



SINGAPORE BUDGET 2012 SYNOPSIS

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INTRODUCTION

It is not surprising to note that the 2012 Budget has turned out to be inclusive and more focused on needs of the elderly and society at large. Notwithstanding the expected slowdown in global economic growth to 2.5% in 2012, the Singapore GDP is still expected to register a growth of 1% to 3%. This could be the reason why the Finance Minister has decided that assistance for businesses would only require fine-tuning and the bulk of resources should be on longer-term challenges. For the near term focus would be to take active steps to address the needs of the senior citizens and the lower income group. For the longer term, the introduction of measures in the workforce to reduce Singapore's dependence on foreign workers would also be necessary.

Accordingly, it was not necessary to lower the rate of tax for corporate, personal and GST. Tax rebate was also deemed not necessary, although a SME cash grant (capped at \$5,000), could still prove helpful. Regardless, it is heartening to note that the proposals include a credit scheme to enhance productivity and innovation, special employment credits, SME grants, providing certainty on tax-free capital gains, withholding tax exemptions, and providing GST vouchers for the lower income group. These proposals cover the immediate needs - from businesses, including that of attracting foreign MNCs; to needy Singaporeans, especially the elderly and lower income group.

Full details of the Budget proposals and Boardroom's commentaries are contained in this synopsis, which I hope you will find useful.

William Chua
Regional Head, Taxation Services
Boardroom Limited

Business

One-off SME Cash Grant

Current

A one-off SME Cash Grant calculated based on 5% of the company's revenue for Year of Assessment ("YA") 2011, subject to a cap of \$5,000. To enjoy the SME Cash Grant, companies must have made CPF contribution for YA2011.

Proposed

A one-off cash grant will be provided for all companies. The cash grant is pegged at 5% of the company's revenue for YA2012, and capped at \$5,000. To enjoy the cash grant, the company must have made CPF contributions for at least one employee during the relevant accounting period for YA2012.

A company will receive the cash grant automatically after the YA2012 Form C tax return has been filed and the company's tax has been assessed.

Comments

- This grant is similar to that offered in 2011. In light of an expected downturn in the global economy, it is hoped that this will provide some assistance to companies in managing their costs going forward.

Enhancing the Productivity and Innovation Credit (“PIC”) Scheme

The PIC scheme confers 400% tax deduction or an allowance of up to \$400,000 for qualifying expenses incurred on each of the following six qualifying activities:

- R & D expenditure;
- Investments in design;
- Acquisition of Intellectual Property;
- Registration of Intellectual Property;
- Investments in Prescribed Automation Equipment; and
- Training of Employees.

The PIC scheme will be enhanced in 4 main areas:

i. Cash Payout

Current

Businesses may convert 30% of its qualifying expenditure into a cash payout per YA, up to a maximum of \$100,000 in qualifying expenses (i.e. maximum cash payout of up to \$30,000). This payout is available from YA2011 through YA2013.

For YA2011 and YA2012, businesses may convert 30% of its qualifying expenditure into cash payout, up to a maximum of \$200,000 in qualifying expenses (i.e. maximum cash payout of up to \$60,000) of their combined qualifying expenditure. The cash payout is claimable any time after the end of the firm’s financial year, but no later than the due date for the filing of its income tax return for that year.

Proposed

The cash payout rate will be increased from 30% to 60%, for up to \$100,000 of qualifying expenses from YA2013. The cash payout will be extended from YA2013 to YA2015, but cannot be made as a combined payout based on qualifying expenditure across the 3 YAs.

Businesses may claim the cash payout any time after the end of each financial quarter, but no later than the due date for the filing of its income tax return for the relevant year.

Businesses may obtain the first quarterly cash payout starting July 2012.

Comments

- By increasing the cash payout rate from 30% to 60%, it has now narrowed the gap had the company claimed the 400% tax deduction on PIC as introduced in budget 2010 instead. With the difference now being only \$8,000, it is more attractive for businesses to convert to cash instead. This is especially the case for companies with insufficient chargeable profits.
- The higher cash conversion should come in useful for cash-strapped companies.
- Companies with limited taxable income will also be able to achieve immediate benefit.

ii. Training

Current

Only qualifying expenditure incurred on external and certified in-house courses for the training of employees will qualify for the PIC benefits. In-house training courses must be accredited by the Singapore Workforce Development Agency ("WDA"), or approved/certified by the Institute of Technical Education ("ITE") in order to qualify for PIC.

Proposed

a. In-house training courses

Certification will not be required for qualifying in-house training expenditure incurred up to \$10,000 per YA. The total training expenditure cap eligible for tax deduction remains unchanged at \$400,000. In-house training expenditure in excess of the \$10,000 cap may still qualify for the PIC benefits if the courses are accredited/ approved/ certified by WDA or ITE.

The \$10,000 cap cannot be combined across YAs.

b. Training of agents

Expenditure incurred by a principal on the training of its agents may qualify for PIC subject to certain conditions, as follows:

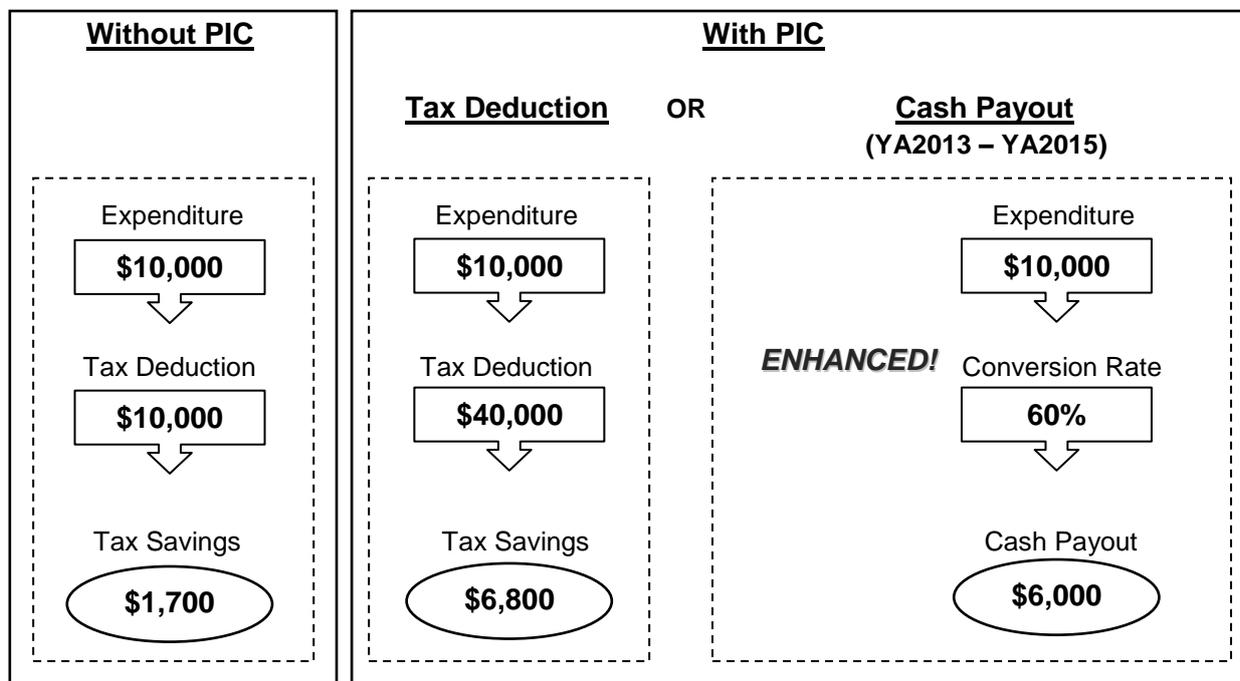
- (1) There is a regular working/contractual relationship between the principal and the agent.
- (2) The principal bears the training expenses and does not charge or recover the training expenses from the agent.
- (3) The training expenses must not be claimed by the agent as expenses of his/her trade or as course fees relief.
- (4) The principal shares the risks and rewards of the agent.

Examples of agents are insurance agents, financial advisers and real estate agents.

How Can You Benefit from the PIC Scheme?

Claim 400% in tax deduction/allowance on qualifying expenditure up to \$400,000, or convert up to \$100,000 of qualifying expenditure to cash, at a rate of 60% (with effect from YA2013).

Example: You spend \$10,000 on training your staff



* Based on the prevailing corporate tax rate of 17%.

Comments

- Relaxing the certification requirement for the first \$10,000 will make it easier to claim the benefits, especially for SMEs.
- Similar training benefits for self-employed persons such as taxi-drivers and freelancers will be provided.

iii. Research & Development (“R&D”) Expenditure

Current

Writing down allowance on expenditure incurred on R&D cost-sharing agreements is granted on an approval basis. It does not qualify for the PIC benefits. Expenditure incurred on software development projects may qualify for PIC if the project satisfies the R&D definition in Section 2 of Income Tax Act. The R&D definition requires the development of computer software to be sold, rented, leased, licensed or hired to two or more persons (referred to as “multiple sales requirement”).

Proposed

a. R&D cost-sharing agreements

Expenditure incurred on R&D cost-sharing agreements may qualify as expenditure on R&D and enjoy PIC deduction. The qualifying expenditure will be deemed to be 60% of the shared costs, similar to outsourced R&D. The R&D cost-sharing expenditure claimed will count towards the expenditure cap for "R&D" activity.

b. Software development

The multiple sales requirements will be removed to facilitate R&D in software development not intended for sale. However, the development of software for internal routine administration of businesses will not be considered as R&D.

Comments

- This scheme is targeted at companies in the services sector.
- It encourages collaboration and innovation with other firms within the same industry.
- Will there be a claw-back if the IP is eventually sold?

iv. Investments in Automation Equipment

Current

The acquisition of automation equipment on hire purchase is not eligible for the cash payout option if the repayment schedule straddles two or more financial years.

Proposed

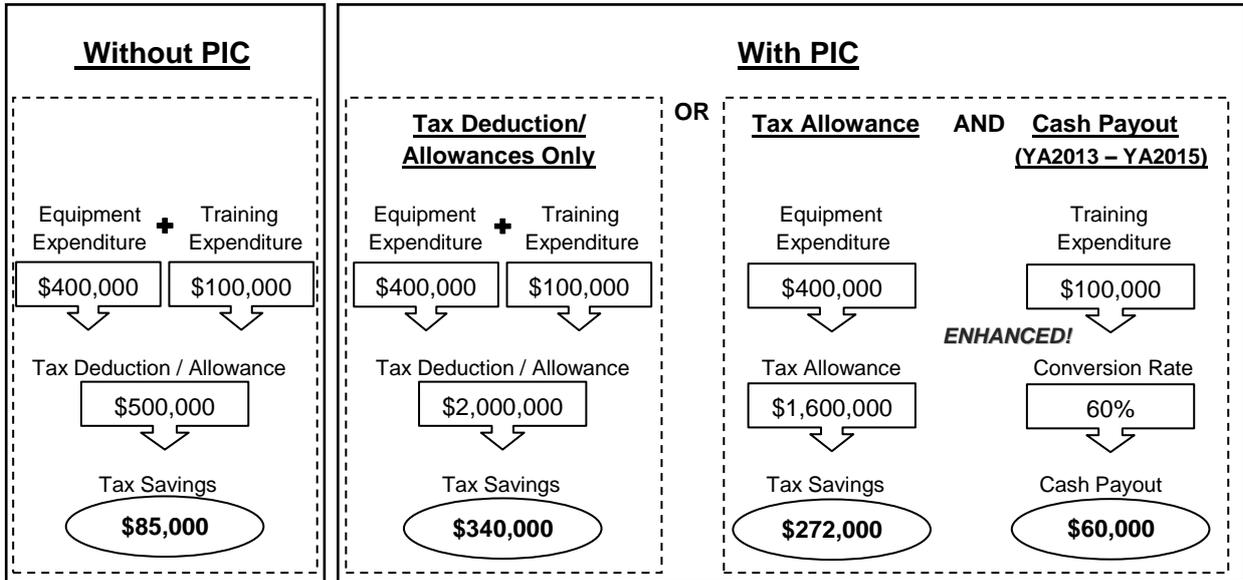
Qualifying automation equipment acquired on hire purchase with repayment schedule straddling two or more financial years will be eligible for the cash payout option. All other existing terms and conditions of the scheme apply.

These changes will take effect from YA2012.

IRAS will release further details of the changes by 30 June 2012.

Example

You spend \$400,000 on investment in automation equipment and \$100,000 on training your staff.



* Based on the prevailing corporate tax rate of 17%.

Comments

- There is now flexibility in exercising the cash option for equipment bought under hire purchase with repayments straddling two or more financial years.

Enhancing the Renovation and Refurbishment (“R&R”) deduction scheme

Current

Businesses that incur qualifying R&R costs on their business premises from 16 February 2008 to 15 February 2013 may claim the R&R tax deduction. The expenditure claimable is capped at \$150,000 for each three-year period. The tax deduction is based on the R&R costs being written down on a straight-line basis over three consecutive years, from the relevant YA in which the costs were first incurred.

Proposed

R&R deduction scheme will become a permanent feature of the tax regime. The expenditure cap will be doubled to \$300,000 for each three-year period. All other existing terms and conditions of the scheme apply.

These changes will take effect from YA2013.

IRAS will release further details of the changes by 30 June 2012.

Comments

The scheme, as a permanent feature of the tax system with a \$300,000 qualifying cost, will make it easier for businesses which are thinking of renovating their premises, to arrive at a decision. This is especially the case for companies engaged in retail, food and beverage and entertainment activities.

Enhancing the Merger & Acquisition (“M&A”) Scheme

Current

The M&A scheme provides for M&A allowance and stamp duty relief on qualifying M&A completed from 1 April 2010 to 31 March 2015. The M&A allowance is 5% of up to \$100 million of the acquisition value for all qualifying M&A per YA. There is no tax allowance provision for transaction costs.

Qualifying M&A includes those undertaken in the following situations:

- (i) The acquiring company acquires shares of the target company either directly or through a directly and wholly-owned subsidiary (“acquiring subsidiary”).
- (ii) The acquiring company acquires a target where either the target company or a subsidiary directly and wholly-owned by the target company satisfies the relevant conditions*.

*The conditions are that the target company or its directly and wholly-owned subsidiary carries on a trade or business and has at least 3 employees working for the company for at least 12 months preceding the date of M&A.

Proposed

The scheme will be enhanced as follows:

Transaction costs incurred on qualifying M&A.

A 200% tax allowance will be granted on the transaction costs incurred on qualifying M&A, subject to an expenditure cap of \$100,000 per YA. The allowance on transaction costs will be written down in one year.

Qualifying M&A

- (i) Acquisition through subsidiaries

The acquiring company may acquire shares of the target company through multiple tiers, instead of just one tier, of wholly-owned subsidiaries.

- (ii) Target company

The relevant conditions that the target company has to satisfy may be satisfied by any of the multiple tiers of wholly-owned subsidiaries of the target company.

Extension of Scheme

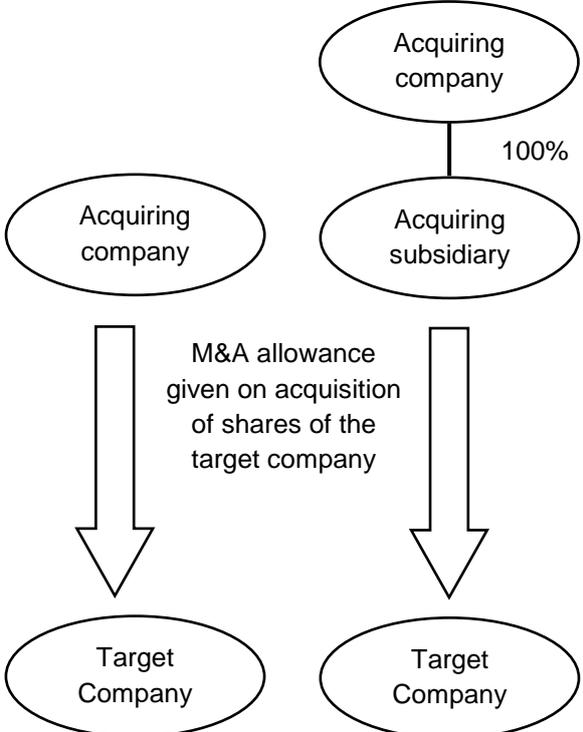
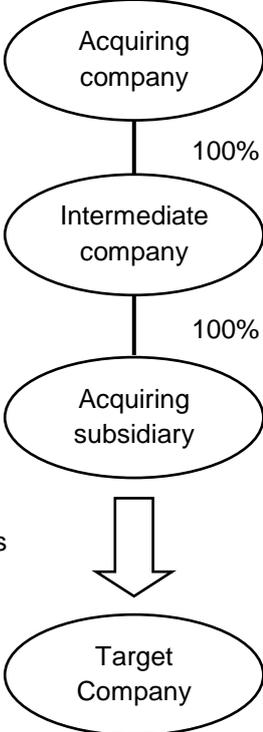
The M&A scheme will be available as an added feature for existing Headquarter incentive schemes, on a case-by-case basis. The condition that the acquiring company must be held by an ultimate holding company incorporated in and a tax resident of Singapore, may be waived subject to conditions. EDB will administer this waiver.

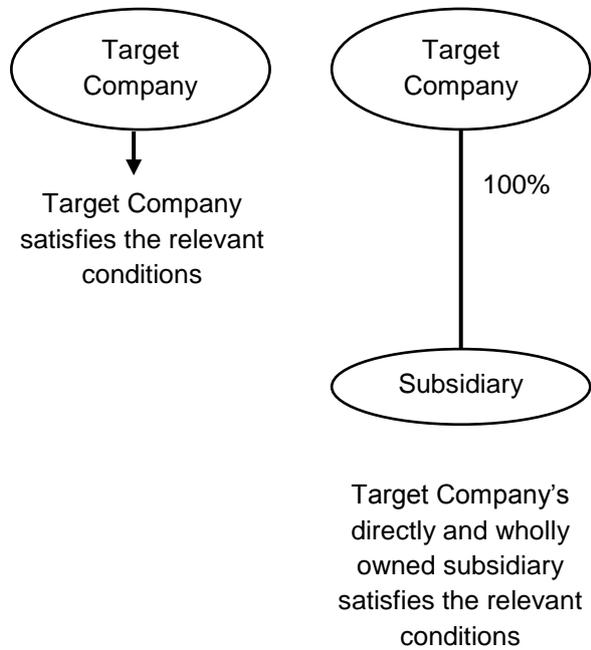
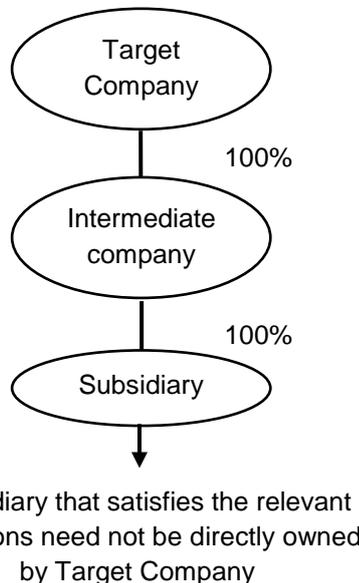
All other existing terms and conditions of the scheme apply.

These changes will take effect for qualifying M&A completed from 17 February 2012 to 31 March 2015.

The IRAS and EDB will release further details of the changes by 30 June 2012.

New Acquisition Structures that Qualify for the M&A Scheme

Current	New structure which can also qualify
<p>The following acquisition structures can qualify for the M&A scheme.</p> 	<p>The following acquisition structure can now qualify for the M&A scheme.</p> 

Current	New Structure which can also qualify
<p>The relevant conditions are satisfied either by the target company or by the subsidiary directly and wholly-owned by that target company.</p>  <p>The diagram illustrates two scenarios. On the left, a 'Target Company' oval has a downward arrow pointing to the text 'Target Company satisfies the relevant conditions'. On the right, a 'Target Company' oval is connected by a vertical line to a 'Subsidiary' oval, with '100%' written next to the line. Below this, it states 'Target Company's directly and wholly owned subsidiary satisfies the relevant conditions'.</p>	<p>The relevant conditions can be satisfied by any of the multiple tiers of wholly owned subsidiaries of the target company.</p>  <p>The diagram shows a vertical chain of three ovals: 'Target Company' at the top, 'Intermediate company' in the middle, and 'Subsidiary' at the bottom. A vertical line connects 'Target Company' to 'Intermediate company' with '100%' to the right. Another vertical line connects 'Intermediate company' to 'Subsidiary' with '100%' to the right. A downward arrow points from the 'Subsidiary' oval to the text 'Subsidiary that satisfies the relevant conditions need not be directly owned by Target Company'.</p>

Comments

- Transaction costs incurred on qualifying M&A would have been a pure necessary business costs with no tax benefits. Hence, the 200% tax allowance should be welcome by businesses undertaking such activities.
- Relaxing the manner in how the target company can be included in the Group is also likely to enable the Group to plan for its taxation needs based on Group structure more tax-effectively.

Simplifying capital allowance claims for low-value assets

Current

Taxpayers may claim capital allowance on the full cost of acquired assets in one year if the following conditions are met:

- (i) The cost of each asset is not more than \$1,000; and
- (ii) The aggregate claim for all such assets is capped at \$30,000 per YA.

Proposed

To further ease the claim for capital allowance, the full cost of each asset that may be written down in one year will be increased to a maximum of but not exceed \$5,000. All other existing terms and conditions of the scheme apply.

This change will take effect from YA2013.

IRAS will release further details of the change by 30 June 2012.

Comments

Increasing the cost of each asset to \$5,000 will help to avoid the administrative inconveniences of tracking assets, which cost between \$1,000 and \$5,000. It would have been better had the cap of \$30,000 been increased correspondingly as well. Regardless, the one-year allowance should improve companies' cash-flow.

Introducing the Integrated Investment Allowance (“IIA”) Scheme

Current

Companies may claim capital allowance on plant and equipment used overseas in connection with their trade or business, subject to the following conditions:

- Capital expenditure on provision of qualifying plants and machinery leased to a subsidiary outside Singapore;
- Approved Singapore company not having to carry on a trade or business on leasing of that plant or machinery; and
- Used for sole purpose of manufacturing goods for sale by the Singapore Company.

Proposed

To keep pace with the evolving business environment, the IIA scheme will provide an additional allowance on fixed capital expenditure incurred for productive equipment placed overseas on approved projects. The EDB will administer the scheme.

This change will take effect from YA2013 for qualifying capital expenditures incurred on or after 17 February 2012. The scheme will run for 5 years.

The existing Integrated Industrial Capital Allowance incentive, which is no longer relevant, will be withdrawn following the introduction of the IIA scheme on 17 February 2012.

Comments

The additional allowance will help businesses defray some of their costs in moving their manufacturing activities to a lower tax jurisdiction. However, the overall tax benefits and consequences must be carefully assessed, as withholding tax requirements and permanent establishment issues can have implications for the other jurisdiction.

Enhancing the Double Tax Deduction (“DTD”) for Internationalisation Scheme

Current

Businesses may claim up to 200% tax deduction on qualifying expenditure incurred on qualifying market expansion and investment development activities. The claims are granted on an approval basis by International Enterprise (“IE”) Singapore or Singapore Tourism Board (“STB”).

Proposed

To further encourage our SMEs to venture abroad and reduce administrative burdens on businesses, tax deductions of up to 200% may be allowed on qualifying expenditure, up to \$100,000 per YA, as incurred on the following 4 activities, without the need for approval from IE Singapore or STB:

- (i) Overseas business development trips/missions;
- (ii) Overseas investment study trips/missions;
- (iii) Participation in overseas trade fairs; and
- (iv) Participation in approved local trade fairs.

IE Singapore or STB will continue to approve claims, on a case-by-case basis, made by businesses that require larger funding support in excess of \$100,000, or on qualifying expenditure incurred on other qualifying activities.

These changes to qualifying expenditure will take effect on or after 1 April 2012.

IE Singapore and STB will release further details of the changes by 31 March 2012.

Comments

This scheme should help to facilitate claims. However, clarifications would be required so as to confirm what the qualifying expenditure is.

Providing certainty of non-taxation of companies' gains on disposal of Equity Investments

Current

Singapore does not have capital gains tax. The determination of whether the gains from the disposal of shares in a company are income or capital in nature is based on a consideration of the facts and circumstances of each case. Factors considered include motive of seller, length of period of ownership of the shares disposed, frequency of transactions, reasons for sale and means of financing the acquisition.

Proposed

Acquisition and sale of shares are often necessary for a company undergoing restructuring for growth or consolidation. To minimise compliance costs and enhance Singapore's attractiveness as a business location, greater upfront certainty with respect to the tax treatment of companies' share disposal gains will be provided.

Gains derived from the disposal of equity investments by companies will not be taxed, if:

- (i) the divesting company holds a minimum shareholding of 20% in the company whose shares are being disposed; and
- (ii) the divesting company maintains the minimum 20% shareholding for a minimum period of 24 months just prior to the disposal.

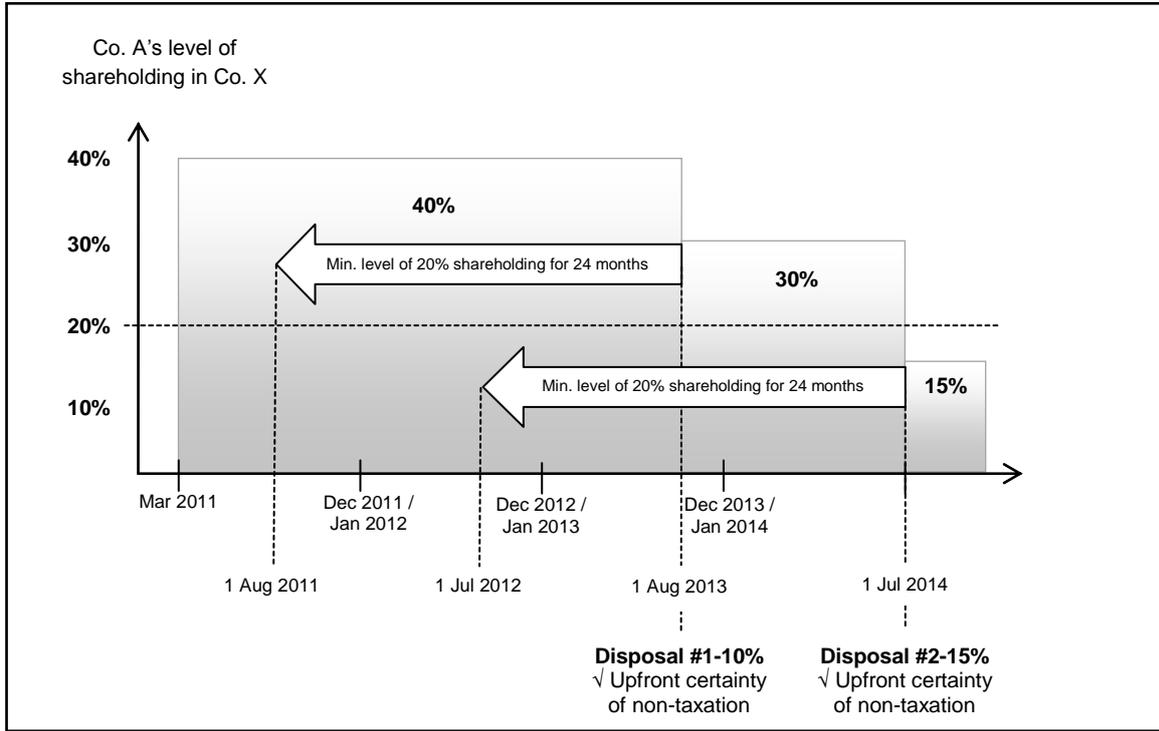
For share disposals in other scenarios, the tax treatment of the gains/ losses arising from share disposals will continue to be determined based on a consideration of the facts and circumstances of the case.

This change will take effect for companies' disposal of shares on or after 1 June 2012. The scheme will be reviewed after 5 years.

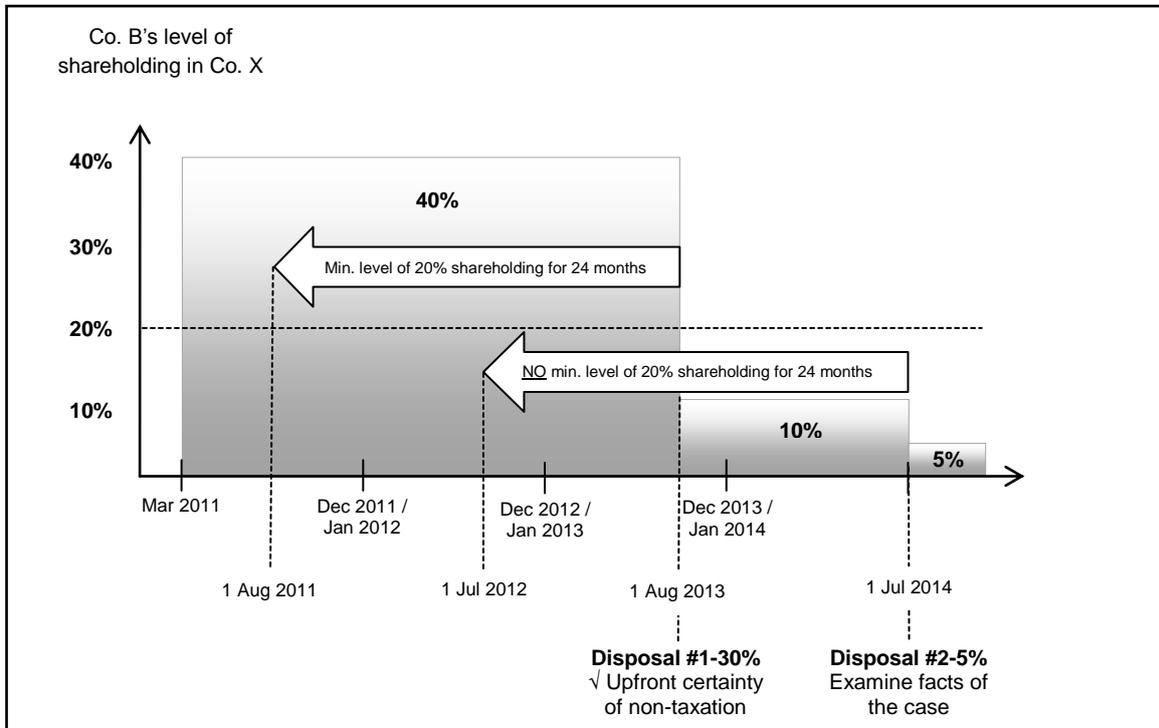
IRAS will release further details of the change by 1 June 2012.

Non-Taxation of Companies' Gains on Disposal of Equity Investments – How This Works

Scenario 1



Scenario 2



Comments

- Although Singapore does not impose tax on capital gains, it is always difficult to determine whether or not gains arising from the disposal of investments should be classified as capital gains. These new guidelines will now clearly confirm that qualifying gains will be treated as capital gains, and consequently, not liable to income tax.
- The qualifying percentage of 20% should not pose difficulties for most companies, as ownership of most privately-held companies usually exceed 20%.

Extending the filing and payment deadline for withholding tax

Current

When a payer makes certain payments, such as royalty and interest payments, to a non-resident, the payer has to withhold tax on the payments, file and pay the tax withheld to the Comptroller of Income Tax by the 15th of the month following the date of payment to the non-resident.

Proposed

To provide more time to file and pay the tax withheld, the payer will be allowed one additional month to file and pay the tax, i.e. by the 15th of the second month following the date of payment to the non-resident.

Date of payment to non-resident	Current deadline	New deadline
1 September 2012	15 October 2012 (44 days)	15 November 2012 (75 days)
30 September 2012	15 October 2012 (15 days)	15 November 2012 (46 days)

This change will take effect for payments made to non-residents on or after 1 July 2012.

Comments

Non-compliance of withholding tax requirements are subject to penalties. Providing businesses with more time to comply should help in ensuring the timeliness of payment for more companies and may also help ease cash-flow difficulties for affected companies.

Exempting vessel disposal gains derived by qualifying ship operators and ship lessors from tax

Current

Qualifying ship operators and ship lessors may enjoy a concession when the gains from disposal of vessels are not taxed. The concession will end in YA2014. With effect from 1 June 2011, the qualifying ship operators and ship lessors have to opt for the concession and abide by the conditions imposed.

Proposed

To streamline Singapore's tax regime with those of other maritime nations and provide for greater certainty to the maritime sector, qualifying ship operators and ship lessors under the Maritime Sector Incentive ("MSI") awards will be granted tax exemption automatically without the need to opt for the exemption on gains from the disposal of vessels. The gains from the disposal of vessels under construction, as well as new building contracts will also be exempt.

For ship lessors under the MSI-ML (Ship) award, the exemption applies to gains from the disposal of foreign vessels.

These changes will take effect from the commencement of MSI on 1 June 2011.

MPA will release further details of the changes on 17 February 2012.

Comments

It is indeed good to provide automatic exemption on gains from disposal of vessels. What is more welcoming is the inclusion of gains from disposal of vessels under construction and new building contracts. This will provide more flexibility for ship owners and operators in the management of their fleet.

Exempting charter fees for ships from withholding tax

Current

Resident payers making payment of time, voyage and bareboat charter fees to non-residents for the use of ships have to withhold tax on the payments at the concessionary withholding tax rate of 2%.

Proposed

To further enhance Singapore's competitiveness as an International Maritime Centre and reduce business costs for ship charterers, bareboat, voyage and time charter payments made to non-residents, excluding permanent establishments in Singapore, for the use of ships will be exempted from withholding tax. However, payers will not need to withhold tax on such payments made to a permanent establishment in Singapore.

This change will take effect for all payments made on or after 17 February 2012.

IRAS will release further details of the change on 17 February 2012.

Comments

Currently, companies enjoying the approved international shipping ("AIS") incentive are already exempted from withholding tax requirements for charter fees paid to non-resident owners on foreign flag vessels. Extending such an incentive to non-AIS companies will place these companies on more level playing field.

Enhancing the Maritime Sector Incentive – Maritime Leasing (Container) Award

Current

The MSI-ML (Container) award grants a concessionary tax rate of 5% or 10% on income derived from the leasing of qualifying containers. The MSI-ML (Container) award recipients may also apply for withholding tax exemption on interest and related payments arising from loans taken to finance qualifying containers on a case-by-case basis. Qualifying containers refer to containers that adhere to the standards defined by the International Organisation for Standardisation (“ISO”) or the Institute of International Container Lessors (“IICL”).

Proposed

To further promote the growth of container leasing in Singapore, the following enhancements will be made to the MSI-ML (Container) award:

- (i) Interest and related payments, made on or after 17 February 2012, arising from loans taken to finance qualifying containers and intermodal equipment will be granted automatic withholding tax exemption.
- (ii) With effect from YA2013, income derived from the leasing of intermodal equipment (e.g. trailers) which is incidental to the leasing of qualifying containers will also enjoy the concessionary tax rate of 5% or 10%.
- (iii) With effect from YA2013, qualifying containers will refer to containers that adhere to the standards defined by the ISO, IICL or any other equivalent organisation.

MPA will release further details of the changes on 17 February 2012.

Comments

- Automatic withholding tax exemption is always welcome, as it reduces compliance costs and concerns regarding penalties for non-compliance.
- Expanding the qualifying activities to include intermodal equipment should help businesses to be more competitive.

Extending and enhancing the Aircraft Leasing Scheme (“ALS”)

Current

ALS award recipients enjoy the concessionary tax rate of 5% or 10% on income derived from the leasing of aircraft or aircraft engines and other prescribed activities. Withholding tax exemption on interest and qualifying related payments arising from qualifying foreign loans taken to finance the purchase of aircrafts or aircraft engines may be granted on a case-by-case basis, subject to conditions.

The ALS expires on 29 February 2012.

Proposed

To continue the promotion of aircraft leasing activities in Singapore, the ALS will be extended to 31 March 2017. To provide upfront tax certainty and reduce business costs, withholding tax exemption will be granted automatically, subject to conditions, on interest and qualifying payments.

The payments must be made on or after 1 May 2012 by existing and new ALS recipients with respect to qualifying foreign loans secured on or before 31 March 2017. The loans must be for used for the purpose of financing the purchase of aircraft or aircraft engines.

The EDB will release further details of the change by 30 April 2012.

Comments

The proposed withholding tax exemption for interest payments is in-step with the proposal for the shipping businesses.

Enhancing the liberalised withholding tax exemption regime for banks

Current

In Budget 2011, the withholding tax exemption regime for banks was liberalised to allow specified entities to enjoy withholding tax exemption on interest and other payments made to non-residents (except permanent establishments (“PEs”) in Singapore). The interest and other payments must be made for the purpose of the trade or business of the specified entities.

Proposed

To enhance the withholding tax regime, the specified entities will not need to withhold tax on interest and other payments made to PEs in Singapore. The PEs in Singapore will be assessed to tax on the payments received and will be required to declare the payments received in their annual income tax returns, unless the payments are specifically exempt from tax.

All other existing terms and conditions of the regime apply.

This change will take effect for:

- (i) payments to be made from 17 February 2012 to 31 March 2021 (for contracts already in force before 17 February 2012); and
- (ii) all payments arising from contracts effective on or after 17 February 2012 to 31 March 2021.

The MAS will release further details of the change by 29 February 2012.

Comments

The proposal will reduce the administrative inconveniences of financial institutions and other specified entities to track interest and other payments to PEs in Singapore where withholding tax requirements are needed.

Extending the withholding tax exemption for Over-The-Counter (“OTC”) financial derivatives payments

Current

Currently, Financial Institutions (“FIs”) enjoy withholding tax exemption on all payments made on qualifying OTC financial derivatives to persons who are neither residents of, nor permanent establishments in Singapore. The withholding tax exemption is due to expire on 19 May 2012.

Proposed

To encourage the growth of our derivatives market, the withholding tax exemption on all payments made on qualifying OTC financial derivatives will be extended to 31 March 2021.

The MAS will release further details of the change by 30 April 2012.

Extending the tax deduction for collective impairment provisions made under MAS Notices

Current

Banks may claim tax deduction for collective impairment provisions made under MAS Notice 612, subject to caps as stipulated under Section 14I of the Income Tax Act. Similarly, finance companies and merchant banks may claim tax deduction for collective impairment provisions made under MAS Notice 811 and MAS Notice 1005 respectively.

These tax concessions will expire after YA2013 or YA2014.

Proposed

To encourage banks to maintain adequate levels of impairment allowances, the tax concessions will be extended for a further three years till YA2016 or YA2017.

All other existing terms and conditions of the scheme apply.

Enhancing the designated investment and specified income lists for Financial Sector Tax Incentive schemes

Current

There is a list of specified income as well as a list of designated investments that are eligible for the following tax incentive schemes:

- (i) Foreign Trust Scheme;
- (ii) Foreign Account of Charitable Purpose Trust Scheme;
- (iii) Fund Management Incentive Schemes;
- (iv) Approved Trustee Company Scheme;
- (v) Financial Sector Incentive – Standard Tier Scheme; and
- (vi) Financial Sector Incentive – Fund Management Scheme

Proposed

In a bid to simplify the list of specified income and designated investments, as well as keep pace with industry development and changes, the list of specified income will be revised into an exclusion list.

The list of designated investments will be rationalised as follows:

- (i) Stocks and shares of any company;
- (ii) All debt securities;
- (iii) All other securities (not already covered under the list of designated investments):
 - Issued by foreign governments in foreign currency;
 - Listed on any Exchange;
 - Issued by supranational bodies; or
 - Issued by any company; and
- (i) All financial derivatives that relate to any designated investment or financial Index, subject to existing conditions and counterparty restrictions.

The designated investment list will also be expanded to include:

- (i) Private trusts that invest wholly in designated investments;
- (ii) Freight derivatives; and
- (iii) Publicly-traded partnerships that do not carry on a trade, business, profession or vocation in Singapore.

These changes will be effective 17 February 2012.

MAS will release further details of the changes by 29 February 2012.

Comments

This proposal should simplify the requirements and help ensure that the list of specific income and designated investments are complied with.

Liberalising the cash distribution requirement for tax transparency for Real Estate Investment Trusts (“REITs”)

Current

To enjoy tax transparency, REITs must distribute at least 90% of taxable income in the same financial year in which such income is derived. The distributions to the unit holders must be made fully in cash.

Proposed

To enhance our tax regime for REITs, a REIT that makes distributions to unit holders in the form of units can continue to enjoy tax transparency. This is subject to the following conditions:

- (i) Before the distribution, the trustee of the REIT grants the unit holders the option to receive the distributions either in cash or units in that REIT; and
- (ii) On the date of distribution, the trustee of the REIT must have sufficient cash to make the entire distribution fully in cash had no option been given to those unit holders to receive the distribution in units in that REIT.

Unit holders that elect to receive distributions in units will be taxed in the same manner as if they had received the distribution in cash.

This change will take effect for distributions made on or after 1 April 2012.

Comments

This will place REITs in the same position as companies operating in other industries which opt to pay script dividends. It will also allow for better cash management for REITs.

Goods and Services Tax

Granting GST exemption on investment-grade gold and precious metals

Current

Investment-grade gold and precious metals like silver and platinum are subject to GST if they are sold in Singapore and zero-rated if they are exported overseas. Businesses may utilise the Zero-GST Warehouse Scheme to undertake GST-free sales within the warehouse so as to alleviate the GST impact on domestic gold and precious metals trading.

Proposed

To develop a new refining and trading cluster in Singapore, the import and supply of investment-grade gold and precious metals will be treated as exempt supplies, similar to the supply of financial services.

Measures will be introduced to ease cash flow and compliance of qualifying refiners and local consolidators of precious metals in the payment of input GST on import and purchase of raw materials.

These changes will take effect from 1 October 2012.

Further implementation details of the new GST treatment of exempt investment-grade gold and precious metals, including its corresponding input tax claims, will be finalised after consultation with the industry.

The IRAS will release further details of the changes by 1 September 2012.

Comments

Further details and clarifications are needed to determine how input tax incurred can be claimed by qualifying refiners and local consolidators of precious metals.

Extending the GST Temporary Import Period from 3 to 6 months

Current

The Temporary Import (“TI”) Scheme allows goods, except for liquor and tobacco, to be imported without payment of duty and/or GST if they are to be re-exported within 3 months from the date of importation. The goods must be imported for approved purposes, such as exhibitions, fairs, auctions, repairs, stage performances, testing, experiments and demonstration.

If the goods are not re-exported within 3 months from the date of importation, the goods will be subject to GST.

Proposed

To provide businesses with greater flexibility, the temporary import relief period, which currently stands at 3 months, will be extended to 6 months. All other existing terms and conditions of the scheme apply.

This change will take effect from 1 April 2012.

The Singapore Customs will release further details on the change by 26 March 2012.

Comments

The extension should provide some relief for companies dealing in goods which require more holding time in Singapore before being re-exported.

Extending the GST Tourist Refund System (“TRS”) to tourists departing by International Cruise

Current

Tourists may claim GST refunds on their goods purchased in Singapore prior to their departure from Singapore, subject to their eligibility, and conditions of the TRS. The GST TRS is only available to tourists departing Singapore via air, from the Changi International Airport and Seletar Airport. GST TRS is not available to tourists leaving Singapore via land and sea.

Proposed

To capitalise on the growth of international cruise tourism, the GST TRS will be extended to include international cruise passengers departing from the Singapore Cruise Centre at Harbourfront and the new International Cruise Terminal at Marina South.

A tourist departing from Singapore on an international cruise must satisfy the existing GST TRS conditions to qualify for the GST refund. In addition, the tourist must comply with the following:

- (i) declare that Singapore is his final exit point using his cruise itinerary as documentary proof of his departure; and
- (ii) commit that he will not return to Singapore within 48 hours.

This change will take effect from January 2013.

IRAS, Singapore Customs and Singapore Tourism Board will release further details of the change by 1 September 2012.

Comments

While this will certainly benefit tourists who are departing Singapore as his final point, how would such measures affect tourists who merely take a 3 to 5 days cruise to and from Singapore? If the value of their goods exceeds \$600, will they be required to re-pay GST?

Simplifying GST import relief for incoming travellers

Current

The amount of GST import relief for new articles brought in by a bona fide traveller (e.g. souvenirs, gifts) is dependent on his age and time spent outside Singapore:

	18 years and above	Below 18 years
Away for 48 hours or more	\$300	\$100
Away for 24 to less than 48 hours	\$150	\$50
Away for less than 24 hours	\$50	None

Proposed

To keep pace with rising expenditures and international norms, the GST import relief for new articles brought in by inbound travellers will be simplified as follows:

Time spent abroad	GST import relief
Away for 48 hours or more	\$600
Away for less than 48 hours	\$150

This change will take effect from 1 April 2012

Comments

Singaporeans are now travelling more and this will benefit those with higher spending power abroad.

Individual

Enhancing the Earned Income Relief for elderly and handicapped workers

Current

Individuals may claim Earned Income Relief (“EIR”) or Handicapped EIR.

The table below shows the current maximum amount of EIR and Handicapped EIR.

Age group	EIR	Handicapped EIR
Below 55	\$1,000	\$2,000
55 to 59	\$3,000	\$5,000
60 and above	\$4,000	\$6,000

Proposed

To encourage elderly workers to stay employed and to provide more support to handicapped workers, the amount of EIR and Handicapped EIR will be increased.

The table below shows the revised amount of EIR and Handicapped EIR.

Age group	EIR	Handicapped EIR
Below 55	\$1,000	\$4,000
55 to 59	\$6,000	\$10,000
60 and above	\$8,000	\$12,000

This change will take effect from YA2013.

Comments

This measure demonstrates the Government’s commitment towards encouraging the elderly and handicapped workers to stay employed.

Increase in the CPF contribution rates

To help older workers better prepare for their retirement, the CPF contribution rates for workers aged above 50 years old will be increased from 1 Sep 2012. The CPF contribution rates for those aged 50-55 years will eventually be raised to reach the full CPF contribution rate of 36%.

CPF Contribution Rates Changes*

Age	New contribution rates** from 1 Sep 2012 (increases from current rates are in brackets)		
	Employer	Employee	Total
> 50 - 55 years	14 (+2)	18.5 (+0.5)	32.5 (+2.5)
> 55 - 60 years	10.5 (+1.5)	13 (+0.5)	23.5 (+2)
> 60 - 65 years	7 (+0.5)	7.5	14.5 (+0.5)

* For those with monthly wages exceeding \$1,500 a month. Workers in the affected age groups earning between \$50 and \$1,500 will see pro-rated increases in their employer and employee CPF contribution rates.

** % of wages.

Given the increase in CPF contribution rates, the allocation rates to the Ordinary Account (OA), Special Account (SA) and Medisave Account (MA) will also be adjusted accordingly.

CPF Allocation Rates Changes

Age	New allocation rates* from 1 Sep 2012 (increases from current rates are in brackets)		
	OA	SA	MA
Above 50 to 55 years	13.5 (+0.5)	9.5 (+1.5)	9.5 (+0.5)
Above 55 to 60 years	12 (+0.5)	2 (+1)	9.5 (+0.5)
Above 60 to 65 years	3.5	1.5 (+0.5)	9.5

* % of wages.

Self-Employed Persons

The Medisave contribution rates for self-employed persons aged 50 years and above drawing an annual net trade income of \$18,000 and above will be increased by 0.5% from 1 Jan 2013. This change will align the MA contribution rates for older SEPs with that for older employees.

Medisave Contribution Rates for Self-Employed Persons with Annual Net Trade Income of \$18,000 and Above

Period	Age as at 1 Jan	
	45 - below 50 years	50 years or more
Current	9.0%	
From 1 Jan 2013	9.0%	9.5%

Further details on contribution rates are available on the Ministry of Manpower website at www.mom.gov.sg.

Comments

The move to increase the CPF rates for elderly workers was done with the objective of helping them to be better prepared for their retirement.

GST Voucher

The Government has introduced a permanent system of offsets in the form of a GST Voucher to help lower-income Singaporeans, and has set aside \$3.6 billion to finance the scheme for the first five years. The GST Voucher will fully offset the GST payable by elderly Singaporeans staying in 1- to 3-room HDB flats. It will also offset about half of the total GST bills for lower-income families that do not have elderly family members.

The GST Voucher consists of 3 components:

GST Voucher – Cash: The amount that an eligible Singaporean will receive is based on his income and the value of his home as illustrated below:

Assessable Income for YA2011	Annual Value of Home as at 31 Dec 2011	
	Up to \$13,000	More than \$13,000 and up to \$20,000
≤ \$24,000	\$250	\$100

GST Voucher – Medisave: This comprises an annual top-up to the Medisave Accounts of older Singaporeans aged 65 and above living in properties which have an Annual Value that does not exceed \$20,000. About 85% of all elderly Singaporeans will benefit.

Age	Annual Value of Home as at 31 Dec 2011	
	Up to \$13,000	More than \$13,000 and up to \$20,000
65-74	\$250	\$150
75-84	\$350	\$250
≥ 85	\$450	\$350

GST Voucher – U-Save: These will be given to all HDB households to help directly offset their monthly utilities bills.

HDB Flat Type	Annual GST Voucher – U-Save
1- & 2- Room	\$260
3-Room	\$240
4-Room	\$220
5-Room	\$200
Executive	\$180

Singaporeans can expect to receive their annual GST Voucher, Cash and GST Voucher or Medisave from Aug 2012 onwards. The GST Voucher – U-Save will be given out in the months of January and July of each year starting July 2012.

Singaporeans who qualify for the GST Voucher will receive a letter informing them of their eligibility in July 2012.

Others

Special Tax for Euro V Compliant Private Diesel Cars

Current

\$1.25 per cc of engine capacity subject to a minimum annual payment of \$1,250.

Proposed

\$0.40 per cc of engine capacity, subject to a minimum annual payment of \$400. Reduction of nearly 70% for Euro V cars.

The revised tax rate will take effect from 1 January 2013. The special tax for pre Euro V diesel cars will remain unchanged. The special tax for all diesel taxis will remain at \$5,100 per annum.

Carbon Emissions-Based Vehicle Scheme (CEVS)

Current

Green vehicles are currently incentivised under the Green Vehicle Rebate (GVR) Scheme which will expire at the end of 2012. Eligible vehicles include:

- (i) Electric, hybrid (petrol-electric), CNG and Bi-fuel (CNG/Petrol) passenger cars and taxis qualify for a rebate on the Additional Registration Fee (ARF) at 40% of the Open Market Value (OMV).
- (ii) Electric, hybrid (petrol-electric), CNG and Bi-fuel (CNG/Petrol) buses and commercial vehicles, and electric motorcycles qualify for a rebate on the Additional Registration Fee (ARF) at 5% - 10% of the Open Market Value (OMV).

Proposed

- (i) The CEVS will replace the GVR Scheme for passenger cars and taxis with effect from 1 January 2013. Under the CEVS, all new purchases of passenger car models with low carbon emissions will enjoy up to \$20,000 in rebates on the ARF, while those with high carbon emissions will have to pay a registration surcharge of up to \$20,000.

For taxis, the rebate and surcharge will be up to \$30,000, or 50% higher than that for cars. This is done to further encourage demand for green taxis which yield a higher mileage than the average petrol-run car.

The rebates under CEVS will take effect from 1 January 2013, while the surcharge will only take effect from July 2013 to give the industry adequate time to adjust to the new scheme.

The CEVS will be reviewed at the end of 2014. More details will be shared by the Ministry of Transport at its Committee of Supply.

- (ii) The GVR Scheme for commercial vehicles, buses and motorcycles will be extended for another two years, or until end-2014.

Removal of Additional Transfer Fee

Current

Vehicle buyers and sellers pay the following fees to transfer the registration of their vehicles:

(i) Transfer Fee

- \$3 for motorcycles/scooters;
- \$10 for other vehicles; and

(ii) Additional Transfer Fee

2% of the value of the vehicle, subject to a minimum of \$5 for motorcycles/scooters and \$20 for other vehicles.

Proposed

With effect from 18 February 2012:

- (i) The Transfer Fee for all vehicles will be revised to \$11; and
- (ii) The Additional Transfer Fee will be abolished.

Enhancement of the Special Employment Credit (SEC)

The Government will enhance the SEC in 2012 to help businesses attract and retain older Singaporean workers. Employers will receive an SEC of 8% of income for each Singaporean worker aged above 50, and earning an income of up to \$3,000 per month and are on the company's payroll between January 2012 and December 2016. Those with an income of between \$3,000 and \$4,000 will receive a lower amount.

Income of employee (\$)	SEC for the month (\$)
500	40
1,000	80
1,500	120
2,000	160
2,500	200
3,000	240
3,500	120
Above 4,000	0

Comments

The Special Employment Credit Scheme should encourage employers to hire or retain older Singaporean Workers, especially those from the lower income groups.

Excise Duties for Tobacco Product

Excise duties will be raised on the following two classes of tobacco products to streamline the excise duties between cigarette and non-cigarette products:

- i. Beedies, "ang hoon", and smokeless tobacco, from \$199/kg to \$239/kg (+20%)
- ii. Unmanufactured tobacco, cut tobacco, and tobacco refuse from \$315/kg to \$347/kg (+10%)

These tax changes will take effect from 17 February 2012.

HS Code	Product description	Current Excise Rate (\$ per kg)	New Excise Rate (\$ per kg)
Beedies, Ang Hoon and Smokeless tobacco			
24022010	Beedies cigarettes	199	239
24039950	Chewing and sucking tobacco excluding snuff	199	239
24031911	Ang Hoon packed for retail sale	199	239
Unmanufactured and Cut tobacco and other tobacco refuse			
24011010	Tobacco unmanufactured not stemmed/ stripped, Virginia type, flue-cured	315	347
24011020	Tobacco unmanufactured not stemmed/ stripped, Virginia type, other than flue-cured	315	347
24011040	Tobacco unmanufactured not stemmed/ stripped, Burley type	315	347
24011050	Other tobacco unmanufactured not stemmed/ stripped, flue-cured	315	347
24011090	Other tobacco unmanufactured not stemmed/ stripped, other than flue-cured	315	347
24012010	Tobacco unmanufactured partly or wholly stemmed/ stripped, Virginia type, flue-cured	315	347
24012020	Tobacco unmanufactured partly or wholly stemmed/ stripped, Virginia type, other than flue-cured	315	347
24012030	Tobacco unmanufactured partly or wholly stemmed/ stripped, Oriental type	315	347

24012040	Tobacco unmanufactured partly or wholly stemmed/ stripped, Burley type	315	347
24012050	Other tobacco unmanufactured partly or wholly stemmed/ stripped, flue-cured	315	347
24012090	Other tobacco unmanufactured partly or wholly stemmed/ stripped, other than flue-cured	315	347
24013010	Tobacco Stems	315	347
24013090	Other Tobacco Refuse	315	347
24031920	Other manufactured tobacco for the manufacture of cigarettes	315	347

Note: Source of information on the 2012 Budget is from the Ministry Of Finance.

This synopsis has been prepared by the tax division of **Boardroom Business Solutions Pte. Ltd. (BBS)**, a member of the Boardroom Group of Companies. BBS provides services to both companies and individuals in the areas of tax consulting and compliance, including tax incentive applications, etc.

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