

Singapore Budget Highlights 2016



FOREWORD

The Finance Minister, Mr. Heng Swee Kiat, presented his maiden Budget on 24 March 2016. Marked as his first Budget under the current term of government, the Minister draws on challenges that Singapore is facing currently as the driving force behind the urgency to transform its economy through enterprise and innovation.

It is clear from the lead-up to Budget 2016 that one of the Government's priorities is to encourage Singapore businesses to create value through innovation and to grow by expanding overseas. The turn of the year, however, brought with it uncertainties in the global economic outlook and heightened market volatility. Recognising the impact of these external developments on Singapore's open economy, the Minister put forward various measures as the blueprint for Singapore's transformation to ensure that we overcome the headwinds arising from the slowing demands in the global market as well as to steer the country into the future. It is a Budget that focuses in bringing Singapore together through partnerships within the community and industry to build a caring and resilient society and a robust and productive economy.

On the other hand, while acknowledging the intense difficulties that businesses are currently facing, the Minister also draws his perspective to growth opportunities and that Singapore is well-positioned to weather the challenges. He further emphasises that these opportunities can only be harnessed if businesses innovate, restructure and increase productivity. Whilst Budget 2016 has some reliefs targeted at SMEs to help them through their immediate challenges, the main thrust is on improving medium term growth through innovation, increase in productivity and internationalisation.

Budget 2016 therefore aims to achieve the following:

- (a) Transformation to strengthen enterprise, driving growth through innovation, and
- (b) Supporting our people through change.

SMEs, being the backbone of economy, remain in the spotlight and the initiatives that are rolled out includes:

- (a) Corporate income tax rebate increases from 30% to 50%, capped at \$20,000 for the Years of Assessment 2016 and 2017.
- (b) The Special Employment Credit for companies has been modified and extended to the end of 2019 to provide employers with a wage offset for workers aged 55 and above earning up to \$4,000 per month.
- (c) Levy increase for work permit holders will be deferred for one year for the Marine and Process sector.
- (d) New SME Working Capital Loan scheme introduced to encourage lending to SMEs. Under this scheme, the Government will co-share 50% of the default risks for loans up to \$300,000 per SME.

FOREWORD (continued)

On the social front, concerted effort have also been taken to build a caring and resilient society. Various initiatives to nurture the young, such as the Child Development Account and KidStart initiatives are introduced. Older Singaporeans are also not forgotten with the implementation of the Silver Support Scheme and Community Networks for Seniors. Generous deductions will also be accorded to both businesses and charitable organisations to support volunteerism of employees.

While many would have commented that this budget have been well-thought to set the Singapore story into the future, some are of the view that the Budget may lack the depth to deal with the immediate concerns currently encountered by the business as well as the possible tougher times ahead. Perhaps the Government think that the economy is not in such a bad shape that it has to step in immediately. This may be a gross underestimation of the real situation of what is experienced on the ground, which could be worse than expected or imagined. Certainly, not only the SMEs are having difficulties, MNCs are also having difficulties in coping with the high cost of doing business and the shortage of workers and skilled labour. Ignoring these issues would eventually have a detrimental effect in the long run on our ability to spring forward when the economy recovers.

It may be noteworthy to state that the granting tax rebates and schemes initiatives to support businesses in the event of an economic slowdown may not be the most effective way to turn around businesses, especially for companies that are sustaining losses. Also the “Scheme-centric” concept of assisting businesses in time of an economic slowdown may often lack an emphasis on its outcome. Notwithstanding this, the Minister have assured that the situation shall be monitored closely and adjustments will be made if necessary.

Finally, from the nation’s perspectives, this year’s Budget has been carefully calibrated to provide the basic support to help businesses overcome the economic challenges. The Budget may not shield them from negative market forces. It is now up to businesses to adopt, innovate and strive to improve their capabilities in order to remain relevant and put the pieces together.

Acutus is pleased to present you with this exclusive highlight to assist you in understanding the changes and initiatives that was unveiled in Budget 2016. As these proposals are yet to be enacted, our comments should not be considered definitive and readers are advised that they should not rely or use this as a basis for formulating business decisions.

We hope you will find this commentary useful and we look forward to supporting you in your business endeavours.

Jack Lam
Managing Partner
25 March 2016

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BUSINESS TAX**1. Corporate Tax and Rebate***Present Position*

- ❖ The current corporate tax rate is 17% with partial exemption of up to \$300,000 of a company's normal income as follows:

Chargeable income	Exemption \$
1 st \$10,000 @ 75%	7,500
Bal. \$290,000 @ 50%	145,000
Total Exemption	152,500

- ❖ A 30% tax rebate capped at \$20,000 per YA is available to companies for YA 2016 and YA 2017.
- ❖ The effective tax rate for the first \$500,000 of normal chargeable income (after 30% corporate income tax rebate) is 8.27%

Proposed

- ❖ The corporate tax rate remains at 17%.
- ❖ The 30% tax rebate will be raised to 50% for YA 2016 and YA 2017, subject to a cap of \$20,000 per YA.

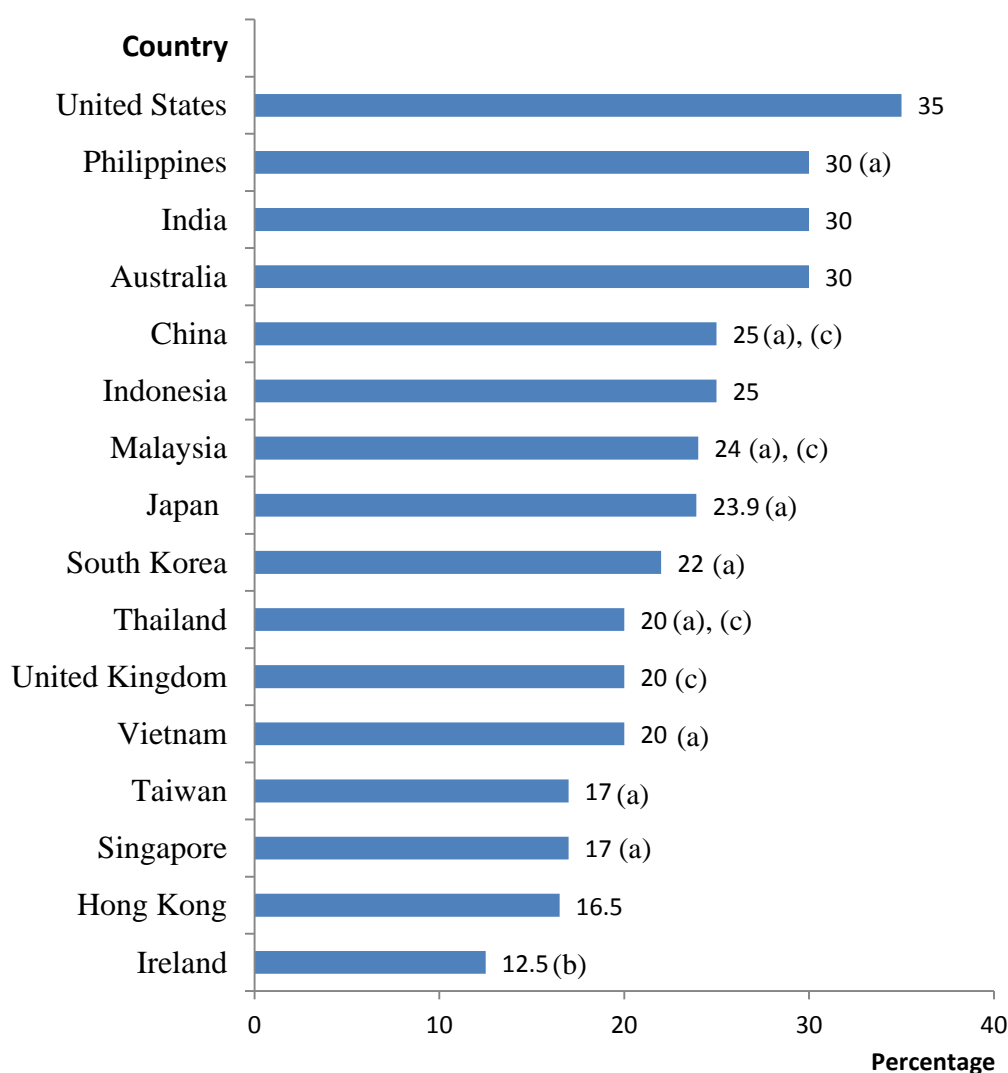
Acutus Comments

- ❖ It is not a surprise that the corporate tax rate remains unchanged as it is already considered one of the lowest in the world.
- ❖ Whilst the rebate is intended to provide SMEs with some short term relief during an economic slowdown, this may not mean much if companies are not making profits. Hence, companies which suffer losses will not benefit from this initiative.
- ❖ For companies that have submitted their Estimated Chargeable Income or Income Tax returns (Form C/C-S), IRAS will compute and allow the rebate automatically.
- ❖ The effective tax rate for the first \$500,000 of normal chargeable income (after 50% corporate tax rate) is 7.82%.

1. Corporate Tax and Rebate (continued)

Acutus Comments (continued)

- ❖ To optimise the amount of corporate tax rebate, companies paying little or no tax should consider deferring their capital allowance claims or planning their group loss relief claims.
- ❖ A comparison of corporate tax rates of selected countries:-



- (a) Lower rates or partial tax exemption are applicable for lower income bands, companies with smaller paid-up capital or those engaged in certain preferred trade activities.
- (b) Only applicable to trading income. Different rates apply to other sources of income.
- (c) Higher corporate tax rate applicable to activities of exploration and exploitation of oil and gas and other precious natural resource.

The above are headline rates which excludes dividend withholding tax, surcharges, cess or other state and local taxes, where applicable.

2. Automation Support Package (“ASP”)

Present Position

- ❖ There is currently no such package.

Proposed

- ❖ To support companies to automate, drive productivity and scale up, SPRING will implement an Automation Support Package comprising four components:

- (d) Support under SPRING’S Capability Development Grant (“CDG”)

CDG 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.

- (e) Investment Allowance (“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 allowance for plant and machinery. The approved capital expenditure is capped at \$10 million per project.

- (f) Enhanced Financing Support

To improve access to loan for qualifying projects, the government will increase the risk-share with participating financial institutions under SPRING’s Local Enterprise Finance Scheme equipment loan, from 50% to 70% for qualifying projects undertaken by SMEs. The Local Enterprise Finance Scheme will also cover equipment loan for non SMEs at 50% risk-share with participating financial institutions; and

- (g) Overseas Market

IE Singapore will work with SPRING where relevant to assist businesses to access overseas markets.

- ❖ MTI will announce further details at the Committee of Supply.

Acutus Comments

- ❖ This package is intended to support companies on their efforts to automate, increase productivity and scale up to expand overseas. As automation will usually involves significant financial resources, it is therefore intended to support businesses in such upgrading.

2. Automation Support Package (“ASP”) (continued)*Acutus Comments (continued)*

- ❖ The introduction of ASP principally combines several enhanced versions of existing incentives into a single package to be administered by SPRING. This enhancement and streamlining would be a welcome move for SMEs which frequently do not have the resources to find out what incentives are available for them.
- ❖ The CDG currently has a broad scope that covers various areas of activities. The question remains as to what constitutes “automation project” under the ASP will be defined. While SPRING Singapore may have to set some ground rules, let’s hope that the criteria set will not be too rigid and difficult to qualify.

3. Enhancing the Mergers & Acquisitions (“M&A”) Scheme

Present Position

- ❖ The M&A scheme was introduced in 2010 to encourage companies to consider strategic mergers and acquisitions for growth and internationalisation.
- ❖ Under the scheme, a Singapore company which intends to acquire a stake in another company shall enjoy the following benefits:-
 - (a) 25% M&A allowance of up to \$20 million of the acquisition value of all qualifying M&A transactions per YA. The allowance is written down over 5 years on straight line basis.
 - (b) Stamp duty relief on the transfer of unlisted shares of up to \$20 million of the acquisition value of qualifying M&A deals, which works out to a cap of \$40,000 of stamp duty per FY.
 - (c) Double tax allowance on transactions costs incurred on qualifying M&A subject to an expenditure cap of \$100,000 per YA.

Proposed

- ❖ To support more M&As, the existing cap for qualifying M&A deals will be doubled from \$20 million to \$40,000 million, such that:
 - (a) Tax allowance of 25% will be granted for up to \$40 million of consideration paid for qualifying M&A deals per YA; and
 - (b) Stamp duty relief will be granted for up to \$40 million of consideration paid for qualifying M&A deals per FY.
- ❖ This change will take affect for qualifying M&A deals made from 1 April 2016 to 31 March 2020.
- ❖ IRAS will release further details of the change by June 2016.

Acutus Comments

- ❖ The increase in benefits is another step taken to encourage SMEs to expand and grow through strategic acquisitions.
- ❖ Companies that are in the midst of concluding an acquisition with deals exceeding \$20 million should be mindful of the effective date of this benefit.

4. Extending the Upfront Certainty of Non-Taxation of Companies' Gain on Disposal of Equity Investments

Present Position

- ❖ There is no capital gain tax in Singapore.
- ❖ Under Section 13Z of the ITA, gains derived from the disposal of equity investments by companies will not be taxed if:
 - (a) The divesting company holds a minimum shareholding of 20% in the company whose shares are being disposed; and
 - (b) The divesting company maintains the minimum 20% shareholding for a minimum period of 24 months just prior to the disposal.
- ❖ For shares disposals in other scenarios, the tax treatment of the gains or losses arising from share disposals will continue to be determined based on a consideration of the facts and circumstances of the case.
- ❖ Section 13Z applies to companies' disposal of equity investments from 1 June 2012 to 31 May 2017.

Proposed

- ❖ To provide upfront certainty to companies in their corporate restructuring, the scheme under Section 13Z will be extended till 31 May 2022 (to cover disposal of equity investments from 1 June 2017 to 31 May 2022).
- ❖ All conditions of the scheme remain the same.

Acutus Comments

- ❖ The introduction on Section 13Z of ITA in Budget 2012 was to provide certainty for tax payers as the determination of whether the gain of disposals from shares are capital in nature or income. This is based purely on the consideration of facts and circumstances of each case. Hence, the extension of Section 13Z reflects the continued support of the Government to companies that invest in Singapore.
- ❖ The tax treatment of gains from share disposals has been one of the major challenge for Singapore to be a preferred choice location for holding company. Instead of merely extending this scheme, we wonder why this is not made a permanent feature of our tax regime.

5. Enhancing the Double Tax Deduction (“DTD”) for Internationalization Scheme

Present Position

- ❖ Currently, under the DTD for Internationalisation scheme, businesses are allowed automatic DTD, on up to \$100,000 of qualifying expenses incurred on or before 31 March 2016 on the following qualifying activities:
 - (a) Overseas development study trips or missions;
 - (b) Overseas investment study trips or missions;
 - (c) Participation in overseas trade fairs; and
 - (d) Participation in approved local trade fairs.
- ❖ Approved businesses may also apply to IE Singapore or the Singapore Tourism Board on qualifying expenditure that exceeds the above mentioned \$100,000 cap, or on qualifying expenditure incurred on other qualifying activities, on a case-to-case basis.
- ❖ The DTD of 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 for another four years from 1 April 2016 to 31 March 2020. The existing automatic DTD on expenses up to \$100,000 will also be extended to qualifying expenditure incurred during this same period (1 April 2016 to 31 March 2020). All other conditions of the scheme remain the same.
- ❖ IE Singapore will release further details of the change by June 2016.

Acutus Comments

- ❖ The extension of the scheme is expected as this would continue to encourage business to venture overseas.
- ❖ The continuance of the automatic DTD on qualifying expenditures incurred up to \$100,000 is welcomed as it eases taxpayers’ with the administrative burden in making claims.

6. Enhancing the Land Intensification Allowance scheme (“LIA”)

Present Position

- ❖ Currently LIA scheme grants an initial allowance of 25% and annual allowance of 5% on the qualifying capital expenditure incurred for the construction or renovation or extension of a qualifying building or structure.
- ❖ To qualify for the LIA scheme, the following conditions must be met upon completing the construction, renovation or extension of the building or structure:
 - (a) The Gross Plot Ratio (“GPR”) of the building or structure:
 - (i) meets the GPR benchmark applicable for the qualifying trade or business; or
 - (ii) is at least 10% more than its current GPR if the existing building or structure already meets or exceeds the GPR benchmarks; and
 - (b) At least 80% of the total floor area of the approved LIA building or structure is used by a user for undertaking the qualifying trade or business.
- ❖ The qualifying period for the LIA scheme is from 1 July 2010 to 30 June 2020.

Proposed

- ❖ To encourage higher industrial land productivity, the LIA scheme will be extended to buildings used by a user or multiple users who are related, for one or multiple qualifying trades or businesses, if certain conditions are met.
- ❖ The proposed change will take effect for LIA application if:
 - (a) The application for LIA is made 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.
- ❖ The qualifying capital expenditure for which an allowance may be made excludes any expenditure incurred before 25 March 2016.
- ❖ EDB will release further details of the change by July 2016.

6. Enhancing the Land Intensification Allowance scheme (“LIA”) (continued)*Acutus Comments (continued)*

- ❖ The extension of the scheme to allow multiple users would make it easier for qualifying companies to enjoy the scheme. It is however unclear for now as to how related parties would be defined under the scheme.
- ❖ The change in enhancement would also encourage co-location of activities amongst related companies thus, enhancing the value of its supply chain.

7. Providing an Election for writing-down period of Intellectual Property Rights (“IPRs”)

Present Position

- ❖ Under Section 19B of the ITA, companies or partnerships can claim writing-down allowance (“WDA”) on the acquisition cost of qualifying intellectual property rights (“IPRs”) over a period of five years.

Proposed

- ❖ To recognise the varying useful lives of IPRs, while maintaining a simple and certain tax regime, companies or partnerships may elect for their Section 19B WDA 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 of the YA relating to the basis period in which the qualifying cost is first incurred. The election, once made, is irrevocable.
- ❖ This change will apply to qualifying IPR acquisitions made within the basis periods for YA 2017 to YA 2020.
- ❖ IRAS will release further details of the change by 30 April 2016.

Acutus Comments

- ❖ The change is in line with the Government objectives for developing Singapore as a hub of IP acquisitions.
- ❖ The change provides taxpayers with the flexibility select the tax lives of the IP that best suits its tax profile. It should however be noted that since the election is irrevocable, the consequences should be weighed carefully before the election is made.
- ❖ Companies that are currently enjoying tax incentives or reduced corporate tax rates may wish to consider opting for the 10 or 15-year writing-down period to maximize their claim for the WDA post-tax incentive period.
- ❖ The election option for companies to opt for a longer tax useful life is an advantage given the general inability to defer tax amortisation under the current regime

8. Introducing an anti-avoidance mechanism for IPR transfers

Present Position

- ❖ Currently, there are no specific provisions in the ITA that explicitly authorise the Comptroller 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 writing-down allowances (“WDA”) are granted based on transacted values that are reflective of the open market value (“OMV”) of an IPR, an anti-avoidance mechanism for IPR transfers will be included under Section 19B to empower the Comptroller 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 IPR is higher than the OMV of the IPR, the Comptroller may substitute the acquisition price with the OMV of the IPR and restrict the writing-down allowance based on the OMV of the IPR; and
 - (b) If the disposal price of the IPR is lower than the OMV of the IPR, the Comptroller may substitute the disposal price with the OMV of the IPR for the purpose of computing a balancing charge.
- ❖ This change will apply to acquisitions, sales, transfers or assignments of IPRs that are made from 25 March 2016.

Acutus Comments

- ❖ The introduction of this anti-avoidance mechanism is to prevent the abuse of Section 19B claims in particular relating to related party transactions. Currently, the Comptroller requires companies that wish to claim WDA to submit a third-party independent valuation report on the value of the IPRs acquired where the capital expenditure incurred in acquiring the IPRs is more than or equal to \$500,000 for a related party transaction and \$2 million for an unrelated party transaction.
- ❖ Where a valuation report is submitted, the amount that is eligible for WDA is restricted to the lower of the actual capital expenditure incurred and the amount stated in the valuation report. The Comptroller also reserves the right to require a second independent valuation or to adjust the amount eligible for WDA, if he has reason to believe that the true value of the IPR (on an arm’s length basis) is materially different from that presented in the valuation report.

8. Introducing an anti-avoidance mechanism for IPR transfers (continued)*Acutus Comments (continued)*

- ❖ Going forward, save for the professional valuation, claimants are expected to maintain sufficient detailed documentation in order to substantiate how the negotiated transacted consideration the IPRs were arrived.
- ❖ It is unclear as to how IRAS would invoke the rule over any difference in valuation. Does a mere price difference automatically trigger the provision. In this respect, clarification would be required as its only fair that the companies are given a chance to engage IRAS in order to mitigate the valuation difference. It is important for such rules to be properly clarified so as to minimise the unintended effect of the application.

9. Allowing the PIC scheme to lapse and lowering the cash payout rate

Present Position

- ❖ Under the PIC scheme, businesses can convert qualifying expenditures into non-taxable cash payout at a cash payout rate of 60% up to \$100,000 of qualifying expenditure across six of the following qualifying activities per YA.
 - (a) R&D
 - (b) Acquisition and leasing of information technology and automation equipment
 - (c) Registration of patents, trademarks, design and plant varieties
 - (d) Design projects approved by the Design Singapore Council
 - (e) Training of employees
 - (f) Acquisition and in-licencing of IPRs
- ❖ Alternatively, they can claim 400% deduction for up to \$400,000 (\$600,000 under the PIC+) of qualifying expenditure for each of the six qualifying activities per YA.
- ❖ The PIC scheme was extended in Budget 2014 for another three years - YA 2016 to YA 2018.

Proposed

- ❖ The cash payout rate will be lowered from 60% to 40% for qualifying expenditure incurred from 1 August 2016.
- ❖ All condition of the scheme will remain unchanged.
- ❖ The PIC scheme, which has been extended from YA 2016 to YA 2018, will expire thereafter. It will not be available from YA 2019.

Acutus Comments

- ❖ The Government is gradually phasing out this broad based support to make way for the new transformation programme with more targeted measures.
- ❖ With the payout rate being reduced, taxpayers may wish to re-assess whether it is more beneficial to carry over the excess enhanced qualifying expenditures as losses for offset against future profits or to receive a lower cash payout.
- ❖ With this scheme scheduled to expire, it will be no surprise that the PIC+ scheme will be allowed to lapse together with this scheme.

10. Extending and enhancing the Finance and Treasury Centre (“FTC”) scheme*Present Position*

- ❖ Currently, the FTC scheme grants a concessionary tax rate of 10% on qualifying income derived by approved FTCs from carrying out qualifying activities or services as follows:
 - (a) Fee income received by the FTC from its subsidiaries, related companies and associates for the provision of qualifying FTC services;
 - (b) Income derived from qualifying activities conducted on its own account; and
 - (c) Interest, dividend and gains from transactions in stocks and bonds, foreign exchange trading, interest rate swaps, financial futures and options; and
- ❖ To qualify for the concessionary tax rate, funds from approved offices and associated companies must be obtained directly by the FTC.
- ❖ Tax exemption under Section 13(4) is also granted, subject to conditions, on prescribed payments made by the FTC to non-residents who are approved offices or associated companies of the FTC.
- ❖ The scheme is scheduled to lapse after 31 March 2016.

Proposed

- ❖ To enhance activities in the area of finance and treasury, FTC will be extended until 31 March 2021 with the following enhancements:
 - (a) The concessionary tax rate will be lowered to 8%. The substantive requirements to qualify for the scheme will be increased;
 - (b) To qualify for the concessionary tax rate, the FTC will be allowed to obtain funds indirectly from approved offices and associated companies. Safeguards will be put in place to address the round-tripping risks; and
 - (c) The scope of tax exemption granted under Section 13(4) will be expended to cover 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.

10. Extending and enhancing the Finance and Treasury Centre (“FTC”) scheme (continued)*Proposed (continued)*

- ❖ These changes will take effect from 25 March 2016.
- ❖ EDB will release further details of the change by June 2016.

Acutus Comments

- ❖ With greater competition for the finance and treasury activities from our regional neighbours (eg. Malaysia and Hong Kong), the extension of the scheme is in line with the Governments aim to remain competitive.
- ❖ The proposed 8% concessionary tax rate is indeed 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 also an important enhancement to the scheme.
- ❖ It is hoped that the safeguard to be put in place by EDB to address the round-tripping risks to track the sources of funds should not be overly burdensome as that will increase the administrative cost to a FTC.

11. Extending and refining the tax incentives scheme for trustee companies

Present Position

- ❖ Under the tax incentive scheme, approved trustee companies are granted a concessionary tax rate of 10% on qualifying income derived from the provision of trustee and custodian services, and trust management or administrative services.
- ❖ The scheme is scheduled to lapse after 31 March 2016.

Proposed

- ❖ The scheme will be subsumed under the Financial Sector Incentive (“FSI”) scheme from 1 April 2016.
- ❖ The scope of qualifying activities will be expanded to align with trustee activities covered under the Financial Sector Incentives-Standard Tier (“FSI-ST”) scheme from 1 April 2016. A concessionary tax rate of 12% will apply to new awards from 1 April 2016.
- ❖ The current incentive recipients will continue to enjoy existing benefits till the expiry of their awards and may apply for renewal of their awards under the FSI scheme thereafter.
- ❖ The change will take effect from 1 April 2016.
- ❖ MAS will release further details of the change by June 2016.

Acutus Comments

- ❖ Trustee companies plays an important role in the Asset and Wealth Management Industry. Over the years, traditional centres such as the Cayman Island, BVI and Channel Island have come under increased scrutiny for transparency and regulatory issues. As such, Singapore offers a good alternative destination for setting up trust structures. Hence, the proposal is in line with the Government initiatives to strengthen the finance sector.

12. Extending and refining the tax incentive scheme for insurance companies

Present Position

- ❖ Marine Hull and Liability Insurance (“MHL”)
 - (a) Under the tax incentive scheme for MHL 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.
 - (b) The scheme is scheduled to lapse after 31 March 2016.
- ❖ Specialised Insurance Business (“SI”)
 - (a) Under the tax incentive scheme for SI Business, approved insurers are granted tax exemption on qualifying income derived from the carrying on of offshore SI business.
 - (b) The scheme is scheduled to lapse after 31 August 2016.
- ❖ Captive Insurance
 - (a) Under the tax incentive scheme for Captive Insurance, approved insurers are granted tax exemption on qualifying income derived from carrying on of offshore captive insurance.
 - (b) The scheme is scheduled to lapse after 31 March 2018.
- ❖ Insurance Business Development (“IBD”)
 - (a) Under the IBD scheme, approved insurers are granted a concessionary tax rate of 10% on qualifying income derived from the carrying on of offshore insurance business.
 - (b) The scheme is scheduled to lapse after 31 March 2020.

12. Extending and refining the tax incentive scheme for insurance companies (continued)

Proposed

- ❖ To streamline and simplify the tax incentives for the insurance sector, while ensuring the continued growth on high-value insurance activities in Singapore, the tax incentive schemes for MHL insurance, SI Business and Captive Insurance will be subsumed under the Insurance Business Development (“IBD”) umbrella scheme with the following changes:
 - (a) Marine Hull and Liability Insurance (“MHL”)
 - (i) MHL will be subsumed under the IBD umbrella scheme from 1 April 2016.
 - (ii) A concessionary tax rate of 10% will apply to new and renewal awards from 1 April 2016.
 - (b) Specialised Insurance Business (“SI”)
 - (i) SI will be subsumed under the IBD umbrella scheme as an enhanced tier award from 1 September 2016, up until 31 August 2021.
 - (ii) 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.
 - (iii) A concessionary tax rate of 10% will apply to renewal awards from 1 September 2016.
 - (iv) The scope to 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
 - (i) The Captive Insurance scheme will be subsumed under the IBD umbrella scheme from 1 April 2018.
 - (ii) A concessionary tax rate of 10% will apply to new and renewal awards from 1 April 2018.

12. Extending and refining the tax incentive scheme for insurance companies (continued)*Proposed (continued)*

(d) Insurance Business Development (“IBD”)

- (i) The current approval insurers will continue to enjoy benefits under their existing awards till the expiry of their awards, and may apply for renewal under the IBD scheme thereafter.

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

Acutus Comments

- ❖ Concessionary tax rates on qualifying income from qualifying activities under various schemes will ultimately be increased to 10% when the qualifying activities are subsumed under the IBD umbrella. It remains to be seen whether this change will affect the attractiveness of Singapore as an insurance hub.

13. Enhancing the Global Trader Programme (Structured Commodity Finance) scheme (“GTP(SCF)”)

Present Position

- ❖ Currently, an approved GTP(“SCF”) company is granted a concessionary tax rate of 5% or 10% on its income from the following qualifying activities:
 - (a) Factoring;
 - (b) Forfeiting;
 - (c) Prepayment;
 - (d) Countertrade;
 - (e) Warehouse receipts 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);
 - (j) Advisory services in relation to any of the activities from (a) to (h).

Proposed

- ❖ To strengthen Singapore’s trade finance capabilities and encourage more SCF activities to be done in Singapore, 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) Steaming financing
- ❖ This change will take effect from 25 March 2016.
- ❖ IE Singapore will release further details of the change by June 2016.

Acutus Comments

- ❖ The enhancement will be welcomed by sophisticated commodity trading companies which manage risks in a variety of ways. It also addresses the arising trend of commodity traders utilising options that extend the range of financing activities beyond traditional equity, trade finance and debt raising.

14. Enhancing the Maritime Sector Incentive (“MSI”)

Present Position

- ❖ Under the MSI, ship operators and ship lessors can enjoy tax benefits summarised in the table below:

Name of shipping incentive	Current treatment
For ship operators	
MSI-Shipping Enterprise (Singapore Registry of Ships) (“MSI-SRS”)	Tax exemption on qualifying income derived mainly from operating Singapore-flagged ships. The exemption also covers income derived from the uplift of freight (excluding transshipment) from Singapore by foreign-flagged ships
MSI-Approved International Shipping Enterprise (“MSI-AIS”) award	Tax exemption on qualifying income derived from operating foreign-flagged ships
For ship lessors	
MSI-Maritime Leasing (Ship) [MSI-ML (Ship)]	Tax exemption on income derived from leasing of ships used for qualifying activities to qualifying counterparties for use outside the port limits of Singapore.

Proposed

- ❖ To further develop Singapore as an International Maritime Centre, the MSI will be enhanced as follows:
 - (a) The MSI-SRS and MSI-AIS award will cover income derived from operation 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 MSI-ML(Ship) award will cover income derived from leasing of ships used in the 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 restriction on the qualifying counterparty’s requirement under MSI-ML(Ship) award will be removed. Therefore, tax exemption will be granted on income derived from leasing of ships used for qualifying activities to any counterparties for use outside the port limits of Singapore.
- ❖ The above changes will take effect from 25 March 2016.
- ❖ MPA will release further details of the change in (a) and (b) by June 2016.

14. Enhancing the Maritime Sector Incentive (“MSI”) (continued)*Acutus Comments*

- ❖ The expansion of the scope of income from the operation and leasing of ships for specified use that will enjoy exemption from tax under the MSI-SRS, MSI-AIS and MSI-ML (Ship) is a welcomed move. However, it remains to be seen whether this enhancement will increase such activities by ship operation and ship lessors in Singapore.

15. Introducing the Business and Institution of Public Character (“IPC”) Partnership Scheme

Present Position

- ❖ Currently, Corporate Social Responsibility (“CSR”) expenditure made by businesses is deductible as part of their business expenses as they receive benefits such as goodwill, branding and enhanced corporate image in return.

Proposed

- ❖ To incentivise employee volunteerism through businesses, a pilot Business and IPC Partnership Scheme (“BIPS”) will be introduced from 1 July 2016 to 31 December 2018.
- ❖ Under the BIPS, businesses will enjoy an additional 150% tax deduction on wages and incidental expenses when they send their employees to volunteer and provide services to IPCs, including secondments.
- ❖ This is subject to the receiving IPC’s agreement, with a yearly capped of \$250,000 per business.
- ❖ MOF and IRAS will release further details of the change by June 2016.

Acutus Comments

- ❖ The introduction of this scheme demonstrates the Government commitment to boost CSR effects by businesses thus making Singapore a more inclusive and caring society.
- ❖ It is however uncertain at this moment so to whether the annual cap is determined by reference to a business financial year or calendar year.

16. Treatment of Pre-commencement Expenses

Present Position

- ❖ 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 of 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 the pre-incentive income or incentive income will be specifically identified and set-off against the relevant income.
 - (b) For the remaining Section 14U and pre-commencement expenses, they will be allocated between the pre-incentive and incentive income based on income proportion (eg. Using turnover, gross profit).
 - (c) The change will take effect for Section 14U and pre-commencement expenses that are incurred from 25 March 2016.
 - (d) IRAS will release further details of the change by June 2016.

Acutus Comments

- ❖ The proposed change seek to provide business with greater certainty and clarity on Section 14U allocation. At this juncture, it is not clear whether allocation will result in forfeiture of allocated unabsorbed Section 14U and pre-commencement expenses.

PERSONAL INCOME TAX

1. Personal Income Tax and Rebates

Present Position

- ❖ For YA 2016, the tax rate applicable to Singapore resident taxpayers range progressively from 0% for the first \$20,000 of chargeable income to 20% for chargeable income exceeding \$320,000.
- ❖ For YA 2015, a one-off personal tax rebate of 50% capped at \$1,000 has been granted to all tax residents individual taxpayer.
- ❖ There is currently no limit on the total amount of personal income tax reliefs an individual taxpayer can claim as long as the conditions of the relief are fulfilled.

Proposed

- ❖ To enhance the progressivity of our personal Income Tax regime, the total amount of personal income tax relief that an individual can claim will be capped at \$80,000 per YA.
- ❖ This will take effect from YA 2018.
- ❖ No personal income tax rebate will be accorded for YA 2016.

Acutus Comments

- ❖ The capping of the personal income tax reliefs at \$80,000 has indeed come as a surprise and appears to be in contradiction with the Government's earlier move of encouraging more working mothers to have more children and continue to remain employed.
- ❖ High-income working mothers with dependent children who claim Working Mother's Child Relief ("WMCR") will be most impacted by this change. WMCR ranges from 15% to 25% of the working mother's earned income up to a cap of \$50,000 per child. WMCR can be a substantial deduction depending on the working mother's earned income and the number of child she has. In addition to this, there are also other additional relief such as the foreign maid levy, grandparent caregiver relief which a working mother can claim. With the proposed change, the total relief that a working mother could claim can be significant reduce and thus will result is paying higher taxes.
- ❖ Tax relief that could be shared with spouses should be planned carefully in order to optimise the combined tax saving.

2. Removing the tax concession on home leave passage for expatriate employees*Present Position*

- ❖ The home leave passages enjoyed by expatriate employees and their spouses (up to one passage per year respectively), and children (up to two passages per child per year) are currently taxed in the hands of the employee at 20% of the value of the benefit. Subsequent home leave passages provided with the YA are taxed at the full value of the benefit.
- ❖ Singapore PR and Citizens do not qualify for the tax concession on home leave passages.

Proposed

- ❖ The tax concession of taxing only 20% of the value of the home leave passage and their family will be removed with effect from YA 2018.

Acutus Comments

- ❖ The proposed change will increase the taxable income of expatriate employees and thus reduce their quantum of disposal income.
- ❖ Companies employing expatriate employees may need to review their hiring package as there is no tax benefits to be gained from the provision of such benefits.

MISCELLANEOUS**1. Introducing mandatory electronic-filing of corporate income tax returns**

- ❖ In line with the Government's direction for more effective delivery of public services and to be aligned with the Smart Nation vision to harness technology to enhance productivity, mandatory e-filing of CIT returns (including Estimated Chargeable Income) will be implemented in stages as follows:-
 - (a) YA 2018: Companies with turnover of more than \$10m in YA 2017
 - (b) YA 2019: Companies with turnover of more than \$1m in YA 2018
 - (c) YA 2020: All companies
- ❖ Mandatory e-filing will also be introduced for PIC cash payout application in order to streamline and expedite processing of application. This will be effective from 1 August 2016.

2. Withdrawal of the Approved Investment Company scheme

- ❖ The Approved Investment Company scheme was introduced in 1988 to promote the investment management industry. It provide upfront certainty to an Approved Investment Company on the tax treatment of gains derived from the disposal of their securities and gain from disposals are taxed according to a schedule based on the length of time that the securities were held.
- ❖ As the scheme is assessed to be no longer relevant, it will be withdrawn from YA 2018.

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

- ❖ NPO tax incentive grants tax exemption on income derived by an approved NPO and this incentive is scheduled to lapse after 14 February 2017.
- ❖ To continue to promote Singapore as a hub for NPOs, the incentives will be extended until 31 March 2022.

MISCELLANEOUS (continued)**4. Foreign Workers Levy**

- ❖ In view of the challenging business conditions in the Marine & Process Sectors and the reduction in the numbers of Work Permit holders in these sectors, the earlier planned to increase foreign-worker levy for work permit holders in these sectors will be deferred for one year.
- ❖ Meanwhile, work permit levies in the Manufacturing Sectors shall remain unchanged at 1 July 2014 rates until 30 June 2017.
- ❖ The levy increases for Work Permit holders in the Constructions and Services Sectors as well as S-Pass holders in every sector will proceed as earlier planned.

5. Capital Loan Scheme

- ❖ To support viable SMEs, the Government will introduced the SME Working Capital Loan scheme to provide loans of up to \$300,000 for local SMEs. To this, the Government will co-share 50% of the default risks of these loans with participating financial institutions. Theses fund may be used for daily operations or for automation and upgrading of factory and equipment.
- ❖ Businesses may apply for the SME Working Capital Loan if they meet the following criteria:-
 - (a) Registered in Singapore;
 - (b) Have at least 30% local shareholding; and
 - (c) Group annual sales of not more that \$100 million or group employment size of not more than 200.
- ❖ MTI will announce more details of this at the Committee of Supply.

MISCELLANEOUS (continued)**6. National Trade Platform (“NTP”)**

- ❖ The Government will develop a new National Trade Platform as the next-generation platform to support firms, particularly in the logistics and trade finance sectors.
- ❖ This one-stop trade information management system will enable electronic data sharing among businesses and Government. Firms only have to provide trade information once and authorise its use by logistics providers as well as business partners. The information can also be used for customs and other trade regulatory approvals. The NTP will be developed as an open innovation platform, so that other services providers can develop value-added services and apps in areas such as operations, visibility and trade finance. The estimated cost for this development exceed \$100 million.

7. Extension of the Special Employment Credit (“SEC”)

- ❖ SEC provides employers with wage off-set for employing Singaporean workers age 55 and above earning up to \$4,000 a month. It will be extended for a further period of three years from 1 January 2017 to 31 December 2019.
- ❖ The extended SEC will be tiered by employee age to provide stronger support for employers hiring Singaporeans in the older age bands, where employment rates are lower. Employers who hire Singaporean workers age 65 and above earning up to \$3,000 a month will received the highest SEC of 8% of wages.
- ❖ This is in addition to the wage offset of 3% for the re-employment of workers aged 65 and above until the re-employment age is raised in 2017.
- ❖ The wage offset will be up to 5% for workers aged 60 to 64 and up to 3% for those age 55 to 59.
- ❖ To better support the employment of Persons with Disabilities (“PWDs”), employers who hire PWDs who earn up to \$4,000 a month will receive an SEC up to 16% of the PWDs monthly wage, regardless of age. The monthly SEC will be capped at \$240 per PWD.
- ❖ The following table applies:-

Age of worker	2017 to 2019
55 to 59	Up to 3% of monthly wage
60 to 64	Up to 5% of monthly wage
65 and above	Up to 8% of monthly wage (plus 3% until the re-employment age is raised in 2017)

GLOSSARY

\$: Singapore Dollars
ASP	: Automation Support Package
BIPS	: Business and IPC Partnership Scheme
CDG	: Capability Development Grant
CIT	: Comptroller of Income Tax
DTD	: Double Tax Deduction
EDB	: Economic Development Board
FSI	: Financial Sector Incentive
FSI-ST	: Financial Sector Incentives-Standard Tier
FTC	: Finance and Treasury Centre
FY	: Financial Year
GPR	: Gross Plot Ratio
GTP (“SCF”)	: Global Trader Programme (Structured Commodity Finance)
IA	: Investment Allowance
IBD	: Insurance Business Development
IE	: IE Singapore
IPC	: Institution of Public Character
IPRs	: Intellectual Property Rights
IRAS	: Inland Revenue Authority of Singapore
ITA	: Income Tax Act
LIA	: Land Intensification Allowance
M&A	: Mergers and Acquisitions
MAS	: Monetary Authority of Singapore
MHL	: Marine Hull and Liability
MTI	: Ministry of Trade and Industry)
MOF	: Ministry of Finance
MPA	: Maritime Port Authority of Singapore
MSI	: Maritime Sector Incentive
MSI-AIS	: MSI - Approved International Shipping Enterprise
MSI-ML (ship)	: MSI - Maritime Leasing
MSI-SRS	: MSI - Shipping Enterprise (Singapore Registry of ships)
NPO	: Not-for-Profit Organisation
OMV	: Open Market Value
PIC	: Productivity and Innovation Credit
R&D	: Research and Development
SI	: Specialised Insurance
SR	: Social Responsibility
SMEs	: Small and Medium Enterprises
WDA	: Writing-down Allowance
WMCR	: Working Mother’s Child Relief
YA	: Year of Assessment

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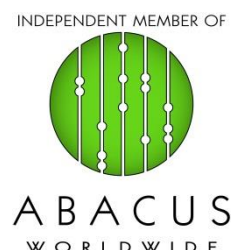
Jimmy Oei	Tax Director	jimmy.oei@acutus-ca.com
Ang Poh Geok	Manager	pohgeok.ang@acutus-ca.com
Ang Xun Kai		xunkai.ang@acutus-ca.com

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Acutus LLP

133 New Bridge Road, #25-03/08, Chinatown Point, Singapore 059413

T: (65) 6538 5488 F: (65) 6538 4673  <https://twitter.com/Acutusllp>

Acutus CPA Limited

Unit 01, 23rd Floor Bayfield Building, 99 Hennessy Road, Wanchai, Hong Kong SAR

T: (852) 3996 7830 F: (852) 3747 2693  <https://twitter.com/acutuscpa>

Acutus Consultants Sdn Bhd

Suite 16-6 Level 16, Wisma UOA II, No 21 Jalan Pinang, 50450 Kuala Lumpur, Malaysia

T: (60) 3-2161 9813 F: (60) 3-2181 7993

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