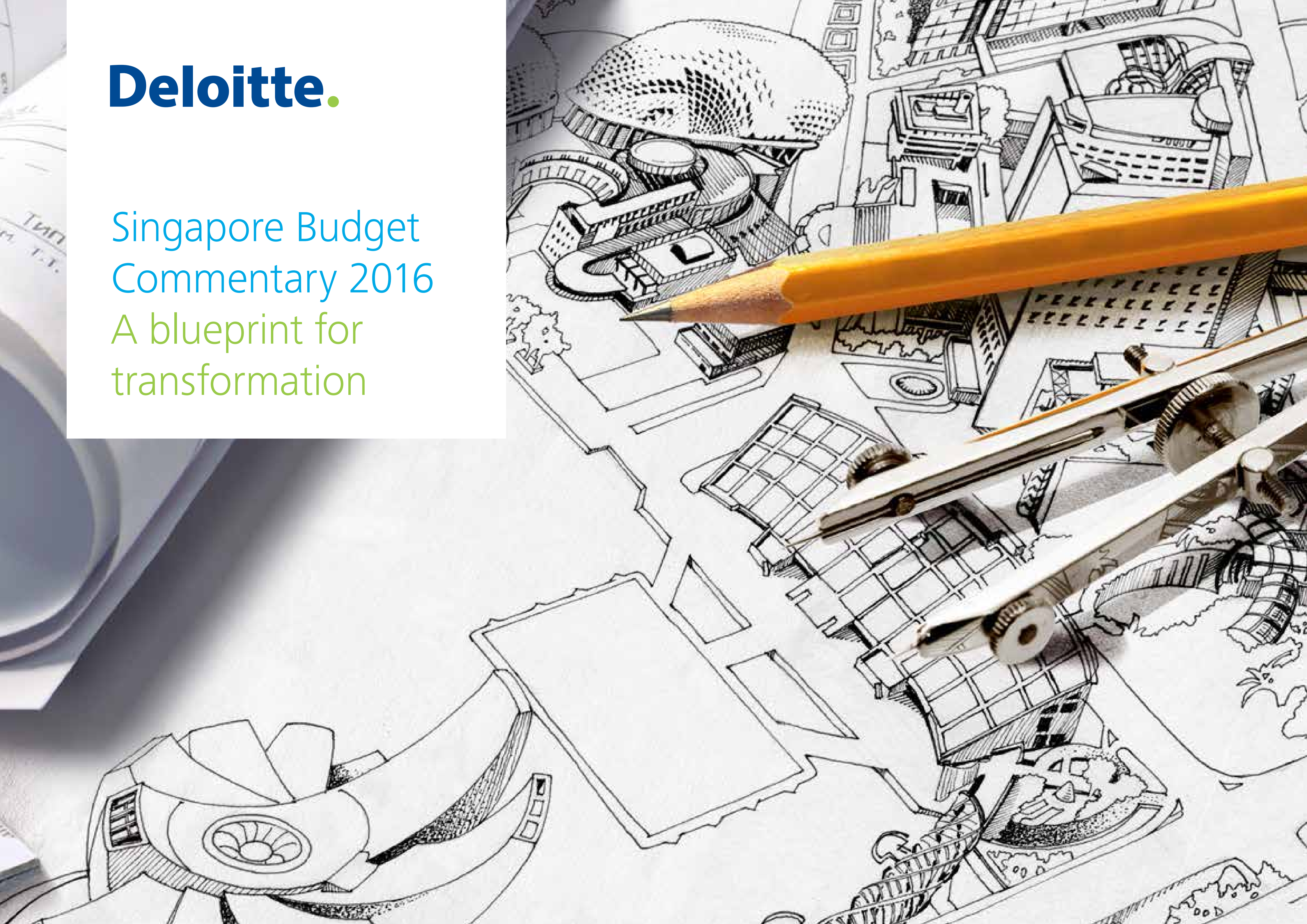
Singapore Budget Commentary 2016

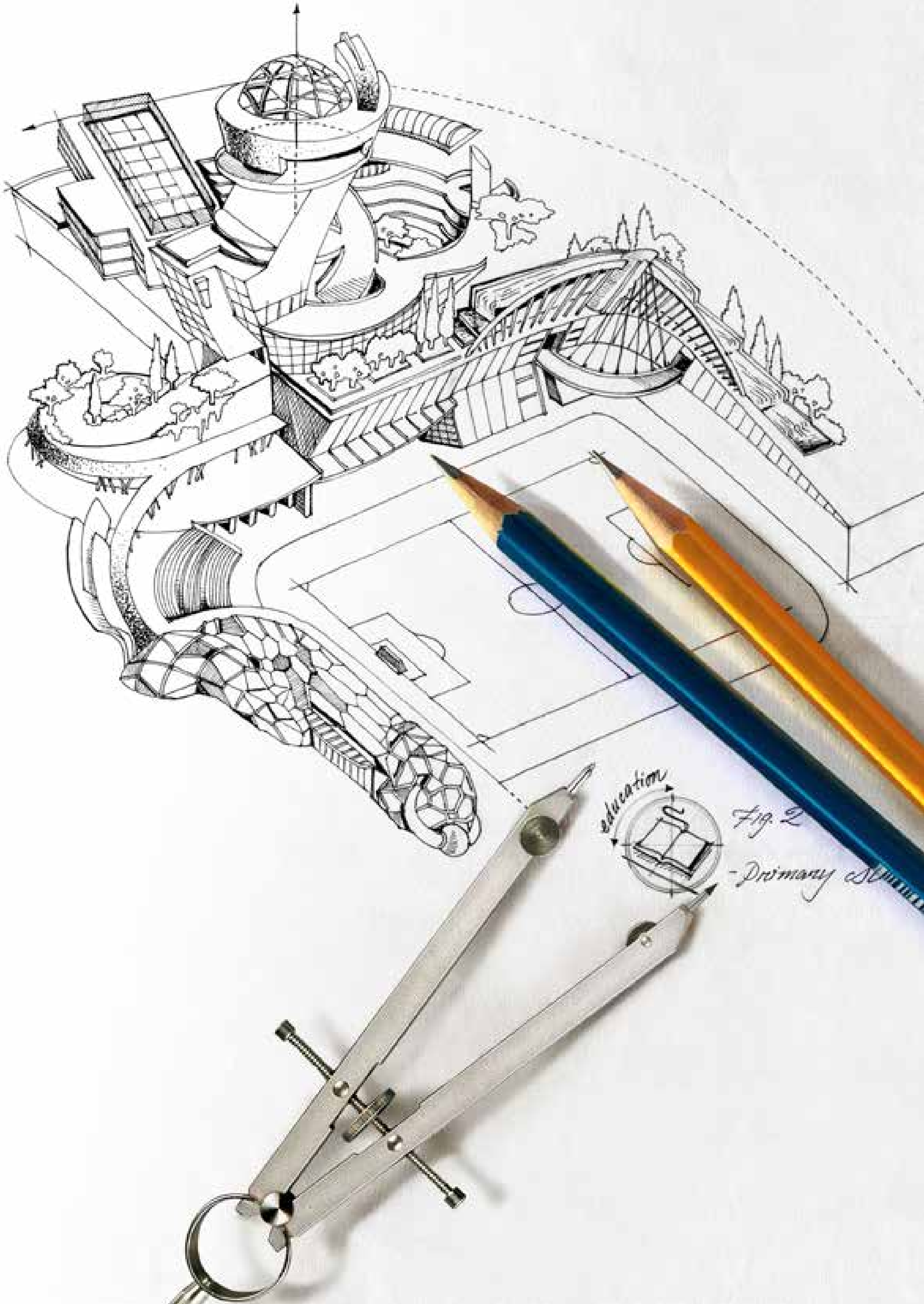
A blueprint for transformation



Contents

Common abbreviations

CIT	: Comptroller of Income Tax
CPF	: Central Provident Fund
EDB	: Economic Development Board
GST	: Goods and Services Tax
IE Singapore	: International Enterprise Singapore
IPC	: Institutions of a Public Character
IPR	: Intellectual Property Right
IRAS	: Inland Revenue Authority of Singapore
ITA	: Income Tax Act
MAS	: Monetary Authority of Singapore
MNC	: Multinational corporation
MOF	: Ministry of Finance
MPA	: Maritime Port Authority of Singapore
M&A	: Mergers and Acquisitions
PIC	: Productivity and Innovation Credit
R&D	: Research and Development
SME	: Small and Medium Enterprise
SPR	: Singapore Permanent Resident
YA	: Year of Assessment



Foreword

Greetings from your tax team at Deloitte Singapore.

The Minister for Finance, Heng Swee Keat, presented the Budget Statement on 24 March 2016. The changes come at an important moment in Singapore's development and will set the blueprint for Singapore's transformation to ensure we overcome the expected challenges and steer the country towards SG100.

2016 Budget identified three key thrusts to address the challenges in the economy:

1. Adopting an expansionary fiscal stance to counter cyclical weaknesses;
2. Industry Transformation Programme to strengthen enterprises and industries, and to drive growth through innovation; and
3. Supporting our people through change

SMEs will find much cheer from this Budget. Among other changes, the Corporate Income Tax Rebate has been enhanced, application for grants will be made much easier with the introduction of the Business Grants Portal and support in the form of a new Automation Support Package (ASP) will be offered to firms for scaling-up of automation projects. With the PIC Scheme expiring after YA 2018, measures such as the ASP are but one example of a shift away from broad-based support for businesses to more targeted help. Acquisitive SMEs looking for expansionary opportunities in a cyclical downturn will be buoyed by enhancements to the M&A Scheme. The consecutive improvements to the M&A scheme in the 2015 Budget and 2016 Budget also demonstrate the importance placed by the Government on the need for SMEs to achieve sufficient scale to compete and survive in the Future Economy.

Extensions and enhancements to incentives for the finance, insurance and maritime sectors were also announced.

On the social front, the Minister indicated a concerted effort to build a caring and resilient society. Various measures to nurture the young, such as the Child Development Account and the KidSTART initiative were introduced. The Silver Generation were also not forgotten with the implementation of the Silver Support Scheme and Community Networks for Seniors. Generous deductions will be accorded to both businesses and charitable organisations to support volunteerism of employees.

Subsequent to the increase in the top tier personal income tax rate last year, a cap of $80,000 on the amount of personal income tax relief has been introduced. This is not expected to affect the vast majority of tax resident individuals in Singapore.

It should be noted that the commentary is our interpretation of the tax measures and some of the key non-tax changes proposed in the Budget Statement. As the tax proposals are yet to be enacted, and the legislation to enact the proposals yet to be published, our comments in this commentary should not be considered definitive and should therefore, be used only as a guide.

If you need any clarification or advice, please contact your regular tax advisors at Deloitte Singapore.

We hope you will find this commentary useful and look forward to supporting you as you grow your business in the coming years.

Personal Income Tax

- Tax relief capped at $80,000 wef YA 2018
- Removal of tax concession on home leave passages

Industry Transformation Programme

- New Business Grants Portal to be introduced to simplify grant applications
- Automation Support Package to provide grant of up to $1million, 100% investment allowance and enhanced risk-sharing
- National Trade Platform to facilitate sharing of trade information
- Increased spending on innovation through robotics and industry research collaboration

PIC

- PIC scheme to expire after YA 2018
- PIC cash payout decreased to 40% for qualifying expenditure incurred from 1 August 2016

Innovation

Jurong Innovation District: To create the next generation industrial district of innovation for enterprise, learning and living

Maritime Tax Incentive

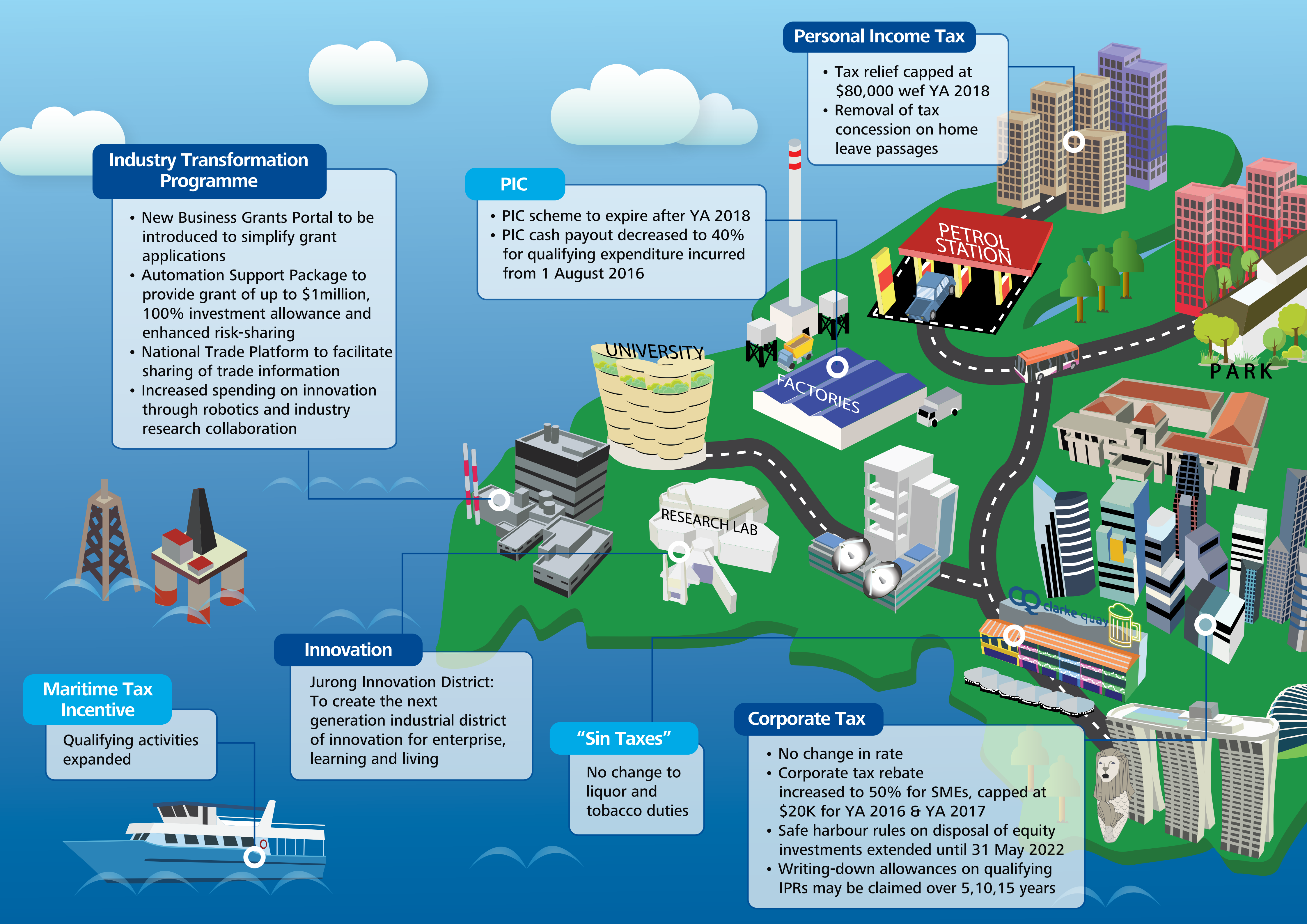
Qualifying activities expanded

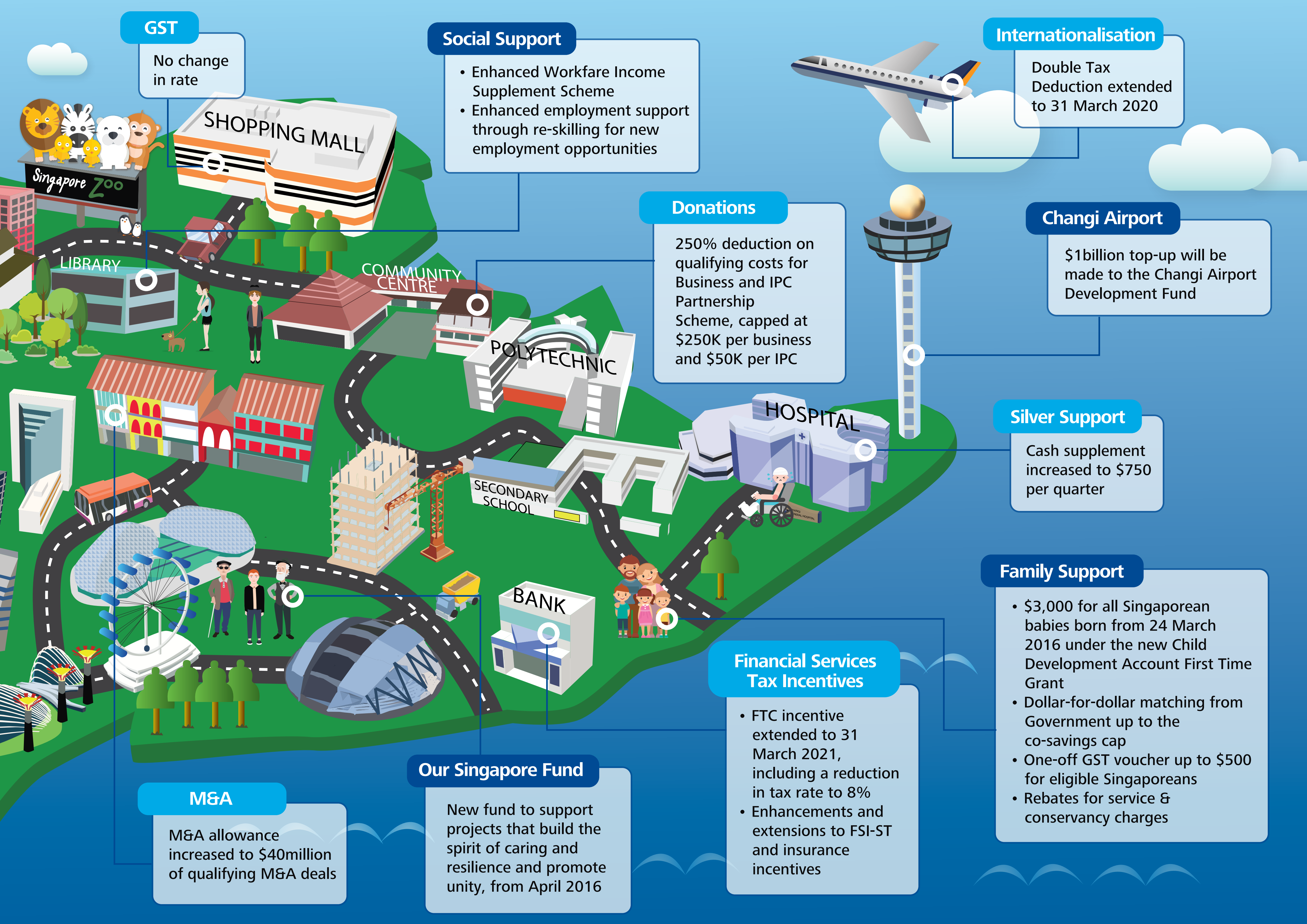
"Sin Taxes"

No change to liquor and tobacco duties

Corporate Tax

- No change in rate
- Corporate tax rebate increased to 50% for SMEs, capped at $20K for YA 2016 & YA 2017
- Safe harbour rules on disposal of equity investments extended until 31 May 2022
- Writing-down allowances on qualifying IPRs may be claimed over 5,10,15 years





GST
No change in rate
Social Support
• Enhanced Workfare Income Supplement Scheme
• Enhanced employment support through re-skilling for new employment opportunities
Internationalisation
Double Tax Deduction extended to 31 March 2020
Donations
250% deduction on qualifying costs for Business and IPC Partnership Scheme, capped at $250K per business and $50K per IPC
Changi Airport
$1billion top-up will be made to the Changi Airport Development Fund
Silver Support
Cash supplement increased to $750 per quarter
Family Support
• $3,000 for all Singaporean babies born from 24 March 2016 under the new Child Development Account First Time Grant
• Dollar-for-dollar matching from Government up to the co-savings cap
• One-off GST voucher up to $500 for eligible Singaporeans
• Rebates for service & conservancy charges
Financial Services Tax Incentives
• FTC incentive extended to 31 March 2021, including a reduction in tax rate to 8%
• Enhancements and extensions to FSI-ST and insurance incentives
Our Singapore Fund
New fund to support projects that build the spirit of caring and resilience and promote unity, from April 2016
M&A
M&A allowance increased to $40million of qualifying M&A deals
SHOPPING MALL
Singapore Zoo
LIBRARY
COMMUNITY CENTRE
POLYTECHNIC
HOSPITAL
SECONDARY SCHOOL
BANK

Business tax

The Minister for Finance (the Minister) delivered his 2016 Budget Statement on 24 March 2016. He reported that the Singapore economy grew by 2% in 2015. For 2016, with the global economic outlook remaining uncertain, the Government expects Singapore's GDP growth to be between 1% to 3%.

The Minister commented that the principal focus of this year's Budget is to transform the economy through enterprise and innovation and build a caring and resilient society, with the spirit of partnership.

Corporate Income Tax Rate and Rebate

The Minister did not propose any change to the Corporate Income Tax rate: it remains at 17% with a partial tax exemption on a company's first $300,000 of normal chargeable income (CI).

To help companies, especially SMEs, the Corporate Income Tax rebate will be raised from 30% of tax payable to 50% of tax payable for YA 2016 and YA 2017, subject to a cap of $20,000 per YA.

Effective date: YA 2016 and YA 2017

Our view

The Minister did not change the Corporate Income Tax rate as it remains competitive in the region. The higher rebate will be welcomed by SMEs. It is disappointing to note that the rebate cap remains at $20,000. Perhaps the Government could in future consider granting a higher tax exemption on the first $300,000 normal CI (or even full tax exemption) for qualifying SMEs. This will provide more financial support to SMEs, many of which are still facing challenges of rising business costs, especially in terms of rental and staff costs.

100% Investment Allowance (IA) under the Automation Support Package

The Minister has introduced an automation support package in 2016 Budget to support firms to automate, drive productivity and scale-up.

Proposed

The Automation Support Package which will be implemented by SPRING Singapore (SPRING) comprises the following four components:

(a) Support under SPRING's Capability Development Grant: The Capability Development Grant will be expanded to support the roll-out or scaling-up of automation projects at up to 50% of the qualifying cost. The grant is capped at $1 million.

(b) IA: Qualifying projects may be eligible for an IA of 100% on the amount of approved capital expenditure, net of grants. This IA is in addition to the existing capital allowances for plant and machinery. The approved capital expenditure is capped at $10 million per project.

(c) Enhanced financing support: To improve access to loans for qualifying projects, the Government will increase the risk-share with participating institutions under SPRING's Local Enterprise Finance Scheme, from 50% to 70% for qualifying projects undertaken by SMEs. The Local Enterprise Finance Scheme will be expanded to cover equipment loan for non-SMEs at 50% risk-share with participating financial institutions.

(d) IE Singapore will work with SPRING where relevant to help businesses to access overseas markets.

Effective date: Details to be announced by Ministry of Trade and Industry at the Committee of Supply.

Our view

The introduction of the above package is intended to support companies in their efforts to automate, increase productivity, scale-up and expand overseas. As automation will usually involve significant financial outlays, the package will be useful to enterprises seeking to upgrade and internationalise. It is however unclear at this stage if all the components (a) to (c) can be applied at the same time. It will be most useful if the support is not mutually exclusive.

Enhancing the Mergers & Acquisitions scheme

The M&A scheme was introduced to encourage companies to grow and internationalise through strategic M&A transactions. It is relevant to any company incorporated and tax resident in Singapore intending to acquire a stake in another company.

Qualifying M&A transactions executed from 1 April 2015 to 31 March 2020 (both dates inclusive) currently enjoy:

(a) 25% M&A allowance of up to $20 million of the acquisition value of all qualifying M&A transactions per YA, i.e. a maximum M&A allowance of up to $5 million, that is claimable over 5 years on a straight line basis;
(b) Stamp duty relief on the transfer of unlisted ordinary shares of up to $20 million of the acquisition value of qualifying M&A transactions, i.e. a maximum stamp duty relief of up to $40,000 per financial year; and
(c) 200% tax allowance (deduction) that is claimable on transaction costs incurred on qualifying M&A transactions from 1 April 2015 to 31 March 2020, subject to an expenditure cap of $100,000 per YA, i.e. a maximum deduction of up to $200,000 per YA.

The direct or indirect share acquisition must result in the acquiring company owning:

(a) At least 20% of the ordinary shares of the target company – if the acquiring company owns less than 20% of the ordinary shares of the target company before the date of share acquisition; or
(b) More than 50% of the ordinary shares of the target company – if the acquiring company owns no more than 50% of the ordinary shares of the target company before the date of share acquisition.

Proposed

To support more M&A transactions, qualifying M&A transactions executed from 1 April 2016 will enjoy the following revised tax benefits:

(a) M&A allowance at the rate of 25% of up to $40 million (up from $20 million) of the acquisition value of all qualifying M&A transactions per YA, i.e. maximum M&A allowance of up to $10 million, that is claimable over 5 years on a straight line basis;
(b) Stamp duty relief on the transfer of unlisted ordinary shares for qualifying M&A of up to $40 million (up from $20 million) of the acquisition value of qualifying M&A transactions, i.e. a maximum stamp duty relief of up to $80,000 per financial year; and
(c) 200% (no change) one-year tax allowance write-down on transaction costs incurred on qualifying M&A, subject to an expenditure cap of $100,000 per YA, i.e. a maximum deduction of up to $200,000 per YA.

The IRAS will release further details by June 2016.

Effective date: 1 April 2016 to 31 March 2020

Our view

The M&A scheme was first introduced in 2010 Budget to help SMEs cope with economic restructuring brought about by a focus on productivity-led growth. It is to encourage SMEs to grow through strategic acquisitions.

The M&A scheme was extended for another 5 years (up to 31 March 2020) in the 2015 Budget. The proposed enhancement of the scheme reflects continued support by the Government to SMEs looking to grow through strategic acquisitions.

Extending upfront certainty on tax treatment of gains on share disposals by companies

Singapore does not tax capital gains. However, the ITA does not define capital or revenue gains. In order to provide certainty on tax treatment of gains on share disposals, the Government introduced Section 13Z in 2012 to provide a safe harbour.

Under Section 13Z, gains from the disposal of shares by a company will not be taxed if both of the following conditions are satisfied:

(a) The divesting company holds a minimum shareholding of 20% of the ordinary shares in the company whose shares are being disposed; and
(b) The divesting company maintains that minimum 20% shareholding for a minimum period of 24 months immediately prior to the disposal.

Under current law, Section 13Z applies to share disposals which take place from 1 June 2012 to 31 May 2017.

Proposed

Section 13Z will be extended beyond 31 May 2017 for 5 years to 31 May 2022. All conditions under Section 13Z remain unchanged.

Effective date: 1 June 2017 to 31 May 2022

Our view

The extension of Section 13Z reflects the continued support of the Government to companies that invest in Singapore. This also aligns with the Government's focus on helping businesses that are restructuring for growth or efficiency, given the uncertain global economy and weak market conditions. Accordingly, it makes good sense to provide taxpayers upfront certainty for a further period of five years, and taxpayers will welcome this extension.

Extending the Double Tax Deduction (DTD) for Internationalisation scheme

Currently, under the DTD scheme, businesses may claim up to 200% tax deduction on qualifying expenditure incurred on a range of qualifying market expansion and investment development activities under Sections 14B and 14K of the ITA.

In 2012 Budget, the DTD scheme was enhanced to further encourage SMEs to venture abroad, and reduce administrative burden on businesses. DTD may be allowed on qualifying expenditure, up to $100,000 per YA, incurred on the following 4 activities, without the need for approval from IE Singapore or Singapore Tourism Board (STB):

(a) Overseas business development trips/missions;
(b) Overseas investment study trips/missions;
(c) Participation in overseas trade fairs; and
(d) Participation in approved local trade fairs.

Claims on qualifying expenditure incurred on other qualifying activities or those in excess of $100,000 will be granted on an approval basis by IE Singapore or STB.

The DTD for Internationalisation scheme is scheduled to lapse after 31 March 2016.

Proposed

To support businesses in their internationalisation efforts, the DTD for Internationalisation scheme will be extended beyond 31 March 2016 for 4 years till 31 March 2020. The existing automatic DTD on qualifying expenditure, up to $100,000 per YA, will also be extended from 1 April 2016 to 31 March 2020. All existing conditions of the Internationalisation scheme remain unchanged.

Effective date: Details to be announced by IE Singapore in June 2016

Our view

The extension of the DTD for Internationalisation scheme was widely expected as this would continue to encourage businesses to venture outside Singapore. Additionally, the qualifying expenditure could also have been increased from $100,000 per YA, without any approval from IE Singapore or the STB to further incentivise businesses to venture overseas. The sunset date of 31 March 2020 is to allow regular review of the scheme to ensure that it continues to be useful and relevant.

Enhancing the Land Intensification Allowance (LIA) scheme

Currently, under Section 18C of the ITA, a person may, subject to approval from the Minister, claim LIA on qualifying capital expenditure incurred on approved construction or approved renovation of a building or structure carried out on:

(a) Industrial land on or after 23 February 2010; or
(b) Port land or airport land on or after 22 February 2014.

LIA will be granted as follows:

(a) Initial allowance: 25% of the qualifying expenditure
(b) Annual allowance: 5% of the qualifying expenditure

The LIA scheme applies to buildings or structures used in certain targeted qualifying activities that have large land take. To qualify for the scheme, the gross plot ratio (GPR) of the building or structure must meet the GPR benchmark relevant to the industry sector of the building user, or if the GPR already meets or exceeds the relevant GPR benchmark, the new GPR must be at least 10% more than the GPR before the start of the construction or renovation. Further, at least 80% of the total floor area of the building or structure must be used by a single user for carrying out the qualifying activity.

Proposed

To encourage higher industrial land productivity, the LIA scheme will now be extended to buildings used by a user or multiple users, who are related, for one or multiple qualifying trades or businesses, subject to certain conditions being satisfied.

The proposed change will take effect for LIA applications if:

(a) The application for LIA is made to the Minister from 25 March 2016; and
(b) The application for planning permission or conservation permission for the construction or renovation is made from 25 March 2016.

Effective date: 25 March 2016

Our view

The change is an enhancement of the LIA, and seeks to encourage co-location of activities and a more efficient value supply chain in Singapore.

Providing an election for the writing-down period for IPRs

Currently, under Section 19B(1) of the ITA, where a company or partnership carrying on a trade or business incurs capital expenditure to acquire qualifying IPRs for use in that trade or business, writing-down allowances (WDA) in respect of that expenditure could be claimed over a writing-down period of 5 years commencing from the year of assessment relating to the basis period in which that expenditure is incurred.

The qualifying IPRs under Section 19B are patents, trademarks, registered designs, copyrights, geographical indications, lay-out designs of integrated circuits, trade secret or information that has commercial value, and plant varieties.

Proposed

To recognise the varying useful lives of IPRs depending on the nature and type of IPRs while maintaining a simple and certain tax regime in Singapore, companies or partnerships may elect for their WDAs on qualifying IPRs under Section 19B to be claimed over a writing-down period of 5, 10 or 15 years.

The election must be made at the point of submitting the tax return for the YA relating to the basis period in which the qualifying expenditure is first incurred. The election, once made, is irrevocable.

This change will apply to qualifying IPR acquisitions made during the basis periods for the YA 2017 to YA 2020.

Further details of the change will be released by IRAS by 30 April 2016.

Effective date: YA 2017 to YA 2020

← Our view

This change is timely and signifies the recognition by the Government of the diverse nature of IPRs and hence their varying useful lives. This should certainly contribute towards the Government's effort to develop Singapore as a hub for the acquisition and holding of IPRs. Furthermore, the flexibility of writing down the IPR over a longer useful life, if elected, may enable any unclaimed WDA to be better preserved to minimise the risk of being subject to the substantial shareholders' and same trade tests compared to if it is claimed over the current writing-down period of 5 years. However, certain details of the change, such as whether an election to claim the WDA over a longer writing-down period needs to be substantiated to the IRAS, and whether any enhanced allowances claimed under the PIC scheme should likewise be claimed over the same longer period, will need to be clarified by the IRAS in due course.

Introducing an anti-avoidance mechanism for IPR transfers under Section 19B of the ITA

Currently, there are no specific provisions in the ITA that explicitly authorise the CIT to make adjustments to the transacted price of an IPR to ensure that it is reflective of the market value.

Proposed

To ensure that Section 19B WDA are granted based on transacted values that are reflective of the open market value (OMV) of a qualifying IPR, an anti-avoidance mechanism for such IPR transfers will be included under Section 19B to empower the CIT to make the following adjustments to the transacted price of the IPR, if the IPR is not transacted at OMV:

(a) If the acquisition price of the qualifying IPR is higher than the OMV of the IPR, the CIT may substitute the acquisition price with the OMV of the IPR and restrict the WDA based on the OMV of the IPR; and
(b) If the disposal price of the qualifying IPR is lower than the OMV of the IPR, the CIT may substitute the disposal price with the OMV of the IPR for the purpose of computing any balancing charge.

This change will apply to acquisitions, sales, transfers or assignments of qualifying IPRs that are made from 25 March 2016.

Effective date: 25 March 2016

Our view

The introduction of the anti-avoidance mechanism for transfers of qualifying IPRs further demonstrates the importance that the IRAS places on transactions to be conducted at the relevant OMV. This is in line with the increasing focus by the IRAS for related party transactions to be conducted on an arm's length basis. On this note, it may be worthwhile to mention that the proposed introduction of the anti-avoidance mechanism appears to extend to include IPR transfers between any parties, i.e., between unrelated parties as well, as there is nothing mentioned therein to the effect that it would only be applicable to transfers of qualifying IPRs between related parties. Taxpayers would therefore need to ensure that going forward, any transfers or sales of IPRs should be conducted at the OMV. This may typically require a valuation study on the IPR to be conducted to substantiate the proposed transfer consideration.

Furthermore, the introduction of an anti-avoidance mechanism to a specific transaction in this instance may be a start to the Government's effort to accord the relevant legislative power to the CIT to check on more transactions conducted between any taxpayers in the future.

Productivity and Innovation Credit scheme

The PIC scheme is a broad-based scheme granting a total of 400% tax deduction or allowance for the first $400,000 ($600,000 under the PIC+ scheme) of qualifying expenditure incurred per YA from YA 2011 to YA 2018 (YA 2015 to YA 2018 under the PIC+ scheme) on each of the following 6 qualifying activities:

(a) R&D;
(b) Acquisition or in-licensing of IPRs (the in-licensing of IPRs was included as a qualifying activity with effect from YA 2013);
(c) Registration of IPRs;
(d) Approved industrial or product design projects undertaken primarily in Singapore;
(e) Acquisition or leasing of qualifying PIC IT and automation equipment; and
(f) Training provided to employees.

PIC Cash Payout

Businesses (including sole proprietors and partnerships) can also make an irrevocable option to convert the qualifying expenditure into cash, subject to a minimum qualifying expenditure of $400 per application. For YA 2013 to YA 2018, the conversion rate is 60%, subject to a maximum expenditure cap of $100,000 (i.e. maximum cash payout of up to $60,000) per YA if the business has:

(a) Incurred qualifying expenditure and is entitled to PIC during the basis period of the qualifying YA;
(b) Active business operations in Singapore; and
(c) Minimum 3 local employees.

The cash payout application can be made any time after the end of the relevant financial quarter but before the filing due date of the income tax return for the relevant YA. Once a qualifying expenditure is converted into cash, the same amount is no longer available for tax deduction or allowance.

Proposed

The cash payout rate will be lowered from 60% to 40% for qualifying expenditure incurred from 1 August 2016 (i.e. maximum cash payout of up to $40,000 for the maximum expenditure of $100,000 converted to cash). All other conditions of the scheme remain unchanged.

The Minister announced that the PIC scheme, which has been extended for YA 2016 to YA 2018, will expire after YA 2018 and it will not be available from YA 2019.

Effective date: 1 August 2016

Our view

To take advantage of the higher PIC cash payout rate, businesses should accelerate planned qualifying expenditure (up to $100,000) before 1 August 2016. Similarly, as the PIC scheme will no longer be available from YA 2019 onwards, businesses should also accelerate planned qualifying expenditure in or before YA 2018 to take advantage of the additional 300% deduction/allowance under the PIC scheme.

Finance and Treasury Centre (FTC) scheme

The FTC incentive was first introduced in 1990 and has since underpinned Singapore's position as a regional treasury centre. It acts to encourage the establishment of treasury operations in Singapore.

In the 2011 Budget, a sunset date of 31 March 2016 was introduced for the FTC scheme.

The status of the FTC scheme after 31 March 2016 has thus been of keen interest, especially in view of the proposed Corporate Treasury Centre (CTC) reforms in Hong Kong that seek to enhance Hong Kong's position as a regional treasury centre. The centerpiece of that reform is the proposed concessionary tax rate of 8.25% on qualifying corporate treasury profits.

Existing FTC incentive benefits

Under the scheme, approved FTCs enjoy the following incentives:

(a) A concessionary tax rate of 10% on:

- (i) Fee income received by the FTC from its subsidiaries, related companies and associates (i.e. Approved Network Companies) for the provision of qualifying FTC services;
- (ii) Income derived from qualifying activities conducted on its own account;
- (iii) Interest, dividend and gains from transactions in stocks and bonds, foreign exchange trading, interest rate swaps, financial futures and options; and

(b) An exemption from withholding tax on interest payments on borrowings by the FTC from overseas banks and approved network companies, provided the funds raised are used for the conduct of qualifying FTC activities.

The FTC tax concessions are conferred for a period of between 5 to 10 years, depending on the level of financial and manpower resources committed by the FTC in Singapore. Certain minimum qualification criteria are prescribed for the FTCs.

Proposed
The FTC scheme will be extended till 31 March 2021 with the following enhancements:

(a) The concessionary tax rate will be reduced from 10% to 8%. However, the substantive requirements to qualify for the scheme will be increased.
(b) FTCs will now be allowed to obtain funds indirectly from approved offices and associated companies to qualify for the concessionary tax rate. Safeguards will however be put in place to address the round-tripping risks.
(c) The exemption from withholding tax will be extended to include interest payments on deposits placed with the FTC by its non-resident approved offices and associated companies, provided the funds are used for the conduct of qualifying activities or services.

The EDB will release further details of the changes by June 2016.

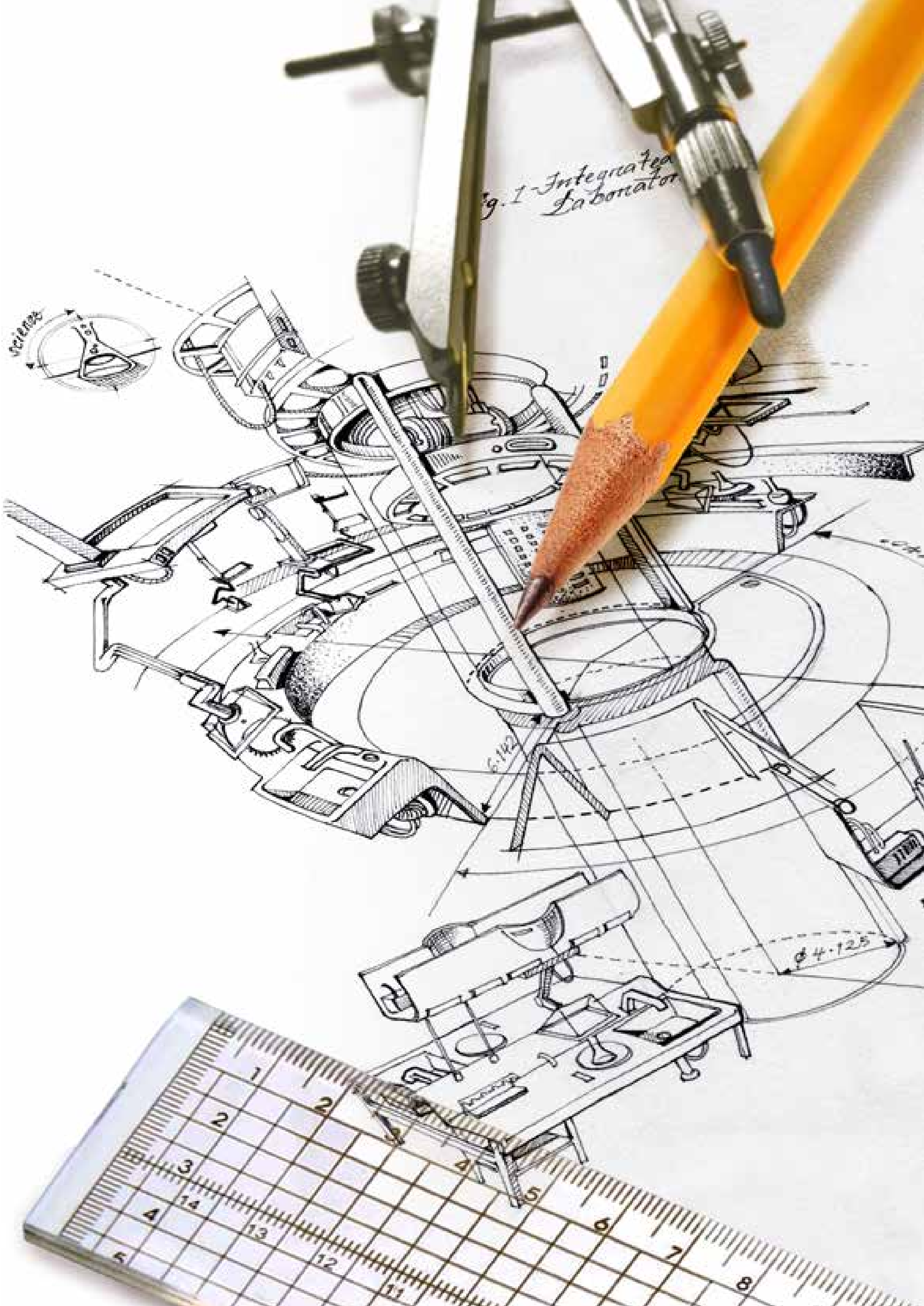
Effective date: 25 March 2016

Our view

The extension of the FTC scheme is welcomed. The proposed 8% concessionary tax rate is competitive and lower than the proposed Hong Kong CTC concessionary rate of 8.25%. The ability for FTCs to obtain funds indirectly from approved offices and associated companies and qualify for the concessionary tax rate is an important enhancement to the scheme.

Further details on the proposed changes will be important and must be awaited.

The decision as to the location of regional treasury centres remains a key issue for Treasurers in the region. While this is not a decision based on tax factors alone, the extension of, and enhancements to, the FTC scheme are important to Singapore's continued position as a treasury hub.



Extending and refining the tax incentive scheme for trustee companies

Under Section 43J of the ITA and the regulations issued thereunder, an approved trustee company may enjoy a 10% concessionary tax rate on income derived from the provision of:

(a) Any trustee or custodian services:

  (i) In its capacity as a trustee of a qualifying foreign trust, or as a trustee of a philanthropic purpose trust in respect of a foreign account;
  (ii) For or on behalf of any unit trust which is also a trust fund that qualifies as a "foreign investor" under Section 43Q of the ITA and where the funds of the unit trust are invested in designated investments;
  (iii) In respect of foreign bond or loan stock issues including services for monitoring loan covenants and administering loan repayments;
  (iv) In respect of the issue of units of a foreign collective investment scheme or a foreign business trust where the proceeds of the issue of units are used outside Singapore; and

(b) Any custodian services:

  (i) In respect of stocks and shares, denominated in currencies other than Singapore dollars, of companies which are neither incorporated nor resident in Singapore;
  (ii) For or on behalf of any foreign mutual fund corporation where the funds of the foreign mutual corporation are invested in designated investments; and

(c) Any trust management or administration services provided to any trustee of a qualifying foreign trust, to any eligible holding company of a qualifying foreign trust or to any trustee of a philanthropic purpose trust in respect of a foreign account, to the extent that the payment received by the approved trustee company for the above services is not borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (excluding in relation to a trust, a trustee incorporated, resident or registered in Singapore in its capacity as trustee of that trust).

The scheme was scheduled to lapse on 31 March 2016.

Proposed

The Tax Incentive Scheme for Trustee Companies will be subsumed under the Financial Sector Incentive (FSI) scheme.

The qualifying activities under the incentive scheme will be expanded to align with the trustee activities prescribed under the FSI-Standard Tier scheme for new and current incentive recipients.

A concessionary tax rate of 12% will apply to new awards granted from 1 April 2016.

Current approved trustees will enjoy the existing benefits until the expiry of their awards and may apply for award renewal under the FSI scheme thereafter.

MAS will release further details of the change by June 2016.

Effective date: 1 April 2016

Our view

This proposal is in line with the Government initiatives to streamline the tax incentives for the financial sector.

Extending and refining the tax incentive schemes for insurance companies
Currently, pursuant to Section 43C of the ITA and the regulations issued thereunder, marine hull and liability insurers, specialised insurers, captive insurers, and insurers carrying on offshore insurance business from Singapore may enjoy tax incentives by applying for the following schemes:

(a) Marine Hull and Liability Insurance: Under the tax incentive scheme for Marine Hull and Liability Insurance, approved insurers are granted tax exemption or a concessionary tax rate of 5% on qualifying income derived from carrying on marine hull and liability insurance business.

The qualifying income includes:

(i) The underwriting income derived from carrying on marine hull and liability business; and
(ii) Dividends and interest derived from outside Singapore, gains or profits realised from the sale of offshore investments and interest from Asian Currency Unit (ACU) deposits derived from:
- The investment of its insurance fund for the insurance business; and
- The investment of its shareholders' funds used to support the insurance business.

Each successful application will be approved for a period not exceeding 10 years.

The scheme is scheduled to lapse after 31 March 2016.

(b) Specialised Insurance Business: Under the tax incentive scheme for Specialised Insurance Business, approved insurers are granted tax exemption on qualifying income derived from carrying on offshore specialised insurance business.

The qualifying income includes:

(i) The underwriting income derived from accepting offshore qualifying specialised insurance business; and
(ii) Dividends and interest derived from outside Singapore, gains or profits realised from the sale of offshore investments and interest from ACU deposits derived from:
- The investment of its insurance fund for the offshore insurance business; and
- The investment of its shareholders' funds used to support the offshore insurance business.

"Offshore qualifying specialised insurance risks" means:

(i) Terrorism risks
(ii) Political risks
(iii) Energy risks
(iv) Aviation and aerospace risks
(v) Agriculture risks
(vi) Catastrophe excess of loss risks

Each successful application will be approved for a period not exceeding 5 years.

The scheme is scheduled to lapse after 31 August 2016.

(c) Captive Insurance: Under the tax incentive scheme for Captive Insurance, approved insurers are granted tax exemption on qualifying income derived from carrying on offshore captive insurance business.

The qualifying income includes:

(i) The underwriting income derived from the offshore captive insurance business, but excluding the amounts from policies covering third party which are not underwritten in the course of, nor incidental to its captive insurance business; and
(ii) Dividends and interest derived from outside Singapore, gains or profits realised from the sale of offshore investments and interest from ACU deposits derived from:
- The investment of its insurance fund for the offshore insurance business; and
- The investment of its shareholders' funds used to support the offshore insurance business.

Each successful application will be approved for a period not exceeding 10 years.

The scheme is scheduled to lapse after 31 March 2018.

(d) Insurance Business Development (IBD): Under the IBD scheme, approved insurers are granted a concessionary tax rate of 10% on qualifying income derived from carrying on offshore insurance business.

Each successful application will be approved for a period not exceeding 10 years.

The scheme is scheduled to lapse after 31 March 2020.

Proposed

To streamline and simplify the tax incentives for the insurance sector, while ensuring the continued growth of high-value insurance activities in Singapore, the tax incentive schemes for Marine Hull and Liability Insurance, Specialised Insurance Business and Captive Insurance will be subsumed under the IBD umbrella scheme with the following changes:

(a) Marine Hull and Liability Insurance: The Marine Hull and Liability Insurance scheme will be subsumed under the IBD umbrella scheme from 1 April 2016. A concessionary tax rate of 10% will apply to new and renewal awards from 1 April 2016.

(b) Specialised Insurance Business: The Specialised Insurance Business scheme will be subsumed under the IBD umbrella scheme as an enhanced tier award from 1 September 2016, up till 31 August 2021.

A concessionary tax rate of 8% will apply to new awards from 1 September 2019. As a transitional measure, a concessionary tax rate of 5% will apply to new awards from 1 September 2016 to 31 August 2019. A concessionary tax rate of 10% will apply to renewal awards from 1 September 2016.

The scope of qualifying activities will be expanded to cover business of underwriting both onshore and offshore specialised risks from 1 September 2016 for new and current approved insurers.

(c) Captive Insurance: The Captive Insurance scheme will be subsumed under the IBD umbrella scheme from 1 April 2018. A concessionary tax rate of 10% will apply to new and renewal awards from 1 April 2018.

The current approved insurers will continue to enjoy benefits under their existing insurance awards till the expiry of their awards, and may apply for renewal under the IBD scheme thereafter.

MAS will release further details of the changes by June 2016.

Effective dates:

(a) Marine Hull and Liability Insurance: 1 April 2016
(b) Specialised Insurance Business: 1 September 2016
(c) Captive Insurance: 1 April 2018

Our view

The insurance industry remains an important segment of the financial sector in Singapore. With Singapore's ambition to be a global insurance hub, we welcome the extension of the various income tax incentive schemes. The extension of these schemes should continue to provide a stimulus to attract new industry players to Singapore.

With the subsuming of these schemes under the IBD umbrella scheme, new and renewal applicants will no longer enjoy tax exemptions for qualifying income. It remains to be seen whether this change will affect the attractiveness of Singapore as an insurance hub.

The expansion of the qualifying activities to cover the business of underwriting both onshore and offshore specialised risks will be welcomed by the industry players. This expansion may reduce the tax compliance cost of companies that underwrite both onshore and offshore specialised risks as it eliminates the need to separately identify income and expenses relating to the onshore and offshore underwriting businesses.

Enhancing the Global Trader Program (Structured Commodity Finance) (GTP(SCF))

An approved GTP(SCF) company may benefit from a concessionary tax rate of 5% or 10% on its income derived from the following qualifying activities:

(a) Factoring;
(b) Forfeiting;
(c) Prepayment;
(d) Countertrade;
(e) Warehouse receipt financing;
(f) Export receivable financing;
(g) Project finance;
(h) Islamic trade finance;
(i) Transacting in derivatives to hedge against risks relating to any of the activities from (a) to (h); and
(j) Advisory services in relation to any of the activities from (a) to (h).

Proposed

The GTP(SCF) scheme will be enhanced to include the following qualifying activities:

(a) Consolidation, management and distribution of funds for designated investments;
(b) M&A advisory services; and
(c) Streaming financing.

IE Singapore will release further details by June 2016.

Effective date: 25 March 2016

Our view

Since its introduction in 2001, the GTP has been regularly reviewed to ensure its relevance in the increasingly complex trading environment. The introduction of GTP(SCF) in 2010 is an example of how the GTP was further enhanced to support structured commodity financing. The above proposed enhancement is therefore not an exception. The Government seems to acknowledge the fact that in the challenging commodity markets, global traders may recur to alternative financing arrangements, such as streaming financing which is especially popular among metal mining companies. The enhancement also supports global traders in taking a more active role in consolidating the funding and in advising on M&A transactions which seemed to have picked up in the depressed equity market.

Enhancing the Maritime Sector Incentive (MSI) scheme

Currently, ship operators and ship lessors can enjoy the following benefits under the MSI scheme:

(a) Tax exemption on qualifying income derived from operating Singapore ships and foreign ships as well as the provision of specified ship management services pursuant to Section 13A of the ITA under the MSI-Singapore Registry of Ships Award (MSI-SRS);
(b) Tax exemption on qualifying income derived from operating foreign ships as well as provision of specified ship management services pursuant to Section 13F of the ITA under the MSI-Approved International Shipping Enterprise Award (MSI-AIS); and
(c) Tax exemption on income derived from the chartering or finance leasing of ships used for qualifying activities to qualifying counterparties for use outside the port limits of Singapore pursuant to Section 13S of the ITA under the MSI-Maritime Leasing (Ship) Award (MSI-ML(Ship)).

The income qualifying for exemption under MSI-SRS and MIS-AIS was expanded from 24 February 2015 as announced in the 2015 Budget to include income from the mobilisation or holding of ships used for offshore oil or gas activity outside the port limits of Singapore as well as the demobilisation of the ships after such use.

Proposed

To further develop Singapore's status as an International Maritime Centre, the MSI will be enhanced as follows:

(a) The income qualifying for tax exemption under MSI-SRS and MSI-AIS will be expanded to include income derived from operations of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activity relating to exploration or exploitation of offshore energy or offshore minerals.
(b) The income qualifying for tax exemption under MSI-ML(Ship) will be expanded to include income derived from leasing of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activity relating to exploration or exploitation of offshore energy or offshore minerals.
(c) The income qualifying for tax exemption under MSI-ML(Ship) will be expanded by removing the restriction on the qualifying counterparties requirement. With the removal of this restriction, qualifying income will include income derived from leasing of ships used for qualifying activities to any counterparty for use outside the port limits of Singapore.

MPA will release further details of the change in (a) and (b) by June 2016.

Effective date: 25 March 2016

Our view

There has been steady growth in the offshore energy and resources market. The above enhancements to the MSI scheme will widen the scope of the exemption to beyond owners and operators of vessels used for offshore oil and gas activities and attract more international shipping players, thereby generating economic spins-off for Singapore's maritime sector. Further, the removal of the qualifying counterparties restriction should alleviate the administrative burden for MSI-ML(Ship) award recipients to track the status of the counterparty and make the scheme more attractive.

Introducing the Business and IPC Partnership Scheme (BIPS)

Under Section 14(1) of the ITA, outgoings and expenses that are wholly and exclusively incurred in the production of income are tax deductible. Currently, Corporate Social Responsibility (CSR) expenditure made by businesses is deductible as part of their business expenses based on Section 14(1) of the ITA, as businesses receive benefits such as goodwill, branding and enhanced corporate image in return.

Proposed

To incentivise employee volunteerism through businesses, a pilot BIPS will be introduced from 1 July 2016 to 31 December 2018. Under BIPS, businesses will enjoy a 250% tax deduction on wages and incidental expenses when they send their employees to volunteer and provide services to IPCs, including secondments. This deduction will be subject to the receiving IPCs' agreement, with a yearly cap of $250,000 per business and $50,000 per IPC on the qualifying costs.

The overall scheme design for BIPS as outlined in the 2016 Budget is as follows:

Scope of Tax Deduction	• 150% additional tax deduction for wages and volunteering expenditure incurred (over the base 100% expenditure)
Types of Services	• No restriction on the types of services (including volunteering activities organised with IPCs, subject to the receiving IPCs' agreement) • Donation of goods will not qualify for tax deduction
Secondment	• All types of secondments are allowed, subject to IPCs' agreement with businesses (some possible sectors include legal, IT, accounting and other professional services, where IPCs require assistance) • No limit on duration, including flexible secondment arrangement (e.g. interspersed secondment work)
Qualifying Donors	• All businesses, including sole proprietorships, partnerships, companies, registered business trust, clubs and trade associations deemed to be carrying on a business
Beneficiaries	• IPCs only
Valuation/ Qualifying Cost	• Via declaration by businesses, with documentary proof to IPC • Further details will be provided later
Carry forward for unutilised tax deductions	• As per existing tax rules on unutilised losses. Currently, unutilised trade losses may be carried forward indefinitely, subject to substantial shareholding test
Exclusions	• Wages of owners (in sole proprietorships, partnerships, and companies) are disqualified from tax deductions

MOF and IRAS will release further details of the change by June 2016

Effective date: 1 July 2016 to 31 December 2018

Our view

The proposed enhancement demonstrates the Government's commitment to boost CSR efforts by businesses and make Singapore a more inclusive society. Businesses may wish to review their current CSR plans and work closely with IPCs to enjoy greater tax deductions on their qualifying costs incurred under BIPS.

Providing for allocation of expenses under Section 14U of the ITA and pre-commencement expenses under Part V of the ITA

Section 14U deems the first day of the accounting year in which a business earns its first dollar of trade receipt as the date of business commencement. Under Section 14U, businesses can claim tax deduction on expenses incurred up to 12 months before this date as well as revenue expenses incurred before the first dollar is earned (collectively, "Section 14U expenses").

If a business is awarded with an incentive that commences in the same accounting year in which the first dollar is earned, Section 14U does not require businesses to allocate the Section 14U expenses to the pre-incentive and incentive income. Similarly, pre-commencement expenses that have been granted deductions under Part V of the ITA are not required to be allocated to the pre-incentive and incentive income.

Proposed

To ensure fair allocation of Section 14U and pre-commencement expenses to pre-incentive and incentive income derived by businesses enjoying tax incentives, and provide certainty on the allocation method to be used:

(a) Section 14U and pre-commencement expenses that are directly incurred to derive pre-incentive income or incentive income will be specifically identified and set off against the relevant income; and

(b) For all remaining Section 14U and pre-commencement expenses, they will be allocated between the pre-incentive and incentive income based on income proportion (e.g. using turnover, gross profit).

IRAS will release further details of the change by June 2016.

Effective date: 25 March 2016

Our view

The concession for enterprise development was first introduced in YA 2004 and further enhanced in the YA 2012 to allow deduction for revenue expenses incurred 1 year prior to the deemed date of commencement of business (i.e. the first day of the accounting year in which a business earns its first dollar of business receipt).

The proposed change seeks to refine the current concession by providing businesses with greater certainty and clarity on Section 14U expenses and pre-commencement expenses to pre-incentive and incentive income.

Introducing mandatory electronic-filing (e-filing) for corporate income tax returns (including estimated chargeable income, Form C and Form C-S)

Businesses may file their annual corporate income tax returns via paper filing or e-filing through the IRAS' e-Services platform at myTax Portal.

Proposed

In line with the Government's direction for more cost effective delivery of public services and the Smart Nation vision to leverage on technology to enhance productivity, it will be made mandatory for businesses to e-file corporate income tax returns (including estimated chargeable income, Form C and Form C-S) to the IRAS in a phased approach from YA 2018 as follows:

YA	Type of businesses
2018	Companies with turnover of more than $10 million in YA 2017
2019	Companies with turnover of more than $1 million in YA 2018
2020	All companies

Effective date: YA 2018

Our view

This reform should not come as a surprise as the IRAS had introduced e-filing of Form C-S since YA 2012, followed by e-filing of Form C in YA 2015. Besides the benefit of an extended filing deadline of 15 December (as compared to 30 November for paper filing), businesses will receive an instant acknowledgement once a corporate income tax return has been successfully e-filed.

Introducing mandatory e-filing for PIC cash payout application

Currently, businesses may submit their PIC cash payout applications via paper filing or e-filing through the IRAS' e-Services platform at myTax Portal.

Proposed

To streamline and expedite the processing of PIC cash payout applications and in line with the Smart Nation objective to harness technology to enhance productivity, the e-filing of PIC cash payout applications will be made mandatory.

Effective date: 1 August 2016

Our view

The above is in line with the mandatory e-filing of corporate income tax returns. Prior to this, the IRAS has also strongly encouraged applicants to e-file their PIC cash payout applications via myTax Portal, which is accessible at any time of the day. The platform had been revamped to include online guidance and instant acknowledgement once a PIC cash payout application has been successfully e-filed. This will also help to expedite the processing timeframe of PIC cash payout applications, which currently spans between 6 weeks to 3 months.

Withdrawing the Approved Investment Company scheme under Section 10A of the ITA

The Approved Investment Company scheme was introduced in 1988 to promote the investment management industry. It provides upfront certainty to an Approved Investment Company on the tax treatment of gains derived from the disposal of their securities under Section 10A of the ITA.

The gains from disposal of securities are taxed according to a schedule based on the length of time that the securities were held. Based on the prescribed schedule, any gains derived by an Approved Investment Company will be fully exempt from tax if the securities are held for more than 540 days.

Proposed

As the scheme is assessed to be no longer relevant, the Approved Investment Company scheme will be withdrawn from YA 2018.

Effective date: YA 2018

Our view

The Approved Investment Company scheme, introduced in 1988, was one of the first initiatives to promote the investment management industry in Singapore and to enhance Singapore's attractiveness as a business and investment location.

The scheme has been assessed to be no longer relevant presumably due to Section 13Z of the ITA; the application of which is to be extended to 31 May 2022. Section 13Z also provides upfront certainty of non-taxation of companies' gains on disposal of certain equity investments.

As the rules and conditions under Section 13Z of the ITA are slightly more stringent than that under Section 10A of the ITA (albeit approval is not required under Section 13Z of the ITA), it appears that the proposed withdrawal of the Approved Investment Company scheme is intended to simplify the relevant tax regime and provide for consistency.

Extending the Not-for-Profit Organisation (NPO) tax incentive

The NPO tax incentive was first introduced in 2007 Budget to promote a social, philanthropic, environmental and humanitarian cause in Singapore beyond economic considerations.

Currently, an NPO which can bring economic value to Singapore will be granted an income tax exemption for an initial period of not more than 10 years under Section 13U of the ITA. This tax incentive may be renewed subject to approval by EDB.

Eligible NPOs will include those that have links to key clusters of the Singapore economy and which promote the economic development of Singapore, such as standards organisations and research bodies.

This incentive is scheduled to lapse after 14 February 2017.

Proposed

The NPO tax incentive will be extended till 31 March 2022 in an effort to continue promoting Singapore as a hub for NPOs.

Effective date: 14 February 2017 to 31 March 2022

Our view

The number of NPOs has grown over the years, including organisations with a social, humanitarian or environmental focus, inter-Governmental organisations, corporate sustainability-related organisations and a growing number of social enterprises with social or environmental causes. The extension of the NPO tax incentive seeks to encourage more of such activities and set up in Singapore, allowing NPOs to play an important role in Singapore's vibrancy and social fabric as a global city.

Withdrawing the tax exemption on income derived by non-residents trading in Singapore in specified commodities via consignment arrangements

Section 13(1)(n) of the ITA provides that any income derived by any person who is not resident in Singapore from trading in Singapore through consignees in any of the following commodities produced outside Singapore shall be exempted from tax.

(a) Rubber;
(b) Copra;
(c) Pepper;
(d) Tin;
(e) Tin-ore;
(f) Gambier;
(g) Sago flour; and
(h) Cloves.

Proposed

As the exemption is assessed to be no longer relevant, the tax exemption for non-residents trading in Singapore in specified commodities via consignment arrangements will be withdrawn from YA 2018.

Effective date: YA 2018

Our view

It is unclear why the exemption is assessed to be no longer relevant – perhaps this is because the volume of such consignment sales has dwindled with the rise of commodity exchanges and over-the-counter trading in commodity derivatives. However, with the proposed withdrawal of the exemption, non-resident companies that are trading in Singapore in the specified commodities through consignees may need to re-evaluate their current business arrangements and ensure that their business model is modified to minimise their tax risks in Singapore.

Personal tax

Personal tax rates

In the 2015 Budget, the Minister had proposed a more progressive personal income tax rate structure for resident individual taxpayers with effect from the YA 2017, with an increase in the marginal tax rates for income exceeding $160,000 and an increase in the top marginal personal income tax rate from 20% to 22% for income exceeding $320,000.

The personal tax rate table for YA 2017 is enclosed in Appendix E.

Our view

Given that the Minister has announced a change in the personal income tax rates with effect from the YA 2017 in the 2015 Budget, it is within expectations that no further changes to the personal income tax rates have been announced.

Personal tax rebate

Although there was a one-off personal income tax rebate of 50%, capped at $1,000, granted to resident individual taxpayers for the YA 2015, the Minister has not proposed to grant any personal income tax rebate for resident individual taxpayers for the YA 2016.

Our view

Given the expectation of the increase in funding required for the various initiatives to transform the Singapore economy and the slower economic growth forecasted for the coming year, it is not a surprise that the Minister has not proposed to grant any tax rebate for the YA 2016. In addition, the tax rebate granted in YA 2015 was on account of the Jubilee year and in celebration of SG50.

Cap on personal income tax reliefs

Currently, there is no limit on the total amount of personal income tax reliefs a resident individual taxpayer can claim in any YA, as long as the conditions of claim for the respective reliefs are met.

Proposed

To ensure that the personal income tax regime remains progressive, the Minister has proposed to cap the total amount of personal income tax reliefs that a resident individual taxpayer can claim to $80,000 per YA.

Effective date: YA 2018

Our view

The capping of the personal income tax reliefs at $80,000 comes as a surprise and appears to be contradictory to the Government's efforts to encourage procreation. Typically, it is the female individual taxpayers with Singapore citizen children who are able to enjoy personal tax reliefs that may be in excess of $80,000, as they get to enjoy Working Mother's Child Relief (WMCR) with a cap of $50,000 on each qualifying child. However, with the $80,000 cap on personal income tax reliefs, this may appear to send a message which is inconsistent with the Government's policy to encourage families who can afford to have more children, and to incentivise high-income earning mothers to remain in the workforce.

Removal of the tax concession on home leave passages for foreign employees

Currently, as an administrative concession granted by the IRAS, the taxable benefit of the home leave passages provided by an employer to foreign employees and their families (limited annually to 1 passage each for the employee and spouse, and 2 passages for each dependent children) is computed based on 20% of the value of the leave passages taken to the home country. Additional home leave passages provided will be taxable in full.

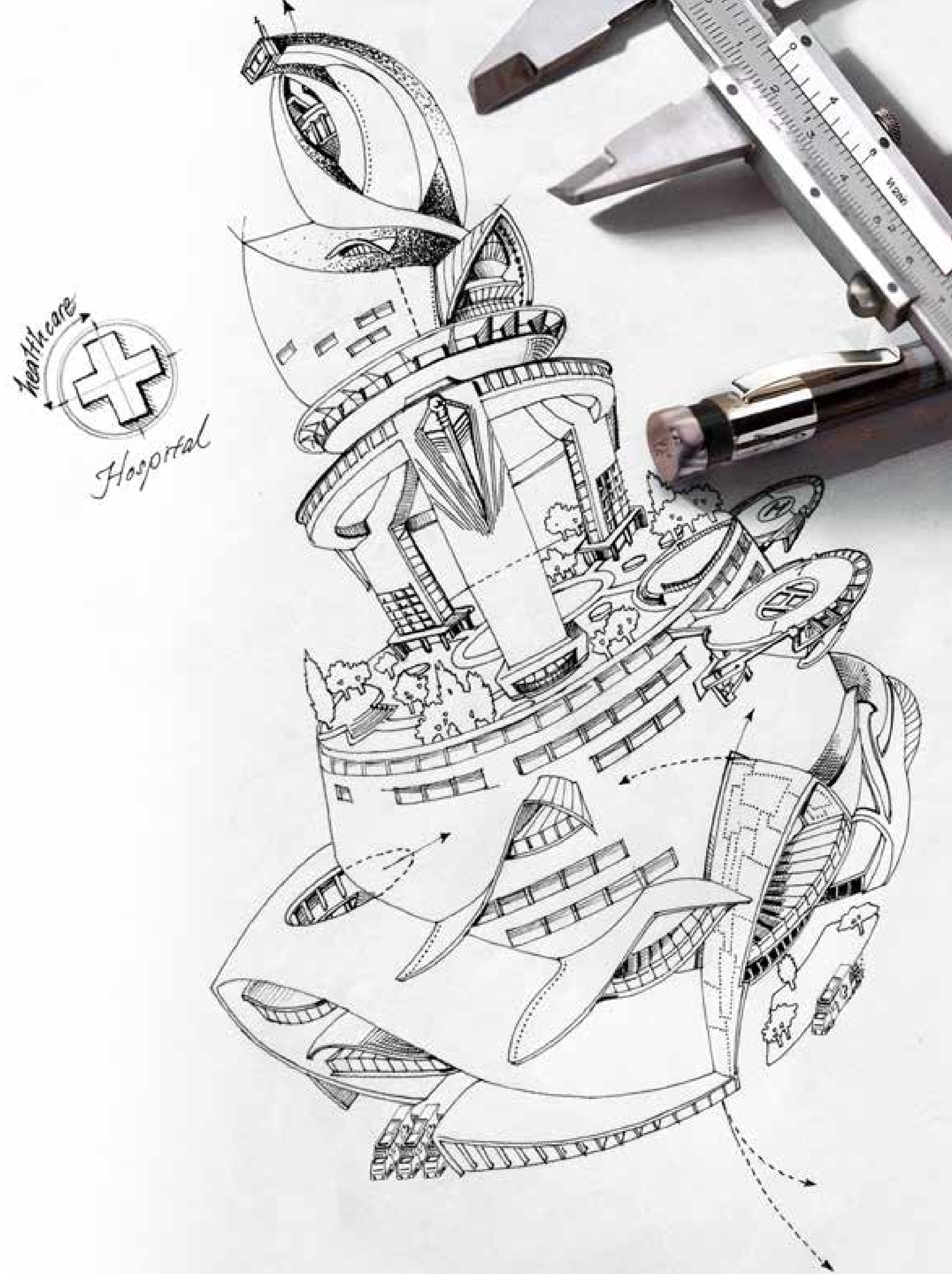
Proposed

The Minister has proposed to remove the administrative concession of computing the taxable benefit of the home leave passages based on 20% of the value of the leave passages provided by employers to foreign employees to go on home leave. With effect from the YA 2018, all home leave passages provided would be taxable in full.

Effective date: YA 2018

Our view

With the removal of the generous administrative concession previously available in respect of the provision for housing accommodation with effect from 1 January 2014, this would appear to be another measure to increase the tax liability of foreign employees working in Singapore.



Indirect tax

Goods and Services Tax

There were no GST changes in the 2016 Budget.

Our view

GST is expected to contribute an increased percentage of the overall revenue for Singapore in FY16 as compared to FY15. GST revenue is expected to increase 2.8% to an estimated $10.62 billion. In fact, GST continues to be the second largest source of tax revenue for the Government. Although the IRAS often makes minor changes to the legislation to address specific areas or to update its guidance during the course of the financial year, it is clear that the Government sees that there is no need to change the overall policy and direction of the GST at this stage in the economic cycle.

Others

Development of a National Trade Platform (NTP)

The Minister has proposed that a NTP will be developed to replace:

- TradeNet which serves as a single platform for the trading community to submit trade information relating to the import and export of physical goods; and
- TradeXchange which serves as a single platform to facilitate connectivity between the trading, logistics community and various Government agencies so as to streamline the customs declaration process.

The NTP will function as a one-stop trade information management system to facilitate electronic data sharing between businesses and the Government.

This platform will enable companies to perform a one-time submission of trade information which can be used by:

- Authorised logistic providers and business partners for trade declaration purposes; and
- Singapore Customs and other trade regulatory bodies for issuance of approvals.

The NTP will also support businesses offering trade finance, and wider services associated with the global movement of goods.

Effective date: Details yet to be announced.

Our view

As details on the NTP have yet to be announced, it is not possible to fully assess the impact on businesses at this time.

With the integration of TradeNet and TradeXchange functions into a one-stop NTP, our assessment is that companies, particularly SMEs, could expect streamlined processes resulting in a reduction in lead time and operation costs. However, there may be some upfront costs, as it is possible that access to NTP will be on a subscription basis, and businesses may need to enhance their existing systems to get full benefit from the new platform.

Excise Duty Rates

Excise duty rates on alcohol, tobacco products and petroleum products remain unchanged.

Our view

Excise duty rates have significantly increased over the last 3 years, resulting in substantial additional revenues being collected. As expected, excise duty rates have been frozen for 2016.

Extension of the Special Employment Credit (SEC)

The SEC was introduced in 2011 Budget to enhance the employability of older low-wage Singaporeans. The SEC scheme is due to expire on 31 December 2016.

Proposed

For 2016 Budget, the Minister has proposed the following:

(a) The SEC scheme will be extended for 3 years to 31 December 2019 i.e., the extended SEC scheme will apply to employees who are on payroll from 1 January 2017 to 31 December 2019. Wage offsets will be provided to employers hiring Singaporean employees aged 55 and above, earning up to $4,000 a month.

(b) The extended SEC will be tiered by employee age to provide greater support for employers hiring Singaporeans in the older age bands, where employment rates are lower. Employers who hire workers aged 65 and above with monthly wages of not more than $3,000, will receive the highest SEC of 8% of the employees' monthly wages. The wage offset will be up to 5% for workers aged 60 to 64, and up to 3% for those aged 55 to 59. A lower SEC is provided for employees with a monthly wage of between $3,000 to $4,000.

More details are shown in Table 1.

(c) To better support employers who hire Persons with Disabilities (PWDs), employers who hire PWDs will receive a SEC of up to 16% of the PWD's monthly wage, regardless of age. The monthly SEC will be capped at $240 per PWD.

Table 1: Examples of monthly SEC amount for wages paid in 2017 to 2019

Wage of Employee in a Given Month	SEC for the Month for Each Employee		
	Aged 55 to 59 (up to 3% of monthly wage)	Aged 60 to 64 (up to 5% of monthly wage)	Aged 65 and above (up to 8% of monthly wage)
$500	$15	$25	$40
$1,000	$30	$50	$80
$1,500	$45	$75	$120
$2,000	$60	$100	$160
$2,500	$75	$125	$200
$3,000	$90	$150	$240
$3,500	$45	$75	$120
$4,000 and above	Not available	Not available	Not available

Similar to the current process, the extended SEC will be paid twice a year, in March and September. Eligibility for SEC is automatically assessed based on the regular monthly CPF contributions that employers make for their employees. Employers will automatically receive the SEC payments in the bank accounts from which they make GIRO payments of their employees' CPF contributions. Employers without a valid GIRO arrangement with the CPF Board will receive the SEC by cheque.

Effective date: 1 January 2017 to 31 December 2019

↑ Our view

With an ageing population, it is important to provide for the re-employment of older employees and the proposed extension of the SEC will continue to encourage employers to hire Singaporean employees in the older age bands. This initiative demonstrates the Government's continued commitment and support towards the re-employment of older workers.

Changes to Foreign Worker Levies

The Foreign Worker Levy (FWL) is a pricing control mechanism used to regulate the demand of foreign workers in Singapore. An employer who employs any foreign worker under a Work Permit or Special Pass is required to pay the monthly FWL at the prevailing rate.

Introduced in 2010, foreign worker policies have been progressively tightened over the past 5 years and there has since been a significant reduction in the inflow of foreign workers into Singapore.

Proposed

For the 2016 Budget, the Minister has proposed the following:

(a) S Pass Holders: The levy rates previously announced in the 2015 Budget will increase with effect from 1 July 2016.

(b) Work Permit Holders:

  (i) Construction Sector:
  - Basic tier levy rate for R2 workers will increase from $550 to $650 on 1 July 2016 and then to $700 on 1 July 2017, as previously announced in the 2015 Budget.
  - The other levy rates for this sector will remain at 2014 levels.
  - The man-year entitlements (MYE) waiver levy rate for MYE-Waiver workers will be raised from 2 years to 3 years from 1 July 2017 onwards to encourage firms to retain their more experienced workers to support productivity.

  (ii) Services Sector: Levy rates for R2 workers in all tiers will increase with effect from 1 July 2016 as previously announced in the 2015 Budget.

  (iii) Marine and Process Sectors: Levy increases that are scheduled for 1 July 2016 as announced in the 2015 Budget will be deferred by one year.

  (iv) Manufacturing Sector: Levy rates for all tiers and skill levels will be kept unchanged at 1 July 2014 rates till 30 June 2017 as previously announced in the 2015 Budget.

The levy rates for S Pass Holders previously announced in the 2015 Budget are summarised as follows:

Table 1: S Pass Holders Levy Schedule

Tier (Sector)	Sector Dependency Ratio (DR)	Levy Rates ($) Current	Levy Rates ($) 1 July 2016
Basic Tier (All)	≤10%	315	330
Tier 2 (Services)	10-15%	550	650
Tier 2 (Other Sectors)	10-20%	550	650

The revised rates for Work Permit Holders are summarised as follows:

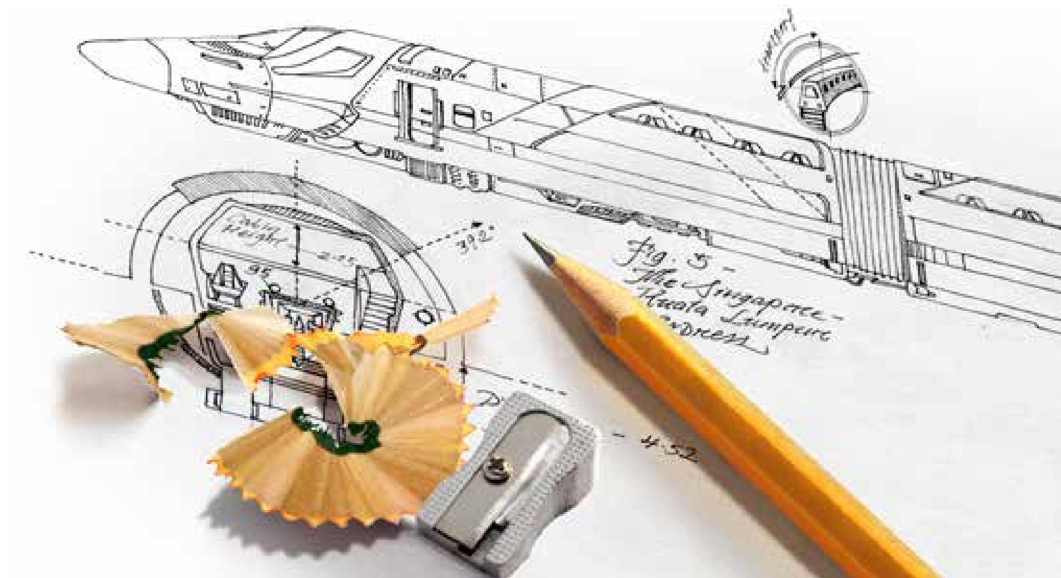
Table 2: Work Permit Holders Levy Schedule

Sector	Tier	Sector Dependency Ratio (DR)	Levy Rates ($) (R1/R2) Current	Levy Rates ($) (R1/R2) 1 July 2016	Levy Rates ($) (R1/R2) 1 July 2017
Construction	Basic Tier	≤87.5%	300/550	300/650	300/700
	MYE-Waiver		600/950	600/950	600/950
Services	Basic Tier	≤10%	300/420	300/450	
	Tier 2	10-25%	400/550	400/600	
	Tier 3	25-40%	600/700	600/800	
Marine	Basic Tier	≤81.8%	300/400	300/400	
Process	Basic Tier	≤87.5%	300/450	300/450	
	MYE-Waiver		600/750	600/750	
Manufacturing	Basic Tier	≤25%	250/370	250/370	
	Tier 2	25-50%	350/470	350/470	
	Tier 3	50-60%	550/650	550/650	

Effective date: 1 July 2016 and 1 July 2017 as relevant

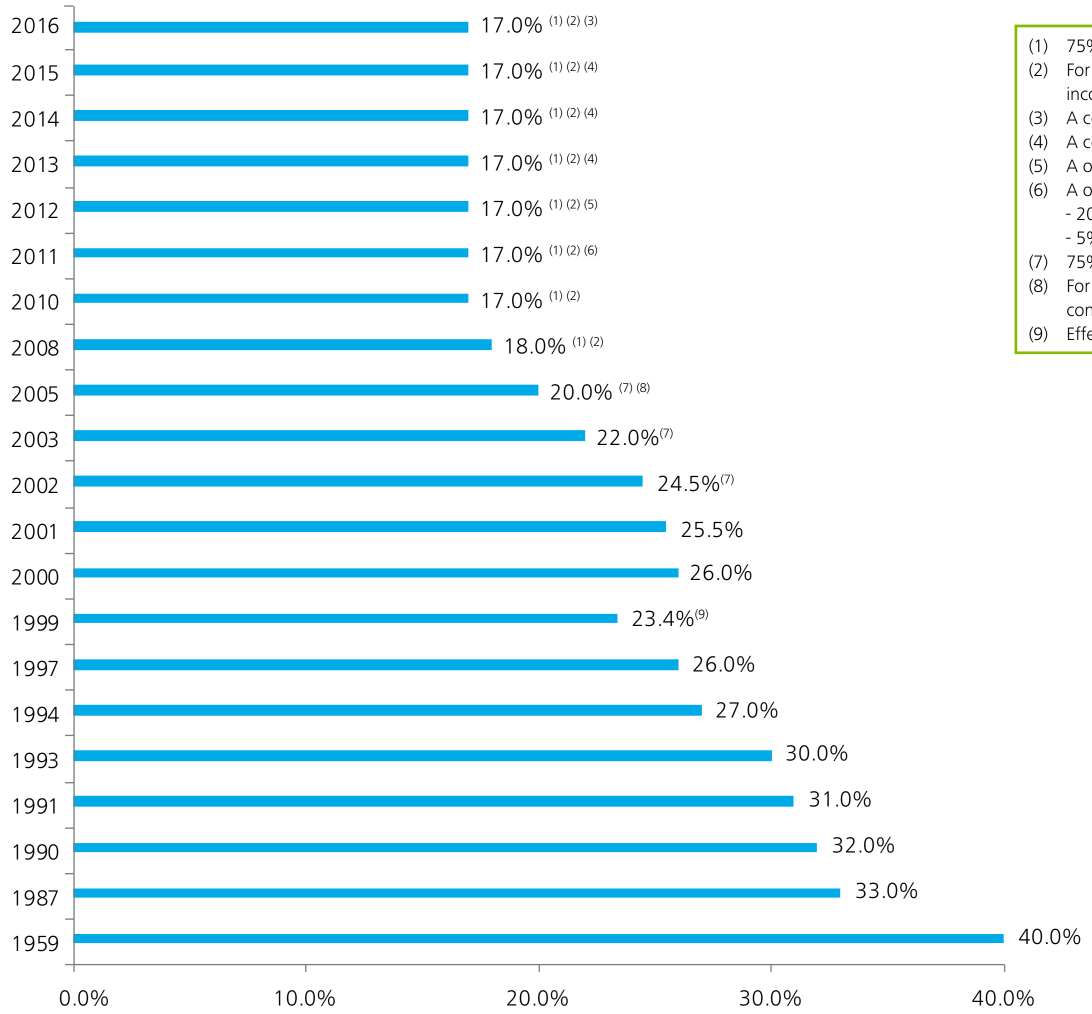
Our view

It is heartening to know that the Government continues to monitor and recalibrate the FWL to take into account challenging business and labour conditions for employers, and is taking a more targeted and sector-focused approach in consideration of the fact that the performance across sectors varies. The deferment of rate increases for the Marine and Process sectors will definitely provide relief for these sectors which are facing challenging business conditions due to the extended downturn in oil and other commodity prices. The scheduled increased levy rates in the Construction and Services sectors would hopefully foster less reliance on foreign labour by encouraging businesses to replace labour through innovation.



Appendix A

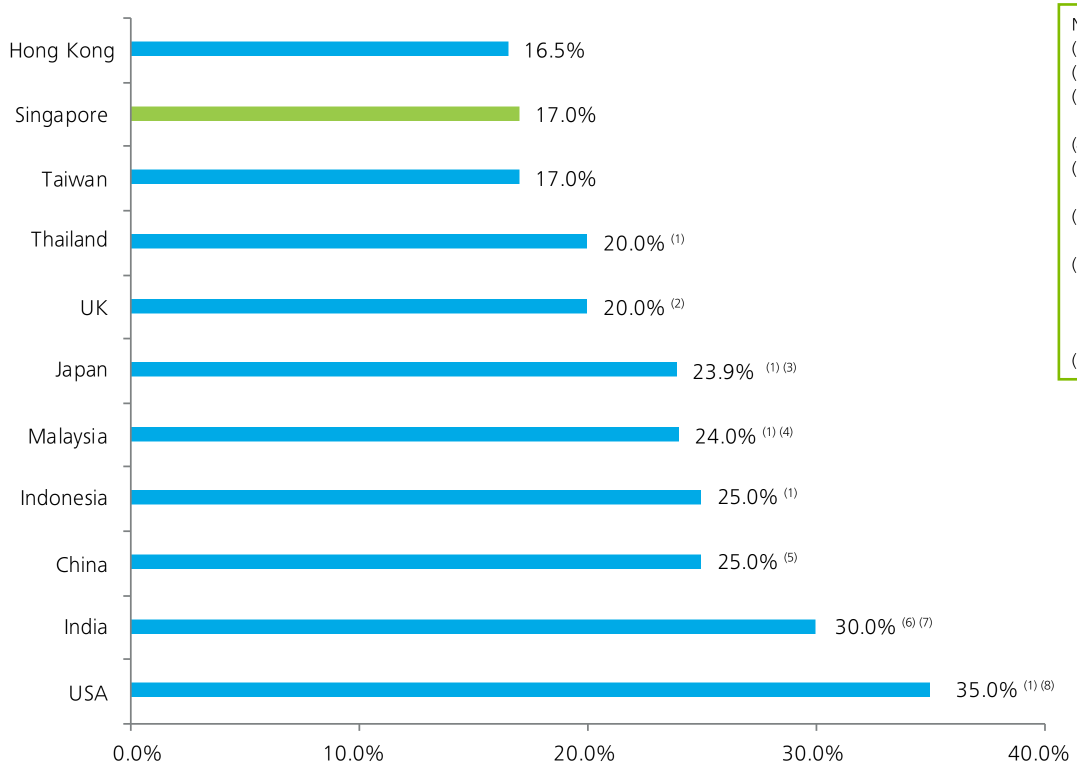
Singapore corporate tax rates
For the YAs 1959 to 2016



(1) 75% of first $10,000 and 50% of next $290,000 of chargeable income are exempt from tax
(2) For qualifying new companies, the first $100,000 chargeable income and 50% of the next $200,000 chargeable income are exempt from tax for any of the first 3 cvonsecutive YAs falling within the period from YA 2008 onwards
(3) A corporate income tax rebate at 50% of the tax payable up to a maximum rebate of $20,000
(4) A corporate income tax rebate at 30% of the tax payable up to a maximum rebate of $30,000
(5) A one-off SME cash grant of 5% of revenue, capped at $5,000
(6) A one-off corporate income tax rebate or SME cash grant computed at higher of:
- 20% of YA 2011 corporate income tax payable, capped at $10,000 (corporate income tax rebate); or
- 5% of revenue, capped at $5,000 (SME cash grant)
(7) 75% of first $10,000 and 50% of next $90,000 of chargeable income are exempt from tax
(8) For qualifying new companies, the first $100,000 chargeable income is exempt from tax for any of the first 3 consecutive YAs falling within the period from YA 2005 onwards
(9) Effective tax rate (net of 10% tax rebate)

Appendix B

Comparison of current corporate tax rates in selected countries



Notes

(1) Lower rates of tax apply to income below certain levels

(2) Reducing to 19% from 1 April 2017 and 17% from 1 April 2020

(3) The standard corporate tax rate of 23.9% is expected to reduce further on 1 April 2016. After surtax, the effective tax rate is approximately 32.11% (expected to reduce further on 1 April 2016)

(4) Reduced rate of 24% with effect from YA 2016, previously at 25%

(5) A 10% rate (subject to meeting certain requirements) or 20% rate applies to small-scale enterprises and 15% rate applies to state-encouraged new high-technology enterprises

(6) 40% for foreign companies; both rates exclude surcharge and education cess which could range in aggregate from 2% to 12%

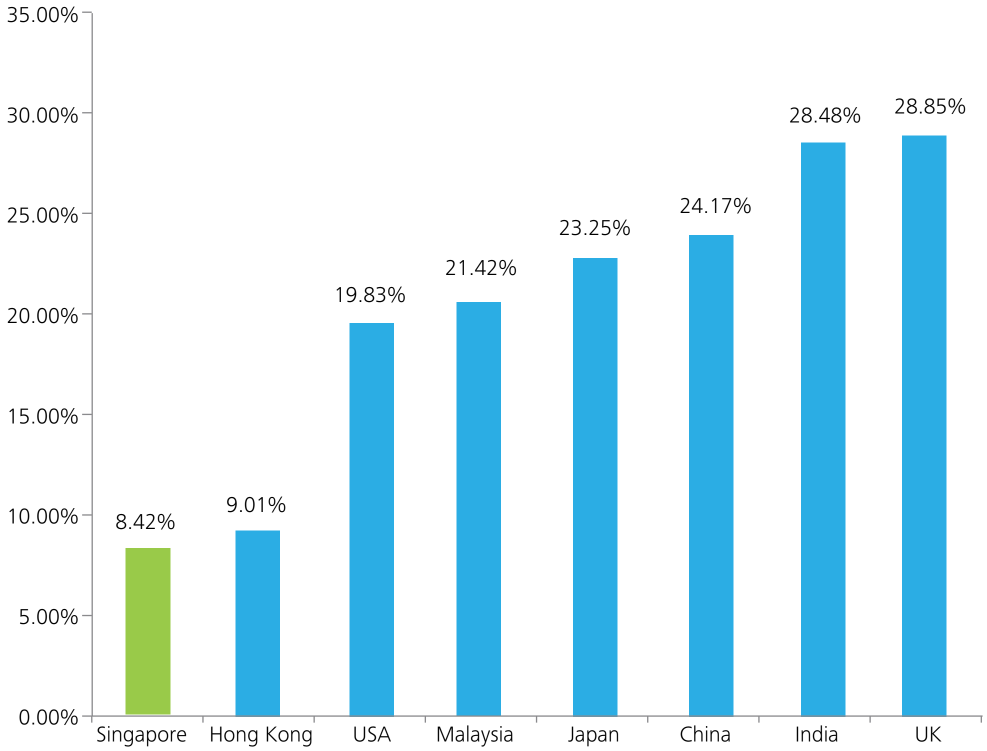
(7) Based on the India 2016 Budget, corporate tax rate is proposed to be reduced to 29% for domestic companies whose total turnover or gross receipts in the previous year 2014-15 does not exceed INR50million. Newly set-up domestic manufacturing companies incorporated on or after 1 March 2016 can opt to be taxed at 25% plus surcharge and cess, provided they do not claim certain specified deductions/ allowance

(8) After other state and local income taxes, the total maximum effective tax rate is approximately 39.5%

Appendix C

Comparative personal effective tax rates for YA 2016

Employee married with 2 children
Gross annual remuneration $200,000



Due to a change in the Singapore income tax rates for resident individuals and the increase in CPF ceiling with effect from YA 2017 (income year 2016), the effective tax rate for an employee married with 2 children, and having a gross remuneration of $200,000, will be reduced to 8.29%.

Appendix D

Rates of income tax
For resident individuals for YA 2016

	Chargeable income ($)	Tax rate (%)	Tax ($)
On the first	20,000	0.00	0
On the next	10,000	2.00	200
On the first	30,000		200
On the next	10,000	3.50	350
On the first	40,000		550
On the next	40,000	7.00	2,800
On the first	80,000		3,350
On the next	40,000	11.50	4,600
On the first	120,000		7,950
On the next	40,000	15.00	6,000
On the first	160,000		13,950
On the next	40,000	17.00	6,800
On the first	200,000		20,750
On the next	120,000	18.00	21,600
On the first	320,000		42,350
Excess over	320,000	20.00	

Appendix E

Rates of income tax
For resident individuals with effect from YA 2017

	Chargeable income ($)	Tax rate (%)	Tax ($)
On the first	20,000	0.00	0
On the next	10,000	2.00	200
On the first	30,000		200
On the next	10,000	3.50	350
On the first	40,000		550
On the next	40,000	7.00	2,800
On the first	80,000		3,350
On the next	40,000	11.50	4,600
On the first	120,000		7,950
On the next	40,000	15.00	6,000
On the first	160,000		13,950
On the next	40,000	18.00	7,200
On the first	200,000		21,150
On the next	40,000	19.00	7,600
On the first	240,000		28,750
On the next	40,000	19.50	7,800
On the first	280,000		36,550
On the next	40,000	20.00	8,000
On the first	320,000		44,550
Excess over	320,000	22.00	

Appendix F

Personal reliefs for YA 2016

Earned income relief

Age	Earned income relief	Handicapped earned income relief
	Lower of actual earned income and	
Below 55	$1,000	$4,000
55 to 59	$6,000	$10,000
60 and above	$8,000	$12,000

Spouse relief $2,000

With effect from the YA 2010, relief is granted to a taxpayer who is supporting a non-working spouse with an annual income not exceeding $4,000.

With effect from the YA 2012, taxpayers can no longer claim spouse relief for maintaining their former spouses.

Handicapped spouse relief $5,500

With effect from the YA 2010, the income threshold condition in respect of the handicapped spouse is removed.

With effect from the YA 2012, taxpayers can no longer claim handicapped spouse relief for maintaining their former spouses.

Parent relief

Maximum of two parents*	Parent relief (per dependant)	Handicapped parent relief (per dependant)
Living in the same household	$9,000	$14,000
Not living in the same household	$5,500	$10,000

* Taxpayer's or spouse's parents, grandparents or great-grandparents who are living in Singapore and are 55 years old and above. In addition, the dependants must not have an annual income of more than $4,000.

With effect from the YA 2010, the income threshold condition in respect of handicapped dependant is removed.

With effect from the YA 2015, where more than one taxpayer is claiming the same relief on the same dependant, the relief shall be apportioned based on the claimants' agreed proportion or equally among all the claimants by the IRAS.

Grandparent caregiver relief (GCR) $3,000

Applicable to working mothers (including widows and divorcees) whose child is being looked after by their parent/parent-in-law/grandparent/grandparent-in-law or ex-spouse's parent/grandparent living in Singapore;

The child must be a Singapore citizen aged 12 years or below at any time during the year preceding the YA of claim.

Handicapped siblings relief

$5,500

Each dependant must have lived with the taxpayer in the same household. If not, the taxpayer must have incurred at least $2,000 per annum in the maintenance of each dependant.

With effect from the YA 2010, the income threshold condition is removed.

Where more than one taxpayer is claiming the same relief on the same dependant, the relief shall be apportioned based on the claimants' agreed proportion.

Child relief

	Qualifying Child Relief (QCR)	Handicapped Child Relief (HCR)
Per child	$4,000	$7,500

With effect from YA 2010:
• Child's annual income shall not exceed $4,000
• Income threshold condition for handicapped child is removed.

Working mother's child relief (WMCR)

	Quantum of relief
1st child	15% of earned income
2nd child	20% of earned income
3rd child and subsequent children	25% of earned income

WMCR is capped as follows:
• Maximum of $50,000 per child (QCR/HCR + WMCR); and
• Up to 100% of the mother's earned income for all qualifying children.

QCR/HCR will be claimed first and WMCR will be limited to the remaining cap balance.

With effect from YA 2018, the total amount of personal income tax reliefs that a resident individual taxpayer can claim is capped at $80,000 per YA.

Only applicable to working mothers (including widows and divorcees) with children who are Singapore citizens.

With effect from the YA 2010, the child's annual income shall not exceed $4,000.

Parenthood tax rebate (PTR)

	Quantum of rebate
1st child	$5,000
2nd child	$10,000
3rd child and subsequent children	$20,000 per child

Different qualifying criteria under PTR apply for the child, depending on whether the child is legitimate, illegitimate or adopted.

Special tax rebate (STR)

Previous claimants of STR whose STR balances have not been fully utilised as at 1 January 2005 can continue to draw on the STR balance until the balance is fully utilised.

Approved provident fund/Life insurance relief

Compulsory contributions to CPF

Employees	Statutory CPF deductions
Ordinary wages	Statutory contributions fully allowed
Additional wage ceiling	Restricted to statutory contributions of $85,000 less total annual ordinary wages subject to CPF contributions in the year

With effect from the YA 2017, the annual CPF ceiling has been raised from $85,000 to $102,000.

Voluntary contributions to CPF

	Maximum amount of voluntary contribution relief
Employee or self employed	$31,450

With effect from the YA 2017, the maximum amount of voluntary contribution relief has been increased from $31,450 to $37,740.

Voluntary contributions to Medisave account

With effect from the YA 2016, voluntary contributions made to a taxpayer's Medisave account may be claimed as a deduction, subject to a cap of $31,450 less total mandatory contributions per YA.

With effect from the YA 2017, voluntary contributions made to a taxpayer's Medisave account may be claimed as a deduction, subject to a proposed cap of $37,740 less total mandatory contributions per YA.

Life insurance premiums

Where compulsory CPF contributions are less than $5,000, taxpayer may claim qualifying life insurance premiums on his or his wife's life as deduction; however, the total deduction (i.e., both CPF contributions and life insurance premiums) is subject to a maximum of $5,000.

CPF cash top-up

	Quantum of relief
Cash top-up to taxpayer's parents'/parents-in-law or taxpayer's grandparents'/grandparents-in-law, non-working spouse's or siblings' retirement accounts or special accounts under CPF Minimum Sum Topping-Up Scheme regardless of the recipients' age. • Non-working spouse or siblings must not have income of more than $4,000. Income threshold does not apply to handicapped spouse or handicapped siblings. • Recipients must be Singapore citizens or SPRs.	$7,000 (Maximum)
Cash top-up by taxpayer or his employer to his retirement account or special account under the CPF Minimum Sum Topping-Up Scheme, regardless of the recipients' age.	$7,000 (Maximum)

Supplementary retirement scheme

Employees and self employed	Maximum contributions per year (for YA 2016)	Maximum contributions per year (with effect from YA 2017)
Singapore Citizens or SPRs	$12,750	$15,300
Foreigners	$29,750	$35,700

Course fees relief

	Quantum of relief
Fees (registration fees, examination fees, tuition fees), for courses, seminars and conferences: • Relating to one's current trade, business, profession, vocation or employment in 2015 • Leading to an approved academic, professional or vocational qualification in 2015	$5,500 (Maximum)
Fees for courses which are not directly related to one's current trade, business, profession, vocation or employment only if such courses resulted in a career switch to a relevant trade, business, profession, vocation or employment within a period of 2 years of assessment. The claim can be made within 2 years from the YA in which the taxpayer completed the courses.	$5,500 (Maximum)

NSman relief

	Quantum of relief
Active NSman	$3,000
Non-active NSman	$1,500
Each parent of active NSman who are Singapore citizens and entitled to NSman relief	$750
Wives or widows of active NSman who are Singapore citizens and entitled to NSman relief	$750
NS key command and staff appointment holders (in addition to basic NSman relief)	$2,000

Foreign maid levy relief

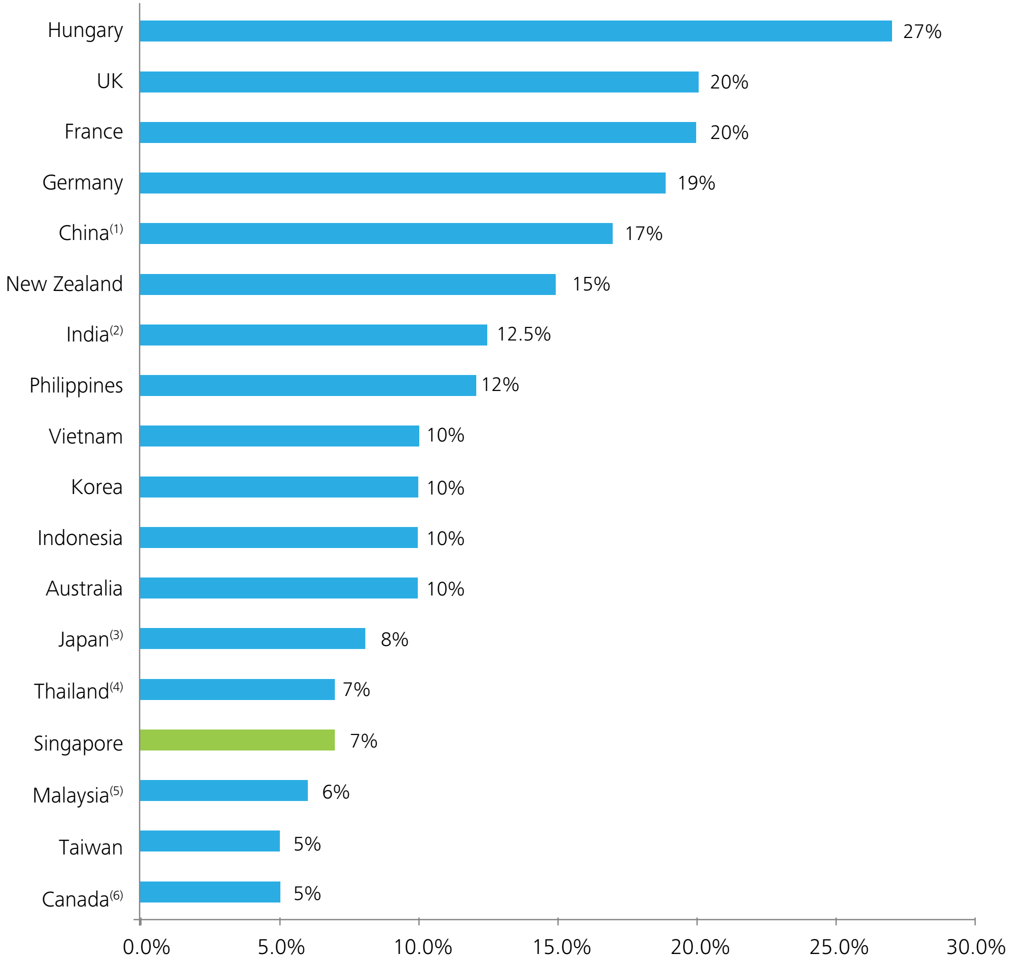
	Quantum of relief
For YA 2016	$6,360 (Maximum)

Claimable against the earned income of a married or divorced woman and widow with children in respect of whom child relief is available.

(Twice the annual levy paid for 1 foreign maid)

Appendix G

Comparative standard VAT/GST rates for 2016



(1) China has a VAT Pilot Reform in a number of cities across the country, replacing Business Tax with a modified form of VAT (rates vary up to 17%)
(2) The Indian rate is indicative only - India has a range of Indirect Taxes that varies from state to state
(3) Japan increased the JCT rate to 8% on 1 April 2014 and proposes to further increase it to 10% on 1 April 2017
(4) The reduced 7% rate was extended until 30 September 2016.
(5) Effective from 1 April 2015
(6) The Canadian rate is indicative only – many provinces have additional taxes and/or a Harmonised Sales Tax in force

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