BoardRoom
Smart Business Solutions

SINGAPORE BUDGET 2013 SYNOPSIS

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The Singapore Budget 2013 was presented by the Minister for Finance, Mr Tharman Shanmugaratnam on Monday, 25 February 2013. He mentioned that this year's Budget is for a better Singapore with quality growth for an inclusive society that will provide all Singaporeans with a better quality of life. The Budget also aims to resolve the housing and transport problems which have caused much unhappiness amongst Singaporeans. Although there is tax rebate provided, it is again meant to bring greater benefits to the lower income group. For expatriates, who are provided with hotel or housing benefits, the changes in taxing values on those benefits is likely to outweigh the rebate capped at $1,500. It is clearly an attempt to address the dependency on foreign labor, especially the lower-skilled ones.

The following are some of the main changes/proposals to achieve the Government's initiatives:

AT A GLANCE

TIGHTENING FOREIGN WORKER

1 Increase in Foreign Worker Levies

Foreign Worker Levies for Work Permits and S Passes holders will increase for all sectors in 2014 and 2015.

2. Reduction in Dependency Ratio Ceiling ("DRC")

a. Work permit for Services Sector – Overall reduction from 45% to 40%

Work permit for Marine Sector - 1 local : 5 foreigners reduced to 1 local : 4.5 foreigners from 1 January 2016. Reduced further to 1 local : 3.5 foreigners from 1 January 2018.

b. S Pass for Services Sector – Reduced from 20% to 15%. New applicants will be subject to new DRC from 1 July 2013. As for existing permit holders and renewals, the new DRCs will take effect from 1 July 2015.

3. Increase in S Pass Holder Qualifying Salary

The S Pass Holder qualifying salary criteria will be increased from $2,000 to $2,200.

WAGE CREDIT SCHEME

The Wage Credit Scheme ("WCS") is part of the 3-Year Transition Support Package introduced in Budget 2013. Under the WCS, the Government will co-fund 40% of wage increases given to Singaporean employees earning a gross monthly wage of up to $4,000.

Eligibility

Employees

1. Singapore Citizen;
2. Earns a gross monthly wage less than $4,000;
3. Was employed for at least three months in 2012; and
4. Is on employer's payroll for at least three months in 2013 (i.e. employer must have paid employee CPF contributions for at least three months in 2013).

   Owners of companies or businesses are not considered as employees even if he has paid himself CPF contribution.

Qualifying employers

1. Employers need not submit any application to IRAS.
2. All employers will automatically be covered under WCS except government-related entities and entities not registered in Singapore.

Qualifying wage increases

1. WCS aims to support productivity gain sharing between employers and employees through meaningful wage increases, especially for lower wage workers.
2. Once an employee's gross monthly wage exceeds $4,000, the portion of the wage increase that brings the gross monthly wage above $4,000 will not be eligible for co-funding under WCS.

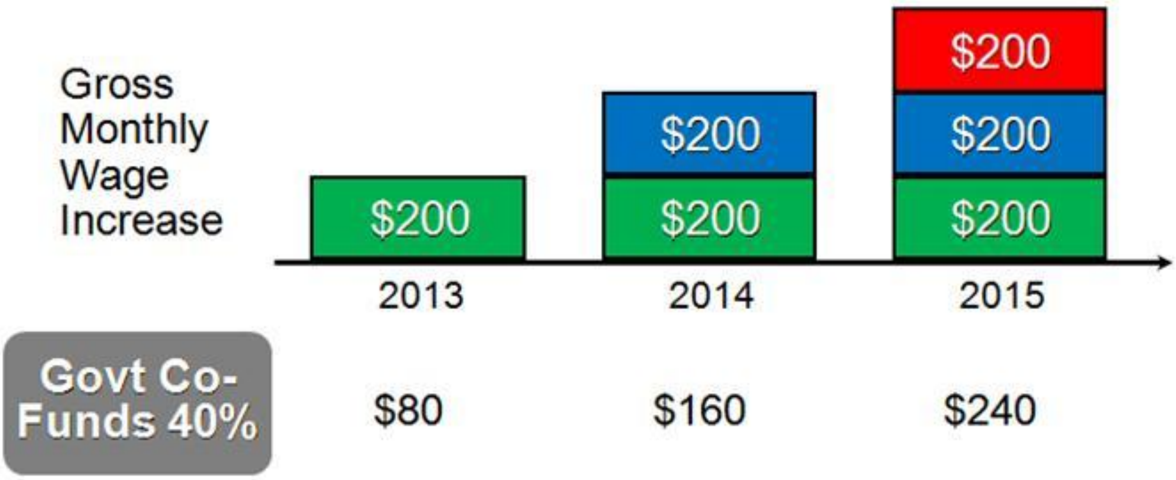
Payment of WCS payout

Eligible employers will receive a payout automatically annually. The first payout will be in the second quarter of 2014, and the last payout will be in 2016. The Wage Credit is taxable in the hands of the employers.

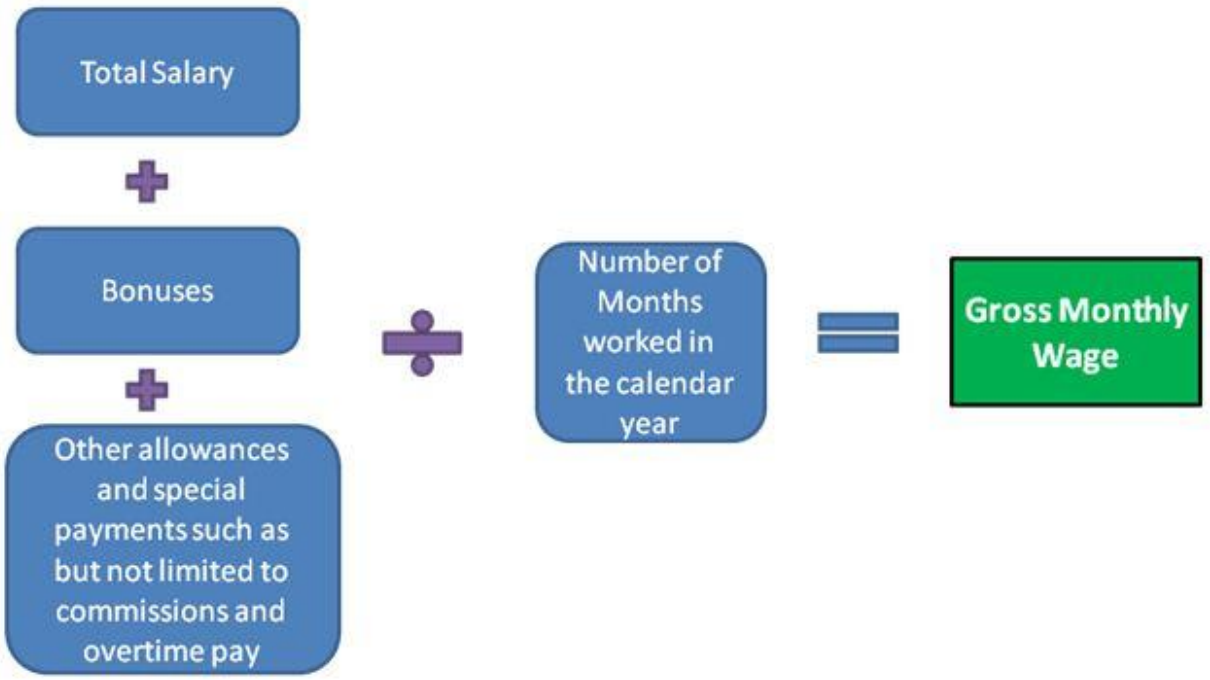
IRAS will release further details by June 2013.

Illustration of WCS benefits

- If an employer increases the gross monthly wage of his employee by $200 in 2013, the Government will co-fund 40% of the $200 wage increase and for the subsequent two years if the increase is sustained.
- If further $200 increases are given in 2014 and 2015, the Government will co-fund 40% of the further wage increases, i.e. total wage increase of $400 and $600 in 2014 and 2015, respectively.
- At the end of three years, the employer has paid a total of $14,400 more in wages to the employee and the Government has co-funded $5,760.



Gross monthly wage is the total wages paid by the employer to the employee in the calendar year, divided by the number of months in which CPF contributions were made. Total wages paid to an employee is derived from the CPF contributions that the employer makes for the employee per month based on the allowance and payments for which contributions to CPF is required. Total wages include basic salary and additional wages such as overtime pay and bonuses, and exclude employer's CPF contributions.



ENHANCED PRODUCTIVITY INCENTIVES

1. Initiatives for industry-wide collaboration

   a. Collaborative Industry Projects ("CIPs") ($100 million over three years)

   The Government will co-fund the development and adoption costs. The CIPs model will be extended to at least seven more priority sectors - Food Manufacturing, Retail, Textile & Fashion, Furniture Manufacturing, Printing & Packaging, and Social Services.

   b. PACT ($60 million over three years)

   PACT scheme encourages win-win partnerships between global manufacturers and their suppliers' capabilities through the sourcing and qualification processes, will be expanded to include additional manufacturing sectors such as food manufacturing, printing and furniture manufacturing, as well as non-manufacturing sectors, such as retail, food services, ICT and construction sectors.

2. Support for individual firms

   a. Enhancements to the Productivity and Innovation Credit ("PIC") Scheme

   The PIC scheme will be enhanced to include IP in-licensing as a qualifying activity.

b. Intellectual Property ("IP") Financing Scheme

The Government will partially underwrite the value of patents used as collateral.

c. Land Productivity Grant ($60 million over five years)

The Government will provide a Land Productivity Grant to support consultancy fees and/or domestic or overseas relocation costs for companies restructuring their operations which result in land intensification or savings of at least 0.1 hectares in Singapore. The scheme is open for applications and runs till 31 March 2017.

d. Promoting Technology Adoption in Construction

i. Tighten regulatory measures on the use of productive designs and building methods

Jul 2013	**Jul 2014**
For all projects	
Raise Buildability score (B-score)	• Further raise B-score from Jul 2013 • Review C-score requirement
Public sector projects	
Meet higher B-score and Constructability (C-) score than the minimum mandatory requirements	• Further raise B-score from Jul 2013 • Review C-score requirement

ii. Step up assistance to small, progressive firms

Enhance the Mechanisation Credit ("MechC") scheme to give more support to smaller equipment typically used by small firms, and the Productivity Improvement Project (PIP) scheme by raising the funding support for firm-level, prefabricator-level and group level projects.

3. Investing in workers

a. Lifelong Learning Endowment Fund ("LLEF")

The LLEF will be topped up by $500 million, allowing an increased expenditure of about $45 million over three years.

b. Enhancing Continuing Educating and Training ("CET")

The Government will enhance the CET scheme to provide more help for workers to upgrade their capabilities and improve productivity.

BUSINESS TAX

CORPORATE INCOME TAX REBATE

Current

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

75% tax exemption on first $10,000; and

50% tax exemption on next $290,000.

Proposed

A 30% tax rebate capped at $30,000 per Year of Assessment (“YA”), will be granted to companies for three years from YA2013 to YA2015.

The CIT rebate will be given to all companies. This includes Registered Business Trusts, companies that are not tax resident in Singapore and companies that receive income taxed at a concessionary tax rate. The rebate will not apply to the amount of income, derived by a non-resident company that is subject to final withholding tax.

Companies need not apply for the CIT rebate as IRAS will compute the amount when assessing companies' income tax returns, i.e. Form C/ Form C-S.

Comments

While the 30% tax rebate will help to cut overall business costs, this will only benefit the profitable companies, unlike the 5% cash grant capped at $5,000 given for YA2011 and YA2012, whereby companies which incurred losses were entitled to the cash grant.

Although the corporate tax rate remains at 17%, the partial tax exemption, PIC and the 30% tax rebate capped at $30,000 for YA2013 to YA2015 will result in an effective tax rate of lower than 17%.

The corporate tax rebate will be computed on the tax payable after deducting tax set-off such as foreign tax credit and unilateral tax credit. Where a company has chargeable income taxed at both concessionary and normal tax rates, the corporate tax rebate will be computed based on the aggregate gross tax payable for both concessionary and normal income.

RATIONALISING THE START-UP TAX EXEMPTION ("SUTE") SCHEME

Current

Under the SUTE scheme, a new start-up company that satisfies the qualifying conditions can claim for full tax exemption on the first $100,000 of chargeable income, and 50% tax exemption on the next $200,000 of chargeable income, for each of its first three consecutive YA.

To qualify for the SUTE scheme, a company (including a company limited by guarantee) must:

i. Be incorporated in Singapore;

ii. Be a tax resident of Singapore for that YA; and

iii. Have no more than 20 shareholders where:

   a. All of the shareholders are individuals beneficially and directly holding the shares in their own names; or

   b. At least one shareholder is an individual beneficially and directly holding at least 10% of the total number of issued ordinary shares of the company, throughout the basis period for that YA.

Proposed

SUTE will no longer be available to the following companies:

i. Property Developer that buys or leases land and arranges for a building to be built on the land in order to lease, manage or sell the building; and

ii. Investment Holding Company which derives only investment income such as rental, dividend, or interest income.

This change will take effect for start-ups incorporated from 26 February 2013.

Comments

The start-up tax exemption for encouraging entrepreneurship is not intended for property developers and investment holding companies deriving passive income. IRAS has observed that some companies are set up not for entrepreneurship and genuine commercial reasons but rather to take advantage of the tax exemption scheme. Therefore, the proposed change will not allow the property developers and investment holding companies incorporated after 25 February 2013 to claim start-up tax exemption. However, these companies can still enjoy the partial tax exemption available generally to all companies.

PRODUCTIVITY AND INNOVATION CREDIT (PIC) BONUS

Current

No PIC bonus scheme

Proposed

To encourage businesses to undertake improvement in productivity and innovation, businesses that spend a minimum of $5,000 (Capped at $15,000 for 3 years i.e. YA2013 to YA2015) in qualifying PIC investments in a YA will receive a dollar-for-dollar matching cash bonus, subject to an overall cap of $15,000 for all three YAs combined. This is given on top of the existing 400% tax deductions/allowances and/or 60% cash payout ("PIC cash payout") under the PIC scheme.

To enjoy the PIC Bonus, businesses must have made a claim for the 400% tax deductions/allowances and/or the PIC cash payout.

The PIC Bonus is taxable.

Businesses eligible for the PIC Bonus are sole-proprietorships, partnerships and companies that have:

1. incurred at least $5,000 in PIC-qualifying expenditure (refers to the amount net of grant or subsidy by the Government or any statutory board) during the basis period for the YA in which a PIC Bonus is claimed;
2. active business operations in Singapore; and
3. at least 3 local employees (Singapore citizens or Singapore permanent residents with CPF contributions) excluding sole-proprietors, partners under contract for service and shareholders who are directors of the company.

A business is considered to have met the 3-local-employees condition if it contributes CPF on the payroll of at least 3 local employees:

1. Where 400% tax deductions/allowances on qualifying PIC expenditure is claimed - in the last month of the basis period for the YA to which the deductions/allowances relates.
2. Where PIC cash payout on qualifying PIC expenditure is claimed - in the last month of the quarter or combined consecutive quarters to which the cash payout option relates.

Businesses do not need to apply for the PIC Bonus separately. Businesses can either file claims for PIC Bonus with the PIC Cash Payout Application Form, up to four times a year, or once a year with the filing of Form C. Businesses whose PIC cash payout applications for

YA2013 and/or YA2014 have already been approved by IRAS will also receive the PIC Bonus. IRAS will start disbursing the PIC Bonus for these cases from July 2013.

Filing PIC bonus claim once a year - IRAS will compute the amount of PIC Bonus for each YA upon filing of the income tax return. Businesses can expect to receive the PIC Bonus within 3 months from the date of receipt of the income tax return, provided all requisite information is submitted together with the tax return. IRAS will start disbursing the PIC Bonus from October 2013.

Filing PIC bonus up to four times a year - IRAS will compute the amount of PIC Bonus upon approval of the PIC cash payout claim submitted via the PIC Cash Payout Application Form. IRAS will generally approve the cash payout claim within three months from the date of receipt of the application, provided all requisite information is submitted at the time of application.

Computing PIC Bonus

Example

	YA2013	YA2014	YA2015
Qualifying PIC Expenditure	$6,000	$3,000	$12,000
PIC Cash Payout (1)	$3,600 ($6,000 x 60%)	$1,800 ($3,000 x 60%)	$7,200 ($12,000 x 60%)
PIC Bonus	$6,000	$0 (2)	$9,000 (3)
Total PIC Benefits	**$9,600**	**$1,800**	**$16,200**

(1) Computed based on 60% of qualifying PIC qualifying expenditure. In this example, the business applies for cash payout for YA2013 to YA2015. Businesses that claim 400% tax deductions/allowances in any or all the three YAs will also be eligible for the PIC Bonus.

(2) PIC Bonus is not given as qualifying PIC expenditure incurred during YA2014 is less than $5,000.

(3) PIC Bonus cap of $15,000 less PIC Bonus given in YA2013 of $6,000.

<u>Comments</u>

The PIC bonus should be an added encouragement for companies to invest more to raise productivity. Although it is capped at $15,000, it is still an added incentive, especially for SMEs.

ENHANCING THE PRODUCTIVITY AND INNOVATION CREDIT ("PIC") SCHEMETO INCLUDE INTELLECTUAL PROPERTY ("IP") IN-LICENSING

Current

IP acquisition and registration are qualifying activities under the PIC scheme, but in-licensing of IP is not a qualifying activity.

PIC IT and automation equipment refers to any IT and automation equipment that is prescribed by the Minister for the purposes of PIC.

In line with the objective to improve productivity, it was announced in Budget 2013 that the prescribed list of IT and automation equipment qualifying for PIC will be expanded to allow more equipment to qualify for PIC automatically.

To increase Singapore's attractiveness as an international intellectual property holding location, writing-down allowances will be granted on capital expenditure incurred in acquiring intellectual property rights ("IPRs") under Section 19B of the Income Tax Act.

The writing-down allowances will apply to capital expenditure incurred by a company from 1 November 2003 to the last day of the basis period for YA2015 in acquiring IPRs for use in its trade or business.

For the purpose of claiming writing-down allowances, IPRs mean:

- Patent;
- Copyright;
- Trademark;
- Registered design;
- Geographical indication;
- Lay-out design of integrated circuit;
- Trade secret or information with commercial value; and
- Plant variety (with effect from YA2011).

To be eligible for writing-down allowances, the transferee (i.e. company that acquires the IPR) must acquire the legal and economic ownership of the IPR from the transferor (i.e. person who sells the IPR to the transferee). Legal ownership means the legal assignment of the IPR is granted to the transferee. Economic ownership means the future economic benefits attributable to the IPR will accrue to the transferee.

Writing-down allowances will be granted to the transferee on a straight-line basis over a 5-year period on the capital expenditure incurred in acquiring the IPR. For this purpose, "capital expenditure" excludes legal fees, registration fees, stamp duty and other costs related to the acquisition of the IPR.

For approved IPRs acquired from 22 January 2009 to the last day of the basis period for YA2015 on:

- Films;
- Television programmes;
- Digital animations or games; or
- Other media and digital entertainment contents.

by an approved media and digital entertainment company for the purpose of its trade, writing-down allowances shall be granted over two years instead of five years on the capital expenditure incurred on the acquisition of these IPRs.

Proposed

To help businesses that license IP rights instead of acquiring the IP for innovation or productivity improvements, the PIC scheme will be enhanced to include IP in-licensing as a qualifying activity. This enhancement is aimed at helping businesses, especially SMEs that license IP rights rather than acquire the IP for innovation or productivity improvements.

The enhancement extends the qualifying activities under "Acquisition of Intellectual Property" to include IP in-licensing. Cost of IP acquisition and in-licensing of IPs will be eligible for enhanced allowance/ deductions under the PIC scheme, up to a combined cap of $400,000 per YA. Similarly, cost of IP acquisition and in-licensing of IPs will qualify for a cash payout under PIC, subject to conditions.

This change will take effect for IP in-licensing costs incurred from YA2013 to YA2015.

The current PIC qualifying activity of "Acquisition of Intellectual Property" will be renamed to "Acquisition and In-Licensing of Intellectual Property" to reflect the change.

IRAS will release further details by April 2013.

Comments

Based on clarification by the Minister of Finance, IP in-licensing is not intended to cover franchising arrangements.

LIBERALISING THE SCOPE OF PIC AUTOMATION EQUIPMENT

Current

Businesses can claim enhanced capital allowance/deduction on the expenditure incurred to acquire or lease qualifying automation equipment.

A prescribed list of automation equipment provides tax certainty to businesses for their PIC claims as automation equipment on the prescribed list qualifies for PIC automatically.

Where the automation equipment is not on the prescribed list, taxpayers can still apply, on a case-by-case basis, to IRAS to seek approval to claim enhanced allowance/ deduction under the PIC scheme. IRAS would assess the equipment based on the following criteria:

i. The equipment automates the current core work processes of the business;

ii. The equipment enhances the productivity of the principal trade of the business (for example in terms of reduced man-hours, more output or improved work processes); and

iii. The equipment is not a basic tool used in the business. If it is a basic tool:

   a. It must have more advanced/ superior technology than existing automation equipment used in performing a similar function in the business; or
   b. No other automation equipment performing a similar function has been used in the business before.

Qualifying activities:

- Acquisition or leasing of PIC Information Technology (IT) and Automation Equipment;
- Training of employees;
- Acquisition and In-licensing of Intellectual Property Rights;
- Registration of patents, trademarks, designs and plant varieties;
- Research and development activities; and
- Design projects approved by Design Singapore Council.

Businesses have to obtain prior approval from the Design Singapore Council for their design projects. For the other five activities, approval is not required to claim the tax benefits under PIC.

Proposed

For equipment that is not on the prescribed list, IRAS will assess and grant approval for PIC benefits based on the following liberalised conditions:

i. The equipment automates or mechanises, whether in whole or in part, the work processes, whether core or non-core of the business; and
ii. The equipment enhances productivity of the business.

Equipment that is a basic tool will be allowed, so long as:

- It increases productivity compared to the existing equipment used in the business; or
- It has not been used in the business before.

The term “automation equipment” is also changed to “IT and automation equipment” as PIC already supports IT-related software besides automation equipment.

The prescribed equipment list will be updated regularly to take into account feedback from businesses.

The above changes will take effect from YA2013.

IRAS has released the updated equipment list on their website on 26 February 2013.

Comments

The liberalization to remove the need to distinguish between core and non-core work processes, and include basic tools which increase the productivity of the company will enable more businesses to claim PIC. This will help to reduce the business costs and increase the productivity. This is in-line with the Government’s effort to improve the productivity growth.

Currently, tax payers may still apply for approval in respect of non-prescribed automation equipment even after the capital expenditure has been incurred. The application has to be submitted to IRAS at least two months before the income tax filing due date. IRAS has indicated in its website that the processing time for such application will be reduced from current two months to three weeks.

EXTENDING AND ENHANCING THE FINANCIAL SECTOR INCENTIVE (“FSI”) SCHEME

Current

The FSI scheme comprises 12 separate awards that grant concessionary tax rates of 5%, 10% and 12% on income from qualifying financial activities. These are:

1	FSI-Standard Tier (“FSI-ST”) award	12%
2	FSI-Fund Management award (“FSI-FM”)	10%
3	FSI-Headquarter Services award (“FSI-HQ”)	10%
4	FSI-Bond Market award (“FSI-BM”)	5%
5	FSI-Equity Market award (“FSI-EM”)	5%
6	FSI-Credit Facilities Syndication award (“FSI-CFS”)	5%
7	FSI-Derivatives market award (“FSI-DM”) There are five separate sub-awards - FSI-DM (Financial Derivatives) - FSI-DM (OTC commodity Derivatives) - FSI- DM (Exchange Traded Commodity Derivates) - FSI-DM (OTC and Exchange Traded Commodity); and - FSI- DM (Financial, OTC and Exchange Traded Commodity Derivates)	5%
8	FSI-Islamic Finance (“FSI-IF”) award	5%

The FSI scheme will expire on 31 December 2013. The FSI-IF award will expire on 31 March 2013.

Proposed

The FSI scheme (excluding the FSI-IF award) will be extended for five years to 31 December 2018, and will be refined as follows:

i. The five separate FSI-DM sub-awards will be merged to form a single FSI-DM award;
ii. The FSI-BM and FSI-EM awards will be merged to form a single FSI-Capital Markets ("FSI-CM") award;
iii. Withholding tax exemption will be granted automatically to FSI-HQ award recipients on interest payments made during the period of their FSI-HQ award for qualifying loans. This will take effect from 25 February 2013;
iv. The range of incentivised activities and financial instruments will be broadened for the FSI-ST, FSI-CM and FSI-CFS awards; and
v. The FSI-IF award will be allowed to expire on 31 March 2013. The existing qualifying Islamic Finance activities will be incentivised under the FSI-ST award.

Unless otherwise specified, the changes will take effect from 1 January 2014. Existing award recipients can continue with their awards till the end of their award tenures.

The Monetary Authority of Singapore ("MAS") will release further details by end June 2013.

Comments

The extension for another five years for the FSI scheme is expected to enable the continued growth of high-value financial services.

EXTENDING AND REFINING THE QUALIFYING DEBT SECURITIES ("QDS") AND QUALIFYING DEBT SECURITIES PLUS ("QDS+") INCENTIVE SCHEME

Current

The QDS scheme offers the following tax concessions on qualifying income from QDS:

i. 10% concessionary tax rate for qualifying companies and bodies of persons in Singapore; and

ii. Tax exemption for qualifying non-residents and qualifying individuals.

To qualify as QDS, debt securities must be substantially arranged by financial institutions ("FIs") in Singapore.

The QDS+ scheme grants tax exemption for all investors on qualifying income derived from QDS that are:

i. Debt securities (excluding Singapore Government Securities) with an original maturity of at least 10 years; and
ii. Islamic debt securities or sukuk.

The QDS and QDS+ schemes will expire on 31 December 2013.

Proposed

To further promote Singapore's debt market, the QDS scheme will be extended for five years to 31 December 2018.

For debt securities issued during the period of 1 January 2014 to 31 December 2018, the requirement that the QDS has to be substantially arranged in Singapore will be rationalized to ease compliance for issuers.

The QDS+ scheme will also be extended for five years to 31 December 2018. The QDS+ scheme will be refined to allow debt securities with standard early termination clauses to qualify for the QDS+ scheme, subject to conditions.

MAS will release further details by end June 2013.

Comments

Again, the extension of five years is as expected.

EXTENDING THE TAX EXEMPTION ON INCOME DERIVED BY PRIMARY DEALERS FROM TRADING IN SINGAPORE GOVERNMENT SECURITIES

Current

Tax exemption is granted on income derived by primary dealers from trading in Singapore Government Securities.

The tax exemption will expire on 31 December 2013.

Proposed

To continue encouraging trading in Singapore Government Securities, the tax exemption on income derived by primary dealers from trading in Singapore Government Securities will be extended for five years to 31 December 2018.

EXTENDING THE TAX INCENTIVE SCHEME FOR APPROVED SPECIAL PURPOSE VEHICLE ("ASPV") ENGAGED IN SECURITISATION TRANSACTIONS ("ASPV Scheme").

Current

The ASPV scheme grants the following tax concessions to an ASPV engaged in asset securitisation transactions:

i. Tax exemption on income derived by an ASPV from approved asset securitisation transactions;
ii. GST recovery on its business expenses at a fixed rate of 76%;
iii. Remission of stamp duties on the instrument of transfer of assets to the ASPV for approved asset securitisation transactions; and
iv. Tax exemption on payments to qualifying non-residents on over-the-counter financial derivatives in connection with an asset securitisation transaction.

The scheme will expire on 31 December 2013.

Proposed

To continue developing the structured debt market, the ASPV scheme will be extended for five years to 31 December 2018.

MAS will release further details by end May 2013.

ENHANCING THE TAX EXEMPTION SCHEME FOR THE UNDERWRITING OF OFFSHORE SPECIALISED INSURANCE RISKS

Current

Insurers and reinsurers on this scheme can currently enjoy tax exemption on qualifying income derived from the following qualifying offshore specialised insurance lines:

i. Terrorism risks;
ii. Political risks;
iii. Energy risks;
iv. Aviation and Aerospace risks; and
v. Agricultural risks.

The scheme will expire on 31 August 2016.

Proposed

To encourage the underwriting of severe and volatile catastrophe risks from Singapore, tax exemption will be granted on qualifying income derived from offshore Catastrophe Excess of Loss ("CAT-XOL") reinsurance layers.

This change will take effect from 25 February 2013.

MAS will release further details by end April 2013.

Comments

In view of the few disasters, e.g. tsunami in Japan, floods in Thailand, etc, which happened, it makes sense for Singapore to incentivize this reinsurance risk.

EXTENDING AND ENHANCING THE TAX INCENTIVE SCHEME FOR OFFSHORE INSURANCE BROKING BUSINESS

Current

Insurance and reinsurance brokers on this scheme can enjoy a 10% concessionary tax rate on fees and commissions derived from the provision of insurance broking and advisory services to clients that are not based in Singapore.

The scheme will expire on 31 March 2013.

Proposed

To support Singapore's position as a major regional insurance and reinsurance hub, the scheme will be extended for five years to 31 March 2018.

Insurance broking activities will be incentivised if the risks being insured or reinsured are offshore risks. Advisory services will continue to be incentivised for services provided to clients that are not based in Singapore.

To accelerate the development of the specialty insurance cluster in Singapore, a new 5%-tier award for the offshore specialty insurance broking business will be introduced. Insurance and reinsurance brokers who are granted the new award can enjoy a 5% concessionary tax rate on fees and commissions derived from the provision of qualifying specialty insurance broking and advisory services.

These changes will take effect from 1 April 2013.

MAS will release further details by end April 2013.

ALLOWING THE OFFHORSE INSURANCE BUSINESS SCHEME FOR ISLAMIC INSURANCE AND REINSURANCE TO EXPIRE

Current

Approved insurers and reinsurers can enjoy a 5% concessionary tax rate on qualifying income derived from offshore Islamic insurance (*takaful*) and reinsurance (*retakaful*) businesses.

The scheme will expire on 31 March 2013.

Proposed

As the objective of the scheme no longer merits a tax incentive, the scheme will be allowed to expire on 31 March 2013. Insurers which conduct offshore Islamic insurance and reinsurance activities may apply to MAS for the existing 10% Offshore Insurance Business Scheme.

EXTENDING THE MAXIMUM TENURE OF THE MARITIME SECTOR INCENTIVE – APPROVED INTERNATIONAL SHIPPING ("MSI-AIS") AWARD

Current

The MSI-AIS award incentivises international shipping enterprises to base their operations in Singapore. It confers tax exemption on qualifying income derived from international shipping operations.

Currently, companies are granted the MSI-AIS award for a 10-year period, with the possibility of renewal up to a maximum tenure of 30 years, subject to conditions.

Proposed

The maximum tenure of the MSI-AIS award will be increased from 30 years to 40 years. Companies can be granted the MSI-AIS award for a 10-year period, with the possibility of renewal up to a maximum tenure of 40 years, subject to conditions.

ALLOWING THE DEDUCTION SCHEME FOR UPFRONT LAND PREMIUM TO EXPIRE

Current

This scheme allows businesses to claim a tax deduction for upfront land premium paid to JTC or HDB in respect of a designated lease for the construction or use of a building for carrying on qualifying activities, subject to conditions. The lease must be granted from 1 January 1998 to 27 February 2013.

Proposed

This scheme was introduced in 1998 to assist lessees who pay upfront land premium in respect of leases of industrial land to encourage industrialisation. The Minister has assessed the scheme to be no longer relevant. As such, the scheme will be allowed to expire for leases granted on or after 28 February 2013.

ALLOWING THE FURTHER TAX DEDUCTION SCHEME FOR EXPENSES INCURRED IN RELOCATION OR RECRUITMENT OF OVERSEAS TALENT TO EXPIRE

Current

Employers can claim further tax deduction in respect of prescribed expenses incurred in the recruiting and relocating of overseas talents and their families to Singapore.

The further tax deduction is allowed if the prescribed expenses are incurred during the period from 1 October 1998 to 30 September 2013.

Proposed

As the objective of the scheme no longer merits a tax incentive, the scheme will be allowed to expire on 30 September 2013.

Comments

This is in-line with the Government's long term plan on avoiding dependency on foreign labor.

ALLOWING THE TAX INCENTIVE SCHEME FOR FAMILY-OWNED INVESTMENT HOLDING COMPANIES TO EXPIRE

Current

This scheme grants tax exemption on qualifying locally-sourced investment income and foreign-sourced income to family-owned investment holding companies.

The scheme will expire on 31 March 2013.

Proposed

As the objective of the scheme no longer merits a tax incentive, the scheme will be allowed to expire on 31 March 2103.

Comments

This scheme was introduced to provide a more equal treatment similar to that of individuals, since a family-owned investment company consists of only individuals. Although, exemption on certain foreign sourced income is now available to a company, there is still local sourced income like interest from approved banks, where exemption is only available to individuals. We are therefore unable to understand why this scheme no longer merits a tax incentive.

WITHDRAWING THE OVERSEAS ENTERPRISE INCENTIVE SCHEME ("OEI")

Current

An approved company is granted tax exemption on qualifying income from approved overseas investments or projects for a maximum period of ten years.

Proposed

With broad-based changes to the tax regime for foreign-sourced income in past years, the scheme is assessed to be no longer relevant. The OEI will be withdrawn from 25 February 2013

Comments

Most companies are able to enjoy the tax exemption benefits on foreign-sourced dividend income, service income and branch profit, when conditions are met. OEI scheme is therefore no longer attractive.

WITHDRAWING THE APPROVED CYBER TRADER SCHEME

Current

The ACT scheme was introduced to position Singapore as an electronic commerce hub, and grants the following concessions:

i. 10% tax rate on incremental income from qualifying e-commerce transactions;

ii. Investment allowance of up to 50% of the cost of qualifying new fixed capital expenditure (e.g. investments in server farms); and

iii. Full or partial exemption of withholding tax on qualifying payments (e.g. royalties, licence fees).

Proposed

As the objective of the scheme no longer merits a tax incentive, the ACT scheme will be withdrawn from 25 February 2013.

INDIVIDUAL TAX

Personal tax rebate

All Resident Individual Taxpayers will be given a Personal Income Tax Rebate for YA2013

Current

Nil

Proposed

i. Resident-individual taxpayers aged below 60 years as at 31 December 2012 will be given a 30% rebate, capped at $1,500 per taxpayer for YA2013;
ii. Resident-individual taxpayers aged 60 years and above as at 31 December 2012 will be given a 50% rebate, capped at $1,500 per taxpayer for YA2013.

Comments

The tax rebate will benefit individuals. In particular, it should provide some help to the lower income group.

RATIONALISING THE TAXATION OF ACCOMMODATION BENEFITS

Current

The taxable value of housing accommodation, hotel accommodation and furniture and fittings benefits provided by the employer to the employee are calculated as follows:

1. The taxable value of housing accommodation is the lower of 10% of employment income, or the annual value of the premises, less rent paid by employee;

2. The taxable value of hotel accommodation is computed based on the following taxable values:

	Rate per person per month ($)
Self	250
Spouse	250
Child > 20 years old	250
Children:	
• < 3 years old	25
• 3 – 7 years old	50
• 8 to 20 years old	100

Plus 2% of base salary relating to the period of hotel stays.

3. The taxable value of furniture and fittings are based on a prescribed list indicating the taxable value for each item.

Proposed

The government will tax the accommodation benefits enjoyed by employees according to market value:

1. The taxable value of housing accommodation will be the annual value of the premises, less rent paid by employee.

2. The taxable value of hotel accommodation will be the actual cost of the hotel stay benefit provided to the employee.

3. The taxable value of furniture and fittings will be based on a percentage of the annual value of the housing accommodation.

These changes will take effect from YA2015

IRAS will release further details by October 2013.

Comments

The proposed change will substantially increase the taxable benefits of the employees who are provided with accommodation by their employers, especially expatriates. This will increase the business operating costs if the employers agree to absorb the additional tax on these taxable benefits. This appears to be in-line with the Government's effort to reduce foreign workers and control of housing costs in Singapore.

PHASING OUT THE EQUITY REMUNERATION INCENTIVE SCHEMES ("ERIS")

Current

There are three ERIS schemes to encourage companies to use equity-based remuneration.

i. The ERIS (Start-ups) provides employees of qualifying start-up companies tax exemption on 75% of qualifying gains arising from the Employee Share Options Plans ("ESOPs") or Employee Share Ownership Plans ("ESOWs"), capped at $10 million over a 10-year period, subject to conditions. This applies to stock options or shares granted during the period from 16 February 2008 to 15 February 2013 (both dates inclusive).

ii. The ERIS (SMEs) provides employees of qualifying SMEs tax exemption on 50% of qualifying gains arising from ESOPs or ESOWs, capped at $10 million over a 10-year period, subject to conditions.

iii. The ERIS (All Corporations) provides employees of qualifying companies' tax exemption on the first $2,000 of qualifying gains, and on 25% of the remaining qualifying gains arising from ESOPs or ESOWs, capped at $1 million over a 10-year period, subject to conditions.

Proposed

The ERIS (Start-ups) has expired on 15 February 2013 and will not be renewed. The employee will continue to enjoy partial tax exemption as long as the stock options or shares are granted on or before 15 February 2013 and the gains are derived on or before 31 December 2023.

The ERIS (All Corporations) and the ERIS (SMEs) will expire with effect from 1 January 2014. The employee will continue to enjoy partial tax exemption under the relevant scheme in respect of the stock options or shares are granted on or before 31 December 2013 and the gains are derived on or before 31 December 2023.

Comments

The ERIS schemes were introduced to encourage employers to use share benefits to attract and retain talent and to encourage entrepreneurship. However, the Government now felt that it is necessary to rationalize the tax treatment of remuneration, regardless of the form, for employees.

OTHERS

PROPERTY TAX

More Progressive Property Tax Structure for Residential Properties

To further enhance the progressivity of the property tax structure, residential properties with higher Annual Value ("AV") will be taxed at higher rates.

The progressivity of the tax rates for owner-occupied residential properties will be enhanced over two years as follows:

Annual Value	Tax Rates from 1 Jan 2014	Tax Rates from 1 Jan 2015
First $8,000	0%	0%
Next $47,000	4%	4%
Next $5,000	5%	6%
Next $10,000	6%	6%
Next $15,000	7%	8%
Next $15,000	9%	10%
Next $15,000	11%	12%
Next $15,000	13%	14%
AV in excess of $130,000	15%	16%

Non-owner-occupied residential properties will be taxed at the following new progressive tax rates:

Annual Value	Tax Rates from 1 Jan 2014	Tax Rates from 1 Jan 2015
First $30,000	10%	10%
Next $15,000	11%	12%
Next $15,000	13%	14%
Next $15,000	15%	16%
Next $15,000	17%	18%
AV in excess of $90,000	19%	20%

The property tax rate for land and non-residential properties remains unchanged at 10%.

IRAS will release further details by June 2013.

REMOVING THE PROPERTY TAX REFUND CONCESSION FOR VACANT PROPERTIES AND TAX TREATMENT FOR VACANT PROPERTIES

The government will remove the property tax refund concession and streamline the tax treatment of vacant properties as follows:

1. Properties that are vacant despite reasonable efforts by the owners to find a tenant will no longer enjoy property tax refund;

2. Properties undergoing repairs to render them fit for occupation will no longer enjoy property tax refunds.

   However, if residential properties undergoing repairs are intended for owner-occupation, the owners can apply to IRAS to be taxed at the owner-occupier residential property tax rates for the duration of repairs (up to a maximum of two years). The property must be owner-occupied for at least one year after the completion of the repairs;

3. Residential properties that are fit for occupation and are undergoing building works for owner-occupation will no longer enjoy property tax refund.

   However, the owner can apply to IRAS to be taxed at the owner-occupier residential property tax rates for the duration of building works (up to a maximum of two years). The property must be owner-occupied for at least one year after the completion of the building works;

4. Vacant land undergoing residential development intended for owner-occupation can be taxed at the owner-occupier residential property tax rates for the duration of the residential development (up to a maximum of two years), upon application to IRAS. The property must be owner-occupied for at least one year after the completion of the residential development.

The above changes will take effect from 1 January 2014.

IRAS will release further details by June 2013.

Comments

This is a further attempt to curb property speculation.

TIERING OF THE ADDITIONAL REGISTRATION FEE ("ARF") FOR VEHICLE TAX

A tiered ARF structure will replace the existing flat ARF rate of 100% of OMV for passenger cars.

ARF for car models with OMVs up to $20,000 will remain at the current 100%. The next $30,000 of the value of the car will attract an ARF rate of 140% and any value above $50,000 will attract an ARF rate of 180%.

The tiered ARF structure will apply to vehicles registered with Certificates of Entitlement ("COEs") obtained from the first COE bidding exercise in March 2013.

ROAD TAX REBATE

A 30% road tax rebate will be granted for goods vehicles (including goods-cum-passenger vehicles), buses and taxis for one year. The rebate will take effect on 1 July 2013.

FURTHER FIVE-YEAR CERTIFICATE OF ENTITLEMENT ("COE") RENEWAL FOR COMMERICAL VEHICLES

Allow owners who choose to renew their COEs for five years in the first instance to extend their COEs further for another five years.

TOBACCO TAX

To harmonise the tax rates between cigarette and non-cigarette tobacco products which started two years ago, the excise duties will be raised for Beedies, Ang Hoon and Smokeless tobacco by 25% from $239 per kilogram to $290 per kilogram, and unmanufactured tobacco by 1.5% from $347 per kilogram to $352 per kilogram.

ENHANCEMENT OF WORKFARE INCOME SUPPLEMENT ("WIS") SCHEME AND CPF CONTRIBUTION RATES FOR LOW-INCOME WORKERS

The changes to the scheme are:

1. Expand income cap from $1,700/month to $1,900/month;

2. Increase WIS payouts from $2,800 to $3,500 per year for employees aged 60 years and above. Employees at other age tiers will also see increases to the maximum payout of between $350 to $700.

Age Group	Current Max WIS Payout for Employees*	Revised Max WIS Payout for Employees*
35-44	$1,050	$1,400 (33%↑)
45-54	$1,400	$2,100 (50%↑)
55-59	$2,100	$2,800 (33%↑)
60 & above	$2,800	$3,500 (25%↑)

*WIS Payouts for Self-employed persons are 2/3rds that for employees

3. Give more WIS in cash

   Employees will receive 40% of their WIS payouts in cash, an increase from about 29% today. Self-employed persons will receive 10% of their WIS payouts in cash. Previously, WIS for self-employed persons was paid entirely into their Medisave accounts

4. Increase WIS payments to CPF Medisave and Special Accounts

   More will be channeled into CPF Medisave and Special Accounts equally.

5. Additional criteria to improve targeting of WIS

   i. Individual who does not own two or more properties; and

   ii. For a married individual,

      a. He and his spouse together do not own two or more properties, and

b. The Assessable Income of his spouse does not exceed $70,000, which is above the 80th percentile income of full-time employed Singapore Citizens.

The changes will apply to work done from 1 January 2013 onwards. This means that the first WIS payment under the enhanced scheme will be made to employees on 1 June 2013 for work done from January to March 2013. Employees will automatically be assessed for WIS every quarter based on their monthly CPF contributions. Self-employed persons will need to declare their annual net trade income and make Medisave contributions by 31 March 2014 to receive WIS on 1 May 2014.

CHANGES TO CPF CONTRIBUTION RATES FOR LOWER-INCOME WORKERS

1. New CPF contribution rates for employees earning above $50 to $1,500

Income	CPF Contribution rates	
	Employer	**Employee**
>$50 to ≤$500	Raised to the full CPF contribution rates of workers earning ≥$1,500.	No mandatory CPF contributions required.
>$500 to <$750		Gradually increases with wage, from 0% (at income of $500/month) to the full contribution rates (at income of $750/month).
$750 to <$1,500		Raised to the full CPF contribution rates of workers earning ≥$1,500.

2. New Medisave contribution rates for self-employed persons earning Net Trade Income (NTI) of above $6,000 to $18,000

Starting from 1 January 2014, self-employed persons earning an annual NTI of above $6,000 to $12,000 will be required to contribute half (instead of the current one-third) of the full Medisave contribution rate relevant to their age group. For self-employed persons who earn NTI of above $12,000 to $18,000, the contribution rate will increase with income, from half of the full rate (at NTI of $12,000) to the full contribution rate (at NTI of $18,000).

GST VOUCHER SPECIAL PAYMENT

The Government will provide an extra GST Voucher, on top of the permanent GST Voucher, in 2013 to help households with their cost pressures

GSTV – Cash Special Payment

Assessable Income for YA2012	Annual Value (AV) of Home as at 31 Dec 2012	
	≤ $13,000	$13,001 to $21,000
≤ $24,000	$250	$100

GSTV – Medisave Special Payment

Age in 2013	AV of Home as at 31 Dec 2012	
	≤ $13,000	$13,001 to $21,000
65-74	$250	$150
75-84	$350	$250
≥85	$450	$350

GSTV – U-Save Special Payment (per household)

Flat Type	Jul 2013	Jan 2014	Total GST Voucher – U-Save Special Payment
1-2 Room	$130	$130	$260
3 Room	$120	$120	$240
4 Room	$110	$110	$220
5 Room	$100	$100	$200
Executive	$90	$90	$180

REDUCED CONCESSIONARY FOREIGN DOMESTIC WORKER LEVY

To reduce costs for families with Singaporean dependants such as children, elderly parents and family members with disabilities, the concessionary foreign domestic worker levy will be reduced from $170 to $120 per month. This means a family will save an additional $600 a year.

This will take effective from 1 March 2013.

This synopsis is prepared by the tax division of **Boardroom Limited**, one of Asia's leading providers of corporate and advisory services. In addition to tax, Boardroom offers an integrated suite of services comprising accounting & finance, corporate secretarial, human resource & payroll, internal audit and risk management, and shareholder services.

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