by the enhancements will be applicable for:

- payments liable to be made during the period from 1 April 2011 to 31 March 2021 (both dates inclusive) on contracts which take effect before 1 April 2011; and
- payments liable to be made on contracts which take effect on or after 1 April 2011 to 31 March 2021 (both dates inclusive).

A sunset clause of 31 March 2021 will be introduced, but only for the enhanced scope of WHT exemption.

The MAS will release further details of the changes by end March 2011.

Points of view

- The enhanced scope of WHT exemption is a welcomed move as it provides banks, finance companies, investment banks and other qualifying financial institutions with greater opportunity to tap funds from non-bank sources such as hedge funds, insurers, FTCs, and other MNCs. This should place Singapore financial institutions on a level playing field with their counterparts in other global financial centres such as Hong Kong which does not impose WHT on similar payments.
- This enhancement also levels the playing field between banks, finance companies, investment banks and other qualifying financial institutions.
- This enhancement will reduce the administrative burden and compliance costs incurred by banks, finance companies and other qualifying financial institutions in connection with the Singapore withholding tax requirements.
- The WHT exemption comes with a condition that the payments are made "for the purpose of their trade or business". This same condition was imposed on a WHT exemption granted for payments made by approved funds and this condition was defined to exclude payments made with the intention of avoiding any tax in Singapore or interest payments that relate to the capital structure of the fund. Capital structure refers to the amounts that are classified as equity under GAAP. We await details from the MAS to determine whether similar restrictions will apply in this instance.

Business tax

Extension of tax incentive scheme for captive insurance

Current

Approved captive insurance companies are granted tax exemption on the following income for a period of 10 years:

- income derived from accepting offshore insurance business; and
- dividends and interest derived from outside Singapore, gains or profits realised from sale of offshore investments and interest from ACU deposits derived from:
    - the investment of their insurance fund established and maintained under the Insurance Act for offshore insurance business; and
    - the investment of their shareholders' funds established in Singapore which are used to support the offshore insurance business.

The period for captive insurance companies to apply to the MAS for the above tax exemption scheme was from 17 February 2006 to 16 February 2011 (both dates inclusive).

Proposed

To continue to support the growth of the captive insurance industry, the current tax exemption scheme will be extended for another seven years until 31 March 2018.

An award renewal framework will also be introduced for incentive recipients with effect from 19 February 2011.

The MAS will release further details of the changes by end April 2011.

Points of view

- A captive insurance company is generally formed to insure part of the risk exposures of its related companies. It is generally beneficial to set up a captive insurance company when the cost of obtaining external insurance is prohibitively high or the historical loss experience is low and fairly stable. In such situations, it may be cost effective to either self insure or set up a captive to insure part or all of such risks.
- The proposed extension of the tax exemption scheme for captive insurance companies is expected to increase the level of risk management sophistication and contribute to the growth and development of Singapore as an insurance and reinsurance hub.
- The proposed extension will continue to put Singapore on a level playing field with other popular locations for captive insurance business, in particular Bermuda which does not impose any tax on the income of captive insurance companies.
- The introduction of an award renewal framework should provide greater clarity on the ability to enjoy tax exemption beyond the initial 10 year exemption period and hopefully makes it more attractive for companies to set up their captive insurance business in Singapore.
- Given the nature of the captive insurance business, an approved captive insurance company operating in Singapore may not have a business case to support, e.g., incremental premium income and expenditure after the expiry of the initial 10 year exemption period unless new business is added to the captive's portfolio.

Business tax

Extension of tax incentive scheme for marine hull and liability insurance

Current

Approved marine hull and liability insurers are exempt from tax on qualifying income derived from the carrying on of marine hull and liability insurance business for up to 10 years. There is no sunset clause for this scheme.

Proposed

The following changes will be made to the scheme:

- the scheme will be subject to a sunset clause of 31 March 2016; and
- an award renewal framework will be introduced for incentive recipients with effect from 19 February 2011.

The MAS will release further details of the changes by end April 2011.

Points of view

- Notwithstanding the introduction of a sunset clause, we expect existing approved marine hull and liability insurers to continue to enjoy the tax exemption until the expiry of their current incentive period, even if this occurs after 31 March 2016.
- The sunset clause for approved general, life and composite insurers was introduced in Budget 2010 to allow the Government to review the usefulness of this incentive scheme on a regular basis. Following this introduction, the MAS has imposed a requirement on existing approved general, life and composite insurers to submit an Annual Review Return to the MAS within four months from the end of each of their financial years. The Annual Review Return provides information on premium income and staffing levels for the current year as well as projections for the next year. Similar reporting obligations may be introduced for approved marine hull and liability insurers.
- Subject to the release of details on the award renewal framework, existing approved marine hull and liability insurers need to assess their eligibility in the light of their medium-term business plans. If they are unable to qualify for renewal, their qualifying income after the expiry of their existing tax exemption period will be subject to tax at the concessionary 10% tax rate and any unabsorbed tax losses or capital allowances as at the expiry of the tax exemption period will be deemed to be losses or capital allowances under the concessionary 10% tax rate category.

Business tax

Enhancement of tax incentive scheme for specialised insurance

Current

Approved insurers on this scheme can enjoy tax exemption on qualifying income derived from the carrying on of qualifying offshore specialised insurance business for a period of five years. The specialised insurance lines under this scheme are terrorism, political, energy and aviation and aerospace risks.

To be approved for this tax exemption scheme, the insurer must:

- underwrite at least one of the qualifying specialised insurance risks; and
- recruit and maintain at least two additional insurance professionals, where one of whom possesses at least seven years of experience in the underwriting of the qualifying specialised insurance risks.

The sunset clause for this scheme is 31 August 2011.

Proposed

The scheme will be extended for another five years until 31 August 2016.

In addition, the following enhancements will be made to the scheme with effect from 19 February 2011:

- agriculture insurance will be included as a new qualifying specialised insurance business line; and
- an award renewal framework will be introduced for incentive recipients.

The MAS will release further details of the changes by end April 2011.

Points of view

- We welcome the extension of the sunset clause. This is in line with the Government's policy to grow technical expertise and underwriting capacity in specialised lines of insurance business. With globalisation and the increasing complexity of modern day economic activities as well as the increase in political, terrorism, energy, aviation and agricultural risks, sophisticated insurance solutions are needed to cater to these business needs. The inclusion of agriculture insurance in the list of qualifying specialised insurance business lines is a timely response to an emerging business need and should promote the development of agricultural underwriting expertise.
- For insurers which are already underwriting offshore agriculture risks, they may be able to reduce their tax rate on such income from 10% to 0% with the inclusion of agriculture insurance as a new qualifying specialised insurance business line.
- Since the current tax exemption scheme is on an application basis, clarification is required on whether the agriculture insurance business line will be automatically included in the list of qualifying business lines for existing incentive recipients without the need for a separate application.
- The introduction of the award renewal framework should provide greater clarity on the ability to enjoy tax exemption beyond the initial five year exemption period and hopefully makes it more attractive for companies to set up their offshore specialised insurance business in Singapore.
- Given the headcount requirement under the current incentive regime, an incremental headcount requirement may be imposed under the renewal framework.

Business tax

Extension of tax incentive schemes for project finance

Current

The package of tax incentive schemes for project finance includes:

- tax exemption of qualifying income from QPDS;
- tax exemption of foreign-sourced interest income from offshore qualifying infrastructure projects/assets received by approved entities listed on the SGX;
- remission of stamp duty payable on the instrument of transfer relating to qualifying infrastructure projects/assets to qualifying entities listed or to be listed on the SGX;
- concessionary tax rate of 5% on qualifying income derived by a FSI (Project Finance) company from arranging, underwriting or distributing any QPDS, arranging or underwriting any qualifying project loan and providing project finance advisory services relating to a qualifying infrastructure project/asset; and
- concessionary tax rate of 10% on qualifying income derived by an approved trustee manager/fund manager from managing qualifying SGX-listed business trusts/infrastructure funds in relation to qualifying offshore infrastructure projects/assets.

The sunset clause for these tax incentive schemes is 31 December 2011.

Proposed

With the exception of FSI (Project Finance), the existing package of tax incentive schemes for project finance will be extended until 31 March 2017.

The FSI (Project Finance) scheme will lapse on its expiry date of 31 December 2011. Financial institutions can enjoy similar tax benefits under the FSI (Credit Facilities Syndication) and FSI (Bond Market) tax incentive schemes.

The MAS will release further details of the changes by end April 2011.

Points of view

- The extension of the package of tax incentive schemes for project finance until 31 March 2017 recognises the catalytic effect of the schemes to the enhancement of Singapore as a hub for holding, developing and financing infrastructure assets in the region.
- The expiry of the FSI (Project Finance) scheme is not expected to have any adverse impact as the qualifying activities under the FSI (Project Finance) scheme have been subsumed under the FSI (Debt Capital Market) scheme. The FSI (Debt Capital Market) scheme was introduced with effect from 1 April 2008 and merges the FSI (Bond Market), FSI (Credit Facilities Syndication) and FSI (Project Finance) schemes into a single tax incentive scheme. Applicants that carry out qualifying activities under one or more of the three merged tax incentive schemes only have to apply for the FSI (Debt Capital Market) scheme. All the qualifying criteria and conditions for the FSI (Bond Market), FSI (Credit Facilities Syndication) and FSI (Project Finance) schemes continue to apply under the FSI (Debt Capital Market) scheme.
- It is noted that the FSI (Debt Capital Market) scheme has a sunset clause of 31 December 2013 (aligned with the other FSI schemes), whereas the current extension of the other tax incentive schemes relating to project finance is valid till 31 March 2017.

Business tax

Enhancement of the tax incentive scheme for trustee company

Current

Income derived by an approved trustee company from the provision of the following services is taxed at a concessionary tax rate of 10%:

- any trustee or custodian services in its capacity as a trustee of a relevant foreign trust, or as a trustee of a philanthropic purpose trust in respect of a foreign account;
- any trustee or custodian services for or on behalf of any prescribed unit trust and where the funds of the unit trust are invested in designated investments;
- trustee or custodian services in respect of foreign bond or loan stock issues including services for monitoring loan convenants and administering loan repayments;
- custodian services in respect of stocks and shares, denominated in currencies other than Singapore dollars, of companies which are neither incorporated nor resident in Singapore;
- any custodian services for or on behalf of any foreign mutual fund corporation, where the funds of the foreign mutual fund corporation are invested in designated investments; and
- any trust management or administration services provided to any trustee of a relevant foreign trust, or to any trustee of a philanthropic purpose trust in respect of a foreign account.

The concessionary tax rate of 10% does not apply to any payment made to an approved trustee company for the above services which is borne, directly or indirectly, by a person resident in Singapore or a PE in Singapore.

There is no sunset clause for this incentive.

Proposed

To streamline the scheme and align the administration of the incentive with other tax incentive schemes, the following changes will be made to the scheme:

- a sunset clause of 31 March 2016 will be introduced for the scheme;
- trustee companies approved on or after 1 April 2011 will be offered a 10-year award tenure;
- all existing approved trustee companies will automatically transit to the new framework on 1 April 2011. They will enjoy the scheme for a 10-year period ending 31 March 2021; and
- the list of qualifying activities will be expanded to include the provision of trustee and custodian services in respect of the issue of units of foreign collective investment schemes and foreign business trusts with effect from 1 April 2011.

The MAS will release further details of the changes by end April 2011.

Points of view

- Notwithstanding the sunset clause, all existing approved trustee companies will continue to enjoy the concessionary tax rate up to 31 March 2021.

- The expansion of qualifying activities will incentivise approved trustee companies to extend their services to foreign collective investment schemes and business trusts. It also serves as an incentive to attract foreign trustees to set up their operations in Singapore. This is yet another welcomed initiative by the Government to increase the depth of the support ecosystem within Singapore to create a more conducive environment for its asset management industry. For the measure to be successful, it is important to ensure that these foreign collective investment schemes and business trusts are not drawn into the Singapore tax net by virtue of the services provided by the approved trustee companies.

Business tax

Extension of tax exemption scheme for income derived from structured products

Current

Tax exemption is granted to individuals on income from structured products offered by a financial institution in Singapore except where such income is derived through a partnership in Singapore or from the carrying on of a trade, business or profession.

Non-resident persons, not being individuals, similarly enjoy tax exemption on such income but only in respect of contracts taking effect during the period from 1 January 2007 to 31 December 2011 (both dates inclusive) and upon the renewal or extension of such contracts where the extension or renewal commences before 1 January 2012.

To qualify for this exemption, the non-resident person must not, by itself or in association with others, carry on a business in Singapore, and must not have a PE in Singapore, or if it does carry on any operation through a PE in Singapore, the funds used to invest in the structured products must not be obtained from such operation.

Structured product means a sum of money paid on terms under which it may not be repaid in full and the return from which is, partly or wholly, determined by the performance of any embedded derivative instrument and its repayment may be in money or money's worth, but does not include any sum paid in respect of any debt securities, units of a REIT, units of a unit trust, loan, stand-alone financial derivative or any other financial product as the Minister may prescribe.

Financial institution refers to any institution licensed or approved by the MAS, and includes an institution which is an approved Fund Manager and an institution approved as an FTC.

Proposed

The existing tax exemption scheme for income derived from structured products will be extended to 31 March 2017.

The current tax exemption for individuals on income from structured products will remain. All other existing conditions of the current scheme will apply.

Points of view

- The extension of the scheme is in line with the Government's continual effort to encourage further growth in the derivatives market and to strengthen Singapore's position as a leading financial centre in Asia.

Business tax

Enhancement of the GTP

Current

Under the GTP, an approved global trading company enjoys a concessionary tax rate of either 5% or 10% on its income from qualifying transactions including qualifying trades in the following qualifying derivative instruments:

- exchange-traded and OTC commodity derivatives in qualifying commodities; and
- exchange-traded and OTC freight derivatives.

The GTP scheme itself does not have a sunset clause. However, the following enhancements to the GTP scheme in the past have sunset clauses ending at different times:

- qualifying income from commodity futures trading on any exchange – the applicable concessionary tax rate applies to such income derived between 27 February 2009 and 31 December 2013;
- qualifying income from trading in exchange-traded freight derivatives on any exchange – the applicable concessionary tax rate applies to such income derived between 27 February 2009 and 31 December 2013;
- qualifying income from qualifying transactions in liquefied natural gas – the applicable concessionary tax rate applies to such income derived between 24 May 2007 and 23 May 2017; and
- qualifying income from carrying out structured commodity financing activities - the applicable concessionary tax rate applies to a GTP (Structured Commodity Finance) company approved during the period 21 May 2010 to 20 May 2015.

Proposed

To facilitate better risk management amongst GTP companies, the existing list of qualifying derivative instruments under the GTP will be expanded to include all derivative instruments. This enhancement will apply to income from qualifying trades in the new qualifying derivative instruments, derived by a GTP company from YA 2012.

In addition, the Government will introduce the following changes to the scheme:

- a sunset clause of 31 March 2021 for the scheme;
- the existing sunset clauses for the GTP enhancements mentioned above will be aligned to a common sunset clause at the scheme level (i.e., 31 March 2021); and
- companies can be approved as a GTP company or GTP (Structured Commodity Finance) company on or before 31 March 2021. The GTP company can enjoy the benefits under the various enhancements during their award tenure of up to five years.

The IE Singapore will release further details by end April 2011.

Points of view

- Currently, qualifying derivative instruments refer to futures, commmodity swaps and options such as caps, collars, floors and swap options. Derivative instruments such as interest rate swaps and forex derivatives are not qualifying derivative instruments under the GTP scheme. The proposal to include all derivative instruments gives GTP companies greater flexibility to engage in derivative transactions.
- Although the various past GTP enhancements will have a sunset clause of 31 March 2021, a GTP company can still benefit from these enhancements during the full term of its award tenure, i.e., even if this ends after 31 March 2021. This also makes it administratively easier for GTP companies to track their qualifying income and thereby reduce their compliance burden.
- The newly introduced sunset clause for the GTP scheme is consistent with the Government's policy to introduce sunset clause for tax incentives. This allows the Government to review the effectiveness of the tax incentive and evaluate its relevance to the industry.

Business tax

Enhancement of the FTC incentive scheme

Current

The FTC incentive scheme confers a concessionary tax rate of 10% on income derived from undertaking qualifying activities and providing qualifying services to approved network companies. To include associated companies located in Singapore (hereinafter referred to as local network companies) as approved network companies of an FTC, the total annual revenue of these companies must not exceed 10% of the group's annual total revenue globally (also known as "revenue ratio").

There is no sunset clause for the scheme.

Proposed

The revenue ratio used to determine the inclusion of local network companies will exclude related party transactions. This is to be consistent with the global revenue presented in the consolidated financial statements of the ultimate parent company where intercompany transactions are excluded. This enhancement is intended to result in a more accurate and meaningful indicator of the local network companies' contribution towards the group revenue.

A sunset clause of 31 March 2016 will be introduced for the scheme.

Points of view

- Traditionally, only overseas network companies qualified as approved network companies of an FTC. In 2005, the scheme was enhanced to include local network companies as approved network companies, subject to the revenue ratio condition. The enhancement in 2005 provided some relief to companies which had set up regional FTCs in Singapore to conduct regional treasury management activities for its associated companies overseas and in Singapore.
- As companies, especially MNCs, gradually expand their footprint in Singapore, their local network companies increasingly contribute a greater share to the group. Over time, the revenue ratio of 10% has become unduly stringent. The scheme therefore, becomes less attractive for these companies.
- The proposal to exclude related party transactions from the revenue ratio should allow more local network companies to qualify as approved network companies. This should benefit those local network companies which derive significant revenues from transactions with related parties. However, local network companies which derive significant revenues from transactions with third parties may continue to fail the revenue ratio condition.
- It is unclear what will be the definition of "related party transactions" for the purposes of this enhancement. Given that the term "revenue" in the revenue ratio is defined to be that in accordance with the Singapore Financial Reporting Standards, and that the enhancement is to align to the global revenue presentation in the consolidated financial statements, we believe the term "related party transactions" may also be given the same meaning as that in the Singapore Financial Reporting Standards. This will ease the computation of the revenue ratio and its subsequent review by the authorities.
- At the policy level, it may be timely to consider if the revenue ratio test remains relevant in the current globalised environment. In addition, as part of the efforts to grow Singapore's financial sector, numerous relaxations have been made to the FSI scheme over the years. This includes the removal of counter-party restrictions. It would be good to see an alignment of the FTC incentive with the FSI scheme given the many similarities in the nature of activities conducted.
- The FTC incentive scheme currently does not have a sunset clause. The inclusion of a sunset clause of 31 March 2016 is consistent with the general government policy that we have observed. It is introduced for most tax incentive schemes to allow the Government to review the usefulness of these schemes on a regular basis.

Business tax

Enhancement of deductions on donations

Current

All donations to IPCs, Government bodies (i.e., ministries, organs of state and statutory boards) and other approved recipients, namely, approved museums and prescribed educational or research institutions, qualify for double tax deduction. These include both cash donations as well as approved donations-in-kind such as computers and artefacts.

An enhanced tax deduction of 250% was given during the economic downturn for qualifying donations made during the period from 1 January 2009 to 31 December 2009. To encourage both individuals and corporates to give more as the economy recovers, this enhanced tax deduction was extended for another year for qualifying donations made during the period from 1 January 2010 to 31 December 2010.

Individuals and corporations are allowed to carry forward for five years all unutilised deductions granted for these qualifying donations. However, unlike unutilised tax losses and capital allowances, unutilised donations do not qualify for carry back to offset against the taxable profits of the donor under the loss carry-back relief scheme.

Any unutilised donation may be transferred to a claimant company of the same group as the donor under the group relief system to set off taxable profits of the claimant company or to a spouse to set off taxable income of the spouse.

Proposed

The tax deduction of 250% will be extended for another five years for qualifying donations made during the period from 1 January 2011 to 31 December 2015.

All existing criteria to qualify for tax deduction remain unchanged.

Points of view

- The Government is generous in extending the enhanced 250% tax deduction for another five years. This certainly will encourage both individuals and corporates to come forward to help make Singapore a truly caring society.
- The enhanced 250% tax deduction will result in an effective tax saving of 42.5% of the value of the qualifying donation made by a corporate donor which is subject to tax at the rate of 17%, i.e., for every S$100 donated by a corporate donor, the donor will enjoy a reduction in tax of S$42.50, resulting in a post-tax cost of only S$57.50 to the donor (S$100 less S$42.50). Therefore, donors can afford to donate more than their intended sum to IPCs, i.e. a donation of S$174 will result in a post-tax cost of S$100 to the donor.
- Unutilised donations can only be carried forward for five years. As such, corporate donors which are not generating any profits in 2011 or in the near future may or may not be able to enjoy the enhanced tax deduction since carried forward capital allowances and tax losses must be set off against future profits before carried forward donations can be utilised. An enhancement that can be considered is to allow unutilised qualifying donations to be carried forward indefinitely for set off against future profits (similar to the unutilised tax losses).
- It would have been helpful if unutilised qualifying donations are available for carry back under the loss carry-back relief scheme.
- It should be noted that from 1 January 2011, all businesses and individuals must provide their respective identification number (i.e., NRIC, UEN, etc.) when making donations to the IPCs in order to obtain tax deductions on the donations. Tax deductions will automatically be granted by the IRAS based on information obtained from the IPCs. Claims for tax deduction based on donation receipts will no longer be accepted by the IRAS.

Business tax

Streamlining of the section 14B and section 14K tax deduction schemes

Current

Sections 14B and 14K of the ITA allow approved firms double or further tax deductions on eligible expenses incurred for qualifying market development activities and qualifying investment development activities respectively. These schemes are administered by the IE Singapore and the STB.

These tax deduction schemes do not have a sunset clause.

Proposed

The sections 14B and 14K tax deduction schemes will be merged into a single scheme given their common objective of assisting businesses to internationalise and expand overseas. The merged scheme will also be simplified to allow more businesses to benefit from the scheme. For instance, businesses can now submit their applications up to the day of their overseas marketing trip, instead of seven days before the trip.

A sunset clause of 31 March 2016 will be introduced for this scheme.

These changes will apply to applications submitted and approved on or after 1 April 2011. The IE Singapore will release further details by end March 2011.

Points of view

- There is currently no sunset clause under the two existing schemes. The new scheme has an expiry date of 31 March 2016. This is to allow the Government to review the scheme on a regular basis to ensure that they continue to be useful to the industry.
- Currently, the two existing schemes are not available to companies that are already enjoying other forms of tax incentives or concessions from the Government. If the aim of the new scheme is to benefit more businesses, removal of this condition should be considered especially if the existing incentives or concessions are not directly related to developing new markets or investment opportunities overseas.
- There are various conditions and criteria to be met and supporting documents to be submitted under the two existing schemes. The simplification of the new application process will be welcomed by businesses.

Business tax

Tax benefits for voluntary CPF medisave contributions by eligible companies to self-employed persons

Current

Voluntary CPF medisave contributions made by companies for self-employed persons are not tax deductible. Such CPF medisave contributions are subject to tax in the hands of the self-employed persons.

Proposed

With effect from 1 January 2011, eligible companies making voluntary contributions to the self-employed person's CPF medisave accounts will be given tax deduction of up to S$1,500 per self-employed person per year. The qualifying conditions for the tax benefits include the following:

- there must be a valid contract between the eligible company and the self-employed person, which is in force when the contributions are made, and which provides for:
  - the rental or loan of assets by that company to the self-employed person, for the self-employed person to carry on his trade, profession, business or vocation; or
  - the provision of services by the self-employed person to that company, where the self-employed person and that company are in the same trade, profession, business or vocation.
- for any calendar year, tax benefits will be given for contributions not exceeding S$1,500 per self-employed person, and within the CPF annual limit and medisave contribution ceiling.

Such contributions will be tax-exempt in the hands of the self-employed person. For a self-employed person who is concurrently an employee, he can enjoy tax exemption on voluntary medisave contributions of up a maximum of S$1,500 per calendar year made by his employer through the Additional Medisave Contribution Scheme, as well as by the eligible companies.

Points of view

- With the above proposal, eligible companies may be encouraged to contribute to the self-employed person's CPF medisave accounts. This would help to bolster the self-employed person's medisave account balance.
- Self-employed persons are persons who carry on a trade, business, profession or vocation. They may be sole-proprietors or partners of a partnership business.

Business tax

Withdrawal of WHT exemption scheme for financial guaranty insurers

Current

Financial guaranty insurers can enjoy withholding tax exemption on claim payments made under financial guaranty insurance policies to qualifying non-residents.

Proposed

This scheme will be discontinued from 19 February 2011. The objective of the scheme has been assessed to be no longer relevant to merit a tax incentive.

Points of view

- Notwithstanding the abolition of the withholding tax exemption, it is important to look at the nature of the claim payments to determine whether Singapore withholding tax is applicable in the first instance. This is especially in the light of a recent Singapore tax case where the High Court ruled in favour of the taxpayer and held that the interest rate swap payments to non-resident special purpose companies of the taxpayer were not payments in connection with any loan or indebtedness borne by the taxpayer and are therefore not subject to Singapore withholding tax.

Personal income tax

Personal income tax

Personal income tax rate and rebate

Current

The income tax rates for Singapore tax resident individuals range from 0% for the first S$20,000 of chargeable income to 20% for chargeable income exceeding S$320,000. There was no income tax rebate accorded for YA 2010.

Proposed

In view of stronger than expected revenues in 2010, the Government has announced that a personal income tax rebate of 20% will be given to Singapore tax resident individuals for YA 2011. The rebate will however be capped at S$2,000.

With effect from YA 2012, a more progressive personal income tax schedule will be introduced. In particular, the marginal tax rates will be reduced for the first S$120,000 of chargeable income.

Points of view

- There is no change to the top marginal tax rate of 20%. The Government's view is that there is no pressing competitive needs to reduce it but it will continue to review this rate.
- The proposed one-off personal income tax rebate with the cap is similar to that accorded for YA 2008 and YA 2009. An individual who earns S$141,514 or more will enjoy the maximum rebate of S$2,000 for YA 2011.
- The current income tax bands have not changed since YA 2003 and the tax rate for each of these bands has remained the same since YA 2007. Individuals with income below S$120,000 will pay tax at a lower rate under the new income tax rate structure. However, because of the lower income tax rates at bands below S$120,000, all individual taxpayers will enjoy at least S$350 tax savings under the new income tax rate structure. A comparison of the tax payable on equivalent income levels for YA 2011 and YA 2012 is set out below:

Current tax structure				Tax structure with effect from YA 2012			
	Chargeable income* (S$)	Tax rate	Gross tax payable (S$)		Chargeable income* (S$)	Tax rate	Gross tax payable (S$)
On the first	20,000	0%	0	On the first	20,000	0%	0
On the next	10,000	3.5%	350	On the next	10,000	2%	200
On the first	30,000		350	On the first	30,000		200
On the next	10,000	5.5%	550	On the next	10,000	3.5%	350
On the first	40,000		900	On the first	40,000		550
On the next	40,000	8.5%	3,400	On the next	40,000	7%	2,800
On the first	80,000		4,300	On the first	80,000		3,350
On the next	80,000	14%	11,200	On the next	40,000	11.5%	4,600
				On the next	40,000	15%	6,000
On the first	160,000		15,500	On the first	160,000		13,950
On the next	160,000	17%	27,200	On the next	40,000	17%	6,800
				On the next	120,000	18%	21,600
On the first	320,000		42,700	On the first	320,000		42,350
In excess of	320,000	20%		In excess of	320,000	20%	

** Chargeable income = Income after tax reliefs*

- Under the new income tax rate structure, middle income earners will enjoy the largest percentage of saving in taxes as illustrated below:

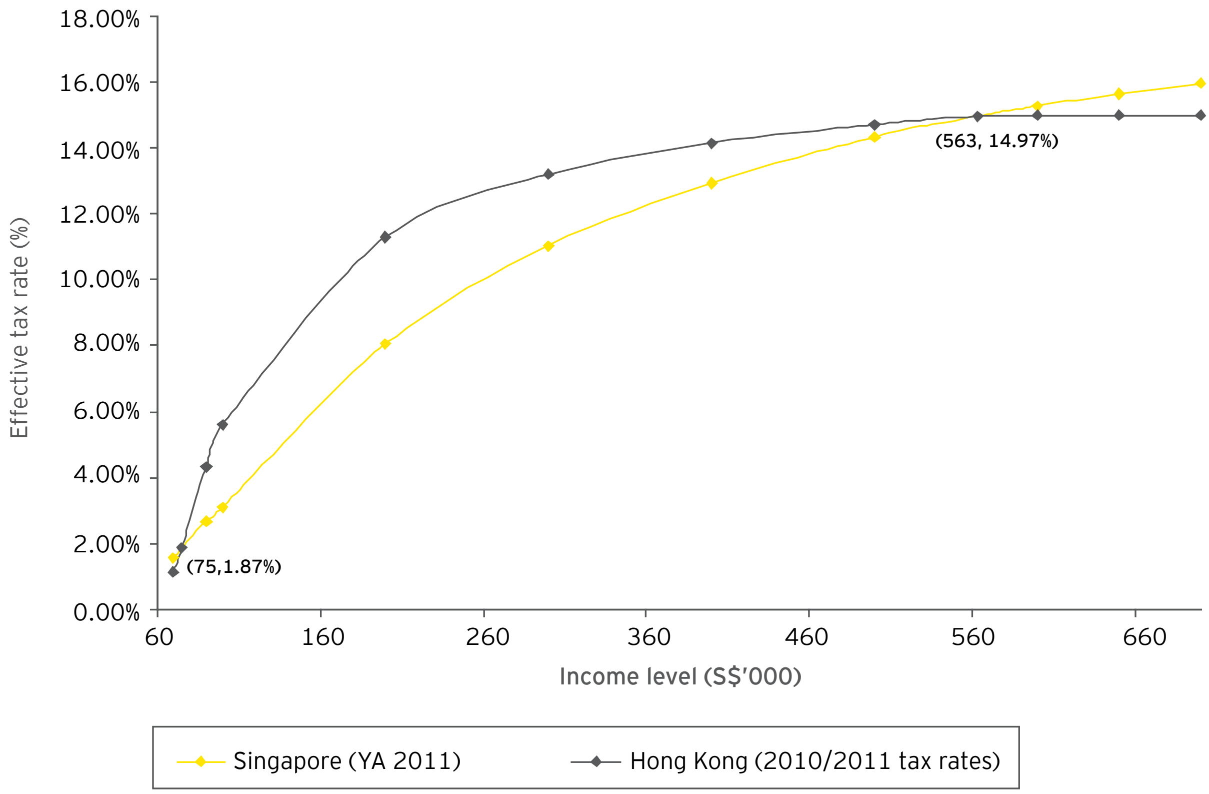
Chargeable income (S$)	Tax payable under new schedule (S$)	Tax savings
40,000	550	39% (S$350)
60,000	1,950	25% (S$650)
120,000	7,950	20% (S$1,950)
160,000	13,950	10% (S$1,550)
240,000	27,950	4% (S$1,150)
More than 330,000	More than 44,350	Less than 0.8% (S$350)

- Currently, chargeable income ranging from S$160,000 to S$320,000 is subject to income tax at 17%. Under the new income tax structure, an additional income band will be created and chargeable income ranging from S$200,000 to S$320,000 will be subject to tax at a higher rate of 18%. The increase of 1% contributes to the lower tax savings for individuals earning this level of income (as illustrated in the table above).

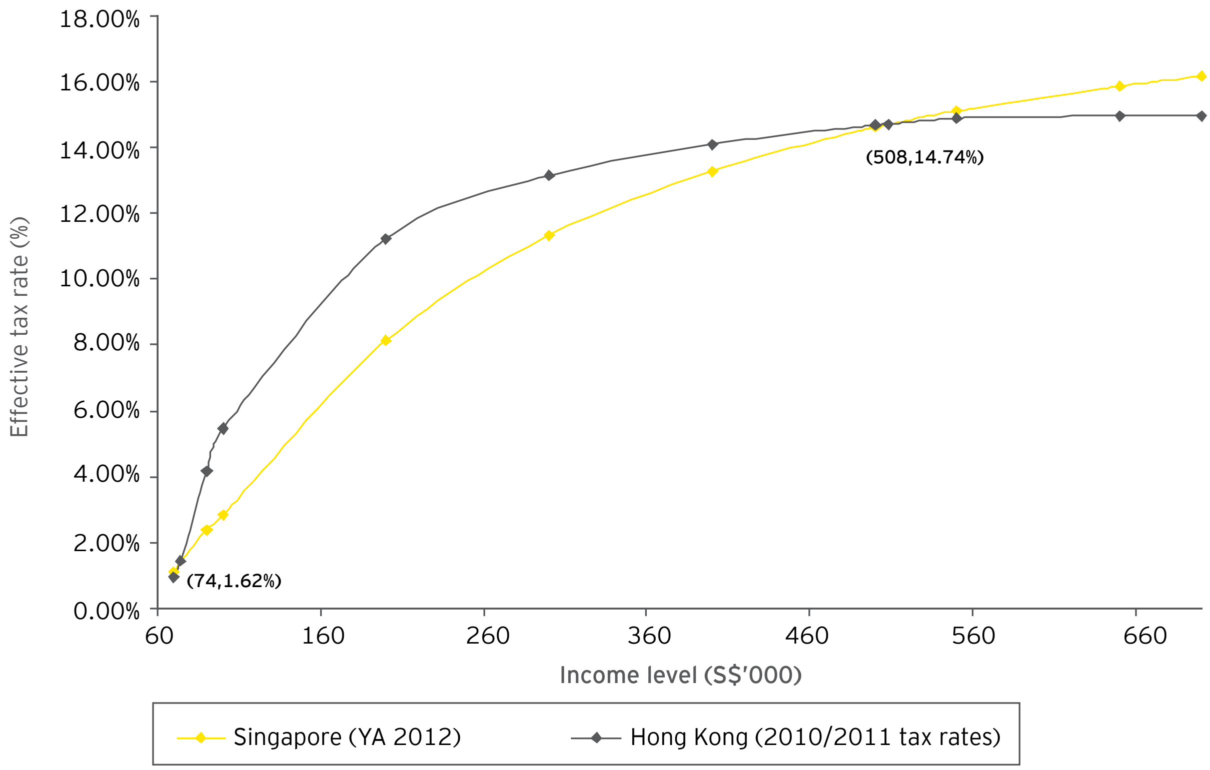
- The difference between the 20% top marginal personal income tax rate and the corporate income tax rate is still 3%. This may encourage highly successful entrepreneurs to corporatise their business rather than conducting it through sole proprietorship or partnership.

- Based on the current personal income tax rate structure, an individual who earns between S$75,000 and S$563,000 will pay lower income tax in Singapore compared to Hong Kong. With effect from YA 2012, this range is slightly narrowed to S$74,000 to S$508,000. The upper threshold in both scenarios could be higher for individuals who qualify for the tax benefits under the NOR scheme. See the charts below.

Comparative analysis (2010/2011 Hong Kong versus Singapore YA 2011 tax rates with tax rebate)

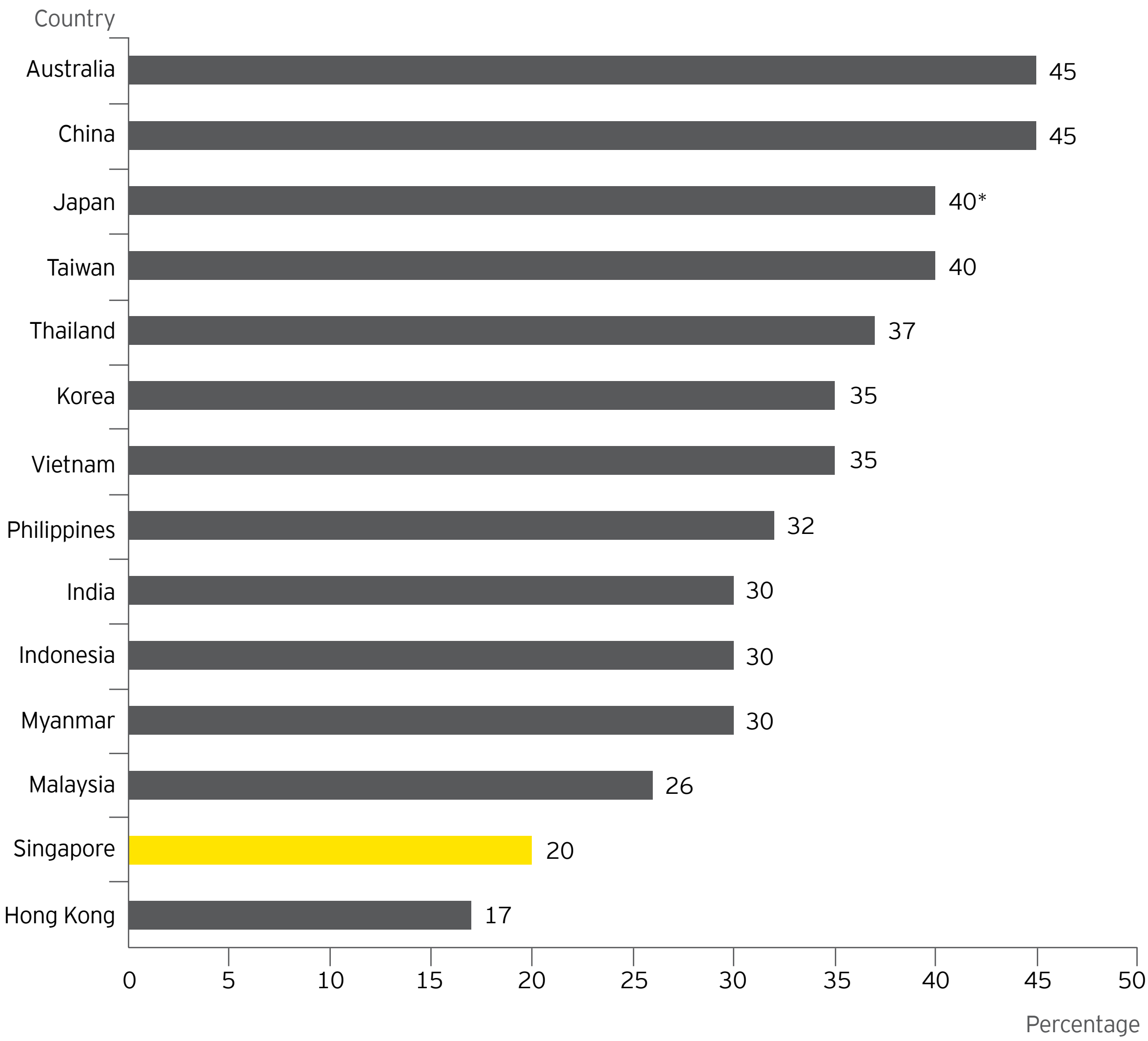


Comparative analysis (2010/2011 Hong Kong versus Singapore YA 2012 tax rates)



Personal income tax

Comparison of top marginal personal income tax rates in selected countries in the region



Notes: The above table is based on latest tax rates as at December 2010.

** Excludes local inhabitant tax*

Personal income tax

CPF contributions

Current

The employer CPF contribution rate for the following categories of employees (Singapore citizen or Singapore permanent resident) is 15%:

- employees aged 35 years and below and with monthly wages exceeding S$50; and
- employees aged between 36-50 years and with monthly wages of at least S$1,500.

As announced in May 2010, this contribution rate will be increased to 15.5% in March 2011.

The maximum CPF salary ceiling is S$4,500 per month.

Proposed

The Government will raise the employer contribution rate by another 0.5% point, from 15.5% to 16%, which will restore the total contribution rate to 36%. The additional 0.5% will go into the Special Account.

In addition, the CPF salary ceiling will also be revised from S$4,500 to S$5,000 per month to keep pace with income growth in recent years.

To give employers sufficient time to adjust, both these changes will take effect in September 2011.

In line with the higher CPF salary ceiling, the Government will also raise the contribution cap within the SRS. This means that with effect from September 2011, annual SRS contribution cap will be increased to S$12,750 for Singaporeans and Singapore permanent residents and S$29,750 for foreigners.

Points of view

- With the recovery of the economy, the increase in employer contribution rate is in line with the Government's long-term objective of restoring the total CPF contribution rate to 36%.
- The revision to the CPF salary ceiling should result in a corresponding adjustment to the maximum amount of wages subject to CPF and the amount of CPF relief that can be claimed. The impact of these adjustments are twofold:
    - a reduction in the employee's taxes as a result of the increased CPF relief that can be claimed; and
    - an overall reduction in the take home pay of an individual earning more than S$5,000 notwithstanding that there is a drop in the personal income tax rates for YA 2012. The additional employee CPF contribution is more than the tax savings.
- While the increase in the CPF salary ceiling will reduce the overall take home pay of an employee who earns more than S$5,000, the proposed change is aimed at increasing the absolute amount of CPF contributions made for all employees. This will help them save more for their retirement and old age.
- The increase in the amount of employee contribution is about equal to the increase in employer contribution as a result of the change in the CPF salary ceiling and employer contribution rate. The increase in CPF savings is hence equally contributed by both the employer and the employee.

Personal income tax

Exemption of alimony and maintenance payments, and exclusion of ex-spouses from claiming spouse relief and handicapped spouse relief

Current

Individuals are currently liable to tax on the receipt of alimony and maintenance payments from their former spouses or spouses, if these payments are payable under a Court Order or Deed of Separation.

On the other hand, Singapore tax-resident individuals who maintain their former spouses may claim spouse relief or handicapped spouse relief when they make the alimony payments under a Court Order.

Proposed

Individuals will be exempted from tax on alimony and maintenance payments which they receive under a Court Order or Deed of Separation. With this exemption, individuals will not be taxed on their alimony and maintenance payments, whether paid voluntarily or under a Court Order or Deed of Separation by their former spouses or spouses.

Spouse relief and handicapped spouse relief are intended as recognition for individuals who support their spouses. Such reliefs will no longer be granted to individuals for maintaining their former spouses.

These changes will take effect from YA 2012.

Points of view

- The proposed exemption from tax on alimony and maintenance payments received under a Court Order or Deed of Separation will in general benefit spouses who are divorced or legally separated.

Goods and services tax

Goods and services tax

GST measures for the biomedical industry

Current

- Local intermediaries who import clinical trial materials on behalf of overseas persons into Singapore for local testing are not able to recover the import GST payable. For clinical trial materials imported for re-export or disposal, there are various means where the importing intermediary may either claim back the import GST paid or be relieved of import GST, but this entails GST compliance cost for the local intermediary.
- The ACMT scheme allows an approved contract manufacturer to disregard his supply of value-added services to his overseas client, subject to certain qualifying conditions. The scheme is available only to the semiconductor and printing industries.

Proposed

- GST relief will be granted upfront on all clinical trial materials imported into Singapore, irrespective of whether the clinical trial materials are for local testing, re-export or for disposal in Singapore.
- The ACMT scheme will be extended to qualifying biomedical contract manufacturers. In addition, further enhancements will be made to the ACMT scheme and can be enjoyed by all industries approved under ACMT, as follows:
  - disregard services rendered by local contract manufacturer on failed or excess production under the ACMT scheme; and
  - allow local contract manufacturers to recover GST on local purchases of goods made by the overseas client for use in the contract manufacturing process.

These changes will take effect from 1 October 2011. The IRAS and the Singapore Customs will publish circulars to explain the changes and operational details by 1 September 2011.

Points of view

- The proposed upfront GST relief on the importation of clinical trial materials will relieve irrecoverable import GST and ease the GST compliance burden for local intermediaries. This measure will support the growth of local clinical trials.
- The proposed extension of the ACMT scheme to include the biomedical sector and the proposed enhancements to the ACMT scheme will relieve the irrecoverable GST cost incurred by the overseas clients of biomedical contract manufacturers and thus facilitate the growth of Singapore's biomedical manufacturing sector.

Goods and services tax

GST measures for the marine industry

Current

The sale and rental of goods (including stores and merchandise) for use or installation on a "ship" (as defined in the GST Act) can be zero-rated under certain scenarios, provided that the supplier maintains the requisite documentary proof.

In addition, repair and maintenance services performed on ship and ship parts or components may qualify for zero-rating if:

- the repair or maintenance is carried out on board the ship;
- any part or component of the ship is removed for repair and reinstalled on the ship;
- any part or component of the ship is removed for repair and returned to the ship as a spare; or
- any part or component of the ship is removed and replaced by an identical part or component.

Proposed

A new GST scheme will be introduced to allow "approved marine customers" to buy or rent goods without having to pay GST, as long as they are for use or installation on a commercial ship that is wholly for international travel. This means that the supplier may zero-rate the supply of such goods to an "approved marine customer" without having to maintain the requisite documentary proof.

Zero-rating of repair and maintenance services will also be extended to include the following scenarios:

- repair or maintenance services performed on ship parts or components which are delivered to:
    - shipyards in Singapore; or
    - approved marine customers; and
- in addition, where the supplier provides a reconditioned ship part or component in exchange for the faulty part (e.g., one-for-one exchange) to his customer, such arrangements will be treated as a single supply of repair services.

The following changes will also be introduced to ease GST compliance for ships which are in Singapore only for a temporary period of time and intend to leave Singapore as soon as possible:

- remove documentary requirements (for GST relief) for a qualifying ship engaged in pleasure, recreation, sports or other similar events; and
- grant import GST relief (and waive documentary requirement) on goods shipped and remained on board a qualifying ship.

These changes will take effect from 1 October 2011. The IRAS and the Singapore Customs will publish circulars to explain the changes and operational details by 1 September 2011.

Points of view

- The proposed changes effectively widen the scope of zero-rating relief currently enjoyed by the marine industry. They reflect the international character of the supplies relating to qualifying ships. In general, a qualifying ship is one that plies in international waters but excludes a ship licensed under the MPA as a passenger harbour craft or pleasure craft, or where a vessel permit has been granted by the Public Utilities Board or designed or adapted for use for recreation or pleasure and is used within Singapore.

- The proposed changes further simplify the GST compliance for the marine industry in the areas of documentary evidence required for:

  - the zero-rating of sale or lease of goods for use or installation on a commercial ship that is wholly for international travel; and

  - the temporary importation of a qualifying ship engaged in pleasure, recreation, sports or other similar events or goods shipped and remained on board a qualifying ship.

Goods and services tax

Zero-rating scheme for specialised storage and other value-added services

Current

Services performed on goods stored in a warehouse in Singapore are standard-rated unless they are supplied to overseas persons and the goods are exported. Where goods are stored for an extended period of time, businesses face difficulty in establishing that the goods will be exported when they bill their overseas customer. The provision of space for the warehouse operator's business of storing goods is also standard-rated.

Proposed

A new scheme will be introduced to allow zero-rating for specified services supplied to overseas persons, if they are performed on certain goods kept in approved specialised warehouses in Singapore.

To qualify as approved specialised warehouse, amongst other conditions, the specialised warehouse must have mostly overseas customers (at least 90%) and the majority of goods (at least 90%) removed from the warehouse are exported. Operators of Zero-GST warehouses that store prescribed goods can also apply for this new scheme.

This new scheme will take effect from 1 October 2011. The IRAS will publish a circular to explain details of the scheme by 1 September 2011.

Points of view

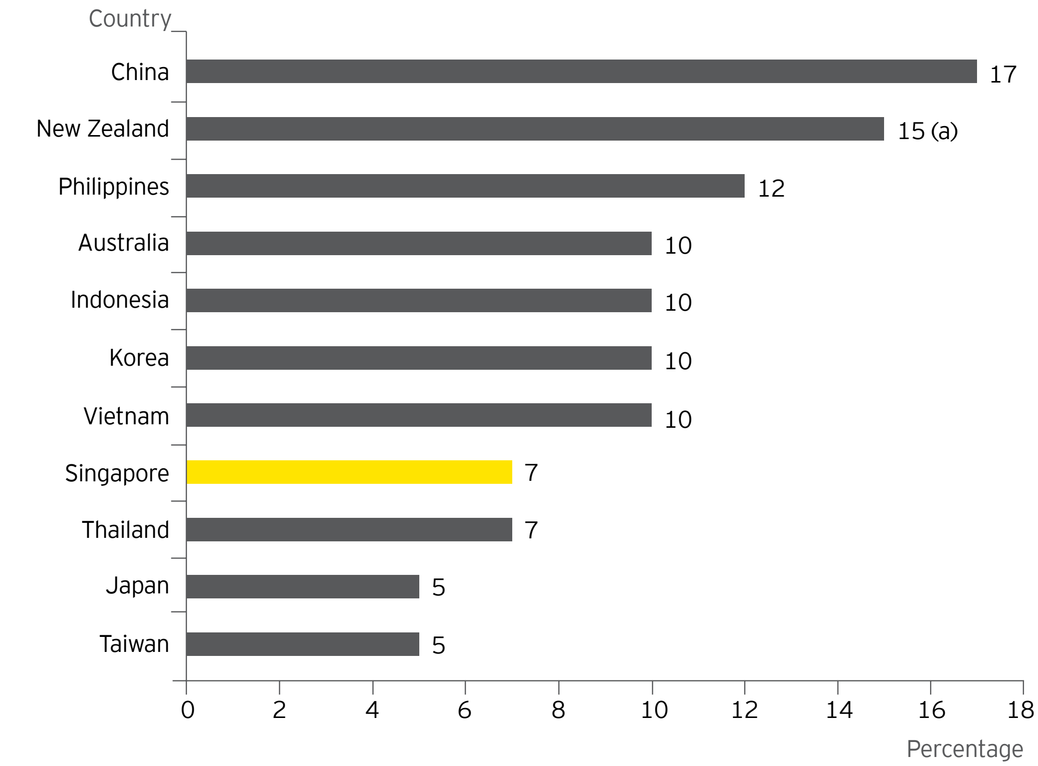
- The proposed zero-rating scheme will promote the use of specialised storage facilities that store high-value collectibles such as art and antiques, and other supporting services such as valuation, conservation and restoration services in Singapore.

- Subject to further details to be released by the IRAS, the proposed scheme should also ease GST compliance as the service providers of specified services no longer need to establish if the goods will be exported at the time of billing their overseas customers, as long as these services are supplied on qualifying goods stored in an approved specialised warehouse.

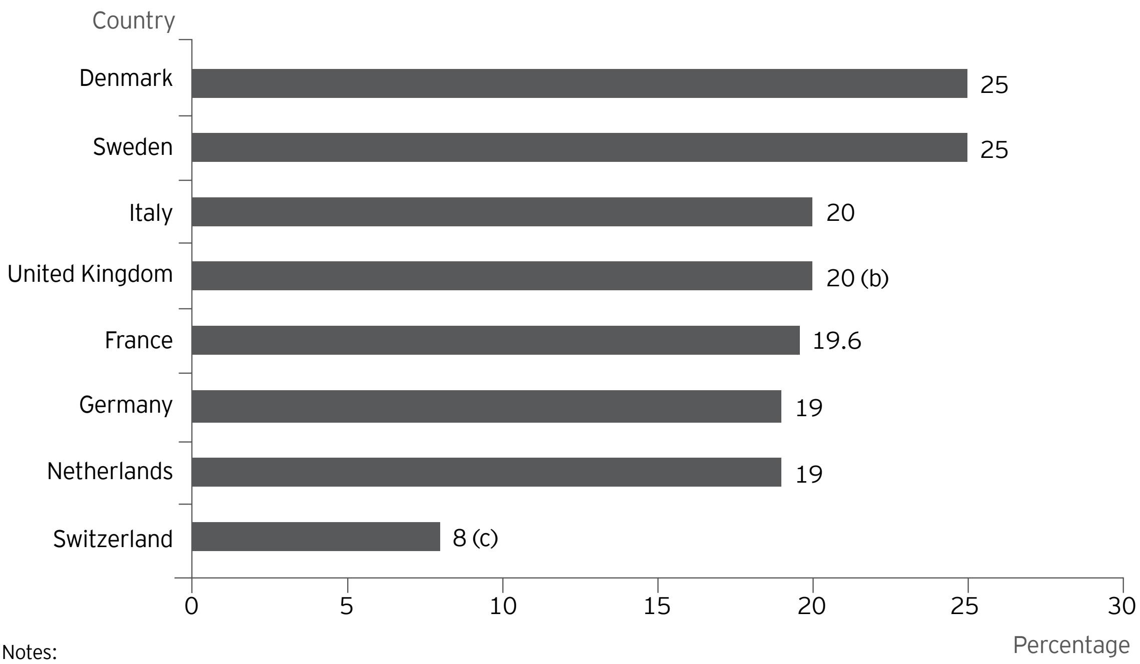
GST rates

Prevailing standard GST rates in selected countries

Asia Pacific



Europe



Notes:
(a) The GST rate was increased from 12.5% to 15% from 1 October 2010
(b) The VAT rate was increased from 17.5% to 20% from 4 January 2011
(c) The VAT rate was increased from 7.6% to 8% from 1 January 2011

Miscellaneous

Miscellaneous

Stamp duty measures

To provide businesses with additional flexibility in organisational restructuring and to ease stamp duty compliance burden, the Government has announced the following stamp duty measures:

- stamp duty relief will be given for conversion of an existing company to an LLP on or after 19 February 2011, subject to the following conditions:

  - the shareholders of the existing company remain as the original partners of the new LLP as at the date of conversion;

  - the assets of the new LLP are those of the existing company as at the date of conversion;

  - the percentage of partnership interests of each of the partners in the new LLP remains the same as the shareholding percentage of each of the shareholders in the existing company as at the date of conversion; and

  - at least 75% of the composition of the partnership interest in the LLP held by the original partners immediately after the conversion should remain the same for two years from the date of conversion.

  To align to the conditions imposed for stamp duty relief for the conversion of a company to an LLP, the fourth condition mentioned above will also be imposed on the existing stamp duty relief for the conversion of a firm (i.e., an ordinary partnership) to an LLP. This applies to conversions occurring on or after 19 February 2011;

- fixed and nominal duties which are currently chargeable at S$2 to S$10 will be removed for most instruments executed on or after 19 February 2011. These include instruments that are not liable to ad valorem duty, subsequent instruments that are executed to effect the same transaction of the same property and duplicates or counterparts of any instrument chargeable with duty. In addition, for a transfer of HDB flat within a family, the S$10 stamp duty payable pursuant to the remission under Stamp Duties (Transfer of HDB Flat Within Family) (Remission) Rules 2007 will be removed for any instrument executed on or after 19 February 2011. Documents relating to transactions which confer a change in beneficial ownership in the underlying property will continue to be liable to ad valorem duty. The fixed duty of S$10 on Declarations of Trust, where beneficial ownership does not pass, will also be retained; and

- currently, stamp duties paid in excess of S$50 are remitted for aborted sale and purchase agreements which do not qualify for refund under section 22(6) of the Stamp Duties Act. This remission has been extended to aborted lease contracts or agreements which are rescinded on or after 19 February 2011, subject to certain conditions. An application is required to be made to the Commissioner of Stamp Duties. Upon approval, a refund of stamp duty paid in excess of S$50 will be made to the taxpayer.

Miscellaneous

Special employment credit

To encourage employers to attract and retain older Singaporean employees who are covered by the Workfare scheme, employers will receive a one-off special employment credit for employing these older employees. The one-off special employment credit will be paid out over three years and the quantum of the credit will depend on the age of the employees.

Details of the scheme are as follows:

- for employees aged 55 to 59, the employer will receive a special employment credit of up to 50% of employer CPF contribution for these employees; and
- for employees aged 60 and above, the employer will receive a higher credit of up to 80% of employer CPF contribution for these employees.

This scheme will benefit industries which are more labour intensive where automation is not possible or cost effective.

Similar to the jobs credit scheme introduced in Budget 2009, it is expected that the Government would exempt employers from tax on the special employment credit and the credit should be granted automatically without the need for application.

Miscellaneous

Extension of green vehicle rebate scheme

The green vehicle rebate scheme was introduced to encourage the use of electric, hybrid and CNG vehicles as part of the Government's effort to maintain a cleaner environment in Singapore. It offers a 40% rebate on the ARF of electric, hybrid and CNG vehicles up to 31 December 2011.

To encourage ownership of green vehicles which are more environmentally friendly than their conventional equivalents, the Government announced that the green vehicle rebate scheme will be extended by one more year to 31 December 2012. This should encourage and motivate more consumers to reduce their carbon footprint by switching to green vehicles that are more fuel–efficient.

However, with the current high COE prices, the impact of the 40% green vehicle rebate on the total purchase price of a new vehicle is diminished. In addition, the effective value of the green vehicle rebate is reduced by the lower PARF rebate applicable at the time of scrapping the vehicle.

As such, the Government may wish to do more to encourage green vehicle ownership by increasing the green vehicle rebate or the PARF value of electric, hybrid and CNG vehicles. It is also noted that diesel-powered vehicles have been excluded again although it has been shown that their greenhouse gas emissions are similar to CNG vehicles. It is hoped that the Government will consider including diesel-powered vehicles in future rebate schemes.

Miscellaneous

Increase in foreign worker levy

To encourage more focus on long-term productivity improvements and reduced reliance on lower skilled foreign workers, foreign worker levies will be gradually increased for all sectors from 1 July 2012 to 1 July 2013. This measure is also aimed at preventing the proportion of foreign workers from rising over time beyond the long-term target of one-third of the workforce.

A brief summary of the changes is as follows:

- from 2010 to 1 July 2013, there will be an average total increase of about S$160 per worker in the manufacturing sector;
- for workers in the services and construction sectors, the increase will be larger as there is considered to be greater scope for productivity improvements in these sectors. The average total increase for workers in the services and construction sectors will be about S$280 and S$330 respectively from 2010 to 1 July 2013;
- depending on the number of S pass holders hired by companies, the foreign worker levy for S pass holders will be increased to between S$300 and S$450 by 1 July 2013; and
- there will be no change in the overall dependency ratios for all categories of foreign workers.

The MOM and MND will release more details of the changes to foreign worker levies on 21 February 2011.

Together with incentives such as the PIC, the National Productivity Fund and training subsidies, the increase in foreign worker levies is designed to incentivise companies to restructure and improve their operational efficiency and rely less on lower skilled foreign workers.

With the local labour force at almost full employment, it is hoped that the Government will take into consideration the current labour needs of the various sectors before increasing the levies further. For example, in the construction sector, the requirement for lower skilled workers is substantial and it may be difficult to increase efficiency substantially without incurring significant additional costs. This may lead to increased costs without necessarily increased quality.

The dependency ratios by themselves, which can be tweaked from time to time, should be adequate to control the number of lower skilled foreign workers in Singapore without burdening employers with higher costs.

Excise duties

With effect from 18 February 2011, the excise duty rates on the following two classes of tobacco products will be increased as follows:

- beedies, ang hoon and smokeless tobacco products - from S$181 per kg to S$199 per kg (an increase of almost 10%); and
- unmanufactured tobacco, cut tobacco and tobacco refuse - from S$300 per kg to S$315 per kg (an increase of 5%).

The increases are to further discourage the consumption of these products. The excise duty rates for other tobacco products remain the same.

Glossary of terms

The following definitions apply throughout this budget synopsis unless otherwise stated:

ACMT	–	Approved Contract Manufacturer and Trader
ACU	–	Asian Currency Unit
AIS	–	Approved International Shipping
ARF	–	Additional registration fees
ASL	–	Approved Shipping and Logistics
CNG	–	Compressed natural gas
COE	–	Certificate of entitlement
CPF	–	Central Provident Fund
DTA	–	Double taxation agreement
EEBR	–	Employee Equity-Based Remuneration
FFA	–	Forward Freight Agreement
FSI	–	Financial Sector Incentive
FSIE	–	Foreign-sourced income exemption
FTC	–	Finance and treasury centre
GAAP	–	Generally Accepted Accounting Principles
GST	–	Goods and services tax
GTP	–	Global Trader Programme
HDB	–	Housing and Development Board
IE Singapore	–	International Enterprise Singapore
IP	–	Intellectual property
IPC	–	Institution of public character
IRAS	–	Inland Revenue Authority of Singapore
ITA	–	Income Tax Act
LLP	–	Limited liability partnership
MAS	–	Monetary Authority of Singapore
MFI	–	Maritime Finance Incentive
Minister	–	Minister for Finance
MNC	–	Multinational corporation
MND	–	Ministry of National Development
MOM	–	Ministry of Manpower
MPA	–	Maritime and Port Authority of Singapore
MSI	–	Maritime Sector Incentive
NOR	–	Not ordinarily resident
OTC	–	Over-the-counter
PARF	–	Preferential additional registration fee
PE	–	Permanent establishment
PIC	–	Productivity and Innovation Credit
QPDS	–	Qualifying project debt securities
R&D	–	Research and development
REIT	–	Real estate investment trust
SGX	–	Singapore Exchange
SME	–	Small and medium enterprise
SPC	–	Special purpose company
SPV	–	Special purpose vehicle
SRS	–	Supplementary Retirement Scheme
STB	–	Singapore Tourism Board
UEN	–	Unique Entity Number
WHT	–	Withholding tax
YA	–	Year of assessment

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About our tax services

Our tax professionals in Singapore provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. We draw on our global insight and perspectives to build proactive, truly integrated direct and indirect tax strategies that help you recognize the potential of business change and build sustainable growth, in Singapore and wherever else you are in the world.

We draw on extensive accounting and compliance experience and tried-and-tested methodologies that allow you to manage your direct and indirect tax compliance and reporting obligations effectively. We help you assess, improve and monitor your tax function's processes, controls and risk management and maintain effective relationships with the tax authorities.

Our talented people, consistent methodologies and unwavering commitment to quality service help you to build the strong compliance and reporting foundations and sustainable tax strategies that help your business achieve its ambitions. It's how we make a difference.

Business Tax Services

Our Business Tax Services in Singapore are designed to meet your business tax compliance and advisory needs. Our tax professionals draw on their diverse perspectives and skills to give you a seamless service through all the challenges of planning, financial accounting, tax compliance and maintaining effective relationships with the tax authorities. Our holistic approach:

- Builds sustainable tax strategies based on technical, practical, commercial and industry knowledge
- Provides the deep accounting and compliance knowledge and tried-and-tested methodologies you need for efficient reporting
- Helps you assess, improve and monitor your tax function's processes, controls and risk management
- Supports you in managing your relationships with tax authorities effectively

International Tax Services

Our dedicated international tax professionals assist our clients with their cross-border tax structuring, planning, reporting and risk management. We work with you to build proactive and truly integrated global tax strategies that address the tax risks of today's businesses and achieve sustainable growth.

GST Services

Goods and Services Tax (GST) affects the supply chain and the financial system. Our network of dedicated indirect tax professionals combines technical knowledge with industry understanding and access to technologically advanced tools and methodologies. We identify risk areas and sustainable planning opportunities for indirect taxes throughout the tax life cycle, helping you meet your compliance obligations and your business goals around the world. Our globally integrated teams give you the perspective and support you need to manage indirect taxes effectively.

Human Capital Services

Our global mobility team advises many of the world's largest global employers – as well as those just venturing into their first foreign country. Our performance and reward professionals help you design compensation programs and equity incentives that really engage your key people. We help you meet your executive tax compliance obligations, stay on top of regulatory change, manage your global talent effectively and improve your function's strategic alignment.

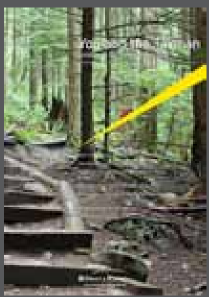
Customs and International Trade

We bring you a global perspective on Customs and International Trade (CIT). Our CIT professionals can help you develop strategies to manage your costs, speed your supply chain and reduce the risks of international trade. We can help to increase trade compliance, improve import and export operations, reduce customs and excise duties and enhance supply chain security. We help you to address the challenges of doing business in today's global environment to help your business achieve its potential.

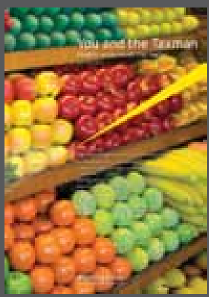
You and the Taxman
November/December 2010

Tax thought leadership

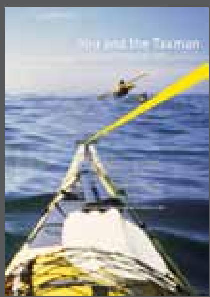
Ernst & Young Solutions LLP's Tax practice aims to give you insights on the tax issues that matter in today's fast-changing business environment. To find out how these tax issues impact your business, read *You and the Taxman*.



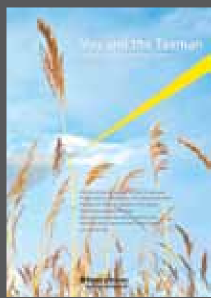
You and the Taxman
September/October 2010



You and the Taxman
July/August 2010

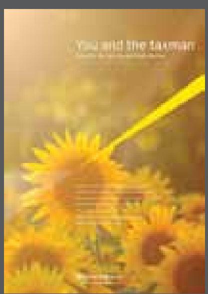


You and the Taxman
May/June 2010

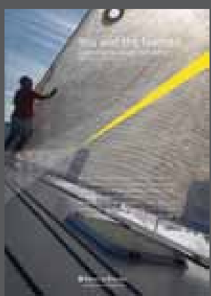


You and the Taxman
March/April 2010

You and the Taxman
January/February 2010



You and the Taxman
November/December 2009



You and the Taxman
September/October 2009

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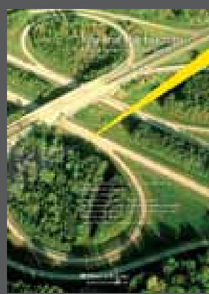
You and the Taxman
May/June 2009



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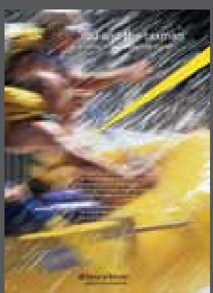
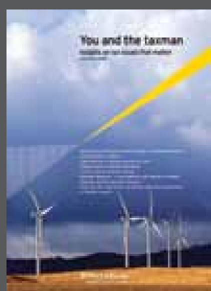


You and the Taxman
January/February 2009

You and the Taxman
November/December 2008

You and the Taxman
September/October 2008



You and the Taxman
July/August 2008

You and the Taxman
May/June 2008

Past issues of *You and the Taxman* can be downloaded from http://www.ey.com/SG/en/Services/Tax/Library---You-and-the-taxman

Ernst & Young

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About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

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