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Future-proofing Singapore

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“The future depends on what you do today,” said Mahatma Gandhi.

In this year’s Budget announcement, the Government pressed on with a consistent purpose: the economic transformation that Singapore has embarked on several years ago must continue relentlessly so as to future-proof the country for a better tomorrow. To secure a distinctive place in the global economy means we must deepen our skills and capabilities, make innovation pervasive, and strengthen the economic and social infrastructure of the country.

It has not been, and will not be, easy. Singapore’s quest for productivity growth, underpinned by many broad-based measures in recent years, has not yielded significant productivity growth overall. This signals that measures with good intent and purpose must be changed if they do not deliver the intended results. This Budget seeks to do just that - the schemes, both existing and new ones, are more targeted, and there is a conscious effort to make them accessible.

The SME sector, which contributes more than 50% of economic output and 70% of employment, is the backbone of Singapore’s economy. Growing the nation will necessarily mean giving homegrown enterprises a lift. It is not surprising that SMEs are one of the main beneficiaries of this Budget.

For one, the Capability Development Grant scheme will be extended, and more importantly, the scheme will be made more accessible with a simplified application process. Other funding schemes such as the venture debt risk-sharing programme, have been introduced to further reduce the funding gaps for innovative start-ups. With the strong funding support now available to SMEs, it is time for our local players to think and act bigger and bolder.

This also means that SMEs should have the courage and appetite for scaling up and move beyond the comfort of our shores. Additional support from IE Singapore through its grant schemes and Double Tax Deduction for Internationalisation scheme will help to this end.
The usual lament by homegrown enterprises is that our tax incentive programmes often lean towards benefiting the MNCs. The introduction of a new International Growth Scheme is a welcomed move to address this perceived gap. Homegrown enterprises can now expand overseas and enjoy a 10% concessionary tax rate on their incremental income from qualifying activities, while retaining key business activities and headquarter functions in Singapore.

**Our people**

Strengthening homegrown enterprises must go hand-in-glove with the upskilling of our population. The SkillsFuture initiatives are innovative. SkillsFuture empowers every Singaporean to take charge of his career and lifelong learning.

It is hoped that trade organisations and industry bodies will make use of the SkillsFuture Credit to offer targeted training to meet the needs of the business sector.

"To secure a distinctive place in the global economy means we must deepen our skills and capabilities, make innovation pervasive, and strengthen the economic and social infrastructure of the country."
A fair and just society
This year, the Silver Support Scheme, which complements the existing Workfare, has been introduced to provide income supplement for the bottom 20% to 30% of senior Singaporeans during their retirement.

Has Singapore leaned towards being a welfare state? Clearly it’s about striking a fair balance and in my mind, this social security support is crucial to ensuring social cohesiveness. Fortunately, the foundation for our social security network remains that of family and community support. Hopefully, with higher incomes coming from continuing education and training and greater retirement savings through our enhanced CPF scheme, every Singaporean can be self-reliant in the future.

With increased social spending, the Minister expects that Singapore will see a tighter budget position in the coming years. For now, the Government is tapping on past budget surpluses and the “redefined” net investment income, and raising petrol duties.

What has perhaps come as a surprise is the increase in the top marginal personal income tax rate from 20% to 22%, plus the tweaking of the tax rate structure that affects the top 5% of our income earners, to strengthen Singapore’s revenue position. While it cannot be said that this action is unexpected, this early announcement certainly demonstrates our Government’s confidence that this measure will not significantly dent Singapore’s competitiveness.

The Minister for Finance has indicated that the revenue measures that have been put in place will be sufficient for the increased planning needs until the end of the decade. Perhaps we might not see a GST rate increase until the end of 2020?

Conclusion
This is one of the most holistic and comprehensive budgets seen. It has touched on every aspect of life that matters, from support for lifelong learning to sharper initiatives to help companies to continue to raise productivity, innovation and internationalise. It is laudable that there is a shift in policy-making towards a more pointed and targeted approach, and simplifying our tax regime and making schemes more SME-friendly.

This Budget steers Singapore in the right direction. In celebrating Singapore’s Jubilee this year, let’s continue to act, believe in and plan for the “Singapore Dream”.

Happy 50th birthday, Singapore!

Chung-Sim Siew Moon
Partner and Head of Tax
23 February 2015
Corporate income tax rate and rebate

Current
The corporate income tax rate is 17% with a partial tax exemption for normal chargeable income of up to S$300,000 as follows:
► 75% exemption of up to the first S$10,000
► 50% exemption of up to the next S$290,000

To relieve business costs, a 30% corporate income tax rebate capped at S$30,000 per YA was granted to companies for three years from YA 2013 to YA 2015 as part of the Transition Support Package announced in Budget 2013.

Proposed
The Minister did not propose any change to the corporate income tax rate and the partial tax exemption threshold remains as before.

Given that businesses will continue to face cost pressures in this period of restructuring, the 30% corporate income tax rebate will be provided for another two YAs (YA 2016 and YA 2017), with a reduced cap of S$20,000 per company per YA.

Points of view
► The corporate income tax rate has remained at 17% since YA 2010. At 17%, Singapore’s headline corporate income tax rate continues to be one of the lowest in the world. This rate is only 0.5 percentage points higher than the current Hong Kong corporate income tax rate of 16.5%.

► The effective tax rate of a company in Singapore with S$500,000 of normal chargeable income will be only 11.8%. It is further reduced to 8.27% if we factor in the corporate income tax rebate for YA 2016 and YA 2017. This is notably lower than the existing tax rate of 16.5% in Hong Kong. A company’s effective tax rate in Singapore may be reduced still further by substantive tax incentives including the PIC scheme.

► The top marginal personal income tax rate will be increased from the current 20% to 22% with effect from YA 2017. Based on the current corporate income tax rate of 17%, the difference between the corporate income tax rate and the top marginal personal income tax rate will widen to 5%. Clearly, self-employed individuals, depending on their level of income, should give due consideration to corporatising their businesses in view of the lower corporate income tax rate and partial tax exemption. The additional costs of operating a company, e.g., audit and secretarial fees, will have to be taken into account before such a decision is made.
► The IRAS has clarified that:

► The corporate income tax rebate will be given to all companies including registered business trusts, non-resident companies and companies that receive income taxed at a concessionary tax rate. The rebate, however, will not apply to the income derived by a non-resident company that is subject to a final WHT.

► Companies need not factor in the corporate income tax rebate when filing their estimated chargeable income and Form C/C-S as the IRAS will compute and allow the corporate income tax rebate automatically.

► For companies that have already received their notices of assessment (NOA) for YA 2016 where the corporate income tax rebate was not given, IRAS will re-compute the assessment to allow the corporate income tax rebate. The revised NOAs incorporating the corporate income tax rebate will be sent to affected companies by May 2015.

► The corporate income tax rebate will provide some relief for companies, although it will only benefit companies that are tax paying since it is computed on tax payable.

► Companies may consider deferring capital allowances claims or planning their group loss relief claims to optimise the amount of corporate income tax rebate.
Proposed
To provide greater and more targeted support for larger Singapore companies in their internationalisation efforts, a new International Growth Scheme (IGS) will be introduced to support high potential companies in their growth overseas, while they continue to anchor their key functions in Singapore.

Under the IGS, qualifying Singapore companies will enjoy a concessionary tax rate of 10% for a period not exceeding five years on their incremental income from qualifying activities. The qualifying Singapore companies will be expected to engage in internationalisation activities and provide opportunities for Singaporeans to gain greater international exposure.

The new scheme will be administered by IE Singapore.

The approval window for the new scheme will be from 1 April 2015 to 31 March 2020.

Further details will be released by IE Singapore by May 2015.

Points of view
► The IGS will be welcomed by the larger Singapore companies which are actively considering business expansion beyond the shores of Singapore. The tax savings from the concessionary tax rate should be helpful towards supporting these companies’ internationalisation efforts.

► The fruits from internationalisation efforts typically take time to manifest given the significant setup costs and uncertainties in new markets. Therefore, a five-year incentive period for the IGS may be too short for qualifying Singapore companies to effectively benefit from the scheme as they may generate losses from the internationalisation efforts during the initial years.

► As the intent of the incentive is to support larger Singapore companies in their internationalisation efforts, it is possible that the conditions for the IGS will include overseas expansion milestones such as number of new markets penetrated or potentially the number of Singaporeans based overseas. To ensure that the company will also be growing its Singapore presence to support the international expansion, IE Singapore may also impose Singapore-centric conditions such as number of headquarter activities performed in Singapore, incremental headcount employment in Singapore and local business spending.

► While the incentive conditions are necessary to monitor the progress of the companies in achieving their goals and the effectiveness of the incentive scheme, it is important to ensure that the incentive conditions are not overly prescriptive and beyond the control of the company e.g., sales/revenue target conditions which can be cyclical in nature.

► Traditionally, most tax incentives do not incentivise income from transactions with domestic customers so as to provide a level playing field for all companies in Singapore. It is unclear if this principle will be similarly applied under the IGS.

► It is also not clear if the IGS will be sufficiently flexible to cover various different types of income such as sales, royalties, commissions etc. The ability to do so will ensure that it caters to the various different business models adopted by companies.

1 This refers to income in excess of the company’s average of the last three years’ income from the relevant qualifying activities such as headquarter functions and specific business lines.
Extending and enhancing the M&A scheme

Current

The M&A scheme was introduced in 2010 to encourage companies to consider M&A as a strategy for growth and internationalisation. It is available for qualifying M&A executed from 1 April 2010 to 31 March 2015.

a) Tax benefits under the M&A scheme

► An M&A allowance based on 5% of the value of the qualifying acquisition, subject to a cap of S$100m on the value of qualifying acquisitions per YA. The allowance is written down over five years.

► Stamp duty relief on the transfer of unlisted shares, capped at S$100m of qualifying M&A deals. This works out to a cap of S$200,000 of stamp duty per FY.

b) Shareholding eligibility tiers under the M&A scheme

Currently, the acquiring company must acquire ordinary shares in a target company, whether directly or indirectly, that results in the acquiring company holding:

► More than 50% ordinary shareholding in the target company (if the acquiring company’s original shareholding in the target company was 50% or less)

Or

► At least 75% ordinary shareholding (if the acquiring company’s original shareholding was more than 50% but less than 75%).

c) “12-month look-back period” for step acquisitions that straddle across FYs

An acquiring company can also elect for its ordinary share acquisitions in a target company made during a 12-month period to be consolidated to qualify for the M&A tax benefits. The 12-month period must end on the share acquisition date on which the 50% or 75% shareholding threshold is met, or the date of a subsequent acquisition that is conducted within the same basis period. This is commonly known as the “12-month look-back period”.

1 An acquiring subsidiary must be set up for the purposes of holding shares and not carry on a trade or business.
Proposed

To further support companies, especially SMEs, to grow via strategic acquisitions, the scheme will be extended till 31 March 2020 with the changes below.

a) Revised tax benefits under the M&A scheme

► The M&A allowance rate will be increased to 25%.
► The cap on the value of qualifying acquisitions for the M&A allowance per YA will be revised to S$20m.
► Stamp duty relief on the transfer of unlisted shares will correspondingly be capped at S$20m on the value of qualifying M&A deals, which works out to a cap of S$40,000 of stamp duty per FY.

b) Revised shareholding eligibility tiers

► The acquiring company must acquire ordinary shares in a target company, whether directly or indirectly, that results in the acquiring company holding:
  ► At least 20% ordinary shareholding in the target company (if the acquiring company’s original shareholding in the target company was less than 20%), subject to conditions
  Or
  ► More than 50% ordinary shareholding in the target company (if the acquiring company’s original shareholding in the target company was 50% or less) (status quo).
► The existing 75% shareholding eligibility tier will be removed. Acquisitions of ordinary shares that result in the acquiring company owning at least 75% ordinary shareholding (if the acquiring company’s original shareholding was more than 50% but less than 75% at the beginning of the basis period for a YA or FY) will no longer qualify under the M&A scheme.

c) “12-month look-back period” for step acquisitions that straddle across FYs

► The 12-month look-back period will be removed to simplify the scheme.

The above changes will take effect for qualifying acquisitions made from 1 April 2015.

The IRAS will release more details by May 2015 including details of relevant transitional arrangements arising from the above changes.
Points of view

► The extension of the M&A scheme for another five years is in line with the Government’s initiatives to encourage SMEs to expand and consider strategic acquisitions.

► The M&A allowance rate is increased significantly from 5% to 25%, but correspondingly, there is a reduction in the cap on the dollar value of qualifying acquisitions from S$100m to S$20m. Although the maximum M&A allowance remains at S$5m (i.e., 5% X S$100m under the current scheme and 25% X S$20m under the proposed change), it is clear that this refinement is targeted to especially benefit SMEs which typically make smaller acquisitions.

For example, an SME that makes an acquisition of S$10m will be able to claim M&A allowance of S$2.5m under the proposed change compared with only S$0.5m under the existing scheme.

► Under the proposed revised M&A scheme, companies will be able to claim M&A benefits for acquisitions resulting in at least 20% shareholding in the target company, down from the current threshold of 50% shareholding. Again, this is targeted at benefiting SMEs, which may not be able to acquire large stakes in their expansion strategies.

► The IRAS has further clarified that companies that wish to claim M&A allowance based on the 20% shareholding threshold will need to meet additional conditions as follows:

► The acquiring company must also have:

(i) At least 1 director represented on the Board of Directors of the target company

and

(ii) Acquired a shareholding of at least 20% in the target company and that the target company is considered an associate of the acquiring company under Singapore FRS 28 or Singapore FRS for Small Companies.

► The removal of the existing 75% shareholding eligible tier under the proposed revised M&A scheme means that an acquiring company (with original shareholding of more than 50% but less than 75% in target company) which plans to increase its shareholding stake to 75% or more will no longer be able to benefit from the M&A scheme from 1 April 2015 onwards. Hence, such an acquiring company should target to complete a planned acquisition by 31 March 2015.

► Similarly, companies planning to consolidate an acquisition under the 12-month look-back period to qualify for the M&A scheme should do so by 31 March 2015.

► Going forward, where a company (with original shareholding of less than 20% in target company) plans to acquire a large stake of more than 50% (say 100%) in the target company over two or more separate transactions, careful consideration is required in order to fully benefit from the M&A scheme.

► Any unabsorbed M&A allowance is currently not available for transfer to other companies under the group relief system. This limits the benefit of the M&A allowance if the acquiring company does not have sufficient taxable income.
Extending the tax concessions for listed REITs

Current

REITs listed on the SGX enjoy the following income tax and stamp duty concessions, which are scheduled to lapse on 31 March 2015:

► Concessionary income tax rate of 10% on distributions of taxable income to non-tax resident non-individual investors.
► Tax exemption on qualifying foreign-sourced income (i.e., foreign-sourced dividend income, interest income, trust distributions and branch profits) derived in respect of overseas properties, which is also enjoyed by wholly-owned Singapore tax resident subsidiary companies of listed REITs. This tax exemption is subject to the satisfaction of certain conditions, including the conditions that the overseas property is acquired by the trustee of the listed REIT or its wholly-owned Singapore tax resident subsidiary company on or before 31 March 2015 and continues to be beneficially owned by the trustee of the listed REIT or its wholly-owned Singapore tax resident subsidiary company after 31 March 2015.
► Stamp duty remission on the transfer of a Singapore immovable property to a REIT.
► Stamp duty remission on the transfer of 100% of the issued share capital of a Singapore-incorporated company that holds immovable properties situated outside Singapore to the REIT.

Proposed

To continue to promote the listing of REITs in Singapore and strengthen Singapore’s position as a REITs hub in Asia, the package of tax concessions for REITs has been reviewed to ensure that it remains competitive to support the growth of the industry.

The income tax concession for REITs will be extended for five years until 31 March 2020. With this extension:

► The concessionary income tax rate of 10% on distributions of taxable income by listed REITs to non-tax resident non-individual investors will continue to apply to distributions made from 1 April 2015 to 31 March 2020 (both dates inclusive).
► The tax exemption on qualifying foreign-sourced income will apply so long as the overseas property is acquired by the REIT or its wholly-owned Singapore tax resident subsidiary company on or before 31 March 2020.

The stamp duty remissions were intended to enable the industry to acquire a critical mass of local assets, as a base from which the REITs can expand abroad. As this has been achieved, the remissions will be allowed to lapse after 31 March 2015.

All other conditions remain the same. The MAS will release further details by May 2015.
Points of view

► The extension of the income tax concessions, i.e., the 10% concessionary tax rate and the tax exemption on qualifying foreign-sourced income (see also the section on “Extending and enhancing the GST remission for listed REITs, and listed RBTs carrying on qualifying businesses”) was very much anticipated by the REITs industry and the market.

► The extension of the 10% concessionary tax rate for non-tax resident non-individual investors will help to preserve the attractiveness of REITs as a good investment asset class for this important group of investors. The extension will enable a continued inflow of foreign capital to support the growth of the Singapore REITs industry.

► It is also encouraging to see the tax exemption on qualifying foreign-sourced income being extended up to 31 March 2020. This will make it easier for cross-border REITs already listed on the SGX to grow their portfolio of overseas properties and encourage the listing of more cross-border REITs on the SGX.

► The stamp duty remission on the transfer of Singapore properties has facilitated the listing of Singapore-focused REITs and help such REITs to grow their portfolio of Singapore properties. The discontinuance of this remission means an additional cost of approximately 3% for the acquisition of Singapore properties; an additional cost that sponsors or sellers and the REITs would have to reckon with and manage. Sponsors, sellers and REITs may need to consider other acquisition options.

► The discontinuance of the stamp duty remission for transfer of shares in Singapore companies that hold, directly or indirectly, overseas properties means that Singapore-listed REITs (or REITs intending to list on the SGX) with an overseas focus would have to pay more attention in the manner in which they structure their overseas acquisitions as otherwise, they may have to incur an additional stamp duty cost of 0.2%.

► With the discontinuance of the stamp duty remissions, REITs should be put on a level playing field with other type of entities. It may be time to consider expanding the scope of the stamp duty relief for transfer of assets between associated permitted entities to include REITs.
Extending and enhancing the 250% tax deduction for donations

Current
Donors are eligible for a 250% tax deduction for qualifying donations made to Institutions of a Public Character (IPCs) and other qualifying recipients (such as approved museums and prescribed educational institutions) from 1 January 2009 to 31 December 2015.

Proposed
To build a stronger culture of giving and as part of the SG50 jubilee celebration, the tax deduction rate for qualifying donations made to IPCs and other qualifying recipients in 2015 will be increased from the current 250% to 300%.

The tax deduction will revert to 250% for qualifying donations made from 1 January 2016 to 31 December 2018 to IPCs and other qualifying recipients.

Points of view
► The Government is generous in giving a 300% tax deduction during our jubilee year. The enhanced 300% tax deduction will result in an effective tax saving of 51% of the value of the qualifying donation made by a corporate donor which is taxable at the rate of 17%. That is, for every S$100 donated by a corporate donor, the donor will enjoy a reduction in tax of S$51, resulting in a post-tax cost of S$49 to the donor.

► The tax deduction will revert to 250% for qualifying donations made after 31 December 2015. Hence, companies with non-December financial year-ends will need to track the actual date the qualifying donations were made.

► Unutilised donations can only be carried forward for five years. As such, corporate donors which are not generating sufficient taxable profits in 2015 or in the near future may or may not be able to enjoy the enhanced tax deduction since carried forward capital allowances and tax losses must be set off against future profits before carried forward donations can be utilised.

► Unutilised qualifying donations are also not allowed to be carried back under the loss carry-back relief scheme. They are however eligible for transfer to members of the same group under the group relief scheme if the conditions for group relief are met.

► The 250% tax deduction was set to expire by 31 December 2015. The three-year extension is an affirmation that the enhanced deduction is effective in encouraging philanthropy and fostering the spirit of giving.
Extending and enhancing the Maritime Sector Incentive

Current

Under the Maritime Sector Incentive (MSI), ship operators, maritime lessors and providers of certain shipping-related support services can enjoy the tax benefits summarised in the table below:

<table>
<thead>
<tr>
<th>Name of shipping incentive</th>
<th>Current treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>For ship operators</strong></td>
<td></td>
</tr>
<tr>
<td>MSI-Shipping Enterprise (Singapore Registry of Ships) (MSI-SRS)</td>
<td>Tax exemption on qualifying income derived mainly from operating Singapore-flagged ships</td>
</tr>
<tr>
<td>MSI-Approved International Shipping Enterprise (MSI-AIS) award</td>
<td>Tax exemption on qualifying income derived from operating foreign-flagged ships</td>
</tr>
<tr>
<td><strong>For maritime lessors</strong></td>
<td></td>
</tr>
<tr>
<td>MSI-Maritime Leasing (Ship) (MSI-ML(Ship)) award</td>
<td>Tax exemption on qualifying income derived from leasing ships, and 10% concessionary tax rate on qualifying income derived from managing an approved shipping investment enterprise</td>
</tr>
<tr>
<td>MSI-ML (Container) award</td>
<td>10% or 5% concessionary tax rate on qualifying income derived from leasing of qualifying sea containers and intermodal equipment that are incidental to the leasing of qualifying sea containers, and 10% concessionary tax rate on qualifying income derived from managing an approved container investment enterprise</td>
</tr>
<tr>
<td><strong>For providers of certain shipping-related support services</strong></td>
<td></td>
</tr>
<tr>
<td>MSI-Shipping-related Support Services (MSI-SSS) award</td>
<td>10% concessionary tax rate on incremental qualifying income derived from carrying out approved shipping-related supporting services</td>
</tr>
</tbody>
</table>

In addition, automatic WHT exemption is granted on qualifying payments made by qualifying MSI recipients to non-tax residents (excluding a PE in Singapore) in respect of qualifying loans entered into on or before 31 May 2016 to finance the construction or purchase of qualifying assets (e.g., ships, containers), subject to conditions.

The approval window to award MSI-AIS for qualifying entry players, MSI-ML(Ship), MSI-ML(Container) and MSI-SSS ends on 31 May 2016.
Proposed
To further develop Singapore as an international maritime centre, the MSI will be enhanced as follows:

► The automatic WHT exemption regime will now cover finance leases, hire-purchase arrangements, and loans used to finance equity injection into wholly-owned SPVs or intercompany loans to wholly-owned SPVs for the SPVs’ purchase/construction of ships, containers and intermodal equipment.

► The definition of qualifying ship management activities for the purpose of the MSI-SRS, MSI-AIS award and MSI-SSS award will be updated to keep pace with industry changes.

► The MSI-SRS and MSI-AIS award will now cover mobilisation fees, demobilisation fees, holding fees, and incidental container rental income that are derived in the course of qualifying shipping operations.

► Qualifying profits remitted from approved foreign branches by MSI-AIS entities will now enjoy exemption.

► Existing MSI-SSS award recipients can renew their award tenure for another five years, subject to qualifying conditions and higher economic commitments.

► The MSI-ML award will now cover income derived from finance leases treated as sale.

The enhancements to the MSI will take effect for existing and new award recipients from 24 February 2015.

The approval window to award MSI-AIS for qualifying entry players, MSI-ML(Ship), MSI-ML(Container) and MSI-SSS will be extended till 31 May 2021. In addition, the automatic WHT exemption regime will be extended to qualifying payments made on qualifying loans taken on or before 31 May 2021.

The Maritime and Port Authority of Singapore (MPA) will release further details by May 2015.

Points of view

Enhancement of the automatic WHT exemption regime

► Finance leases and hire purchase arrangements were not covered under the automatic WHT exemption or the WHT exemption for charter fee payments prior to the budget announcement. The inclusion of these arrangements under the automatic WHT exemption regime is therefore a welcome move.

► Loans for the purchase of 100% of the shares of an SPV that has 100% ownership of a ship registered as a Singapore or foreign flagged ship already qualify under the automatic WHT exemption regime. The proposal is to extend the exemption further to include loans to finance equity injection into wholly-owned SPVs or intercompany loans to wholly-owned SPVs for the SPVs’ purchase or construction of ships, containers and intermodal equipment.

► Applicants are required to submit a self-declaration form to the MPA for each loan obtained to enjoy the WHT exemption. The exemption will be automatically granted based on representations made and the information provided in the form. The onus is on the applicant to ensure that all the conditions are met before claiming the WHT exemption.
The enhanced exemption is likely to apply to payments which are due and payable on or after 24 February 2015.

**Update of definition of qualifying ship management activities**

- Qualifying ship management activities is defined in section 13A(16) of the ITA and broadly covers strategic, commercial and technical management. It would be interesting to see if the new definition will now include corporate services such as training of crew, accounting and information technology services, etc.

**Expansion of the qualifying income under the MSI-SRS, MSI-AIS, and MSI-ML awards**

- It is a welcome move that the MSI-SRS and MSI-AIS awards will now cover mobilisation fees, demobilisation fees, holding fees, and incidental container rental income as the activities giving rise to such income are an integral part of a ship owner’s or operator’s activities and the fees involved can be significant.

- Currently, dividend income received by a MSI-AIS entity from an “Approved Network Company” is covered under the MSI-AIS award. The inclusion of branch profits remitted from approved foreign branches by MSI-AIS entities appears to be in line with the current exemption for dividend income received from Approved Network Companies.

- It appears that only qualifying profits remitted from approved foreign branches will qualify for the tax exemption. Hence, non-trade or passive income of the foreign branches would not be exempted from tax on remittance. We await more details on this in the announcement to be released by MPA in May 2015.

- MSI-ML award is also enhanced to cover income derived from finance leases treated as sale. The MPA’s definition of finance lease is in line with the regulations made under section 10D of the ITA.

**Extension of the MSI-SSS award tenure**

- The existing MSI-SSS award is only for a period of five years. The enhancement to allow existing MSI-SSS award recipients to renew the award for another five years is a welcome move and will definitely make it even more attractive to ship owners or operators which are considering locating such services to Singapore.

- Conditions such as incremental business spending in Singapore, headcount, and the size of the fleet are likely to be required by the MPA in reviewing applications for a five-year extension of the MSI-SSS award tenure.
Extending and enhancing the Angel Investors Tax Deduction scheme

Current
The Angel Investors Tax Deduction (AITD) scheme was introduced to encourage eligible individuals who are able and willing to invest in start-up companies and help them grow. It applies to qualifying investments made in qualifying start-up companies from 1 March 2010 to 31 March 2015.

Under the scheme:
► An approved angel investor needs to, amongst other conditions, invest a minimum of $100,000 into a start-up company within a year, and hold the qualifying investment for a continuous period of two years, to enjoy a tax deduction of 50% of the cost of the qualifying investment.
► The amount of expenditure incurred on investments that qualify for the deduction is capped at $500,000 per YA i.e., deduction cap of $250,000.
► The deduction is given on due claim, for the YA relating to the basis period in which the last day of the two-year period falls. Deferral of the claim is not allowed.
► Any unutilised deduction in any YA will be disregarded and cannot be carried forward for offset against his future taxable income.
► To the extent the investment amounts are co-funded by the Government under the SPRING Start-up Enterprise Development Scheme (SEEDS) or the Business Angel Scheme (BAS), such amounts will not qualify for AITD.

Proposed
The scheme will be extended till 31 March 2020 to continue to encourage angel investors to invest in start-up companies and help them to grow.

In addition, to allow more investments to be eligible for the scheme, new qualifying investments made from 24 February 2015 to 31 March 2020 that are co-funded by the Government under SEEDS or BAS will also be allowed to qualify for the AITD.

All other conditions of the scheme remain the same.

Points of view
► The Government provides equity-based co-financing to qualifying Singapore based start-ups by matching the sum invested by qualifying investors on a dollar-for-dollar basis up to a certain amount under the SEEDS or BAS. The liberalisation of the AITD rules to allow investment amounts made by angel investors in qualifying start-up companies that are co-funded under the SEEDS and BAS will help start-up companies attract more angel investors.
► Start-up companies and angel investors will welcome the extension and liberalisation of the scheme and look forward to further enhancements to encourage investments in start-up companies including:
  ► The option to defer the tax deduction claim.
  ► The carryforward of unutilised deductions for use in subsequent YAs.
Extending the Investment Allowance – Energy Efficiency schemes

Current
The Investment Allowance – Energy Efficiency (IA-EE) scheme and IA-EE for Green Data Centres scheme award Investment Allowance (IA) to energy efficient or green data centre projects where the capital expenditure incurred results in more efficient energy utilisation. Under the schemes, businesses may be granted IA of between 30% and 50% of their qualifying fixed capital expenditure on installation of energy efficient equipment or in the retrofitting of their data centres. Both schemes are scheduled to lapse after 31 March 2015.

Proposed
As energy efficiency remains a key national priority, the two schemes will be combined into one scheme known as the “Investment Allowance – Energy Efficiency scheme” from 1 March 2015 and the scheme will be extended till 31 March 2021.

This scheme will be solely administered by the EDB.

The EDB will release more details by March 2015

Points of view
► As Singapore strengthens its position as an infocomm hub with increasing focus on energy and climate change challenges, the extension of both the IA-EE scheme and IA-EE for Green Data Centre scheme by another six years is timely.
► The extension of these schemes is a welcome move and will continue to encourage businesses to invest in energy-efficient equipment and implement energy efficient retrofits in their data centres which would help businesses reduce operating costs as well as pay less tax.
► Combining the two schemes into one and having the scheme solely administered by the EDB will make it simpler for businesses looking to apply for the IA incentive.
► It remains to be seen whether changes to the current conditions will be introduced by the EDB.
Extending the Development and Expansion Incentive for International Legal Services scheme

Current
The Development and Expansion Incentive for International Legal Services (DEI-Legal) scheme was introduced in Budget 2010 to encourage law practices to do more international legal services work from Singapore and to attract international law practices to set up offices in Singapore. Approved law practices enjoy a 10% concessionary tax rate on incremental income derived from the provision of qualifying international legal services for five years. The incentive is available to law practices that are incorporated as companies.

The incentive is scheduled to lapse after 31 March 2015.

Proposed
To continue encouraging law practices to do more international legal services work from Singapore, the DEI-Legal scheme will be extended till 31 March 2020. All other conditions of the scheme remain the same.

Points of view
► It is noted that all other conditions of the scheme remain unchanged. The incentive continues to be available only to companies. Partnerships are not eligible for the scheme.
► Although the DEI incentive is generally renewable for up to 20 years, a renewal period of up to five years is not uncommon. This would allow the Government to timely review the effectiveness of the incentive and determine if it continues to be relevant to the industry and beneficial to the economy.
► The extension of the DEI-Legal scheme to 31 March 2020 allows more new applicants and existing qualifying DEI-Legal companies to benefit from the scheme and reflects the Government's commitment to strengthen Singapore's position as a leading legal services hub in Asia.
Enhancing the Double Tax Deduction for Internationalisation scheme

Current
Businesses may claim a 200% tax deduction on qualifying expenditure incurred on qualifying market expansion and investment development activities, subject to conditions.

Proposed
The scope of qualifying expenditure supported under the Double Tax Deduction (DTD) for Internationalisation scheme will be enhanced to include qualifying manpower expenses incurred for Singaporeans posted to new overseas entities. This provides greater support to businesses expanding overseas as well as creates more skilled jobs and opportunities for Singaporeans to work overseas.

The amount of qualifying manpower expenses to be allowed DTD under the scheme will be capped at S$1m per approved entity per year, subject to conditions.

Businesses will have to apply to IE Singapore to enjoy the DTD on qualifying manpower expenses.

This change will apply to qualifying manpower expenses incurred from 1 July 2015 to 31 March 2020.

The IE Singapore will release further details by May 2015.

Points of view
► Sections 14B and 14K of the ITA currently allow DTD on qualifying expenditure for market expansion and investment development activities. The list of qualifying expenditure outlined in the website of IE Singapore includes airfare, hotel accommodation and meals, overseas transportation and direct third-party consultancy fees. Manpower expense in the form of basic salary is allowed only for the representative of an Overseas Trade Office who is a Singaporean or Singapore PR. This proposed enhancement appears to widen the scope of qualifying expenditure to include other manpower related costs.

► It is unclear what will be considered “qualifying manpower expenses incurred for Singaporeans posted to new overseas entities”. Typically, such costs are borne by the overseas related entities and not borne by the Singapore company. The MoF, at its post-Budget briefing, has clarified that this proposed enhancement is not intended to grant a double-dip, i.e., resulting in tax deduction being claimed by both the Singapore company and the overseas entity.

► It is possible that manpower expenses are not fully borne by the overseas related entities because of resistance from joint venture partners or other business/regulatory reasons. We will have to await further details in May 2015 to know whether such manpower expenses will be covered under this enhancement for DTD.

► At this stage, we also do not know what would qualify as “new overseas entities” – whether it includes only entities incorporated/registered on or after 23 February 2015 or whether it must be wholly-owned by the Singapore company.
The existing DTD for Internationalisation scheme was enhanced in 2012 to allow companies to enjoy DTD on qualifying expenditure of up to S$100,000 per YA incurred on certain qualifying activities without the need for approval from IE Singapore or the Singapore Tourism Board. This automatic DTD however does not extend to the proposed enhancement to cover manpower expenses. It is expected that approval from IE Singapore should be sought before posting the employees overseas.

The expenditure cap of S$1m per year is generous, although SMEs may not necessarily incur such large amounts of qualifying manpower expenses for posting employees overseas.

It is also noted that the proposed enhancement will apply to qualifying manpower expenses incurred from 1 July 2015 to 31 March 2020. The existing DTD for Internationalisation scheme under sections 14B and 14K will expire on 31 March 2016. Given the longer qualifying period for the proposed enhancement, it appears likely that the existing DTD for Internationalisation scheme will be extended beyond 31 March 2016.

The proposed enhancement will be welcomed by businesses especially SMEs which are increasingly looking to internationalisation as a growth strategy. When further details from IE Singapore are released by May 2015, it will be clearer how the proposed enhancement will benefit businesses seeking to expand overseas.
Withdrawing the concessionary tax rate on income derived from offshore leasing of machinery and plant under section 43I of the ITA

Current
Section 43I provides for a 10% concessionary tax rate on income derived by a leasing company in respect of offshore leasing of machinery and plant.

Proposed
With the introduction of targeted tax incentives for leasing of aircraft, aircraft engines, ships and sea containers, the relevance of section 43I has diminished.

To simplify the corporate income tax regime, the scheme will be withdrawn from 1 January 2016. Any income derived from 1 January 2016 by a leasing company from the offshore leasing of any machinery or plant will be subject to tax at the prevailing corporate tax rate.

Points of view
► With the proposed withdrawal, companies which have been enjoying the concessionary 10% tax rate under section 43I will have to evaluate the additional tax impact. For example, if they have any unabsorbed losses or capital allowances and these are utilised against offshore leasing income derived on or after 1 January 2016, such losses or capital allowances would be subject to an adjustment factor of 10/17, i.e., effectively S$17 of losses or capital allowances is required to nullify the tax effect on S$10 of leasing income. Depending on their situation, companies may want to assess if they should make an election for full taxation (i.e., for tax to be imposed at the prevailing corporate tax rate instead of 10%) to take effect from the YA 2016.

► In addition, it may warrant these companies to review their existing transaction flows or to evaluate whether other tax incentives may be applicable.

► Companies in the oil and gas industry sector may be the most affected by the proposed withdrawal, given that it is not uncommon for them to enter into offshore leasing contracts in respect of certain oil and gas equipment located outside Singapore.
Withdrawing the Approved Headquarters incentive under section 43E of the ITA

Current
The Approved Headquarters incentive was introduced to encourage companies to use Singapore as a base to conduct headquarters management activities.

The incentive confers tax exemption or a concessionary tax rate of 10% on income derived from:
► The provision of qualifying headquarters services to qualifying network companies
► Qualifying treasury, investment or financial activities.

Proposed
As part of the regular review of tax incentives with the objective of simplifying the corporate income tax regime, the Approved Headquarters incentive will be withdrawn from 1 October 2015.

Companies performing qualifying headquarters activities or services in Singapore to network companies may qualify for the Development and Expansion Incentive (DEI), subject to meeting of conditions.

Points of view
► The Approved Headquarters incentive, introduced in 1986, was the first of a few initiatives rolled out under the headquarters program which aims to nurture a headquarters ecosystem of companies across all industries in Singapore.
► Under this incentive, qualifying income derived by approved headquarters companies is generally taxed at the concessionary tax rate of 10%. Tax exemption may, however, be granted where the approved headquarters companies have global responsibility for the provision of any qualifying services. In addition, tax exemption may be granted on foreign dividends received from qualifying network companies.
► Following the proposed change, the tax incentive for all the initiatives under the headquarters program will be consolidated under the DEI, an incentive scheme governed by the Economic Expansion Incentives (Relief from Income Tax) Act.
► While the Approved Headquarters incentive under section 43E of the ITA and the headquarters initiatives under the DEI are both targeted at attracting the setting up of headquarters companies in Singapore and administered by the EDB, there are notable differences between the two packages of incentive, including the following:
  ► The DEI applies to income derived from the provision of services by the headquarters companies to both related and unrelated parties. The Approved Headquarters incentive is, however, confined to only provision of services to related companies.
Unlike the Approved Headquarters incentive, there is no requirement to submit a list of qualifying network companies to be specifically approved by the EDB under the DEI.

The concessionary income tax rate offered under the DEI applies to only qualifying income above a base income (generally the average of three years net profit before tax). There is no base income concept under the Approved Headquarters incentive.

There is no exemption under the DEI for foreign dividend income.

Companies applying for the Approved Headquarters incentive are likely to be cost centres and hence remunerated on a cost-plus basis for the services that they provide. The imposition of a base income under the DEI should not have an adverse impact for those companies that are newly set up headquarters in Singapore.

As the package of incentives currently offered under the DEI does not include tax exemption for foreign dividend income, headquarters companies which receive dividend income from their overseas network companies will have to assess if such foreign dividend income can qualify for tax exemption under section 13(8) or 13(12) of the ITA or otherwise, to manage any incremental Singapore tax liabilities. The Government can perhaps consider including foreign dividend income exemption as part of the package of tax incentives for the headquarters program offered under the DEI.

Although not specifically mentioned in Budget 2015, we believe that companies which have been awarded the Approved Headquarters incentive should continue to enjoy the benefits under this incentive until the end of the incentive period, i.e., even if this is beyond 1 October 2015.
Withdrawing the tax concession on royalties and other payments from approved intellectual property or innovation

Current

Section 10(16) of the ITA provides a tax concession to:

a) An individual who is the inventor, author, proprietor, designer or creator of an approved intellectual property or innovation.

Or

b) Any company in which such an individual beneficially owns all the issued shares.

The income derived by such an individual or company from royalties or other payments received as consideration for the assignment of or the rights in the approved intellectual property or innovation shall be deemed to be:

a) The amount of royalties or other payments remaining after deductions and capital allowances (if any).

Or

b) An amount equal to 10% of the gross amount of royalties or other payments, whichever is less.

Proposed

As the tax concession is assessed to be no longer relevant, the section 10(16) concession will be withdrawn from YA 2017.

Points of view

► The section 10(16) concession underwent enhancement in 2000 and 2006 as part of the Government’s initiative to encourage innovation, creativity and enterprise. The withdrawal of this concession in Budget 2015 may be indicative of its diminished relevance in the light of the more recent tax measures such as the R&D regime and PIC scheme which accord tax benefits to innovation.

► The withdrawal of the section 10(16) concession may have an impact on the withholding tax liability of non-resident individuals or non-resident companies which are in receipt of royalties or other payments from an approved intellectual property or innovation. Without the concession, non-resident recipients of the income may be subject to Singapore withholding tax on the full gross royalty income.

► As the withdrawal of the concession is effective from YA 2017, it is likely that such royalty payments which are due and payable to the non-resident recipients on or after 1 January 2016 will be affected.

► Section 10(14) has similar provisions that apply to authors, composers or choreographers who derive royalty income from the copyright in any literary, dramatic, musical or artistic work. While Budget 2015 sees the withdrawal of the section 10(16) concession, the section 10(14) concession is not withdrawn. This reflects the Government’s continued support for the development of the arts in Singapore.
Allowing the PIC Bonus to lapse

Current
The PIC Bonus was introduced in Budget 2013. It sought to help businesses defray rising operating costs and encourage businesses to undertake improvements in productivity and innovation.

Businesses that spend a minimum of S$5,000 in qualifying PIC investments in a YA may receive a dollar-for-dollar matching cash bonus of up to S$15,000 in total over YA 2013 to YA 2015.

The PIC Bonus is provided on top of the existing 400% tax deductions/allowances and the 60% cash payout available under the PIC scheme.

Proposed
The PIC Bonus was intended as a transitional measure and has been successful in spreading the culture of productivity amongst SMEs. As there is now a good take-up of the PIC scheme, the PIC Bonus will be allowed to lapse after YA 2015.

Points of view
► The PIC Bonus was introduced to encourage small businesses to take advantage of the PIC scheme and undertake productivity investments.
► Since the introduction of the PIC scheme in YA 2011, there has been a strong increase in the take-up rates. Based on a press release by the MoF issued on 12 February 2015, 54,000 or 46% of active companies have filed claims under the PIC scheme in YA 2014, up from 36,000 or 33% in YA 2011. Given that usage of the PIC scheme is showing good progress, the phasing out of the PIC Bonus is not anticipated to have any significant impact on businesses.
Introducing a review date for the Approved Foreign Loan incentive

Current

The Approved Foreign Loan (AFL) incentive was introduced to encourage companies to invest in productive equipment for the purpose of carrying on substantive activities in Singapore. Under the scheme, tax exemption or a concessionary tax rate may be granted on interest payments made to a non-tax resident for loans to a company to purchase productive equipment.

To qualify as an AFL, the loan must be at least S$200,000. The Minister for Trade and Industry has the discretion to approve an application for a foreign loan of less than the minimum loan quantum of S$200,000 to be an AFL.

Proposed

A review date of 31 December 2023 will be legislated for this scheme to ensure that the relevance of the scheme is periodically reviewed. In addition, the minimum loan quantum under the AFL incentive will be increased to S$20m from 24 February 2015.

The Minister for Trade and Industry may approve an AFL application on a foreign loan lower than the legislated minimum loan quantum of S$20m.

Points of view

► The proposed significant increase in the loan quantum to S$20m suggest a more targeted focus to incentivise investments in high-value productive equipment. This is also in line with the Government’s focus on productivity and innovation.

► In practice, the AFL incentive is typically awarded to companies with principal incentives e.g., Pioneer incentive or Development and Expansion Incentive (DEI) awarded by the EDB with the AFL incentive period tied to the principal incentive period. Given that such companies will typically have substantial capital expenditure commitments imposed under the principal incentives, the proposed increase in the loan quantum threshold to S$20m, though significant, may not unduly impact their ability to qualify for the AFL incentive.

► However, for companies that intend to invest progressively on productive equipment but may not obtain loans of at least S$20m from one foreign lender e.g., there may be multiple lenders each with loan quantum of less than S$20m, they may no longer benefit from the AFL incentive with the proposed change, unless specifically approved by the Minister for Trade and Industry.

► Currently, the AFL incentive covers the purchase of productive equipment for the purpose of carrying on substantive activities in Singapore. Productive equipment refers to machinery or plant which will normally qualify for capital allowances, and does not extend to investments in intellectual property (IP). Given that IP acquisition can be a substantial investment, the expansion of the scope of the AFL incentive to include investments in IP will be much welcomed and in line with the Government’s focus on building a knowledge-based economy.
Financial services
Extending the tax deductions for collective impairment provisions made under the MAS Notices

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

These tax concessions are scheduled to lapse after YA 2016 or YA 2017, depending on the financial year end of the bank or finance company.

Proposed
In recognition that banks and finance companies need to maintain adequate levels of impairment provisions under the relevant MAS Notices as they transition to the new accounting standard on impairment in Singapore (which is effective for the financial year beginning on or after 1 January 2018), the tax concessions will be extended until YA 2019 or YA 2020, depending on the financial year end of the bank or finance company.

All conditions of the scheme remain the same.

Points of view
► This is the third time that these tax concessions (first introduced in 2005) have been extended. The extension of the tax concessions will allow banks, merchant banks and finance companies (which do not have a robust loss estimation process or sufficient quality historical loan loss data to provide for collective impairment under FRS 39) to continue to claim a tax deduction for the collective impairment provisions required under the MAS Notices, subject to the stipulated caps under section 14I.

► The expiry of the tax concessions coincide with the 1 January 2018 effective date to adopt the new FRS 109 on financial instruments which will replace FRS 39 in Singapore. All banks and finance companies are expected to comply with the requirements of FRS 109 effective for the financial year beginning on or after 1 January 2018.

► There is a significant change in the basis of computing impairment under the proposed FRS 109 as compared to the existing FRS 39. We understand that the MAS is in discussions with the industry to evaluate the impact of adopting the new FRS 109 on the computation of collective impairment provisions.
Extending and refining the tax incentive scheme for insurance businesses

Current
Approved general, life and composite insurers and reinsurers may enjoy a concessionary tax rate of 10% on qualifying income derived from qualifying insurance and reinsurance business conducted from Singapore for a 10-year award tenure.

The scheme is scheduled to lapse after 31 March 2015.

Proposed
To strengthen Singapore’s value proposition as an Asian insurance and reinsurance centre, the scheme will be extended till 31 March 2020 as the “Insurance Business Development” (IBD) incentive. The concessionary tax rate remains at 10%.

In addition, a renewal framework will be introduced with effect from 1 April 2015 to encourage existing recipients of the incentive to continue expanding their operations in Singapore.

The MAS will release further details by May 2015.

Points of view
► The extension of the current tax incentive scheme not only provides added stimulus to attract new entrants into the Singapore’s vibrant insurance sector, it also provides existing incentivised insurers and reinsurers a framework for renewal of their tax incentives.

► The current tax incentive is often referred to as the Offshore Insurance Business (OIB) tax incentive and broadly provides for a concessionary tax rate of 10% on income derived from accepting insurance and reinsurance covering offshore risks. Further, the current tax incentive requires a segregation of investment income relating to the OIB which is derived from outside Singapore and those derived from Singapore. The former may also be entitled to the 10% concessionary tax rate while the latter does not. In view of the rebranding of the OIB tax incentive to IBD, we hope the scope of qualifying income under the extended incentive can be aligned with the accounting of income by types of funds and risks to incentivise the insurance players on a business focused approach and to reduce their administrative burden.

► The existing OIB tax incentive is awarded based on a 10-year award tenure. We hope the same tenure period will be accorded to eligible applicants for the IBD as a shorter tenure may significantly reduce the attractiveness of the tax incentive for insurance businesses looking to make long term commitment to their presence in Singapore.

► We expect the specification of headcount requirements, amongst possibly others, in the proposed renewal framework. Existing incentivised insurance businesses often find it difficult to commit to aggressive incremental headcount plans. In line with the Government’s push for productivity and innovation, we hope the renewal framework provides more flexibility to take into account other factors, including additional value-added activities to be carried on in Singapore and the types of professionals to be employed.
Refining the tax incentives for venture capital funds and venture capital fund management companies

Current
Currently, approved venture capital funds may be granted tax exemption under section 13H of the ITA on the following income:

a) Gains arising from the divestment of approved portfolio holdings
b) Dividend income from approved foreign portfolio companies
c) Interest income arising from approved foreign convertible loan stock

Fund management companies managing section 13H funds may also be granted tax exemption under the Pioneer Service incentive on the following income:

a) Management fees derived from an approved venture capital fund
b) Performance bonus received from the said approved venture capital fund

Proposed
In recognition of the importance of venture capital activity in supporting entrepreneurship, a 5% concessionary tax rate will be accorded to approved venture capital fund management companies managing section 13H funds on their specified income. The approval window will be from 1 April 2015 to 31 March 2020.

With the introduction of this new incentive, the Pioneer Service incentive for venture capital fund management companies will be withdrawn from 1 April 2015 given that venture capital is no longer a pioneering activity in Singapore. Pioneer certificates already issued will not be affected by this change.

A review date of 31 March 2020 will be legislated for section 13H to ensure that the relevance of the scheme is periodically reviewed.

Points of view
► While the Government recognises that venture capital fund management is no longer a pioneering activity in Singapore, it is prepared to grant a 5% concessionary tax rate on qualifying income from venture capital fund management activities. This is a fairly attractive tax rate compared to the prevailing Singapore corporate tax rate of 17%, and it is an indication of Singapore’s continued efforts to promote venture capital activities and entrepreneurship. In particular, it is a recognition that venture capital can play an important role in nurturing upcoming and innovative industries in Singapore.
► The proposed review date of 31 March 2020 is consistent with the Government’s policy to introduce sunset clause for tax incentives. It allows the Government to review the effectiveness of the tax incentive and evaluate its relevance over time.
► Aligned with the move towards transparency on tax matters, it will be helpful if the minimum criteria of the tax incentive schemes for the venture capital funds and venture capital fund management companies are made publicly available.
► It will be important for the tenure of the tax incentive granted to the approved venture capital fund management company to match the life of the approved venture capital fund.
Improving the Enhanced-Tier Fund tax incentive scheme

Current
The Enhanced-Tier Fund tax incentive scheme (Scheme) grants tax exemption to approved fund vehicles on specified income derived from designated investments.

Amongst other conditions, each approved fund must meet certain economic conditions (e.g., minimum local business spending, minimum fund size).

As a concession, master-feeder fund structures (excluding SPVs held by them) may apply for the Scheme and meet the economic conditions on a collective basis.

Proposed
To accommodate master-feeder fund structures that hold their investments via SPVs, the existing concession for master-feeder fund structures will be enhanced to apply to SPVs held by the master fund, subject to conditions.

With this enhancement, master and feeder funds and SPVs within a master-feeder fund structure may apply for the Scheme and meet the economic conditions on a collective basis.

This change will take effect for applications made from 1 April 2015.

The MAS will release further details by May 2015.

Points of view
► In practice, for commercial and legal reasons, funds often set up separate SPVs to hold underlying investments. Currently, if such SPVs intend to enjoy the Scheme, each SPV must meet certain economic conditions (e.g., minimum local business spending, minimum fund size). The proposal is a welcome move as it improves operational efficiencies by allowing the economic conditions to be met on a collective basis within the group.

► Pending the details to be released by the MAS by May 2015, it is anticipated that some of the economic conditions to be met on a collective basis (e.g., minimum business spending) may correspond to the number of SPVs and fund entities within the master-feeder fund structure that seek to enjoy the Scheme.

► Currently, a fund manager that manages funds enjoying the Scheme must satisfy certain conditions such as maintaining a minimum headcount of investment professionals. Hopefully, if there are additional conditions imposed on these fund managers under the proposed enhancements to the Scheme, such conditions will not be too stringent.

► While the proposed enhancement applies to master-feeder fund structures that hold their investments via SPVs, it is hoped that a standalone fund approved under the Scheme which proposes to invest via SPVs would also be able to avail of this concession if it satisfies the relevant conditions.
► For commercial reasons, some funds approved under the Scheme may own part (i.e., not 100%) of an SPV. Presumably, the proposed enhancement would apply to such SPVs that are not 100% owned by the master fund.

► While it is proposed that the economic conditions can be met on a collective basis such that each SPV need not incur a minimum local business spending of S$200,000, tax authorities in certain countries require the SPV concerned to demonstrate substance in its home jurisdiction in order to claim benefits under a relevant tax treaty. For instance, under the India-Singapore tax treaty, a Singapore SPV is required to incur a minimum level of business spending. It is thus still necessary to ensure that the SPVs concerned do meet the relevant conditions on a standalone basis. One also needs to consider the application of transfer pricing regulations, which generally require transactions between related parties to be based on arm’s length principles.

► As new SPVs may not necessarily be incorporated on the first day of the financial year, time apportionment of local business spending requirements for the first financial year should be made available for purposes of satisfying the economic conditions on a collective basis.

► To reduce administrative burden and compliance costs, we hope that once a fund structure has been approved by the MAS under the proposed new treatment, there will not be a need to submit a fresh application to the MAS whenever a new SPV is incorporated.

► On the administrative front, we anticipate that the annual declaration, income tax return, and GST remission filings can also be made on a collective basis.
Personal income tax
Personal income tax rate and rebate

Current
The income tax rates for Singapore tax resident individuals range from 0% for the first S$20,000 of chargeable income to 20% for chargeable income exceeding S$320,000. There was no income tax rebate accorded for YA 2014.

Proposed
The Government has announced that a personal income tax rebate of 50%, capped at S$1,000 per taxpayer, will be granted to all tax resident individual taxpayers for YA 2015.

With effect from YA 2017, a new personal income tax rate structure will be introduced. In particular, the top marginal rate will be raised by two percentage points, from 20% to 22% for the highest income earners with a chargeable income above S$320,000. This tax increase is to enhance progressivity of our personal income tax rate regime and strengthen future revenues.

Points of view
► The income tax rebate announced in Budget 2015 brings more benefit to the middle and upper-middle income groups as the rebate is capped for all at S$1,000. This cap is lower than that set in YA 2013 (S$1,500) and in earlier years, and demonstrates the Government's continued focus to benefit a specific working population. An individual\(^1\) who earns S$88,068 or more will enjoy the maximum rebate of S$1,000 for YA 2015.

► The personal income tax rate structure has not changed since YA 2012. Further, the top marginal rate has remained at 20% since YA 2007. Under the new income tax rate structure, individuals earning at least S$160,000 will pay tax at higher rates, with larger increases for higher income earners. No changes have been proposed to the tax bands and rates for chargeable income below S$160,000. A comparison of the current tax payable on equivalent income levels and that of YA 2017 is set out in Chart 1 below.

► Although the Minister has reiterated over the past few years the need to build up Singapore’s revenues, this is the first time an increase in the top marginal rate has been announced. Based on a comparison of the 2014/2015 tax rates for Hong Kong and YA 2015 rates for Singapore, an individual who earns more than S$495,000 will pay more tax in Singapore than in Hong Kong. With the proposed change in the personal income tax structure, the earnings level by which an individual will be subject to higher tax in Singapore is lowered to S$384,000, as illustrated in Chart 2 below. The upper threshold could be higher for individuals who qualify for the tax benefits under the Not Ordinarily Resident scheme.

\(^1\) Active NS reservist, married to non-working spouse, with 2 dependant children.
Whilst this proposed change is perceived to reduce Singapore’s competitiveness at the personal tax level, Singapore remains highly attractive in many other aspects, for example, world-class infrastructure, healthcare system, ease and transparency of doing business.

With the increase in the top marginal rate to 22%, the difference between the corporate income tax rate of 17% has widened to five percentage points. This may further encourage successful entrepreneurs to corporatise their business rather than conducting it through a sole proprietorship or partnership.

**Chart 1: Changes to personal income tax (effective YA 2017)**

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<thead>
<tr>
<th>Current tax structure</th>
<th>Tax structure with effect from YA2017</th>
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<td><strong>Chargeable income</strong></td>
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<tr>
<td>On the next</td>
<td>On the next</td>
</tr>
<tr>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>11.50%</td>
<td>11.50%</td>
</tr>
<tr>
<td>4,600</td>
<td>4,600</td>
</tr>
<tr>
<td>On the first</td>
<td>On the first</td>
</tr>
<tr>
<td>80,000</td>
<td>80,000</td>
</tr>
<tr>
<td>15.00%</td>
<td>15.00%</td>
</tr>
<tr>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>On the next</td>
<td>On the next</td>
</tr>
<tr>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>17.00%</td>
<td>17.00%</td>
</tr>
<tr>
<td>6,800</td>
<td>6,800</td>
</tr>
<tr>
<td>On the first</td>
<td>On the first</td>
</tr>
<tr>
<td>160,000</td>
<td>160,000</td>
</tr>
<tr>
<td>19.00%</td>
<td>19.00%</td>
</tr>
<tr>
<td>7,950</td>
<td>7,950</td>
</tr>
<tr>
<td>On the next</td>
<td>On the next</td>
</tr>
<tr>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>20.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>On the first</td>
<td>On the first</td>
</tr>
<tr>
<td>200,000</td>
<td>200,000</td>
</tr>
<tr>
<td>22.00%</td>
<td>22.00%</td>
</tr>
<tr>
<td>21,600</td>
<td>21,600</td>
</tr>
<tr>
<td>On the next</td>
<td>On the next</td>
</tr>
<tr>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>20.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>13,950</td>
<td>13,950</td>
</tr>
<tr>
<td>On the first</td>
<td>On the first</td>
</tr>
<tr>
<td>320,000</td>
<td>320,000</td>
</tr>
<tr>
<td>20.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>42,350</td>
<td>42,350</td>
</tr>
<tr>
<td>In excess of</td>
<td>In excess of</td>
</tr>
<tr>
<td>320,000</td>
<td>320,000</td>
</tr>
<tr>
<td>20.00%</td>
<td>20.00%</td>
</tr>
<tr>
<td>44,550</td>
<td>44,550</td>
</tr>
</tbody>
</table>

* Chargeable income = Income after tax reliefs
Chart 2: Comparative analysis (2014/2015 Hong Kong versus Singapore YA 2015 and proposed YA 2017 tax rates)

Notes:
1. Assumes a Singaporean married man with two children, wife has no income and sole source of income is from his employment.
2. Hong Kong calculations are based on 2014/2015 tax rates.
3. Singapore calculations for YA 2015 include the 50% tax rebate capped at S$1,000.
4. Singapore calculations for YA 2017 include CPF tax relief calculated based on the proposed Budget 2015 changes.
5. Exchange rate used: S$1 : HK$5.9364
### Personal income tax rates in selected countries in the region

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>45</td>
</tr>
<tr>
<td>China</td>
<td>45</td>
</tr>
<tr>
<td>Japan</td>
<td>40(^1)</td>
</tr>
<tr>
<td>Taiwan</td>
<td>40</td>
</tr>
<tr>
<td>Korea</td>
<td>38</td>
</tr>
<tr>
<td>Thailand</td>
<td>35</td>
</tr>
<tr>
<td>Vietnam</td>
<td>35</td>
</tr>
<tr>
<td>Philippines</td>
<td>32</td>
</tr>
<tr>
<td>India</td>
<td>30</td>
</tr>
<tr>
<td>Indonesia</td>
<td>30</td>
</tr>
<tr>
<td>Malaysia</td>
<td>26</td>
</tr>
<tr>
<td>Myanmar</td>
<td>25</td>
</tr>
<tr>
<td>Singapore</td>
<td>20(^2)</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>17</td>
</tr>
</tbody>
</table>

**Notes:**
- The above rates are the top marginal personal income tax rates prevailing as at December 2014.
- \(^1\) Excludes local inhabitant tax
- \(^2\) To increase to 22% from year of assessment 2017, as proposed in Budget 2015
CPF and Supplementary Retirement Scheme changes

Current
The employer and employee CPF contribution rates for employees who are Singapore citizens or PRs (in the third year of obtaining Singapore Permanent Resident (SPR) status) are as follows:

<table>
<thead>
<tr>
<th>Employee's age (years)</th>
<th>Contribution rate % (for monthly wages ≥ S$750)</th>
<th>Employer</th>
<th>Employee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 50</td>
<td></td>
<td>17</td>
<td>20</td>
<td>37</td>
</tr>
<tr>
<td>Above 50-55</td>
<td></td>
<td>16</td>
<td>19</td>
<td>35</td>
</tr>
<tr>
<td>Above 55-60</td>
<td></td>
<td>12</td>
<td>13</td>
<td>25</td>
</tr>
<tr>
<td>Above 60-65</td>
<td></td>
<td>8.5</td>
<td>7.5</td>
<td>16</td>
</tr>
<tr>
<td>Above 65</td>
<td></td>
<td>7.5</td>
<td>5</td>
<td>12.5</td>
</tr>
</tbody>
</table>

The maximum CPF salary ceiling is S$5,000 per month.

The annual contribution cap for Supplementary Retirement Scheme (SRS) is as shown below:

<table>
<thead>
<tr>
<th>Years</th>
<th>Absolute income base*</th>
<th>Maximum yearly SRS contribution for Singaporean/SPR</th>
<th>Maximum yearly SRS contribution for foreigner</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 to 2015</td>
<td>(17 months x S$5,000) = S$85,000</td>
<td>15% of absolute income base (15% x S$85,000) = S$12,750</td>
<td>35% of absolute income base (35% x S$85,000) = S$29,750</td>
</tr>
</tbody>
</table>

Proposed
With effect from 1 January 2016, the Government will increase the CPF monthly salary ceiling from S$5,000 to S$6,000.

In addition, CPF contribution rates will be raised for older workers ranging from age 50 to 65.

For workers aged between 50 and 55, the contribution rates will be restored to the same level as those for younger workers. CPF contribution rates for this group will be increased by 2% (1% from the employer and 1% from the employee).

For workers aged between 55 and 60, the employer contribution rate will be increased by 1% and for workers aged between 60 and 65, the employer contribution rate will go up by 0.5%. The employee's contribution rate will remain as before for these two age groups. The increase in employer contributions will go to the Special Account. The increase in employee contributions (for workers aged between 50 and 55) will go to the Ordinary Account.
In line with the higher CPF monthly salary ceiling, the contribution SRS cap with effect from 1 January 2016 is shown below:

<table>
<thead>
<tr>
<th>Years</th>
<th>Absolute income base*</th>
<th>Maximum yearly SRS contribution for Singaporean/SPR</th>
<th>Maximum yearly SRS contribution for foreigner</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 onwards</td>
<td>(17 months x $6,000) = $102,000</td>
<td>15% of absolute income base (15% x $102,000) = $15,300 (increased by $2,550)</td>
<td>35% of absolute income base (35% x $102,000) = $35,700 (increased by $5,950)</td>
</tr>
</tbody>
</table>

Points of view

► In the past, contribution rates for older workers had been lower than the younger workers to encourage business to employ them. With better living standards and healthcare, older workers generally are still in good robust health to continue their employment beyond the age 55 and are able to contribute more with the years of experience behind them. The proposed small increase in the employer contributions should therefore not discourage businesses to hire older workers. Moreover, the Temporary Employment Credit is increased and extended to help employers to defray some of the cost increases associated with the increase in CPF monthly salary ceiling as well as the employer contribution rates for older workers.

► An increase in employee contribution will result in a cut in the employee’s take home pay but an increase in the CPF relief against his taxable income, hence reducing his tax liability. To that effect, the impact of increase in tax rates for income earners above $160,000 will be reduced by the higher CPF relief. However, as there is a cap to the employee CPF contribution, such an impact will be negated as the salary increases.

► In addition to CPF savings, the SRS was introduced to encourage supplementary savings for retirement on a voluntary basis. Currently, the maximum contribution that may be made by a Singapore citizen to SRS is 15% of his wages subject to the salary ceiling similar to the CPF capping rules. In line with the higher CPF salary ceilings, the contribution cap within the SRS is also increased. As SRS contributions are available as a deduction against taxable income, the impact of the proposed change will reduce the personal tax liability for those who make additional contributions to the SRS. This will strengthen their savings and income in retirement.
Simplified claim for rental expenses

Current

An individual who derives passive rental income from a residential property in Singapore can, subject to income tax rules, claim against such income a deduction of the actual deductible expenses incurred during the period of tenancy in producing the rental income.

Examples of deductible expenses are interest on mortgage loan, property tax, fire insurance, commission paid on getting a subsequent tenant, cost of renewing a lease or getting a new tenant (except for the first tenant), and repairs and maintenance (e.g., painting, pest control, monthly maintenance charges to management corporations).

Expenses of a capital nature are not allowable. Such expenses include loan repayments, depreciation of furniture and fittings, cost of renovation, additions and alterations, agent’s commission and legal costs incurred to secure the first tenant.

An individual taxpayer is required to keep supporting documents to substantiate the rental income reported and expenses claimed.

Proposed

To simplify tax compliance, an individual who derives passive rental income in the basis period for YA 2016 or a subsequent YA from the letting of a residential property in Singapore (referred to as “qualifying rental income”) can, in lieu of claiming the actual amount of deductible expenses incurred (excluding interest expenses) against his qualifying rental income, claim a specified amount of expenses as a proxy for the deductible expenses. These specified expenses are determined based on 15% of the gross rental income derived from the residential property. In addition, the individual can deduct against his qualifying rental income, any deductible interest expense.

This tax change does not apply to any rental income derived by an individual through a partnership in Singapore or from a trust property. The IRAS will release further details of the change by May 2015.

Points of view

► The proposed change removes the burden of keeping records of expenses and the necessity for the individual to ascertain whether an expense is deductible. This is in line with the Government’s intention to simplify tax filing for individuals.

► In addition, individuals with actual deductible expenses (excluding interest expenses) less than 15% of the gross rental income will benefit from this change as a lower net rental income will be subject to tax.

► As it is stated in the Budget announcement that the basis of 15% of gross rental income can be applied in lieu of claiming actual deductible expenses, we are of the view that where the actual expenses are higher, the taxpayer can continue to claim actual expenses by providing details of the expenses claimed with supporting documents. It remains to be seen how such an option is to be administered and the conditions attached to making the simplified expense claim.
Goods and services tax
Extending and enhancing the GST remission for listed REITs, and listed Registered Business Trusts carrying on qualifying businesses

Current

GST remission is currently granted to Singapore-listed REITs (S-REITs) and Singapore-listed Registered Business Trusts (qualifying RBTs) in the infrastructure, ship leasing and aircraft leasing sectors to allow them to claim GST on their business expenses (except for certain disallowed expenses and expenses attributable to certain exempt supplies), irrespective of whether they hold underlying assets directly or indirectly through multi-tiered structures such as SPVs. This GST remission is also applicable to the GST incurred for or by the SPVs of the S-REITs and qualifying RBTs provided that the underlying assets (qualifying assets) held directly or indirectly by the SPVs make taxable supplies or out-of-scope supplies which would have been taxable supplies if such supplies were made in Singapore.

Without the GST remission, S-REITs and qualifying RBTs that derive solely dividend/distribution income from SPVs are not eligible for GST registration and will not be able to claim the GST incurred on their business expenses. In addition, the GST remission is not applicable to SPVs that are set up solely to raise funds (e.g., medium term notes) on behalf of S-REITs or qualifying RBTs as such SPVs do not hold any qualifying assets.

The GST remission is scheduled to lapse after 31 March 2015.

Proposed

The existing GST remission will be extended till 31 March 2020.

In addition, the GST remission will be enhanced to allow S-REITs and qualifying RBTs to claim the GST on business expenses incurred to set up SPVs that are set up solely to raise funds for the S-REITs or qualifying RBTs notwithstanding that the SPVs do not hold qualifying assets of the S-REITs and qualifying RBTs, directly or indirectly. These S-REITs and qualifying RBTs will also be allowed to claim the GST on the business expenses of such SPVs. This enhancement will take effect for GST incurred from 1 April 2015 to 31 March 2020.

More details will be released by the IRAS by March 2015.

Points of view

- The extension and enhancement of the GST remission demonstrate the Government’s continuous effort in promoting Singapore as the preferred location in Asia for the listing of REITs and qualifying RBTs.

- Without the enhancement to the GST remission, the GST incurred could result in additional costs to the S-REITs and qualifying RBTs. The enhanced GST remission will therefore help reduce the costs of fundraising by S-REITs and qualifying RBTs through the SPVs.

- While the GST remission is extended to 31 March 2020, this sunset clause will create uncertainty to the S-REITs and qualifying RBTs given that the removal of the GST remission would have a direct impact on the yield of the S-REITs and qualifying RBTs. The Government could consider allowing the GST remission to apply throughout the life of the S-REITs and qualifying RBTs.
Simplifying pre-registration GST claim rules for GST-registered businesses

Current
In general, GST-registered businesses can only claim pre-registration GST (being GST incurred on purchases of goods and services prior to GST registration) on the portion of goods and services used or to be used to make taxable supplies after GST registration. Where goods and services are used to make supplies straddling GST registration (i.e., supplies before and after GST registration), or where the goods are partially consumed before GST registration (e.g., property rental, utilities), businesses are required to apportion the pre-registration GST on these goods and services and can only claim the portion attributable to supplies made after GST registration.

Proposed
To ease compliance, the claiming of pre-registration GST will be simplified to allow a newly GST-registered business to claim pre-registration GST in full on the following goods and services that are acquired within six months before the GST registration date of the business:

a) Goods held by the business at the point of GST registration
   and

b) Property rental, utilities and services which are not directly attributable to any supply made by the business before GST registration.

Thus, businesses no longer have to apportion the pre-registration GST on the above goods and services even if these goods and services have been used to make supplies straddling GST registration or these goods have been partially consumed before GST registration. This is provided the use of these goods and services after GST registration is for the making of taxable supplies and not exempt supplies.

For other purchases of goods and services prior to GST registration, including those acquired more than six months before the GST registration date of the business, existing pre-registration GST claim rules will apply.

This change will take effect for businesses that are GST-registered from 1 July 2015. The IRAS will release further details of the change by June 2015.

Points of view
► Currently, for movable properties acquired and put into use before GST registration, there is already an administrative concession granted by the IRAS to allow GST-registered businesses to claim the GST incurred on such moveable properties in full if the moveable properties are acquired by the business within six months before the date of GST registration and are still held by the business at the date of the GST registration.
For immovable properties (e.g., land, office buildings, factories, permanent building fixtures) that are put into use to make supplies straddling GST registration, businesses are required to apportion the pre-registration GST incurred. Under the proposed rules, businesses would no longer be required to apportion the GST incurred on immovable property acquired within six months before the GST registration date of the business even if the immovable property has been used to make supplies straddling GST registration.

Currently, pre-registration GST incurred on property rental and utilities is not claimable as it is considered as consumed before the GST registration date. Only the GST incurred after GST registration is claimable (subject to the general input tax conditions). Hence, if the property rental or utilities straddle GST registration, there is a need to apportion the pre-registration GST as only the portion attributable to the period after GST registration date is claimable. Under the proposed rules, businesses no longer have to apportion the pre-registration GST on property rental and utilities acquired within six months before the GST registration date of the businesses even if they have been consumed before GST registration as long as these expenses are not directly attributable to any supply made by the business before GST registration.

Similarly for services, businesses that have commenced making supplies no longer have to apportion the pre-registration GST on services acquired within six months before the GST registration date as long as the expenses incurred are not directly attributable to any supply made by the business before GST registration.

The proposed rules on pre-registration input tax claims are subject to the general rules governing input tax claims (e.g., the input tax incurred must not be attributable to exempt supplies, must not be a disallowed input tax).

Newly GST registered businesses find it challenging and time consuming to implement the current pre-registration GST rules as they involve different apportionment formula. Though the proposed changes to the pre-registration GST rules do not entirely eliminate the requirement to apportion pre-registration GST (e.g., GST incurred more than six months before the GST registration date by businesses that have commenced making supplies before GST registration), it is nevertheless a welcome relief for businesses that are GST registered from 1 July 2015.
## Standard GST/VAT rates in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>17%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>15%</td>
</tr>
<tr>
<td>Philippines</td>
<td>12%</td>
</tr>
<tr>
<td>Australia</td>
<td>10%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10%</td>
</tr>
<tr>
<td>Korea</td>
<td>10%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10% (c)</td>
</tr>
<tr>
<td>Japan</td>
<td>8%</td>
</tr>
<tr>
<td>Singapore</td>
<td>7%</td>
</tr>
<tr>
<td>Thailand</td>
<td>7% (b)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6% (a)</td>
</tr>
<tr>
<td>Taiwan</td>
<td>5%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8%</td>
</tr>
<tr>
<td>Germany</td>
<td>19%</td>
</tr>
<tr>
<td>France</td>
<td>20%</td>
</tr>
<tr>
<td>UK</td>
<td>20%</td>
</tr>
<tr>
<td>Italy</td>
<td>22%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>21%</td>
</tr>
<tr>
<td>Sweden</td>
<td>25%</td>
</tr>
<tr>
<td>Denmark</td>
<td>25%</td>
</tr>
</tbody>
</table>

### Notes:
(a) With effect from 1 April 2015  
(b) 10% rate will apply from 1 October 2015, unless further extension of the 7% rate is announced  
(c) 5% for certain goods
Miscellaneous
Enhancing support for innovation and internationalisation

In recognition that innovation for SMEs does not often take the form of major technological breakthroughs but rather, in other forms of innovation which are equally important such as process improvements and creating new brands, the Government has introduced and enhanced various non-tax measures to assist companies on the path of economic restructuring via innovation and internationalisation. These non-tax incentive programmes are discretionary in nature and applications must be submitted to the respective statutory boards administering the incentives.

Further details on each of these programmes will be released by the respective Ministries or administering bodies subsequently.

**Capability Development Grant (CDG)**

The CDG is an existing financial assistance programme that provides support to SMEs upgrading their capabilities across 10 development areas including the enhancement of service standards, adopting technology, staff training and overseas expansion.

The current support rate of up to 70% of the qualifying costs (up from the basic support level of 50%) was an enhancement announced in Budget 2012 for a period of three years (until 31 March 2015).

To make the CDG more accessible to SMEs engaging in innovation and productivity improvements, the Government will simplify the CDG application process for projects below S$30,000. As an additional sweetener, the Government will also extend the enhanced funding support level of up to 70% for three more years, to 31 March 2018.

The CDG is administered by SPRING Singapore.

**Collaborative Industry Projects (CIP)**

The CIP is an existing program which encourages industry players and partners (such as trade associations) in seven priority sectors to collaborate with SMEs on the development and deployment of productive and innovative solutions which are scalable across the industry. Approved projects are eligible for up to 70% funding support for qualifying development and adoption costs.

Continuing on a targeted approach towards productivity and innovation, the Government has announced that it will increase the number of CIP projects per year from five to 15, and will expand the CIP beyond the existing seven priority sectors to cover all industry sectors.

The CIP programme is administered by SPRING Singapore.

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1 The 10 development areas are: (1) brand development; (2) business excellence; (3) business innovation; (4) quality and standards; (5) financial management; (6) human capital development; (7) intellectual property and franchising; (8) productivity improvement; (9) service excellence; and (10) technology innovation.
Partnerships for Capability Transformation (PACT)

The PACT programme was introduced in 2010 to promote collaboration between large enterprises and SMEs in the manufacturing sector. It was enhanced in 2013 to cover more industry sectors and offer three models for collaborative projects in the following areas:

► Partners development - large enterprises help to upgrade the capabilities of new and existing SME suppliers
► Knowledge transfer - large enterprises share their know-how or capabilities with local SMEs
► Co-innovation - large enterprises provide test-beds for new SME technologies and become their potential reference customers

Approved PACT projects are eligible for up to 70% funding support for qualifying development costs.

To encourage collaboration between more large enterprises and SMEs, the Government will extend and enhance PACT.

The PACT programme is administered by various statutory boards including SPRING Singapore and the EDB.

Market Readiness Assistance (MRA) and Global Company Partnership (GCP) grants

The MRA and GCP are existing grant schemes to support companies to successfully internationalise through building and enhancing internal capabilities, manpower development, providing market access and access to financing.

Currently, the Government co-funds up to 50% of qualifying costs. In Budget 2012, the support level was increased to 70% for three years (from 1 April 2012 to 31 March 2015) for four types of activities, namely design, branding, intellectual property, and M&As.

The Government will now increase the grant support level from 50% to 70% for all activities under these two grant schemes for three years to 31 March 2018.

The MRA and GCP grants are administered by IE Singapore.

Venture debt risk-sharing programme

The Government has announced the introduction of a pilot programme for venture debt risk-sharing. A venture debt is an alternative capital-raising option to equity financing and traditional bank loans.

Under this programme, the Government will provide 50% risk-sharing with selected financial institutions over an initial period of two years to high-growth companies. Over this period, the aim is to catalyse about 100 venture debt loans, totalling approximately S$500m.

This programme will be administered by SPRING Singapore.
Changes to vehicle taxes and petrol duties

Revised Carbon Emissions-based Vehicle Scheme
Under the existing Carbon Emission-based Vehicle Scheme (CEVS), first introduced in January 2013 as part of the Government’s effort to maintain a cleaner environment in Singapore, all new purchases of passenger cars with low carbon emissions enjoy up to S$20,000 in rebates on the Additional Registration Fee (ARF). Those with high carbon emissions have to pay an ARF surcharge of up to S$20,000. The current CEVS will expire on 30 June 2015.

To encourage buyers to shift to purchasing low carbon emission models, rebates and surcharges will be increased for very low and high carbon emission vehicles respectively. The Government will extend the CEVS by two years from 1 July 2015 to 30 June 2017, with two refinements:

► The surcharge and rebate bands have been updated to reflect improvements in vehicle engine technology.
► The highest rebate and surcharge quantum have increased from S$20,000 to S$30,000.

Further details can be found in the Land Transport Authority’s news release dated 23 February 2015.

Excise duties
The Government has increased excise duties on premium grade petrol (RON 97 and above, unleaded) by 20 cents per litre and intermediate grade petrol (RON 90 and above but under RON 97, unleaded) by 15 cents per litre. The new duty rate for premium grade petrol is 64 cents per litre and for intermediate grade petrol is 56 cents per litre. As such, excise duty increases for premium and intermediate grade petrol represent an increase of about 45% and 36% respectively.

One-year road tax rebate for petrol vehicles
With effect from 1 August 2015, owners will be eligible for a one-year road tax rebate for the following petrol vehicles:

► 20% rebate for cars.
► 60% rebate for motorcycles.
► 100% rebate for commercial vehicles (taxis, buses and goods vehicles including goods-cum-passenger vehicles).

The Government is granting the one-year road tax rebate to ease the transition to higher petrol duties.
Recalibrating foreign worker levies

As part of overall tightening of the foreign worker policy framework, gradual increases to the foreign worker levies were introduced by the Government in their bid to encourage long term productivity and reduce reliance on lower skilled foreign workers. These measures have succeeded in significantly slowing down the growth of the foreign workforce in Singapore. As such, the Government has now recalibrated the foreign worker levies to adjust the pace of the tightening measures.

Levy increases for both S Pass and Work Permit holders that were previously scheduled for 1 July 2015 will be deferred by one year, to 1 July 2016. This deferral will be applied across all sectors with the exception of Work Permit holder levies in the manufacturing and construction sectors.

For the manufacturing sector, levy rates for all tiers and skill levels will remain unchanged at 1 July 2014 rates until 30 June 2017.

For the construction sector, the foreign worker levy for a Basic Skilled (R2) worker will be raised from S$550 to S$650 on 1 July 2016 and thereafter to S$700 on 1 July 2017. The Man-Year Entitlement waiver levy rate for a Higher Skilled (R1) worker will be reduced from S$750 to S$600 from 1 July 2015. All other levy rates for this sector will remain unchanged. These levy changes are consistent with the Government’s direction for construction firms to upgrade their existing R2 workers and retain R1 workers.
Extension of the Wage Credit Scheme

To give employers more time to restructure and to adjust to rising costs in the tight labour market, the Wage Credit Scheme (WCS) will be extended for two years (2016 and 2017). The Government will co-fund 20% (down from 40%) of the wage increases for Singaporean employees earning a gross monthly wage of up to S$4,000 subject to a minimum gross monthly wage increase of S$50.

Wage increases given in 2015 and sustained in 2016 and 2017 will continue to be co-funded at 20%. Likewise, wage increases given in 2016 and sustained in 2017 will be co-funded at 20% (see Table 1).

As with the current scheme, employers do not need to apply for the credit. They will receive their yearly payouts automatically, at the end of March 2015, 2016, 2017 and 2018.

The co-funding is reduced to phase out WCS gradually before the scheme ends.

Table 1: Illustration of extension of WCS benefits

<table>
<thead>
<tr>
<th>Gross monthly wage increase</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>S$200</td>
<td>S$200</td>
<td>S$200</td>
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<tr>
<td>Amount co-funded by the Government (40%) under existing WCS</td>
<td>S$80/month</td>
<td></td>
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<tr>
<td>Amount co-funded by the Government (20%) under extension of WCS</td>
<td></td>
<td>S$80/month</td>
<td>S$120/month</td>
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</table>
Extension and enhancement of the Temporary Employment Credit

The Temporary Employment Credit (TEC) was announced in 2014 as a one-year measure to help employers cope with higher wage costs arising from a 1% increase in the CPF employer contribution rate from 1 January 2015. Under the original TEC, employers would receive an offset of 0.5% of wages for Singaporean and Singapore PR workers in 2015.

The TEC will be raised to 1% of wages in 2015. The TEC will also be extended by two years to help employers adjust to cost increases associated with the increase in CPF salary ceiling and the employer CPF contribution rates for older workers.

The CPF Board will automatically assess employers’ eligibility for the TEC, based on the regular monthly CPF contributions for their Singaporean and Singapore PR employees. The TEC payouts will be made in October (for wages paid from January to June of the same year) and April (for wages paid from July to December of the preceding year).

Enhancement of the Special Employment Credit

The Special Employment Credit (SEC) was first introduced in Budget 2011 to encourage and support employers to voluntarily employ older Singaporeans. In Budget 2014, the SEC was enhanced with employers being entitled to an SEC of up to 8.5% of an employee’s monthly wage where the employee is a Singaporean aged above 50 years.

The Government has raised the SEC by an additional 3% for employers who hire Singaporean workers aged 65 years and above from 1 January 2015 to 31 December 2015. The SEC payout is 11.5% of wages for salaries up to S$3,000 per month. For those with monthly salaries between S$3,000 and S$4,000, the SEC payout reduces linearly from 11.5% of the wages (or S$345) to S$0.

Employers who make regular CPF contributions for their workers need not take further action to receive the SEC. The CPF Board will automatically assess an employer’s eligibility and notify them before payments are made. The SEC will be paid in September 2015 for work done from January to June 2015 and March 2016 for work done from July to December 2015.
Tax leadership

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### Asean Sub-Service Line Leaders

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<th>International Tax Services</th>
<th>Transaction Tax</th>
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<td>Tan Lee Khoon</td>
<td>Grahame Wright</td>
<td>Yeo Eng Ping</td>
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<tr>
<td>+65 6309 8679</td>
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<tr>
<td>Global Compliance and Reporting</td>
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<tr>
<td>Soh Pui Ming</td>
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<td>+60 3 7495 8288</td>
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<td><a href="mailto:eng-ping.yeo@my.ey.com">eng-ping.yeo@my.ey.com</a></td>
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### Asean Tax Market Segment Leaders

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<th>Myanmar</th>
<th>Sri Lanka</th>
<th>Financial Services Organization</th>
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<tr>
<td>Adrian Ball</td>
<td>U Tin Win</td>
<td>Duninda Hulangamuwa</td>
<td>Amy Ang</td>
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<td><a href="mailto:tin.win@mm.ey.com">tin.win@mm.ey.com</a></td>
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<tr>
<td>Guam</td>
<td>Kasem Kiatsayrikul</td>
<td>Yupa Wichitkraisorn</td>
<td>Government &amp; Public Sector</td>
</tr>
<tr>
<td>+66 2264 0777 Ext.77033</td>
<td>+66 2264 0777 (Ext. 77002)</td>
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<td>Tan Bin Eng</td>
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<td>Wiifredo Villanueva</td>
<td>Yupa Wichitkraisorn (Including Cambodia and Laos)</td>
<td>Resources</td>
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<tr>
<td>+632 894 8180</td>
<td>+66 2264 0777 (Ext. 77002)</td>
<td>Christopher Butler</td>
<td>Ben Koesemoeljana</td>
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<td></td>
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</tbody>
</table>
Tax services in Singapore

Our tax professionals in Singapore provide you with deep technical knowledge, both globally and locally, combined with practical, commercial and industry experience. We draw on our global insights and perspectives to build proactive, truly integrated direct and indirect tax strategies that help you build sustainable growth, in Singapore and wherever else you are in the world.

Business Tax Services

Tax Policy and Controversy

Our global tax policy network has extensive experience helping develop policy initiatives, both as external advisors to governments and companies, and as advisors inside government. Our dedicated tax policy professionals and business modelers can help address your specific business environment and improve the chance of a successful outcome.

Our global tax controversy network helps you address your global tax controversy, enforcement and disclosure needs. We focus on pre-filing controversy management to help you properly and consistently file your returns and prepare the relevant back-up documentation. We leverage the network’s collective knowledge of how tax authorities operate, and increasingly work together to help resolve difficult or sensitive tax disputes.

Tax Performance Advisory

Our Tax Performance Advisory practice focuses on helping your tax function enhance performance. We help you build strong compliance and reporting foundations, effective risk management protocols and a high performing tax function. We have experience delivering projects to companies of all sizes across all aspects of the tax life cycle: planning, provision, compliance and controversy. Our holistic approach allows us to speak the same language as your tax, finance, information technology and business professionals, which is necessary to drive enhanced tax function performance across the enterprise.

Quantitative Services

Our Quantitative Services network assists you with analysing tax opportunities, typically related to large data sets, efficiently and systematically identifying multi-country tax regulations and the benefits that can be attained. Our services include assistance with: accounting methods and inventory, research incentives, flow-through entity planning, and capital assets and incentives. These approaches can help our clients improve cash flow, plan for cash tax and effective tax rates and create refund opportunities.

Our Business Incentives Advisory team assists in incentives negotiations for our clients. For Singapore incentives, we evaluate and assess possible incentive opportunities based on project parameters for our clients, provide suggestions to avail of incentive opportunities, strategise the approach for discussions with the authorities, facilitate meetings with the authorities and our clients, assist in applications for relevant incentives, and assist in the process design for incentive maintenance, tracking and reporting obligations. We also conduct regional incentive studies where we provide cross-country comparisons of potential incentives for site location. We also assist technical personnel to assess the potential qualifying R&D projects, work with your finance and tax teams to identify qualifying R&D expenditure, prepare or review the R&D plans for submission to tax authorities, and assist you with queries raised by the authorities surrounding the claims.

Private Client Services

Our Private Client Services practice offers tax-related domestic and cross-border planning and compliance assistance to business-connected individuals and their associated entities. With dedicated resources in major markets around the world, we assist individual clients needing a wide range of tax services including tax compliance, tax planning, and tax advice relating to their business interests, investments and other financial-related assets. Our approach provides professionally prepared returns, related calculations and advice, as well as integrated tax planning.

Business Tax Advisory

Our Business Tax Advisory professionals draw on their diverse skills and experience to deliver advice tailored to your business, from planning through to helping with implementation, reporting and maintaining effective relationships with the tax authorities. We bring a deep understanding of critical tax issues and key sectors. We can help you reduce inefficiencies, mitigate risk and make the most of opportunities, building sustainable tax strategies that can help your business succeed.

Global Compliance and Reporting

Our Global Compliance and Reporting (GCR) practice can help you meet your reporting requirements wherever you do business. GCR comprises the key elements of a company’s finance and tax processes used to prepare statutory financial and tax filings in countries around the world. These include:

- Statutory accounting and reporting
- Book-keeping and accounting support
- Corporate secretarial
- Tax accounting and provisions
- Tax compliance filing

Business Tax Compliance

Our market-leading approach to tax compliance combines a standard global compliance process and web-based tools to give you and your team the visibility and control you need to manage your tax compliance function effectively. You can access the resources of our dedicated compliance and reporting professionals in one country or globally with a single point of contact.

Tax Accounting

To help you respond to today’s increasing demands for transparency, we provide assistance in these areas:

- Supporting quarterly and annual tax provision calculations
- Preparing and/or review of deferred tax provisions under US GAAP and IFRS
- Provision-to-return analyses
- Training and advising on tax accounting principles and tax accounting implications of new accounting standards
- Assisting in evaluating and/or review of uncertain tax positions under US GAAP and IFRS

Corporate Services

Our Corporate Services team supports your business in the following areas: entity formation and company secretarial matters, the preparation of management and statutory financial statements, monthly book-keeping and payroll outsourcing. We work with all stakeholders to help you meet deadlines and comply with statutory requirements.

Company secretarial: We help our clients and their officers comply with the Singapore Companies Act requirements principally and other relevant regulations from a company secretarial perspective. In addition to compliance matters, we are often involved in corporate structuring work such as share capital reduction and share buy-back initiatives.

Accounting: From day-to-day to complex transactions, our accounting professionals assist to facilitate that the transactions are recorded accurately, timely and in accordance with applicable accounting standards. We are also familiar with all aspects of the accounting function like management reporting, debtors/creditors control and XBRL conversion.
Payroll: Together with our Human Capital and Accounting professionals, we provide comprehensive and holistic payroll outsourcing services. We assist to facilitate that your employee payrolls are computed in accordance with the Singapore Employment Act and with the Ministry of Manpower regulations.

Financial Services Tax
Our Financial Services Tax team is dedicated to delivering value to our clients in the financial services industry who are facing a constantly evolving tax landscape. Whether you are in Banking and Capital Markets, Asset Management, or the Insurance sector, we will be able to assist you in issues including managing your direct and indirect tax obligations and tax risks, navigating the complex tax rules across jurisdictions, pursuing tax incentives or concessions, dealing with transfer pricing issues, handling tax authority queries, assessing your tax provisions, and analysing your uncertain tax positions.

We can also advise you on the tax implications of new financial products or transactions, and assist in applying for Revenue rulings where applicable. We can advise on the structuring of your new businesses and new funds, or on the review of such structures in an internal reorganisation or in the event of mergers or acquisitions, from the tax perspective.

Human Capital
Our Human Capital services offer a “total picture” perspective, integrating global mobility and talent and reward. Through our comprehensive approach, we can help you make the most of your investment in your people.

Mobility Services
Our Mobility services help our clients manage the complex compliance, reporting and risks inherent in deploying a globally mobile workforce. We offer a suite of mobility services that can help make your global mobility program more strategic, including: global mobility tax and advisory, global immigration, assignment services, international social security and business traveller services.

Talent and Reward Services
Our Talent and Reward services help clients address the range of issues that are associated with reward strategies, talent programs and maintaining workforce effectiveness. To reach its potential, an organisation must continuously improve its performance – and sustain that improvement. We can help clients optimise these particular business areas.

Indirect Tax
Global Trade
Our network of Global Trade professionals help you to operate more effectively in moving goods around the world. We develop and implement strategies to help you to manage duty costs by utilising free trade agreements, special programs, and transactional structuring. We can help you proactively manage the risks of global trade, improve your international trade compliance and increase the operational effectiveness of your supply chains.

Our core offerings include strategic planning to manage customs and excise duties; trade compliance reviews for imports and exports; internal controls and process improvement; and participation in customs supply chain security programs.

GST Services
Our network of dedicated Indirect Tax professionals can advise on the GST treatment of transactions and supplies and help resolve classification or other disputes and issues with the authorities. We provide assistance in identifying risk areas and sustainable planning opportunities for indirect taxes throughout the tax lifecycle, helping you meet your compliance obligations and your business goals around the world.

We provide you with effective processes to help improve your day-to-day reporting for indirect tax, reducing attribution errors, reducing costs and ensuring indirect taxes are handled correctly. We can support full or partial GST compliance outsourcing, identify the right partial exemption method and review accounting systems.

International Tax Services
International Tax
Our dedicated International Tax professionals assist our clients with their cross-border tax structuring, planning, reporting and risk management. We can help you build proactive and integrated global tax strategies that address the tax risks of today's business and achieve sustainable growth.

Global Tax Desk
Our market-leading Global Tax Desk network – a co-located team of highly experienced professionals from multiple countries – is located strategically in major business centers so that our desks can respond to your challenges immediately and cost-effectively, avoiding time zone barriers and the high price of international travel.

The desks work as a team – tackling the same problem from all sides – thoughtfully identifying considerations with your cross-border transaction. We work with you to help you manage global operational changes and transactions, capitalisation and repatriation issues, transfer pricing and your supply chain – from forward planning, through reporting, to maintaining effective relationships with tax authorities.

Transfer Pricing
We offer a Transfer Pricing services. Our Transfer Pricing professionals help you build, manage, document, review and defend your transfer pricing policies and processes – aligning them with your business strategy.

Here's how we can help you:
- Strategy and policy development
- Governance optimisation and decision making process to help:
  - Reduce impact of year-end adjustments
  - Monitor transfer pricing footprint
  - Coordinate across organisation
- Global or regional assistance to support transitions to new documentation requirements
- Controversy risk assessment, remediation or mitigation as a result of documentation requirements
- Global transfer pricing controversy and risk management

Operating Model Effectiveness
Our multi-disciplinary Operating Model Effectiveness teams work with you on operating model design, business restructuring, systems implications, transfer pricing, direct and indirect tax, customs, human resources, finance and accounting. We can help you build and implement the structure that makes sense for your business, improve your processes and manage the cost of trade.

Transaction Tax
Every transaction has tax implications, whether it's an acquisition, disposal, refinancing, restructuring or initial public offering. Understanding and planning for these implications can mitigate transaction risk, enhance opportunity and provide crucial negotiation insights. Our Transaction Tax practice helps you make informed decisions and navigate the tax implications of your transaction.

We mobilise wherever needed, assembling a personalised, integrated global team to work with you throughout the transaction life cycle, from initial due diligence through post-deal implementation. Our local teams employ a consistent approach globally to provide you with a coordinated understanding of the relevant jurisdictional and multi-disciplinary tax issues. We can suggest structuring alternatives to balance investor sensitivities, promote exit readiness and help improve prospective earnings or cash flows – raising opportunities for improved returns on your investment.
Glossary of terms

The following definitions apply throughout this budget synopsis unless otherwise stated:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<td>Central Provident Fund</td>
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Tax thought leadership

Ernst & Young Solutions LLP’s Tax practice aims to give you insights on the tax issues that matter in today’s fast-changing business environment. To find out how these tax issues impact your business, read You and the Taxman.

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