CCS
Complete Corporate Services

Singapore Budget 2018

1. SINGAPORE BUDGET 2018

The Minister for Finance, Mr Heng Swee Keat, presented his Budget speech in Parliament on 19 February 2018.

Budget 2018 announced measures targeting to address near-term challenges for enterprises and specific sectors, and to support businesses that make use of technology, innovate, build deep capabilities and go international. Overall, we view this as a strategic forward-looking Budget that lays the foundation for a secure and fiscally sustainable future.

This circular aims to highlight certain tax changes which may impact businesses and individuals.

2. BUSINESSES AND CORPORATIONS

2.1 Start-up Tax Exemption ("SUTE") and Partial Tax Exemption ("PTE")

Current

The headline corporate tax rate is 17%.

Companies can claim SUTE/PTE for the first S$300,000 of their chargeable income as follows:-

SUTE

For new start-up companies, provided that the qualifying conditions are met.

Chargeable income	$ exempt from tax	Amount exempt from tax
First S$100,000	@100%	= S$100,000
Next S$200,000	@50%	= S$100,000
Total S$300,000		= S$200,000

PTE

For all other companies (excluding those qualifying for SUTE).

Chargeable income	$ exempt from tax	Amount exempt from tax
First S$10,000	@75%	= S$7,500
Next S$290,000	@50%	= S$145,000
Total S$300,000		= S$152,000

Proposed

There is no change in the headline corporate tax rate of 17%.

With effect from YA 2020, the SUTE/PTE will be restricted to the first S$200,000 of chargeable income for both schemes as follows:-

SUTE

Chargeable income	$ exempt from tax	Amount exempt from tax
First S$100,000	@75%	= S$75,000
Next S$100,000	@50%	= S$50,000
Total S$200,000		= S$125,000

PTE

Chargeable income	$ exempt from tax	Amount exempt from tax
First S$10,000	@75%	= S$7,500
Next S$190,000	@50%	= S$95,000
Total S$200,000		= S$102,000

Our comments

The tax exemption tweak is aimed at strengthening efforts and nudging businesses towards building capabilities, while maintaining a certain level of broad based tax exemption schemes so that corporate taxes remain low for start-ups and smaller businesses.

2.2 Corporate Income Tax ("CIT") Rebate

Current

Companies enjoyed a 50% CIT rebate, capped at $20,000 for Year of Assessment ("YA") 2017.

For YA 2018, a 20% CIT rebate capped at $10,000 was previously announced.

Proposed

CIT rebate for YA 2018 will be enhanced from 20% to 40% of tax payable and with an increased cap of S$15,000.

The CIT rebate will also be extended to YA 2019 at a reduced rate of 20% of tax payable and capped at S$10,000.

Our comments

Similar to the approach for YA 2017, the enhanced CIT rebate for YA 2018 will benefit all tax paying companies, especially the smaller enterprises.

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

Current

The DTDi provides up to 200% tax deduction on qualifying expenditure incurred on market expansion and investment development, subject to the approval of IE Singapore or Singapore Tourism Board (“STB”).

However, automatic double tax deduction (DTD) can be claimed for the first S$100,000 of qualifying expenditure incurred on the following qualifying activities for each YA, without the need for approval:-

a) Overseas business development trips / missions
b) Overseas investment study trips / missions
c) Participation in overseas trade fairs
d) Participation in approved local trade fairs.

Proposed

From YA 2019, the automatic DTD qualifying expenditure cap will be raised from S$100,000 to S$150,000 per YA.

Approval from IE Singapore or STB would still be required for qualifying expenditure exceeding S$150,000 for the 4 qualifying activities or other qualifying activities, and all other conditions remain unchanged. IE Singapore and STB will release further details by April 2018.

Our comments

The increase in the qualifying expenditure cap would indeed help to reduce tax costs while encouraging businesses to venture overseas and trade globally.

2.4 Enhancing the Tax Deduction for Qualifying Expenditure on Qualifying Research and Development (“R&D”) Projects performed in Singapore

Current

Companies are allowed to claim tax deduction on qualifying expenditures incurred on qualifying R&D projects performed in Singapore as follows:-

a) 150% tax deduction (i.e. 100% base deduction + additional 50%) for staff costs and consumables incurred; and

b) 100% tax deduction for other qualifying expenditure.

Proposed

For YA 2019 to YA 2025, the tax deduction claim for staff costs and consumables incurred on qualifying R&D activities performed in Singapore will be increased from 150% to 250%. All other conditions of the R&D scheme remain unchanged.

Our comments

With the lapse of PIC scheme, the increase in the tax deduction claim on R&D expenditure incurred on staff costs and consumables for YA 2019 to YA 2025 will help to reduce tax costs and encourage businesses in continuing their R&D efforts towards innovation and building their own capabilities.

2.5 Enhancing tax deduction for costs on Intellectual Property (“IP”) registration fees

Current

With the expiry of the PIC Scheme after YA 2018, only 100% tax deduction (instead of 400% deduction under the PIC Scheme) is allowed on qualifying IP registration costs (e.g. official fees, professional agent fees) incurred in registering patents, trademarks, designs and plant varieties till YA 2020.

Proposed

The tax deduction for the first S$100,00 of qualifying IP registration costs incurred for each YA will be doubled to 200%

for YA 2019 to YA 2025.

Our comments

To support businesses in their quest for innovative capabilities and creative solutions against global competition, companies are encouraged to create, own, protect, exploit and enforce their IP resources in order to maximize the value for their own businesses.

The above enhancements will encourage businesses to continue commercialising their innovations even after the expiry of the PIC Scheme after YA 2018.

2.6 Enhancing tax deduction for costs on IP in-licensing

Current

Upon the lapse of the PIC Scheme after YA 2018, businesses can only claim 100% tax deduction (instead of 400%) on the qualifying IP in-licensing costs incurred.

Proposed

The tax deduction for the first S$100,000 of qualifying IP in-licensing payments for each YA will be increased from 100% to 200% for YA from YA 2019 to YA 2025.

The qualifying IP in-licensing costs include payments made by a qualifying person to publicly funded research performers or other businesses (excluding related party licensing payments or payments for IP where any allowance was previously made to that person).

Our comments

With the expiry of the PIC scheme, the enhanced tax deduction on the IP in-licensing costs will encourage businesses to continue investing and spending on new solutions and know-how.

2.7 Withholding tax exemption on Container lease payments

Current

Rent or lease payments to non-resident parties for the use of qualifying containers for the carriage of goods by sea are currently exempt from Singapore withholding tax.

Proposed

A review date of 31 December 2022 will be introduced to ensure that the exemption is reviewed for its relevance. If the scheme is not extended, withholding tax will apply to such payments to non-resident parties under a lease or agreement entered into on or after 1 January 2023.

Our comments

The withholding tax exemption specifically granted for container lease payments under a special ministerial exemption has been in place since 19 January 1979. The review is therefore timely and in line with the government policy to periodically review tax schemes for relevance. In view of the challenges faced by the maritime industry, feedback from businesses in this industry would be invaluable in the upcoming review for continuity of this scheme.

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

Current

Under the FSI scheme that will lapse after 31 December 2018, the following income derived by the FSI award holders from qualifying activities are accorded concessionary tax rates of 5%, 10%, 12% and 13.5%:-

- Qualifying banking and financial activities (e.g. transacting and providing services in respect of loans and other similar instruments, placement of funds, transacting in and providing services relating to trade finance and trustee/ custodian activities);
- Headquarters and corporate services;
- Fund management; and
- Investment advisory services.

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

Proposed

The FSI scheme will be extended for 5 years till 31 December 2023.

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

All other conditions of the FSI scheme remain unchanged. MAS will release further details by May 2018.

Our comments

The extension and enhancement of the FSI scheme will maintain and strengthen Singapore's position as a leading financial centre in the region.

2.9 Business and IPC Partnership Scheme ("BIPS")

Current

The 250% tax deduction currently granted on qualifying expenditure incurred by businesses that send qualifying employees to volunteer and provide services to Institutions of a Public Character ("IPCs") including secondments will expire on 31 December 2018.

Proposed

The above scheme will be extended for another three years to 31 December 2021, i.e. from 1 July 2016 to 31 December 2021.

Our comments

The extension of the scheme is aimed at continuing the support of employee volunteerism through businesses. However, the administrative process would have to be reviewed and details will be announced in the second half of 2018.

3. TAX CHANGES FOR INDIVIDUALS AND BUSINESSES

3.1 Extending 250% deduction for donations

Current

250% tax deduction for qualifying donations will expire on 31 December 2018.

Proposed

250% tax deduction for qualifying donations will be extended for another 3 years till 31 December 2021.

Our comments

The extension of the scheme is aimed at fostering the spirit of philanthropy and to encourage Singaporeans to continue giving back to the community.

4. GOODS AND SERVICES TAX ("GST")

4.1 Introducing of GST on imported services

Current

GST is a consumption tax levied on the supply of goods and services in Singapore. While the importation of goods is subject to GST, services purchased from overseas suppliers are presently not subject to GST. Equally, GST also does not presently apply to the purchase of digital goods (such as downloadable apps and music) from overseas suppliers.

Proposed

With effect from 1 January 2020, GST will be introduced on the importation of services.

Business-to-business (B2B) imported services will be taxed via a reverse charge mechanism. Only businesses that (i) make exempt supplies or (ii) do not make any taxable supplies will be required to apply reverse charge. Under the reverse charge mechanism, the local business customer will be required to account for the output GST to IRAS on the services it imports. The local business customer can in turn make a claim for the GST accounted as its input tax, subject to the GST input tax recovery rules.

The taxation of Business-to-consumer (B2C) imported services will be via an Overseas Vendor Registration (OVR) mode.

Overseas suppliers and electronic marketplace operators making significant supplies of digital services to local consumers will be required to register with IRAS for GST.

Further details will be released by end-February 2018.

Our comments

Introducing GST on imported services levels the playing field between local and overseas suppliers of services including digital services, while at the same time providing the government with a source of taxation revenue without necessarily enacting any new forms of taxation.

4.2 Increasing the GST rate

Current

The standard GST rate is currently 7%.

Proposed

The GST rate is expected to increase to 9% sometime in the period from 2021 to 2025. The exact timing of the GST rate hike will depend on the economic conditions, overall tax revenues collection and government expenditure growth.

Our comments

While GST is one of the most direct and effective ways to increase tax revenue, a GST rate hike may dampen consumer spending just as it is on the road to recovery. The government's early announcement of the increase in the GST rate was meant to give consumers, especially the lower income households, ample time to adjust and prepare for the increase.

Nevertheless, the proposed increased GST rate of 9% is still lower than the prevailing GST/VAT rates in countries around the region that have indirect tax regimes, such as China (17%), New Zealand (15%), Philippines (12%) and Vietnam, Indonesia, Australia (all 10%).

5. OTHERS

5.1 Deferring Foreign worker levy ("FWL") increase for Marine and Process sectors

Current

FWL rates for the Marine Shipyard and Process sectors were scheduled to be raised during the previous Budget announcement.

Proposed

FWL rates will remain unchanged for all sectors, following the deferment of rates increases previously announced for the Marine Shipyard and Process sectors for another year, in recognition of the weak conditions these sectors still face.

Our comments

The move to freeze and further defer the increases in the FWL rates is encouraging and demonstrates the government's flexibility and responsiveness to the challenging conditions and headwinds that these sectors still face.

5.2 Extending Wage Credit Scheme ("WCS")

WCS will be extended for 3 more years from 2018 to 2020, and the government will co-fund wage increases at 20% in 2018, 15% in 2019 and 10% in 2020. Wage increases given in 2017, 2018 and 2019 which are sustained in subsequent years of the scheme, will also be supported.

5.3 Buyer's Stamp Duty ("BSD") on Residential Properties

Current

BSD rates on purchase of residential properties:-

First $180,000	@ 1%
Next $180,000	@ 2%
Exceeding $360,000	@ 3%

Proposed

The top marginal BSD rate will be raised from 3% to 4%, and applied on the value in excess of $1 million for residential properties acquired on or after 20 February 2018.

First $180,000 @ 1%

Next $180,000	@ 2%
Next $640,000	@ 3%
Exceeding $1,000,000	@ 4%

No change to stamp duty rates for non-residential properties.

Our comments

The proposed increase in top marginal BSD rate for residential properties is line with the government's intention to make our tax system more progressive.

5.4 Enterprise Development Grant (EDG)

Following the merger of SPRING and IE Singapore into Enterprise Singapore in April 2018, IE's Global Company Partnership grant (GCPG) and SPRING's Capability Development Grant (CDG) will also be combined into the Enterprise Development Grant (EDG).

The EDG will provide up to 70% co-funding for qualifying costs incurred and businesses can apply for EDG through the Business grants portal.

5.5 Productivity Solutions Grant ("PSG")

The existing grant schemes that support pre-scoped, off-the-shelf technology and productivity solutions will be streamlined into a single Productivity Solutions Grant (PSG).

The PSG will provide co-funding for up to 70% of qualifying costs incurred and businesses can apply for the PSG through the Business grants portal. The portal will provide guidance and allows applicants to select from a list of supportable equipment and technology solutions relevant for their sectors.

5.6 Implementing Carbon Tax

From 2019, carbon tax will be levied on all facilities producing 25,000 tonnes or more of greenhouse gas emissions, at $5 per tonne for 2019 to 2023. It will be reviewed by 2023 and is intended to be increased to $10 to $15 per tonne by 2030. Companies can submit their proposals for emissions abatement and energy efficiency to the government agencies for evaluation.

For petrol, diesel and compressed natural gas (CNG), which are already subject to excise duties, no additional carbon tax will be levied.

With 2018 designated as the Year of Climate Action, the implementation of the carbon tax marks a significant start in encouraging individuals and companies in Singapore to do their part in fighting climate change and achieving a sustainable and higher quality living environment for all.

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