Singapore Budget 2014 Synopsis

BoardRoom
Smart Business Solutions

Overview

The Government has embarked on an economic restructuring path initiated by the Economic Strategies Committee (ESC) in 2010. The objective is to achieve GDP growth by expanding productivity rather than the work force. This productivity-driven growth strategy will require new investments in the skills, expertise and innovative capabilities of our people and businesses over the next decade.

This year's Budget continues the same emphasis on economic restructuring by helping local businesses in their upgrading through adoption of information technologies, investment in R&D and employees' skills upgrade. SMEs in particular will welcome the extension of the Productivity and Innovation Credit (PIC) scheme for another three years and the introduction of the new PIC-plus scheme, which will raise expenditure caps for PIC-qualifying activities by 50 per cent. Also helpful is the extension of the 50 per cent additional tax deduction on qualifying R&D expenditure for another 10 years, which provides tax certainty for this long-haul activity.

In terms of the proposed non-tax changes, the incentives for the adoption of information and communications technology products and services will be equally welcomed by both users and vendors. The Budget also fills some of the other gaps faced by SMEs in the areas of start-up funding and support for internationalisation. The proposed tax measures and some of the key non-tax changes are further explored in the synopsis.

We hope you will find our Budget publication of assistance in understanding the measures and initiatives unveiled in Budget 2014.

If you need any clarification or advice, please contact your usual business advisors at BoardRoom.

Singapore Budget 2014

Key Measures for Business

1. Tax incentives to support Innovation and Skills Enhancements to Productivity and Innovation Credit Scheme

- PIC scheme extended till Year of Assessment (YA) 2018
- New PIC+ scheme introduced for qualifying SMEs (effective from YA 2015 to YA 2018)
- PIC benefits allowed on training expenses on individuals hired under centralised hiring arrangements (effective YA 2014)

2. Renewal of R&D Tax Incentives

- 50% additional tax deduction on qualifying R&D expenditure extended till YA2025
- Incentives for EDB-approved R&D projects and for acquisition of IPR extended till YA2020

3. Renewal of Tax Incentives for Intellectual Property Rights (IPR)

- The 5-year writing down allowance scheme for IPR extended till YA2020
- The 2-year writing down allowance scheme for IPR applicable to Media and Digital Entertainment companies extended till YA2018

4. Extension and Enhanced to Land Intensification Allowance Scheme

- Scheme extended till 30 June 2020
- Scheme extended to logistics sector and qualifying activities on airport and port land

5. Government Subsidies for ICT Solutions

- IDA will susbidise 70% of qualifying costs on adoption of proven ICT-based productivity solutions
- IDA will fund 80% of qualifying costs to pilot emerging technology solutions
- IDA will provide a 50% subsidy on fibre subscription plans of at least 100Mbps for up to 2 years
- IDA will provide a one-time subsidy of up to $2,400 for businesses to implement Wireless@SG services
- IDA will subsidise building owners for up to 80% of the costs of new in-building infrastructure for fibre broadband, up to a maximum of $200,000 per qualifying building.

6. More Government Support for Growth Enterprises

- Government will provide up to $150 million to co-invest with private sector to catalyse more patient growth capital for Singapore-based enterprises
- Micro-Loan Programme enhanced to raise Government's risk-share for loans to young SMEs, from 50% to 70% for 2 years

7. More Support for Companies Venturing Overseas

- Maximum loan quantum supported by Internationalisation Finance Scheme will be raised from $15 million to $30 million for 2 years
- Support level for pilot and test bedding projects under the Global Company Partnership will be raised from 50% to 70%

8. Renewal and Enhancement of Tax incentives for Asset Management Industry
- Extending and refining existing tax incentive schemes for qualifying funds
- Extending Concession of GST recovery for qualifying funds till 31 March 2019
- Enhancing the Foreign-Sourced Income Exemption Scheme for Listed Infrastructure RBTs

9. Measures to Improve Productivity in Construction Industry
- Increase levies for basic-skilled workers to encourage employment of skilled workers
- A new Market-based Skills Recognition Framework will be introduced to allow Basic Skilled workers to upgrade
- Mandate use of productive technologies on selected Government Land Sales sites
- Increase in buildability and constructability scores for private projects from September 2014

Other Measures

Reducing tax compliance costs
- No withholding requirements for interest and royalty payments made to Singapore branches of non-resident companies.
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CPF Contribution Rate
- Increase in Employer CPF Medisave Contribution Rates by 1 percentage point from January 2015
- Impact will be alleviated through a one-year Temporary Employment Credit
- Increase in CPF Contribution Rates for Older Workers to boost the retirement adequacy of older workers

Stamp Duty
- Streamlining the basis and calculation of stamp duty for leases, share transfers & mortgages, land premiums & property purchases

Tobacco and Liquor
- Increase in Tobacco Excise Duties and Liquor Excise Duties by 10% and 25% respectively (effective 21 Feb 2014)

Contents

1 TAX INCENTIVES TO SUPPORT INNOVATION AND SKILLS

1.1 ENHANCEMENTS TO PRODUCTIVITY AND INNOVATION CREDIT SCHEME

1.1.1 Extending the PIC Scheme

Current Treatment:

The Productivity and Innovation Credit (PIC) scheme provides for 400% tax deductions on up to S$400,000 of qualifying expenditure incurred on each of the six qualifying activities in each YA:

1. Acquisition/ Leasing of Information Technology ("IT") and Automation Equipment
2. Training of employees
3. Acquisition/ In-licensing of Intellectual Property Rights (IPRs)
4. Registration of qualifying IPRs
5. Research and Development activities
6. Design projects approved by DesignSingapore Council

The PIC scheme is available from YA 2011 to YA 2015. Businesses are allowed to combine the S$400,000 expenditure cap per activity. For YA 2013 to YA 2015, the combined expenditure cap is S$1.2m.

In lieu of the above tax deduction, businesses may opt to convert the qualifying expenditure into a non-taxable cash payout. For YA 2013 to YA 2015, the cash payout rate is 60% of up to S$100,000 of qualifying expenditure across the six activities. The expenditure cap of S$100,000 is not allowed to be combined across the three YAs.

New Treatment:

To give businesses more time to put in place productivity improvements, the PIC scheme will be extended for three years till YA2018.

For enhanced tax deductions, the expenditure cap of S$400,000 of qualifying expenditure per activity will be combined across YA2016 to YA2018 (i.e. S$1.2 million per qualifying activity). The expenditure cap of S$100,000 for PIC cash payout cannot be combined across the three YAs, as is the case currently.

1.1.2 Introducing PIC+ for SMEs

New Scheme:
A new PIC+ scheme will be introduced to provide support to SMEs making more substantial investments to transform their businesses. Under the PIC+ scheme, the expenditure cap for qualifying SMEs will be increased from S$400,000 to S$600,000 per qualifying activity per YA. This means that these SMEs that invest beyond the current combined expenditure cap of S$1.2 million for each qualifying activity can claim 400% enhanced tax deduction on an additional S$200,000 of qualifying expenditure.

PIC+ will take effect for expenditure incurred in YA2015 to YA2018. The combined expenditure cap will be as follows: up to S$1.4 million for YA2015 ($400k YA 2013, $400k YA 2014, $600k YA 2015); and up to S$1.8 million for YA2016 to YA2018 ($600k YA 2016, $600k YA 2017, $600k 2018). The expenditure cap for PIC cash payout will remain at S$100,000 of qualifying expenditure per YA.

An entity is a qualifying SME if (a) its annual turnover is not more than S$100m or (b) its employment size is not more than 200 workers. This criterion will be applied at the group level if the entity is part of a group.

Business will self-assess their eligibility for the scheme. Businesses that meet the qualifying criteria can claim the expenditure similar to the existing PIC application process.

Note:
IRAS will release further details on the PIC+ scheme by end of March 2014.

1.1.3 Extending PIC benefits to training of individuals under centralized hiring arrangements

Current Treatment:
Businesses that incur training expenses on individuals deployed to their organizations under centralized hiring arrangements are not allowed to claim PIC benefits on the training expenses incurred, as they are not the legal employers of these individuals.

New Treatment:
In response to industry feedback and recognizing that training of such individuals can improve the productivity of the businesses where they are deployed, the PIC scheme will be enhanced to allow businesses to claim PIC benefits on training

expenses incurred in respect of individuals hired under centralized hiring arrangements.

Note:
This change will take effect from YA2014. IRAS will release further details by end March 2014.

1.1.4 Refining the three-local-employees condition for PIC cash payout

Current Treatment:
To qualify for PIC cash payout, businesses i.e. sole-proprietorships, partnerships, companies (including registered business trusts) must have employed at least three local employees i.e. three-local-employees condition.

A business is considered to have met the condition if it contributes CPF on the payroll of at least three local employees in the relevant month.

New Treatment:
To reinforce the condition that the payouts are made to businesses with active business operations, businesses will have to meet the three-local-employees condition for a consecutive period of at least three months prior to claiming the cash payout.

Note:
This requirement will take effect for PIC cash payout applications from YA2016.

1.2 EXTENDING THE RESEARCH AND DEVELOPMENT ("R&D") TAX MEASURES

Current Treatment:
Under section 14DA(1) of the Income Tax Act ("ITA"), businesses can enjoy additional 50% tax deduction on qualifying expenditure incurred on qualifying R&D activities up to YA2015. Section 14E of the ITA provides further tax deduction on expenditure incurred in relation to R&D projects approved by EDB on or before 31 March 2015.

Currently, businesses can claim tax deductions/ allowance on R&D expenditure incurred for undertaking R&D in areas unrelated to their existing trade or business as long as the R&D is conducted in Singapore.

New Treatment:
To continue encouraging private R&D and to give certainty to businesses, the additional 50% tax deduction accorded under section 14DA(1) will be extended for ten years till YA2025. To attract businesses to conduct large R&D projects in Singapore, the further tax deduction accorded under section 14E will be extended for five years till 31 March 2020.

In line with the above extensions, businesses can continue to claim tax deductions/ allowance on R&D expenditure incurred for R&D in areas unrelated to their existing trade or business as long as the R&D is conducted in Singapore. Businesses can also continue to claim a further deduction of up to 300%, on qualifying R&D expenditure up to $400,000 under the PIC scheme, which has been extended till YA2018.

1.3 EXTENDING AND REFINING THE SECTION 19B WRITING DOWN ALLOWANCE ("WDA") SCHEME

Current Treatment:
Under section 19B of the ITA, businesses can claim a 100% WDA over a period of five years on the acquisition cost of the following types of qualifying Intellectual Property Rights ("IPRs"):

I. Patents
II. Trademarks
III. Registered designs
IV. Copyrights
V. Geographical indications
VI. Lay-out designs of integrated circuits
VII. Trade secret or information that has commercial value
VIII. Plant Varieties

An accelerated WDA scheme was introduced in Budget 2009 to allow Media and Digital Entertainment ("MDE") companies to accelerate the writing down period from five years to two years, subject to EDB's approval.

Both the section 19B WDA and the accelerated WDA scheme for MDE companies will lapse after YA2015.

New Treatment:
To build Singapore as an IP hub, the section 19B WDA will be extended for five years till YA2020. The accelerated WDA for MDE companies will be extended for three years till YA2018.

All other existing conditions of the section 19B WDA remain unchanged.
To provide clarity on the types of items that would not meet the description of "information that has commercial value", a negative list will be legislated to expressly exclude the following two categories of information: (i) customer-based intangibles, and (ii) documentation of work processes. This is in line with the policy intent of the scheme, which is to encourage the economic exploitation of confidential information that is of the same class or nature as trade secrets and the other forms of IPR expressly listed in the definition.

Businesses can also continue to claim a further 300% allowance on up to S$400,000 of such qualifying costs under the PIC scheme, which has been extended till YA2018.

Note:
The negative list will be published on IRAS' website by end April 2014, and will be legislated by end December 2014.

The Ministry of Finance has now clarified that customer-based intangibles and documentation of work processes would not meet the description of "information that has commercial value. Tax payers should perform a self-review on their tax returns to ensure that their WDA claims do not include any types of items in the negative list.

1.4 EXTENSION OF TAX DEDUCTION SCHEME FOR REGISTRATION COSTS OF INTELLECTUAL PROPERTY TAX

Current Treatment:
Under section 14A of the Income Tax Act, businesses can claim 100% tax deduction on the costs incurred to register the following qualifying intellectual property:

I. Patent
II. Trademarks
III. Designs
IV. Plant Varieties

The scheme will lapse after YA2015.

New Treatment:
To encourage businesses to protect their intellectual property, the 100% tax deduction will be extended for five years till YA2020.

Businesses can also continue to claim a further 300% deduction on up to S$400,000 of such qualifying costs under the PIC scheme, which has been extended till YA2018

2 GOVERNMENT SUBSIDIES FOR ICT SOLUTIONS

2.1 ICT FOR PRODUCTIVITY AND GROWTH (IPG) PROGRAMME

To catalyze the adoption of Information and Communications Technology (ICT) by SMEs, the Minister announced an "ICT for Productivity and Growth (IPG) programme", to be administered by the Infocomm Development Authority of Singapore (IDA).

The $500 million ICT for Productivity and Growth (IPG) programme is a three-year programme whereby the government will subsidize between 50% and 80% of the costs SMEs incur on qualifying ICT solutions over a three-year period (financial years 2014 to 2016).

The IPG comprises the following three key initiatives:

2.1.1 Scaling up proven ICT solutions

This initiative promotes the adoption of ICT-based sectoral productivity solutions that have been proven to help SMEs raise productivity.

Benefits:

i) 70% of the qualifying costs will be subsidized; SMEs pay the remaining 30%
ii) IDA will pre-qualify eligible vendors and their solutions
iii) SME need not apply to IDA for the subsidy, they can approach the pre-qualified vendors for the solution they need, and IDA reimburses the vendors directly upon demonstration of adoption by the SME.

Beneficiaries:
SMEs that adopt proven ICT-based sectoral productivity solutions

Conditions:
The sectoral solutions are those that are supported under iSPRINT. Solutions must be those that are able to help SMEs achieve productivity gains.

2.1.2 Piloting of emerging solutions

This initiative encourages enterprising SMEs to pilot emerging technology solutions that can transform their businesses, for example, innovations in the areas of sensor, data analytics and robotics.

Benefits:

i) 80% of qualifying pilot project costs will be subsidized, up to $1 million per SME; SMEs pay the remaining 20%.
ii) Vendor will submit proposal for evaluation by IDA. SME need not apply directly to IDA for the subsidy, and IDA reimburses vendors directly upon completion of agreed milestones.

Beneficiaries:
SMEs that pilot emerging technology solutions

Conditions:
This should be a transformative solution that is not currently used by Singapore SMEs

2.1.3 Enabling high-speed connectivity for businesses

This initiative promotes high-speed connectivity for SMEs so that they can take full advantage of ICT-based productivity solutions.

The Government will provide subsidies for SMEs' fibre subscription plans of at least 100 Mbps and support will be provided further for them to implement Wireless@SG services at their premises.

Benefits:

i) 50% of the monthly recurrent cost of the fibre subscription plan will be subsidized, capped at $120/month up to 24 months, or $2,880 per SME.

ii) One-time acquisition cost of the Wireless@SG equipment will be subsidized, capped at $2,400, for SMEs that require wireless connection in their public-facing business premises.

Beneficiaries:
SMEs that adopt qualifying ICT-based productivity solutions

Conditions:

i) SME must not already have subscribed to the fibre subscription plan
ii) SME must qualify for iSPRINT support for the adoption of an ICT-based solution that can transform or grow their business (excluding firms with support of less than $2,000 for off-the-shelf iSPRINT solutions)
iii) SME must subscribe to service plans that feature speeds of at least 100Mbps
iv) For the Wireless@SG subsidy, SME must extend the wireless hotspots to the general public

v) SME must allow IDA (or appointed company) to conduct random network audit

The Government will also overcome installation challenges and ensure that more non-residential buildings have the facilities to bring fibre broadband to their business tenants within the buildings. IDA will consult the industry ahead of releasing implementation details and qualifying criteria for the scheme.

Benefits:
80% of the one-time infrastructure enhancement costs of up to $200,000 per qualifying building will be subsidized

Beneficiaries:
Owners of eligible non-residential buildings with multiple tenants

Conditions:
IDA will release details after consulting the industry

3 MORE GOVERNMENT SUPPORT FOR GROWTH ENTERPRISES

3.1 ENTERPRISE FINANCING SCHEMES

3.1.1 Co-investment Programme Phase II

The Co-Investment Programme (CIP) was launched in 2010 to catalyze patient growth capital for Singapore-based enterprises through co-investment with the private sector. The purpose of this programme was to catalyze the continued growth of SMEs in the growth and expansion stage and to nurture Singapore-based competitive companies.

In Budget 2014, the Minister announced the launch of Phase II of the programme and set aside another $150 million of government capital for two new funds to be managed by Heliconia. Qualifying investee companies with revenues of up to $500 million should have their key management functions and headquarter activities based in Singapore in order to qualify. Similar to Phase I, Temasek Holdings will participate as a co-investor in Phase II.

3.1.2 Micro-Loan Programme

The MLP provides loans of up to $100,000 for local SMEs with not more than 10 employees or not more than $1m turnover. The Government shares 50% of the loan default risk with financial institutions. A qualifying local SME is one that has at least a 30% local shareholding with not more than ten employees or not more than $1 million turnover. If it is part of a group, the group's annual sales must not be more than $100m and the group's workforce not more than 200.

4 More Support for Companies Venturing Overseas

4.1 Market Readiness Assistance (MRA) and Global Company Partnerships (GCP)

To help companies internationalise more effectively, IE Singapore (IE) has simplified its assistance into two comprehensive programmes – Market Readiness Assistance (MRA) and Global Company Partnerships (GCP). In 2013, more than 26,000 companies, over 85% of them SMEs, received financial and non-financial assistance from IE, including access to some $775 million in trade and financing loans.

4.1.1 Market Readiness Assistance (MRA)

The MRA is a broad-based programme designed to provide basic know-how for companies new to internationalisation. The MRA covers the following areas:

(i) Information

Companies looking to expand overseas can visit the iAdvisory Centre as a first-stop for advice and information. IE also provides a range of research databases, market and sector insights to help companies navigate new markets of interest.

(ii) Learning

Companies can attend seminars, clinics and workshops organised by IE to seek guidance on new markets and specific topics relating to internationalisation

(iii) Financial Assistance

Eligible companies[1] can tap on the MRA Grant to co-fund 50% of costs (capped at $20,000 per company per year) for pre-scoped professional services relating to market assessment, market entry and business restructuring through internationalisation. Other assistance includes the International Marketing Activities Programme which co-funds companies to participate in overseas tradeshows and business missions through trade associations and business chambers.

4.1.2 Global Company Partnership (GCP) Programme

The GCP Programme is aimed at providing a customised, in-depth approach to groom companies with more established overseas operations to achieve global competitiveness. Companies can receive customised support in four key areas:

[1] Companies must be based in Singapore (global headquarters anchored in Singapore) with turnover of less than $100 million per annum.

(i) Capability Building
Build capabilities for internationalisation in areas such as Branding, Design, Internationalisation Strategy and Intellectual Property Management.

(ii) Market Access
Partner Singapore companies to help them obtain information, develop strategies and access global business opportunities overseas, as well as support market start-up costs for expansion into new overseas markets.
*[**NEW**] The support level for pilot and test-bedding projects will be raised from 50% to 70% for two years to support companies to build track records for internationalisation.*

(iii)Manpower Development
Assist companies with talent attraction and talent development, as well as develop human resource strategies to support internationalisation. In particular, the Young Talent Program helps to provide a pipeline of new talent to support overseas growth.

*[**NEW**] Existing support for staff attachments in overseas markets will be expanded to include attachments to acquire new business or technical capabilities that can assist in internationalisation for two years.*

(iv) Access to Financing
Enhance access to capital required for business expansion via financing schemes such as the Internationalisation Finance Scheme (IFS) and Loan Insurance Scheme (LIS / LIS+):

o Internationalisation Finance Scheme (IFS)

The IFS helps Singapore-based companies to secure mid- to long-tenure capital facilities with Participating Financial Institutions (PFIs) for overseas assets acquisitions and projects. IE shares up to 70% risk under the IFS.
Supportable facilities include:

- (i)Asset-based financing for acquisition of revenue-generating fixed assets or factories / land for use overseas;
- (ii) Structured loan to fund working capital expenses for secured overseas projects; and
- ‘(iii) Banker’s Guarantee for secured overseas projects.

*[**NEW]** For Budget 2014, the maximum loan quantum supportable under the IFS will increase from $15m to $30m for two years. The IFS is expected to catalyse up to $500m worth of loans over the next two years for companies pursuing internationalisation.*

o Loan Insurance Scheme (LIS/ LIS+)

The LIS/ LIS+ Scheme helps Singapore-based companies secure short-term trade financing lines with PFIs. IE supports a portion of the insurance premium for commercial insurers to partake up to 75% risk under LIS. IE also shares risk with PFIs under LIS+ for loans that exceed the risk appetite of commercial insurers. Supportable facilities include:

- (i) Inventory/ stock financing;
- (ii) Structured pre-delivery working capital for confirmed sales orders;
- (iii) Factoring/ bill or invoice or accounts receivable discounting with recourse; and
- (iv) Banker's Guarantee for contractual fulfilment.

Note:
The Ministry of Trade and Industry will announce more details on these enhancements in their Committee of Supply.

5 STRENGTHENING THE COMPETITIVENESS OF THE FINANCIAL SECTOR

5.1 RENEWAL AND ENHANCEMENT OF TAX INCENTIVES FOR ASSET MANAGEMENT INDUSTRY

5.1.1 Extending and Refining Tax Incentive Schemes for Qualifying Funds

Current Treatment:
Funds managed by Singapore-based fund managers ("Qualifying funds") currently enjoy the following tax concessions, subject to conditions:

I. Tax exemption on specified income derived from designated investments; and
II. Withholding tax exemption on interest and other qualifying payments made to all non-resident persons (excluding Permanent Establishments in Singapore).

Qualifying funds comprise the following:

I. Trust funds with resident trustee (section 13C scheme);
II. Trust funds with non-resident trustee and non-resident corporate funds (section 13CA scheme);
III. Resident corporate funds (section 13R scheme); and
IV. Enhanced-tier funds (section 13X scheme)

The sections 13CA and 13R schemes impose conditions on investor ownership levels on the last day of the qualifying fund's basis period for the relevant YA. The investor ownership levels are computed based on the historical value of the qualifying funds' issued securities. The section 13X scheme does not impose conditions on investor ownership levels.

The schemes for qualifying funds will lapse after 31 March 2014.

New Treatment:
To anchor and continue to grow Singapore's asset management industry, the sections 13CA, 13R and 13X schemes will be extended for five years till 31 March 2019. The section 13C scheme will be allowed to lapse after 31 March 2014.
The sections 13CA, 13R and 13X schemes will be refined as follows:

I. The section 13CA scheme will be expanded to include trust funds with resident trustees, which are presently covered under the section 13C scheme, with effect from 1 April 2014;

II. The investor ownership levels for the sections 13CA and 13R schemes will be computed based on the prevailing market value of the issued securities on that day instead of the historical value. This will take effect from 1 April 2014; and
III. The list of designated investments will be expanded to include loans to qualifying offshore trusts, interest in certain limited liability companies and bankers acceptance. This will apply to income derived on or after 21 February 2014 from such investments.

Other existing conditions of the schemes remain unchanged.

Note:
MAS will release further details of the changes by end May 2014.

5.1.2 Recovery of GST for Qualifying Funds

Current Treatment:
As a concession, qualifying funds that are managed by prescribed fund managers in Singapore are allowed to claim GST incurred on expenses at a fixed rate.

The concession will lapse after 31 March 2014.

New Treatment:
To further grow Singapore as a centre for fund management and administration, the concession will be extended for five years till 31 March 2019.

Note:
MAS will release further details of the change by end March 2014.

5.1.3 Enhancing the Foreign-Sourced Income Exemption Scheme for Listed Infrastructure Registered Business Trusts ("RBTs")

Current Treatment:
Currently, foreign-sourced income derived by listed infrastructure RBTs in Singapore is exempted from tax if the income falls within certain scenarios specified under section 13(12) of the ITA. Tax exemption for foreign-sourced income received in all other situations must be approved by the Minister for Finance, on a case-by-case basis, including the tax exemptions for foreign-sourced dividends that originate from interest income and foreign-sourced interest income derived from a qualifying offshore infrastructure project/ asset.

New Treatment:
To accord listed infrastructure RBTs in Singapore greater tax certainty, thereby facilitating the listing of more infrastructure assets in Singapore, the foreign-sourced income exemption for listed infrastructure RBTs will be enhanced as follows:

i) The specified scenarios under section 13(12) will be expanded to cover dividend income originating from foreign-sourced interest income so long as it relates to the qualifying offshore infrastructure project/ asset. IRAS will continue to verify that the qualifying conditions are met for all specified scenarios

ii) Interest income derived from a qualifying offshore infrastructure project/ asset will automatically qualify for section 13(12) exemption provided certain conditions are met. With the change, IRAS will verify that the qualifying conditions are met instead of the current case-by-case approval by the Minister for Finance.

Note:
IRAS will release further details, including the effective date of these enhancements, by end May 2014.

5.1.4 Refining the Designated Unit Trust ("DUT") Scheme

Current Treatment:
The DUT scheme was introduced to foster the development of the domestic retail unit trust industry. Specified income derived by a unit trust with the DUT status is not taxed at the trustee level, but is taxed upon distribution in the hands of certain investors.

Qualifying foreign investors and individuals are exempted from tax on any distribution made by a DUT.

The DUT scheme is available to both retail unit trusts and certain other types of unit trusts, which are targeted at more sophisticated and institutional investors ("non-retail unit trusts").

New Treatment:
The DUT scheme will be streamlined and rationalized through the following changes:

i) The scheme will be limited to unit trusts offered to retail investors with effect from 21 February 2014. Non-retail unit trusts may consider other fund schemes;

ii) Existing non-retail unit trusts that were approved under the scheme prior to 21 February 2014 may continue to retain their DUT status; and
iii) From 1 September 2014, subject to the fulfillment of conditions, unit trusts do not have to apply for the DUT scheme to enjoy the benefits of the scheme.

Other existing conditions of the DUT scheme remain unchanged.

A review date of 31 March 2019 will be legislated to ensure that the relevance of the scheme is periodically reviewed.

Note:
MAS will release further details of the changes by end May 2014.

6 Measures to Improve Productivity in Construction Industry

6.1 Upstream Measures to Tackle Construction Productivity

a) Mandate use of productive technologies for selected Government Land Sales (GLS) sites.

b) Stipulate a minimum percentage level of prefabrication as part of tender conditions for industrial GLS sites.

6.2 Increase in Buildability-score and Constructability-score for Private Sector Projects

a) From September 2014, private projects that are outside of the GLS programme will need to meet the same higher standards as new public sector projects and private sector projects on GLS and industrial GLS sites.

b) Standardized floor heights and a number of building components such as drywalls will be made mandatory for new projects from September 2014.

6.3 Increase in Foreign Worker Levies

a) The levy for Basic Skilled (R2) Man-Year-Entitlement Work Permit Holders (WPHs) in the Construction sector will be increased from $600 to $700 in July 2016.
b) Levies for Higher Skilled (R1) WPHs will remain unchanged to further encourage construction firms to opt for higher skilled WPHs.

6.4 Introduction of Market-Based Skills Recognition Framework

To complement the existing upgrading pathway which requires WPHs to pass a skills certifications test to achieve R1 status, a new Market-Based Skills Recognition Framework will be introduced. The new framework will allow Basic Skilled workers who have worked in Singapore for six years and who earn a salary of at least $1,600 to upgrade to Higher Skilled status.

6.5 EXTENSION OF PERIOD OF EMPLOYMENT FOR R1 WORK PERMIT HOLDERS

The maximum period of employment for R1 WPHs from Non-Traditional Sources and the People's Republic of China will be extended by four years, from 18 to 22 years. This will also apply to the Marine and Process sectors.

7 OTHER MEASURES

7.1 WAIVING THE WITHHOLDING TAX REQUIREMENT FOR PAYMENTS MADE TO BRANCHES IN SINGAPORE

Current Treatment:
Persons making payments that fall under the scope of sections 12(6) and 12(7) of the ITA (e.g. interest and royalty payments) to non-residents are required to withhold tax on the payments. This includes payments made to Permanent Establishments ("PEs") that are Singapore branches of non-resident companies.

New Treatment:
To reduce compliance costs for businesses, payers will no longer need to withhold tax on sections 12(6) and 12(7) payments made to PEs that are Singapore branches of non-resident companies.

These branches in Singapore will continue to be assessed for income tax on such payments that they receive and will be required to declare such payments in their annual tax returns.

Note:
This change will take effect for all payment obligations that arise on or after 21 February 2014.

7.2 EXTENDING AND ENHANCING THE LAND INTENSIFICATION ALLOWANCE ("LIA") SCHEME

Current Treatment:
The LIA scheme was introduced in Budget 2010 to encourage intensification of industrial land. The scheme is open to businesses in the manufacturing sector that build on industrial Business 1/ Business 2 ("B1/B2") (excluding B1 White and B2 White) land. To qualify for the LIA scheme, businesses must meet the following conditions:

I. The relevant building or structure must meet the Gross Plot Ratio ("GPR") benchmark applicable for the qualifying trade or business
II. At least 80% of the total floor area of the relevant building or structure is utilized by a single user for undertaking the qualifying trade or business.

The scheme will lapse after 30 June 2015.

New Treatment:

To continue encouraging businesses to optimize land use, the LIA scheme will be extended for five years till 30 June 2020. The LIA will be extended to the logistics sector in recognition of the close nexus between this sector and qualifying activities supported by LIA.

The LIA scheme will also be extended to businesses carrying out qualifying activities on airport and port land.

A new condition requiring existing buildings that have already met or exceeded the GPR benchmark to meet a minimum incremental GPR criterion of 10% will be introduced. This is to encourage businesses, especially those already in the top quartile of the relevant GPR benchmark, to continue intensifying their land use.

All other existing conditions of the LIA scheme remain unchanged.

The enhancements are effective for LIA approvals granted, and capital expenditure incurred on or after 22 February 2014.

Note:
EDB will release the implementation details by end May 2014.

7.3 Enhancing the Parent and Handicapped Parent Reliefs

Current Treatment:
A tax resident individual may claim parent / handicapped parent relief in a YA if he supported his or his spouse's parents, grandparents and great-grandparents (collectively referred to as "parents") in the year immediately preceding that YA.

Currently, parent / handicapped parent relief in respect of a qualifying parent can only be claimed by one claimant in any YA. Where the family members are unable to agree among themselves on who is to claim the parent / handicapped parent relief, the Comptroller of Income Tax has the discretion to decide on whom the relief will be allowed.

New Treatment:
To provide greater encouragement and recognition to individuals supporting their or their spouse's parents, the quantum of parent / handicapped parent relief will be increased, with individuals who are staying with these dependants enjoying a higher relief quantum, as follows:

Type of Relief	Current Relief Quantum	Revised Relief Quantum
Parent Relief (Individual staying with dependant)	$7,000	$9,000
Parent Relief (Individual not staying with dependant)	$4,500	$5,500
Handicapped Parent Relief (Individual staying with dependant)	$11,000	$14,000
Handicapped Parent Relief (Individual not staying with dependant)	$8,000	$10,000

Recognizing that care for parents is a shared responsibility among family members, claimants of parent / handicapped parent relief will be able to share the relief according to the claimants' agreed proportion.

If more than one claimant is making the claim and the claimants cannot come to an agreement on the apportionment ratio among themselves, the Comptroller of Income Tax will apportion the relief equally among all claimants.

Note:
The above changes will take effect from YA2015.

7.4 Enhancing the Handicapped Spouse, Handicapped Sibling and Handicapped Child Reliefs

To provide greater recognition to individuals who are supporting their handicapped dependants, the amount of handicapped spouse, handicapped sibling and handicapped child reliefs will be increased with effect from YA2015 as follows:

Type of Relief	Current Relief Quantum	Revised Relief Quantum
Handicapped spouse relief	$3,500	$5,500
Handicapped sibling relief	$3,500	$5,500
Handicapped child relief	$5,500	$7,500

7.5 CPF Contribution Rate Changes and Related Assistance Measures for Employers

7.5.1 CPF Contribution Rate Changes

Employer contribution rates to the Medisave Account (MA) will be increased by 1 percentage point to help workers save for their future healthcare expenses.

MA contribution rates will also be raised by 1 percentage point for self-employed persons with annual net trade income1 of $18,000 and above, to align with the increase for employees.

In addition, CPF contribution rates for workers aged above 50 years to 65 years will be increased from 1 January 2015 as shown below (excluding the increase in Medisave contribution rates):

Employee age (years)	Increase in contribution rates (% of wage)		
	Contribution by employer	Contribution by employee	Total
Above 50 to 55	+1	+0.5	+1.5
Above 55 to 65	+0.5	-	+0.5

The increase in employer contribution rates will be allocated to the Special Account. The increase in employee contribution rates will be allocated to the Ordinary Account.

These changes will take effect from 1 January 2015. However, the Ordinary Wage ceiling remains unchanged at S$5,000 per month.

To help employers manage the 1% increase to the MA, the Government will provide them with a 50% offset, through a one-year Temporary Employment Credit. Employers will receive an offset of 0.5 percentage points of wages, up to the CPF salary ceiling of S$5,000.

Furthermore, to help employers to offset the increase in older worker contributions rates, the Government will provide a one-year increase in the Special Employment Credit (SEC) of up to 0.5 percentage points. This is in addition to the existing SEC of up to 8% of wages.

7.5.2 Enhancement of the Special Employment Credit (SEC)

To help employers adjust, the SEC will be enhanced for one year to provide employers who hire Singaporean workers aged above 50 earning up to $4,000 month with an additional offset of up to 0.5 percent of wages.

With the enhancement, employers who hire older Singaporean workers between 1 January 2015 and 31 December 2015 will receive an SEC of up to 8.5 percent of a worker's monthly wage.

7.5.3 Temporary Employment Credit (TEC)

To alleviate the rise in business costs due to the increase in Medisave contribution rates, employers will receive a one-year offset of 0.5 percent of wages for Singaporean and Permanent Resident workers up to the CPF salary ceiling of $5,000 per month.

TEC payments will be made based on employees' incomes paid in 2015.

Note:
The Government will release more details at a later date.

7.6 STREAMLINING STAMP DUTY

Stamp duty on certain categories of instruments is currently imposed on a specific dollar value basis relative to the underlying consideration or value of such instruments. With a view to streamlining the basis and calculation of stamp duty, the following categories of stamp duty will now be subject to an ad valorem or percentage based rate structure:

i) Buyer's stamp duty on immovable properties
ii) Share transfer duty
iii) Lease duty
iv) Mortgage duty

Changes have also been made to the basis of calculation of duty on leases of immovable property to have a consistent treatment for leases of varying tenures. In addition, stamp duty amounts will be rounded down to the nearest dollar subject to a minimum stamp duty of S$1 per instrument.

7.7 CHANGES TO VEHICLE TAXES

The Carbon Emission-based Vehicle Scheme (CEVS) was introduced in January 2013 as part of the Government's efforts to maintain a cleaner environment in Singapore. Under CEVS, all new purchases of passenger cars with low carbon emissions enjoy up to S$20,000 in rebates on the Additional Registration Fee, while those with high carbon emissions have to pay a surcharge of up to S$20,000.

The CEVS was scheduled for review at the end of 2014.

CEVS will be extended by six months from 1 January 2015 to 30 June 2015, with a view towards continuing the scheme thereafter.

The Green Vehicle Rebate (GVR) scheme for commercial vehicles, buses and motorcycles was valid until December 2014. The GVR scheme for commercial vehicles, buses and motorcycles will be extended from 1 January 2015 to 30 June 2015.

7.8 CHANGES TO THE TAXATION OF TOBACCO, LIQUOR AND BETTING

7.8.1 Tobacco and Liquor

The Government will increase the excise duties on cigarettes and other manufactured tobacco products by 10%, from $352 per kg or 35.2 cents per gram or part thereof of each stick of cigarette, to $388 per kg or 38.8 cents per gram or part thereof of each stick of cigarette.

Excise duties across all liquor categories (i.e. beer, wine, spirits, and raw materials to manufacture alcohol) will be increased by 25%, to keep pace with inflation since the last effective duty raise in 2004. Also, the excise duty rate of shandy will be lowered from $70 per liter of alcohol to $60 per liter of alcohol, to be consistent with that of beer, since shandy is a variant of beer.

These tax changes will take effect from 21 February 2014 and further details can be found in the Singapore Customs Circular No: 03/2014.

7.8.2 Betting

The current rate of betting duty applicable on Totalisator or Parimutuel Betting (excluding horse racing) and any other system or method of cash or credit betting (e.g., 4D, Singapore Sweep) is 25% of gross bets (net of GST). The revised duty rate will be 30% of gross bets (net of GST).

Effective Date: These changes come into effect from 1 July 2014.

Note: Betting duties on horse racing, sports betting and sweepstakes will remain unchanged.

Boardroom Limited is a well-established professional business service provider with a strong and reputable 40-year track record. Headquartered in Singapore, we are listed on the Singapore Exchange and ranked amongst Forbes Asia's Top 200 Companies under a Billion. For 7 years running, we have also been ranked in DP Information Group's Singapore 1000. With our strong presence in the region, and a direct office presence in Singapore, Malaysia, Hong Kong, China and Australia, we are well positioned to support you.

Our smart business solution suite comprises of the following services:

- Accounting & Finance
- Share Registration
- Corporate Secretarial
- Business Advisory
- Payroll
- Taxation

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