Singapore Budget Highlights 2018

Acutus
Accountants & Business Advisors

FOREWORD

This year's Budget delivered by the Finance Minister, Mr. Heng Swee Keat, on 19 February 2018 outlined steps Singapore must take in order to prepare for three major shifts in the coming decade. These three shifts are: global economic focus on Asia, the emergence of new technologies and an ageing population.

Announcing that the Singapore's economy will turn in a stronger than expected performance resulting in a budget surplus of $9.6 billion for FY2017 – much higher than an earlier estimate of $1.9 billion forecasted a year ago and Singapore's biggest in some 30 years. Themed "*Together, a Better Future"*, Budget 2018 sought to address certain short-term business concerns with focus mainly on long-term challenges in order to lay the foundation for a sustainable future.

For businesses looking for relief over their concerns on rising business cost, measures such as the extension of the Wage Credit Scheme for three more years, which co-funds wage increases for Singaporean employees earning gross monthly wages of up to $4,000, and the enhancement of corporate tax rebate which will be extended to the Year of Assessment 2019, have been announced to provide short-term assistance. Unfortunately, for businesses clamouring for the foreign manpower curb to be relaxed were disappointed. Apart from the deferral of increase in foreign workers levy for the marine shipyard and process industries and the introduction of a new pilot "capability transfer programme" which basically support the transfer of skills from foreign specialists to local trainers and trainees to meet the skills shortages in certain sectors, the tight policies on foreign workers that businesses have long urged the Government to reconsider remains unchanged. Industries such as construction, hospitality and other service sectors may not necessarily benefit from the new pilot scheme. Government should also recognise that as our society progresses, no Singaporean will be attracted to these low-paying jobs.

On the other hand, notable measures have been announced to prepare the local economy for the next decade. In this Budget, the Minister stated that consideration had been taken to cater for the needs for major spending in infrastructural projects, education, security and the anticipated needs in healthcare where the nation's reserves must be sustainable for the future. It is therefore necessary to ensure that all policies are calibrated prudently to ensure that there will be surplus to cater for these needs. Hence, most of the key measures announced this year will not take effect immediately or will bear fruit only later.

One of the much anticipated changes was the two percentage point hike in GST from 7% to 9% which will be implemented sometime between 2021 and 2025. Other initiatives such as taxes on e-commerce will also not come into force until 2020. Other economic transformation strategies announced in the Budget which will take place over time includes measures to build deep capabilities such as digital skills within our work force, partnerships between companies and trade associations to address common challenges, tax incentives for R&D, innovation and funding for intellectual properties commercialisation. This is aimed at gearing and propelling the country into a smart nation.

On the social front, various initiatives such as higher Annual Edusave Contributions, MOE Financial Assistance, the Community Silver Trust, etc. have also been introduced or enhanced to ensure that the lower and middle income group and our senior citizens will benefit.

Finally, from the nation's perspective, this year's Budget could be seen as far-sighted, holistic and a well calibrated blueprint to place Singapore into the future. Whilst we are unable to predict when the next crisis will hit us, this Budget, as well as those in the past, is about ensuring that the nation remains sustainable.

Acutus is pleased to present you with this exclusive highlight to assist you in understanding the impact of the changes and initiatives that were unveiled in Budget 2018. As the details of these proposals have yet to be announced, 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

27 February 2018

BUSINESS TAX

1. Corporate Tax Rate and Corporate Income Tax Rebate

Present Position

- ❖ The current corporate tax rate is 17% with partial exemption of up to $300,000 of a company's chargeable income.
- ❖ A 50% corporate income tax rebate capped at $25,000 for YA 2017 and 20% corporate income tax rebate capped at $10,000 for YA 2018 is available to companies.
- ❖ For normal chargeable income of $300,000, the effective tax rate (after partial tax exemption and applicable corporate income tax rebate) is 4.2% for YA 2017 and 6.7% for YA 2018 respectively.

Proposed

- ❖ The corporate tax rate to remain at 17%.
- ❖ For YA 2018, the CIT rebate will be enhanced to 40% of tax payable capped at $15,000.
- ❖ The CIT rebate will be extended for another year to YA 2019, at a reduced rate of 20% of tax payable capped at $10,000.

Acutus Comments

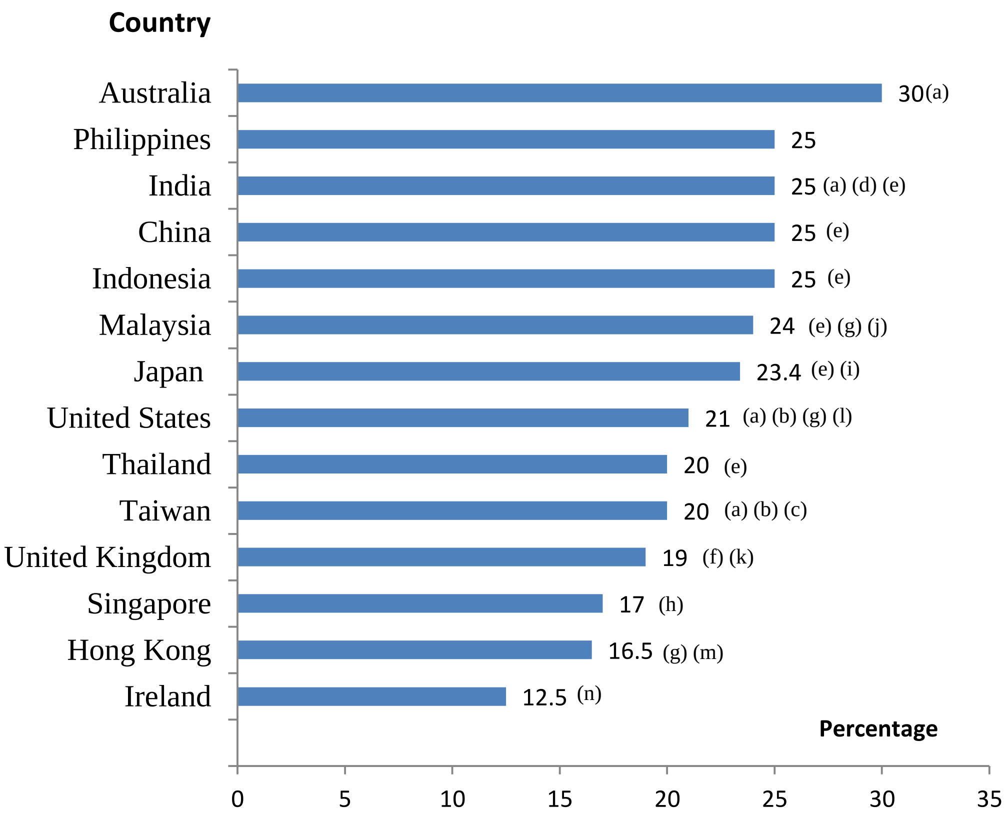
- ❖ Whilst the enhancement to the CIT rebate is welcomed, it will only benefit companies that are profitable. Companies sustaining losses will not benefit from these initiatives and therefore has to tap on the extended WCS to help them to alleviate business cost.
- ❖ In this year's Budget, we could see a subtle shift towards a tax system where all profitable businesses should pay more taxes. Instead of the broad base approach, the Government aims to provide targeted supports in segments as and when it's necessary. As the nation progresses, objectively, this may be a better way forward. We could also see this as a blueprint for future Budgets.
- ❖ With the proposed change, corporate tax for startups and smaller companies are still low. For taxable income of $300,000, the effective corporate tax rate is 3.4% for startups and 5% for older companies as compared to our headline tax rate of 17%.

1. Corporate Tax Rate and Corporate Income Tax Rebate (continued)

Acutus Comments (continued)

❖ Companies paying little or no tax should consider deferring their capital allowances claims or planning for their group relief claims in order to optimise the amount of tax rebate.

❖ A comparison of corporate tax rates of selected countries:-



Note:

(a)	Lower income bands are generally (with exception and/or subject to certain conditions) taxed at lower rate(s)
(b)	An alternative minimum tax is applicable
(c)	Effective from 1 January 2018
(d)	A higher rate (40%) applies for foreign companies
(e)	Certain income or companies that meet certain conditions enjoy a lower rate of tax
(f)	To be reduced to 17% from 1 April 2020
(g)	Certain income or companies are taxed at a higher rate
(h)	Partial tax exemption is available on a specified amount of taxable income
(i)	To be reduced to 23.2% for taxable years beginning on or after 1 April 2018
(j)	For YA 2018, the tax rate will be reduced between 1% and 4% based on the percentage increase in chargeable income as compared to the immediate preceding YA
(k)	Different rates apply for ring-fence profits (from oil extraction and oil rights)
(l)	Effective from 1 January 2018. Effective tax rate may vary depending on other state and local income tax.
(m)	Subject to enactment of the legislation, a two-tiered profit tax regime will apply to both corporations and unincorporated businesses commencing from YA2018/2019 with certain exceptions. For corporations, the tax rate will be 8.25% for the first HK$2M of assessable profits and 16.5% for over HK$2M of assessable profits. Whereas, for unincorporated businesses, the tax rate will be 7.5% for the first HM$2M of assessable profits and 15% for over HK$2M of assessable profits.
(n)	Only applicable to trading income. Different rates apply to other sources of income

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

2. Adjustment to the Start-Up Tax Exemption ("SUTE") scheme

Present position

- Under the current SUTE scheme, a new company, subject to conditions, can enjoy in each of its first three YAs:
  - 100% exemption on the first $100,000 of normal chargeable income; and
  - 50% exemption on the next $200,000 of normal chargeable income.
- Normal chargeable income refers to chargeable income that is taxed at the prevailing corporate income tax rate.

Proposed

- As the Government strengthen support for firms to build capabilities, the broad-base tax exemption under the SUTE scheme will be adjusted to:
  - 75% exemption on the first $100,000 of normal chargeable income; and
  - 50% exemption on the next $100,000 of normal chargeable income.
- All other conditions of the scheme remain unchanged.
- The change will take effect on or after YA 2020 for all qualifying companies under the scheme. If a qualifying company's first YA is YA 2019, the current SUTE parameters will apply in YA 2019 while the new parameters will apply in YA 2020 and YA 2021.

Acutus Comments

- The results of this proposed adjustment will give rise to an increase in the tax rate of new start-ups as the exemption amount is now reduced, as illustrated below:

Current SUTE Scheme		Proposed SUTE with effect from YA 2020	
Chargeable income	Exemption $	Chargeable income	Exemption $
1st $100,000@ 100% Bal. $200,000@ 50%	100,000 100,000	1st $100,000@ 75% Bal. $100,000@ 50%	75,000 50,000
Total Exemption	200,000	Total Exemption	125,000

- New start-up companies sustaining losses in its initial years will not benefit from this scheme.

3. Adjustment to the Partial Tax Exemption ("PTE") scheme

Present position

❖ Under the current PTE scheme, all companies (excluding those that qualify for the SUTE scheme) and bodies of persons, can qualify, in each YA:

- ➢ 75% exemption on the first $10,000 of normal chargeable income; and
- ➢ 50% exemption on the next $290,000 of normal chargeable income.

Proposed

❖ As the Government strengthen support for firms to build capabilities, the tax exemption under the PTE scheme will be adjusted to:

- ➢ 75% exemption on the first $10,000 of normal chargeable income; and
- ➢ 50% exemption on the next $190,000 of normal chargeable income.

❖ All other conditions of the scheme remain unchanged.

❖ This change will take effect on or after YA 2020 for all qualifying companies (excluding those that qualify for the SUTE scheme) and bodies of persons.

Acutus Comments

❖ The results of this proposed adjustment will give rise to a higher effective tax rate for smaller companies as the exemption amount is now reduced, as illustrated below:

Current PTE Scheme		Proposed PTE Scheme	
Chargeable income	Exemption $	Chargeable income	Exemption $
1st $10,000 @ 75% Bal. $290,000 @ 50%	7,500 145,000	1st $10,000 @ 75% Bal. $190,000 @ 50%	7,500 95,000
Total Exemption	152,500	Total Exemption	102,500

❖ With the CIT rebate scheduled to lapse in YA 2019 and adjustment to the partial tax exemption with effect from YA 2020, the effective tax rate for the first $300,000 of normal chargeable income will see a significant increase, from 5% in YA 2018 to 11.2% for YA 2020.

❖ The increase in effective tax rate is align to the Government's view that all taxpayer who are generating business profit should pay more corporate tax.

4. Enhancing tax deduction for qualifying expenditures on qualifying research and development ("R&D") projects performed in Singapore

Present Position

- ❖ Business that incurred qualifying R&D expenditure on qualifying R&D projects performed in Singapore can claim the following:-
  - ➢ 150% tax deduction for staff costs and consumables incurred; and
  - ➢ 100% tax deduction for other qualifying expenditure.

Proposed

- ❖ To support businesses to build their own innovations, tax deduction for staff costs and consumables incurred on qualifying R&D projects performed in Singapore will be increased from 150% to 250%.
- ❖ The 100% tax deduction for other qualifying expenditure remain unchanged.
- ❖ The proposed enhancement will take effect from YA 2019 to YA 2025.

Acutus Comments

- ❖ With the expiry of the 400% tax deduction on qualifying R&D staff costs and consumables expenditure under the PIC scheme post YA 2018, the proposal to increase tax deduction will be a welcome relief for businesses as they seek to build their own innovations through R&D.

5. Enhancing tax deduction for qualifying expenditures on protecting intellectual property ("IP")

Present Position

- ❖ Businesses that incurred qualifying IP registration costs can claim 100% tax deduction on such costs.
- ❖ The existing scheme is scheduled to lapse after YA 2020.

Proposed

- ❖ To encourage businesses, in particular smaller ones, to register and protect their IPs, the following changes were announced :
  - ➢ The scheme will be extended to YA 2025.
  - ➢ Tax deduction for first $100,000 qualifying IP registration cost incurred will be enhanced from 100% to 200% for each YA.
  - ➢ This change will take effect from YA 2019 to YA 2025.

5. Enhancing tax deduction for qualifying expenditures on protecting intellectual property ("IP") (continued)

Acutus Comments

- ❖ The proposed scheme which is schedule to take place after the lapse of PIC scheme in YA 2018 will be welcomed by businesses, though it has a lower qualifying expenditure cap and deduction. This has made the scheme less attractive as compared to the past.

- ❖ It is unclear if this scheme will have the same claw back requirements in a situation if the claimant sells, transfers or assigns all or part of the qualifying IP within one year from the date of filing the application as those under the PIC scheme.

6. Enhancing tax deduction for cost on IP in-licensing

Present Position

- ❖ Businesses that incurred qualifying IP in-licensing cost can claim 100% tax deduction on such costs.

Proposed

- ❖ To support businesses to buy and use new solutions, the tax deduction for first $100,000 qualifying IP in-licensing costs will be enhanced from 100% to 200% for each YA.

- ❖ Qualifying IP in-licensing costs include payments made by a qualifying person to publicly funded research performers or other businesses, but exclude related party licensing payments, or payments for IP where any allowance was previously made to that person.

- ❖ The change will take effect from YA 2019 to YA 2025.

Acutus Comments

- ❖ The proposed scheme which is scheduled to take place after the expiry of PIC scheme in YA 2018 will be welcomed by businesses, though it has a lower qualifying expenditure cap and deduction. This enhancement is specifically targeted at local SME's to encourage companies to engage in new IP and technologies.

- ❖ It should be noted that royalty payments made to non-Singapore tax residents are subject to WHT at 10% under the ITA.

7. Enhancing the Double Tax Deduction for Industrialisation ("DTDi") scheme

Present Position

- Under current DTDi scheme, businesses are allowed tax deduction of 200% on qualifying market expansion and investment development expenses, subject to approval from IE Singapore or STB.

- No prior approval is needed from IE Singapore or STB for tax deduction on the first $100,000 of qualifying expenses incurred from 1 April 2012 to 31 March 2020 for the following activities:

  - Overseas business development trips/missions;
  - Overseas investment study trips/missions;
  - Participation in overseas trade fairs; and
  - Participation in approved local trade fairs.

Proposed

- To further encourage internationalisation, the $100,000 expenditure cap for claims without prior approval from IE Singapore or STB will be raised to $150,000 per YA.

- Businesses can continue to apply to IE Singapore or STB on qualifying expenses exceeding $150,000, or on expenses incurred on other qualifying activities.

- All other conditions of the scheme remain unchanged.

- This change will apply to qualifying expenses incurred on or after YA 2019.

- IE Singapore and STB will release further details of the change by April 2018.

Acutus Comments

- With the enhancement of the DTDi scheme, the Government hopes to encourage more SMEs to internationalise and venture abroad.

- The increase in expenditure cap of $50,000 per YA may, however, not be substantial enough to incentivise SMEs to take up the DTDi scheme given that it is still restricted to the 4 prescribed type of activities listed.

8. Extending the 250% Tax Deduction for Qualifying Donations

Present Position

- ❖ Qualifying donation made to Institution of a Public Character ("IPCs") and other qualifying recipients from 1 January 2016 to 31 December 2018 are eligible for 250% tax deduction.

Proposed

- ❖ To continue to encourage Singaporeans to give back to community, the 250% tax deduction for qualifying donations will be extended for donations made on or before 31 December 2021.
- ❖ All other conditions of the scheme remain the same.

Acutus Comments

- ❖ The extension is aligned with the Government's aim to foster a caring and cohesive society.

9. Extending the Business and IPC Partnership Scheme ("BIPS")

Present Position

- ❖ A qualifying person can, subject to conditions, enjoy a total of 250% tax deduction on qualifying expenditure such as wages incurred by him from 1 July 2016 to 31 December 2018 in respect of:
  - ➢ The provision of services by his qualifying employee to an IPC during that period; or
  - ➢ The secondment of his qualifying employee to an IPC during that period.

Proposed

- ❖ To continue supporting employee volunteerism through businesses, BIPS will be extended for three more years until 31 December 2021.
- ❖ In addition, MOF and IRAS will review the administrative processes for BIPS based on feedbacks received and details of any change will be announced in the second half of 2018.

Acutus Comments

- ❖ The extension of BIPS demonstrates the Government's commitment to promote and encourage employee volunteerism through businesses and to encourage employees to use their skills to contribute back to society.
- ❖ While we may see a simplified/streamline administrative process for BIPS, more consideration could be done to lift the qualifying expenditure cap that each IPC can endorse (i.e. $50,000 per calendar year).

10. Extending and enhancing the Financial Sector Incentive ("FSI") scheme

Present Position

- The FSI Scheme accords concessionary tax rates of 5%, 10%, 12% and 13.5% on income from qualifying banking and financial activities, headquarters and corporate services, fund management and investment advisory services.

- The FSI scheme is scheduled to lapse after 31 December 2018.

- The trading in loans and their related collaterals, excluding immovable property, is a qualifying activity that is accorded a concessionary tax rate of 13.5%.

Proposed

- To further strengthen Singaporean's position as a leading financial centre, the FSI scheme will be extended till 31 December 2023.

- The scope of trading in loans and their related collaterals is expanded to include collaterals that are prescribed infrastructure assets or projects. The change will apply to income derived on or after 1 January 2019 in respect of new and renewal awards approved on or after 1 June 2017.

- All other conditions of the scheme remain the same.

- MAS will release further details of the change by May 2018.

Acutus Comments

- The extension and enhancement of the existing FSI scheme till 31 December 2023 is in line with the Government's aim to strengthen Singapore status as a leading financial centre.

- The proposal to expand the scope of trading in loans to include collaterals for prescribed infrastructure assets or projects will further promote infrastructural project financing activities which will again strengthen our position as a financial hub within the South-East Asia region.

PERSONAL INCOME TAX

1. Personal Income Tax and Tax Rebate

Present Position

- ❖ From YA 2017, the tax rate applicable to Singapore resident taxpayers range progressively from 0% for the first $20,000 of chargeable income to 22% for chargeable income in excess of $320,000.

- ❖ A tax rebate of 20% of tax payable capped at $500 per tax payer was available to all tax resident individual taxpayer for YA 2017.

- ❖ With effect from YA 2018, the total personal income tax relief that an individual can claim will be capped at $80,000 per YA.

Proposed

- ❖ There were no changes announced to the personal income tax rates and personal income tax reliefs.

- ❖ There will not be any rebate accorded in YA 2018 but the Government had however declared a one-off SG Bonus of $100, $200 and $300 (depending on assessable income for YA 2017) to be given to all Singaporeans aged 21 and above in 2018.

Acutus Comments

- ❖ Given that our personal tax rates are competitive as compared to other matured economies, it is not a surprise to see our personal income tax rates remain unchanged.

1. Personal Income Tax and Tax Rebate (continued)

❖ Personal income tax rates applicable to YA 2018 is as follows:

Personal Income Tax Rates for Year of Assessment 2018			
	Chargeable Income $	Tax Rate %	Tax Payable $
On the first On the next	20,000 10,000	0 2.0	0 200
On the first On the next	30,000 10,000	 3.5	200 350
On the first On the next	40,000 40,000	 7.0	550 2800
On the first On the next	80,000 40,000	 11.5	3,350 4,600
On the first On the next	120,000 40,000	 15.0	7,950 6,000
On the first On the next	160,000 40,000	 18.0	13,950 7,200
On the first On the next	200,000 40,000	 19.0	21,150 7,600
On the first On the next	240,000 40,000	 19.5	28,750 7,800
On the first On the next	280,000 40,000	 20.0	36,550 8,000
On the first In excess of	320,000 320,000	 22.0	44,550

GOODS AND SERVICES TAX ("GST")

1. Impending GST rate increase

Present Position

❖ The current GST rate applicable in Singapore is 7%.

Proposed

❖ GST rate will be increased by 2% from 7% to 9%, sometime in the period between 2021 and 2025.

❖ The increase will be implemented in a progressive manner and the Government will:

  ➢ Continue to absorb GST on publicly-subsidised education and healthcare;
  ➢ Enhance the permanent GST voucher scheme when the GST is increased, so as to provide more help to lower-income households and seniors;
  ➢ Implement an offset package for the low and middle income earners to help them adjust to the change.

❖ The exact timing of the proposed change will depend on a number of factors, such as the state of the economy, how much the expenditure grow in the intermediate period, and how buoyant the existing taxes are.

Acutus Comments

❖ Notwithstanding the speculations, it will be very difficult for the Government to justify an increase in GST rate in a year when the country's budget surplus is at an unprecedented high. Hence, the Minister had adopted a prudent approach to announce the increase well ahead of time to allow Singaporeans and businesses ample time to adjust to the change and be prepared for it.

❖ Businesses that are not registered for GST and are currently absorbing the 7% GST may wish to consider voluntary GST registration as an option when the increase kicks in as the cost would now be more substantial.

❖ Greater emphasis on managing GST risks and improving compliance may be necessary so as to avoid errors which will result in higher penalties imposed under the GST Act.

2. Introduce GST on imported services

Present Position

❖ Currently, GST is not applicable on imported services provided by an overseas supplier, which does not have an establishment in Singapore.

Proposed

❖ To ensure that Singapore's tax system remains fair and resilient in a digital economy, GST on imported services will be introduced from 1 January 2020.

❖ Business-to-Business ("B2B") imported services will be taxed via a reverse charge mechanism. Only businesses that (i) make exempt supplies, or (ii) do not make any taxable supplies need to apply reverse charge.

❖ The reverse charge mechanism requires the local business customer to account for GST to the Comptroller of GST on the services it imports. The local business customer can in turn claim the GST accounted for as its input tax, subject to the GST input tax recovery rules.

❖ The taxation of Business-to-Customer ("B2C") imported services, on the other hand, will take effect through an Overseas Vendor Registration ("OVR") mode, which requires overseas suppliers and electronic marketplace operators which make significant supplies of digital services to local consumers to be registered for GST.

❖ OVR will apply to overseas suppliers whose annual global turnover exceeds $1 million and whose sale of digital services to consumers in Singapore exceeds $100,000. Once GST-registered, they will collect GST for the Comptroller of GST on their B2C supplies of digital services.

❖ IRAS will release further details by end February 2018.

Acutus Comments

❖ The announcement to impose GST on imported services is not surprising given that GST is fundamentally a broad-based consumption tax. It has been a subject of consultation for some time. It is only equitable that the same GST treatment be applied on the consumption of services in Singapore, regardless of whether the services is rendered by local or overseas suppliers. This is also in line with many other jurisdictions where imported services are taxed.

❖ With this implementation, it would mean that affected business will have additional compliance cost and also, the potential irrecoverable input tax resulting from the reverse charge on the imported services will translate to additional business cost. Hence, consumers will have to pay more for such services going forward.

WITHHOLDING TAX

1. Rationalising the Withholding tax ("WHT") exemptions for the Financial Sector

Present Position

- ❖ Currently, interest payments made by a tax resident or permanent establishment in Singapore to non-tax residents are subject to WHT at the rate of 15% in general.

- ❖ There is a range of WHT exemptions for the financial sector which applies to different financial institutions for payments made under different types of financial transactions.

Proposed

- ❖ As part of the Government's process to continually review the tax concessions to ensure relevance and usefulness, the following changes are made:

  a. To ensure that the relevance of the tax concessions is periodically reviewed, a review date of 31 December 2022 will be introduced for the WHT exemptions for the following payments:-

     - ➢ Payments made under cross currency swap transactions made by Singapore swap counterparties to issuers of Singapore dollar debt securities;
     - ➢ Payments made under interest rate or currency swap transactions by financial institutions;
     - ➢ Payments made under interest rate or currency swap transactions by MAS; and
     - ➢ Specified payments made under securities lending or repurchase agreements by specified institutions.

  b. The following WHT exemptions will be legislated, along with a review date of 31 December 2022:

     - ➢ Interest on margin deposits paid by members of approved exchanges for transactions in futures; and
     - ➢ Interest on margin deposits paid by members of approved exchanges for spot foreign exchange transactions (other than those involving Singapore dollar).
     - ➢ The changes above will take effect for payments under agreements entered into on or after 20 February 2018.

1. Rationalising the Withholding tax ("WHT") exemptions for the Financial Sector (continued)

Proposed (continued)

c. The WHT exemptions for the following payments will be withdrawn:

- Interest from approved Asian Dollar Bonds; and

- Payments made under over-the-counter financial derivative transactions by companies with FSI-Derivatives Market awards that were approved on or before 19 May 2007.

- The changes above will take effect for payments under agreements entered into on or after 1 January 2019.

- Unless the existing WHT exemptions mentioned above are extended, the WHT exemptions will cease to apply to payments that are liable to be made under agreements entered into on or after 1 January 2023. WHT exemptions will continue to apply to payments that are liable to be made on or after 1 January 2023 under agreements entered into on or before 31 December 2022.

- All other conditions of the scheme remain the same.

- MAS will release further details of the changes by May 2018.

Acutus Comments

- The changes reflect the Government's policy of ensuring that tax exemptions continue to be both relevant and appropriate.

2. Introducing of a review date for the WHT exemption on container lease payment made to non-resident lessors

Present Position

- Currently, WHT exemption is allowed on lease payments made to non-resident lessors (excluding permanent establishment in Singapore) for the use of qualifying containers for the carriage of goods by sea.

Proposed

- A review date of 31 December 2022 will be introduced to ensure that the relevance of the scheme is periodically reviewed.

2. Introducing of a review date for the WHT exemption on container lease payment made to non-resident lessors (continued)

Proposed (continued)

❖ Unless the scheme is extended, such payment accruing to a non-resident lessor under any lease or agreement entered into on or after 1 January 2023 in respect of the use of a qualifying container for the carriage of goods by sea will be subject to WHT.

Acutus Comments

❖ Given that the WHT exemption was introduced back in 1979, it is assuring that the Government has plans to review the existing scheme to ensure its relevance and usefulness.

❖ However, to maintain Singapore's competiveness as a global maritime hub, it is likely that the WHT exemption will be extended beyond 31 December 2022, with minor enhancement to the qualifying conditions to cater for future needs.

STAMP DUTY

1. Raise in Buyer's Stamp Duty on the Value of Residential Property in Excess of $1 million

Present Position

❖ Purchase of residential properties are currently subject to Buyer's Stamp Duty (BSD) rates between 1% to 3%.

Rates	Tiers (Residential Properties)
1%	First $180,000
2%	Next $180,000
3%	Amount exceeding $360,000

Proposed

❖ To improve the progressivity of the stamp duty regime, the top marginal Buyer's Stamp Duty rate will be raised from 3% to 4%, and applied on the value of residential property in excess of $1 million.

❖ The revised rate will apply to all residential properties acquired on or after 20 February 2018.

Rates	Tiers (Residential Properties)
1%	First $180,000 (No change)
2%	Next $180,000 (No change)
3%	Next $640,000 (revised)
4%	Amount exceeding $1,000,000 (new)

❖ The Buyer's Stamp Duty rates for non-residential properties remain unchanged.

Acutus Comments

❖ The change in BSD tax regime is in line with the Government's plan towards developing a more progressive tax system.

❖ The timing for increase coincide with the increase in en-bloc sales of residential properties and record setting HDB resale price, which could also be seen as part of the cooling measures introduced by the Government.

OTHER CHANGES

1. Extension of Wage Credit Scheme ("WCS")

- ❖ The WCS supports businesses embarking on transformation efforts and encourages employers to share productivity gains with workers by co-funding wage increases.

- ❖ The scheme was introduced in Budget 2013 and extended in Budget 2015 in light of the economic outlook and scheduled to lapse in 2018.

- ❖ The Government will extend the WCS for three more years (i.e. 2018 to 2020) and co-fund 20% of qualifying wage increase in 2018, 15% of qualifying wage increase in 2019 and 10% of qualifying wage increase in 2020.

2. Foreign Worker Levy ("FWL")

- ❖ The FWL rates remain unchanged for all sectors.

- ❖ The planned FWL increases for the Marine Shipyard and Process sectors will be deferred for another year, from 1 July 2018 to 30 June 2019, due to continued weakness in these sectors.

- ❖ Foreign worker levy rates for all other sectors and S pass holders will remain unchanged.

3. Introducing a tax framework for Singapore Variable Capital Companies ("S-VACCSs")

- ❖ A tax framework for S-VACC will be introduced to complement the S-VACC regulatory framework:-

  - ➢ A S-VACC will be treated as a company and single entity for tax purposes;
  - ➢ Tax exemption under Section 13R and 13X of ITA will be extended to S-VACCs;
  - ➢ 10% concessionary tax rate under the FSI-FM scheme will be extended to approved fund managers managing an incentivised S-VACC;
  - ➢ The existing GST remission for funds will be extended to incentivised S-VACCs.

- ❖ The conditions under the existing schemes extended to S-VACCs and incentivised S-VACCs referred to above remain unchanged.

- ❖ MAS will release further details of the tax framework for S-VACCs by October 2018.

4. Enhancing the Enhanced-Tier Fund Scheme under Section 13X of the ITA

- To cater for more diverse fund structures, tax exemption under the Enhanced-Tier Fund Scheme will be extended to all fund vehicles constituted in all forms. Besides companies, trusts and limited partnerships, all fund vehicles will be able to qualify for the Enhanced-Tier Fund Scheme if they meet all qualifying conditions.

- All other conditions of the scheme remain the same.

- The change will take effect for new awards approved on or after 20 February 2018.

- MAS will release further details of the change by May 2018.

5. Extending the tax transparency treatment for Singapore-listed Real Estate Investment Trust ("S-REITs") to Singapore-listed Real Estate Investment Trust Exchange-Traded Funds ("REITs ETFs')

- To have parity in tax treatments between investing in individual S-REIT and via REITs ETF with investments in S-REITs, the following tax treatment will be accorded to REITs ETFs:

  - Tax transparency treatment on the distributions received by REITs ETFs from S-REITs which are made out of the latter's specified income;
  - Tax exemption on such REITs ETFs distributions received by individuals excluding individuals who derived any distribution:
    i) Through a partnership in Singapore; or
    ii) From the carrying on of a trade, business or profession; and
  - 10% concessionary tax rate on such REITs ETFs distribution received by qualifying non-resident non-individuals.

- Subject to conditions, the tax concessions for REITs ETFs will take effect on or after 1 July 2018, with a review date of 31 March 2020 which is the same as that for other tax concessions for S-REITs. Application for tax transparency treatment can be submitted to IRAS on or after 1 April 2018.

- MAS and IRAS will release further details of the change by March 2018.

6. Extending the Insurance Business Development – Insurance Broking Business ("IBD-IBB") scheme and allow the Insurance Business Development – Specialised Insurance Broking Business ("IBD-SIBB") scheme to lapse

❖ To further strengthen Singapore's position as a leading insurance and reinsurance centre, the IBD-IBB scheme will be extended till 31 December 2023.

❖ All conditions of the IBD-IBB scheme remain the same.

❖ To streamline and simplify the insurance tax incentives, the IBD-SIBB scheme will be allowed to lapse after 31 March 2018. With the lapsing of IBD-SIBB scheme, specialty insurance broking and advisory services will be incentivised under IBD-IBB scheme, at a concessionary tax rate of 10%.

❖ MAS will release further details of the change by May 2018.

7. Extending the tax deduction for banks (including merchant banks) and qualifying financial companies for impairment and loss allowances made in respect of non-credit-impairment financial instruments

❖ To promote the overall robustness and stability of the Singapore financial system, the tax deduction under Section 14I of the ITA will be extended till YA 2024 (for banks and qualifying finance companies with December FYE) or YA 2025 (for banks and qualifying finance companies with non-December FYE).

❖ All other conditions of the scheme remain the same.

❖ MAS will release further details of the change by May 2018.

8. Extending the tax incentive scheme for Approved Special Purpose Vehicle ("ASPV") engaged in asset securitisation transactions ("ASPV Scheme")

❖ To continue developing the structured debt market, the ASPV scheme will be extended till 31 December 2023 with the exception of stamp duty remission on the instrument relating to transfer of assets to the ASPV for approved assets securitisation transactions.

❖ The abovementioned stamp duty remission will be allowed to lapse after 31 December 2018.

❖ All other conditions of the scheme remain the same.

❖ MAS will release further details of the extension by May 2018.

9. Extending the Qualifying Debt Securities ("QDS") incentive scheme and allow the Qualifying Debt Securities Plus ("QDS+") incentive scheme to lapse

❖ To continue supporting the development of Singapore's debt market, the QDS scheme will be extended till 31 December 2023.

❖ As part of the Government regular review of tax incentives, the QDS+ scheme will be allowed to lapse after 31 December 2018.

❖ Debt securities with tenure beyond 10 years and Islamic debt securities that are issued:

  ➢ After 31 December 2018 can enjoy tax concessions under the QDS scheme if the conditions of the QDS scheme are satisfied;
  ➢ On or before 31 December 2018 can continue to enjoy the tax concessions under the QDS+ scheme if the conditions of the QDS+ scheme are satisfied.

❖ MAS will release further details of the change by May 2018.

10. Extending the tax exemption on income derived by primary dealers from trading in Singapore Government Securities ("SGS")

❖ To strengthen our primary dealer network and encourage trading in SGS, the tax exemption on income derived by primary dealers from trading in SGS will be extended till 31 December 2023.

❖ MAS will release further details of the change by May 2018.

11. Extending the Investment Allowance ("IA") scheme to include qualifying investment in submarine cable systems landing in Singapore

❖ To strengthen Singapore's position as a leading digital connectivity hub, the Government will extend the IA in respect of productive equipment to capital expenditure incurred on newly constructed strategic submarine cable systems landing in Singapore subject to qualifying conditions.

❖ All other conditions of the IA scheme apply, except for the following which will be permitted:

  ➢ The submarine cable systems can be used outside Singapore; and
  ➢ The submarine cable systems, on which IA has been granted, can be leased out under the indefeasible rights of use arrangements.

❖ This change will take effect for capital expenditure incurred between 20 February 2018 and 31 December 2023, inclusive of both dates.

MISCELLANEOUS

1. Foreign Domestic Worker Levy

- Currently employers of foreign domestic workers ("FDW") in Singapore pay a concessionary levy of $60 per month. The concessionary levy applies in respect of households with young children below age 16, elderly persons or persons with disabilities.

- The following changes to the FDW levy will take effect from 1 April 2019:
  - For the first FDW who is employed without levy concession, the monthly levy will be raised from $265 to $300.
  - For the second FDW who is employed without levy concession, the monthly levy will be raised from $265 to $450.
  - The qualifying age for levy concession under the aged person scheme will be raised from 65 to 67.
  - For all households with persons aged 65 to 66 which are enjoying or have enjoyed the levy concession under the aged person scheme before 1 April 2019, the $60 monthly levy continue on and after 1 April 2019.

<table>
<tr><th colspan="2">Type of Levy</th><th>Current Monthly Rate</th><th>Revised Monthly Rate (from 1 April 2019)</th></tr>
<tr><td rowspan="2">Normal</td><td>1st FDW</td><td>$265</td><td>$300</td></tr>
<tr><td>2nd FDW</td><td>$265</td><td>$450</td></tr>
<tr><td>Concessionary</td><td></td><td>$60</td><td>$60 (no change)</td></tr>
</table>

2. Carbon Tax

- As part of Singapore's commitment to address climate change and reduce emissions, carbon tax will be imposed and is applicable to all facilities producing 25,000 tonnes or more of carbon dioxide-equivalent (tCO2e) emissions in a year.

- The carbon tax will apply uniformly to all sectors without exemption.

- It will be levied on the total emissions of each of these facilities.

- The carbon tax will take the form of a fixed-price credit-based mechanism. Taxable facilities will pay the tax by purchasing and surrendering the number of carbon credits corresponding to their greenhouse emissions. These credits will be issued by the National Environment Agency at the prevailing Carbon Tax rate.

- The carbon tax rate will be set at $5 per tCO2e of emissions in the first instance, from 2019 to 2023. The first payment will be in 2020, based on emissions in 2019.

- The carbon tax rate will be reviewed by 2023 and is intended to be increased to the rate of between $10 and $15 per tCO2e by 2030.

GLOSSARY

$	:	Singapore Dollars
ASPV	:	Approved Special Purpose Vehicle
BIPS	:	Business and IPC Partnership Scheme
B2B	:	Business-to-Business
B2C	:	Business-to-Customer
BSD	:	Buyer's Stamp Duty
CIT	:	Corporate Income Tax
DTDi	:	Double Tax Deduction for Industrialisation
FDW	:	Foreign Domestic Worker Levy
FI	:	Financial Institution
FSI	:	Financial Sector Incentive
FSI-FM	:	Financial Sector Incentive – Fund Management
FWL	:	Foreign Worker Levy
GST	:	Goods and Services Tax
HDB	:	Housing Development Board
IBD-IBB	:	Insurance Business Development – Insurance Broking Business
IBD-SIBB	:	Insurance Business Development – Specialised Insurance Broking Business
IA	:	Investment Allowance
IE	:	International Enterprise Singapore
IP	:	Intellectual Property
IPCs	:	Institution of a Public Character
IRAS	:	Inland Revenue Authority of Singapore
ITA	:	Income Tax Act
MAS	:	Monetary Authority of Singapore
MOF	:	Ministry of Finance
OVR	:	Overseas Vender Registration
PIC	:	Productivity and Innovation Credit
PTE	:	Partial Tax Exemption
QDS	:	Qualifying Debt Securities incentive scheme
QDS+	:	Qualifying Debt Securities Plus incentive scheme
R&D	:	Research and Development
REITs ETFs	:	Singapore-listed Real Estate Investment Trust Exchange-Traded Fund
S-VACCs	:	Singapore Variable Capital Companies
S-REITs	:	Singapore-listed Real Estate Investment Trust
SGS	:	Singapore Government Securities
SME	:	Small and Medium Enterprise
STB	:	Singapore Tourism Board
SUTE	:	Start-Up Tax Exemption
WCS	:	Wage Credit Scheme
WHT	:	Withholding Tax
YA	:	Year of Assessment

ABOUT ACUTUS LLP

Acutus LLP was established in 1987 to provide clients with access to a spectrum of assurance, tax and advisory services throughout South East Asia.

Over the years, the Firm's professionals, operating in one of Asia's financial and high-technology hubs, have represented businesses ranging from start-ups, small-medium entrepreneurial enterprises to publicly-held business within Asia and beyond. By combining our support capabilities with proactive advisory services, we empower our clients to effectively structure, streamline and control their business operations and in the process, enhance strategic business decisions.

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On our international capabilities, Acutus is an independent member of Abacus Worldwide, an international association of independent accounting and legal firms. Through our membership, Acutus can leverage on its access to the global platform to facilitate Singapore companies' entry into Europe, United States of America, Latin America and beyond.

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