CCS

Complete Corporate Services

Singapore Budget 2017

1. SINGAPORE BUDGET 2017

The Minister for Finance, Mr Heng Swee Keat, presented his Budget speech in Parliament on 20 February 2017.

Budget 2017 announced measures targeting the specific issues faced by different sectors while continuing to encourage businesses to embrace digital technology, innovate and expand internationally, so as to thrive in an uncertain global economy.

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

2. BUSINESSES AND CORPORATIONS

2.1 Corporate Income Tax ("CIT") Rebate

Current

Companies enjoy a 50% CIT rebate, capped at $20,000 per Year of Assessment ("YA"), for YA 2016 and YA 2017.

Proposed

No change in the headline corporate tax rate of 17%.

However, the 50% CIT rebate cap will be raised from $20,000 to $25,000 for YA 2017. The CIT rebate will be extended to YA 2018, but at a reduced rate of 20% of tax payable and capped at $10,000.

Our comments

For YA 2017 and YA 2018, companies with chargeable income ("CI") of S$446,618 or more (before partial exemption claim) would be able to claim the maximum CIT rebate of $25,000 and $10,000 respectively.

2.2 Enhancing the Global Trader Programme ("GTP")

Current

Under the GTP incentive, a concessionary tax rate of 5% or 10% on qualifying income is granted to approved global trading companies engaged in qualifying transactions.

(a) Counter-party requirement to be met:-

• For physical trading of specified commodities, both the buy and sell legs of each transaction must be with GTP qualifying parties (e.g. offshore parties, other GTP companies) as prescribed in the GTP regulations.

• For paper trading of commodity derivatives or specified derivative instruments traded over-the-counter which are not cleared through the SGX AsiaClear Facility, the counterparties must be qualifying persons as prescribed in the GTP regulations.

(b) Income from certain physical trading transactions do not qualify, including:-

(i) The purchase of commodities for consumption in Singapore or for the supply of fuel to aircraft or vessels within Singapore.
(ii) Profits attributable to the storage of commodities in Singapore.
(iii) Income attributable to value-adding activities done in Singapore (i.e. physical alteration, addition or improvement, including refining blending, processing or bulk-breaking).

Proposed

For qualifying income derived on or after 21 February 2017, the GTP will be enhanced as follows:-

(a) The counter-party requirement will be removed. Income from qualifying transactions with any party can qualify for the concessionary tax rate.

(b) Qualifying income will include the three activities described in (i) to (iii) above.

(c) The substantive requirement to qualify for GTP will be increased for new or renewal incentive awards approved on or after 21 February 2017. IE Singapore will release further details by May 2017.

Our comments

The removal of counter-party requirement and expansion of qualifying income would indeed provide the much needed support to reduce tax costs, as well as compliance costs for GTP companies.

However, pending the details to be released by IE Singapore, the increased substantive requirements to qualify for GTP may mean that companies seeking to apply or renew GTP incentive may have to commit to more stringent qualifying criteria such as higher target yearly turnover, local business spending and trading professional headcount requirements. This may prove to be a challenge in view of the uncertain global economic environment. There is a sunset clause for GTP incentive approval to expire on 31 March 2021. We look forward to any possibility for the sunset clause to be revisited in the light of current challenging trading conditions.

2.3 New safe harbour rule for Cost Sharing Agreement ("CSA") payments for R&D projects

Current

The tax deduction claim for research and development ("R&D") expenditure incurred under CSA ("CSA payments") is subject to specific restriction rules for tax disallowable expenses under Section 15 of the Singapore Income Tax Act (SITA) e.g. certain employee stock compensation expenses specifically disallowed for claim. For deduction claim of CSA payments, businesses have to provide a breakdown of the expenses.

Proposed

For CSA payments made on or after 21 February 2017, taxpayers may opt to claim tax deduction based on 75% of such payments incurred for qualifying R&D projects, instead of providing a breakdown of the expenses.

Our comments

The availing of an option to claim deduction based on a fixed percentage of R&D expenditure may go some way to simplify tax compliance processes and reduce resources required to resolve tax disputes, particularly where it may not be cost-efficient to gather detailed information on the CSA payments.

2.4 Extending and refining the Aircraft Leasing Scheme ("ALS")

Current

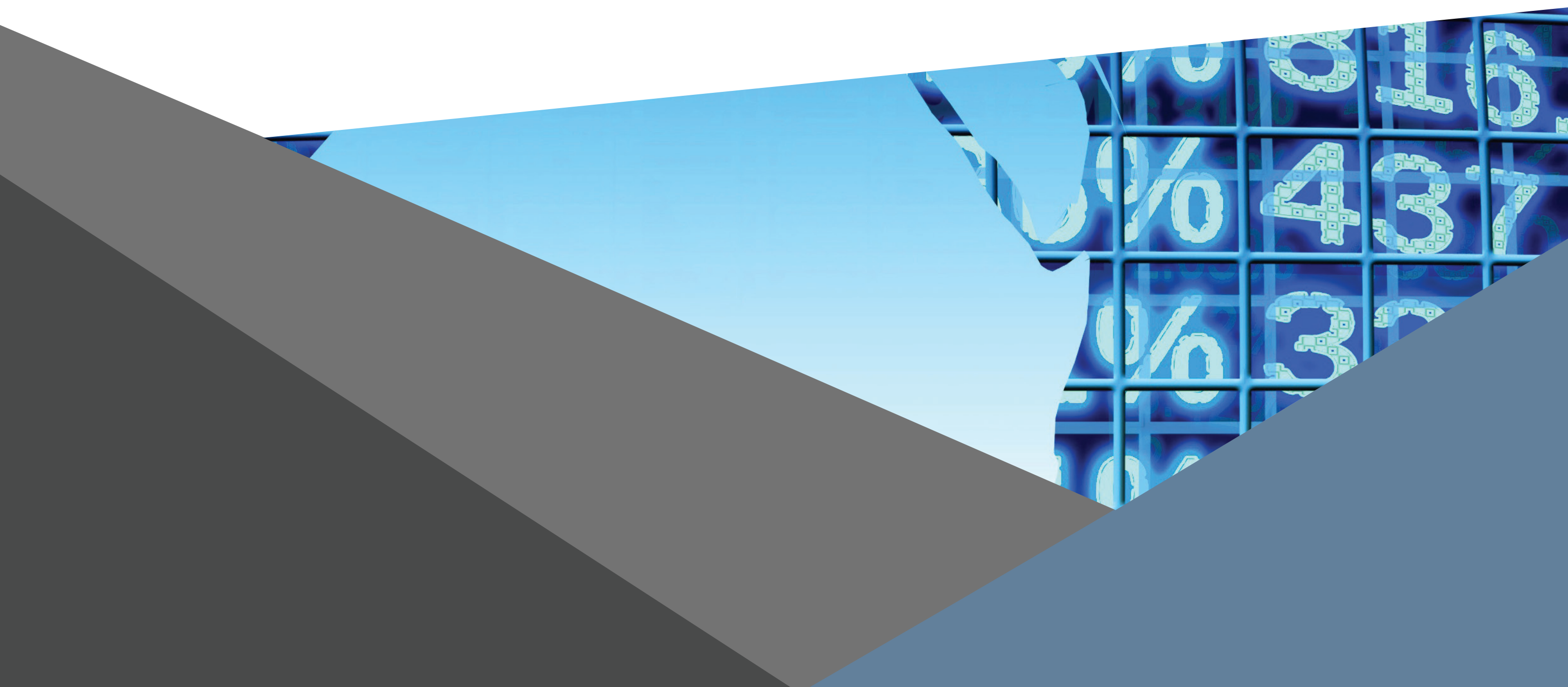
The tax incentives under the ALS are:-

a) Approved aircraft lessors enjoy concessionary tax rate of 5% or 10% on income derived from the leasing of aircraft or aircraft engines and qualifying ancillary activities; and

b) Approved aircraft managers can enjoy concessionary tax rate of 10% on income derived from managing the approved aircraft lessor and qualifying activities.

Qualifying ancillary activities include incidental income derived from the provision of finance in the purchase of any aircraft or aircraft engines by any airline company.

In addition, automatic withholding tax exemption is granted on qualifying payments made by approved aircraft lessors to non-tax-residents (excluding a permanent establishment in Singapore) for qualifying loans entered into on or before 31 March 2017 to finance the purchase of aircraft and aircraft engines, subject to conditions. The scheme was scheduled to lapse after 31 March 2017.



Proposed

The ALS will be extended till 31 December 2022 and refined as follows:-

(a) The scope of qualifying ancillary activities for approved aircraft lessors will cover incidental income derived from the provision of finance in the acquisition of aircraft or aircraft engines by any lessee; and

(b) The concessionary tax rate on income derived from leasing of aircraft or aircraft engines and qualifying ancillary activities will be streamlined from 5% and 10% to a single rate of 8%.

The enhancement in (a) will apply to income derived on or after 21 February 2017 for all incentive recipients and the refinement in (b) will apply to new or renewal incentive awards approved on or after 1 April 2017.

The automatic withholding tax exemption regime will also be extended to qualifying payments made on qualifying loans entered into on or before 31 December 2022.

EDB will release further details by May 2017.

Our comments

The ALS scheme is further extended another 5 years from 31 March 2017 and refined to continue promoting the growth of the aircraft leasing sector in Singapore. This targeted approach to extend and fine-tune incentives for specific industry was similarly seen in Budgets 2015 and 2016 wherein various tax incentives for the Maritime Sector Incentive ("MSI") schemes were extended and enhanced.

2.5 Introducing Intellectual Property Development Incentive ("IDI")

Current

Currently, income from intellectual property ("IP") is covered under the Pioneer-Services/Headquarters Incentive or the Development and Expansion Incentive ("DEI")-Services/Headquarters incentive, if it arises from qualifying activities.

Proposed

A new tax regime IDI would be introduced to incentivise IP income derived from the exploitation of IP arising from research and development (R&D) activities. Accordingly, such income will be removed from the scope of Pioneer-Services/Headquarters incentive and the DEI-Services/Headquarters for new incentives awarded on or after 1 July 2017. For existing incentive recipient companies, the current incentive awards would continue to cover such income until 30 June 2021. The IDI incorporates the modified nexus approach as proposed under the BEPS Action Plan 5.

The IDI will take effect on or after 1 July 2017. Further details will be released by EDB by May 2017.

Our comments

The introduction of IDI is in line with the government efforts to encourage innovation and having ownership of IPs in Singapore. Singapore has agreed to join the framework for the global implementation of Based Erosion and Profits Shifting (BEPS) Project, and supports the key principle that profits should be taxed where the real economic activities generating the profits are performed and where value is created. Companies that are benefiting from IP regimes should continue to monitor BEPS developments with respect to Action Plan 5.

2.6 Extending and refining the Integrated Investment Allowance (“IIA”) scheme

Current

Introduced in 2012 to keep pace with the business trend where companies outsource manufacturing to low-cost locations outside of Singapore, the IIA scheme grants an additional allowance (above the normal capital allowances) based on a fixed percentage of the fixed capital expenditure incurred on qualifying productive equipment placed with an overseas company for an approved project.

One of the requirements is that the said equipment has to be used solely to manufacture products for the qualifying company under the approved project.

The IIA scheme is scheduled to lapse after 28 February 2017.

Proposed

The IIA scheme will be extended till 31 December 2022.

In addition, for a project approved on or after 21 February 2017, the qualifying productive equipment may be used by the overseas company primarily (instead of solely) to manufacture products for the qualifying company under an approved project.

Our comments

The IIA scheme is in line with the government efforts to encourage companies to internationalise and expand overseas.

2.7 Extending the Withholding Tax (“WHT”) exemption on payments for international telecommunications submarine cable capacity under an Indefeasible Rights to Use (“IRUs”) agreement

Current

Payments for international telecommunications submarine cable capacity under an IRU agreement fall under the scope of deemed income under Section 12(7) of SITA and thus all such payments to non-residents are subject to WHT tax requirements. However, a WHT exemption had been granted on such payments made from 28 February 2003 and this exemption was scheduled to lapse after 27 February 2018.

Proposed

The WHT exemption on payments for international telecommunications submarine cable capacity under an IRU agreement will be extended till 31 December 2023.

2.8 Accelerated Writing-Down Allowances (“WDA”) for acquisition of Intellectual Property Rights (“IPRs”) for Media and Digital Entertainment (“MDE”) content scheme

Current

Introduced in 2009, this scheme grants WDA over 2 years (instead of 5 years) on the capital expenditure for approved IPRs on the following acquired by an approved MDE business for the purposes of its trade:-

- Films;
- Television programmes;
- Digital animations or games; or
- Other MDE content.

Proposed

The accelerated WDA for MDE content scheme will be allowed to lapse after the last day of the basis period for YA 2018.

Businesses may elect to claim WDA on the approved IPRs over a writing-down period of 5, 10 or 15 years on the capital expenditure incurred.

<u>2.9 Withdrawing the tax deduction for computer donation scheme</u>

Current

A 250% tax deduction is granted on donation of computers (including computer hardware, software, accessories and peripherals such as monitors, printers, and scanners) approved by Infocomm Media Development Authority (IMDA) made by any business to an Institution of Public Character ("IPC"), prescribed educational, research or other institution.

Proposed

The tax deduction scheme for donation of computers will be withdrawn after 20 February 2017.

3. TAX CHANGES FOR INDIVIDUALS

<u>3.1 Personal income tax rebate for residents</u>

Current

No personal income tax rebate was available for YA 2016.

There is no further change to the resident personal income tax rate increases for YA 2017 announced in Budget 2015.

Proposed

A personal income tax rebate of 20% of tax payable, capped at $500, will be granted to all tax resident individuals for YA 2017 (i.e. for income earned in 2016).

Our comments

Individuals with chargeable income of $67,858 or more would claim the maximum personal tax rebate of S$500 for YA 2017.

4. OTHERS

<u>4.1 Introducing Carbon Tax</u>

In line with Singapore's commitment to address climate change and reduce emissions under the Paris Agreement, and potentially to create new opportunities in green growth industries such as clean energy, it has been decided that a carbon tax on the emission of greenhouse gases will be implemented. Apart from the ongoing industry consultations, the public will be consulted from March 2017, with the aim to implement the carbon tax from 2019.

<u>4.2 Foreign worker levy (FWL) increase deferred for Marine and Process sectors</u>

The FWL for the Marine and Process sectors previously scheduled to be increased from July 2017, will be deferred by another 1 year to July 2018. The applicable (current) FWL for this sector are shown in red below. On the other hand, the increased FWL for Basic tier R2 workers in the Construction sector will be raised as scheduled (shown in **bold** below).

Sector	Tier	Sector Dependency Ratio (DR)	Levy Rates ($) (R1/ R2) Current	Levy Rates^ ($) (R1/ R2) 1 July 2017	Levy Rates ($) (R1/ R2) 1 July 2018
Construction	Basic Tier	≤ 87.5%	300/650	300/**700**	300/700
	MYE-Waiver		600/950	600/950	600/950
Services	Basic Tier	≤ 10%	300/450	300/450	
	Tier 2	10-25%	400/600	400/600	
	Tier 3	25-40%	600/800	600/800	
Marine	Basic Tier	≤ 81.8%	300/400	~~350/500~~ 300/400	
Process	Basic Tier	≤ 87.5%	300/450	~~300/500~~ 300/450	
	MYE-Waiver		600/750	~~600/800~~ 600/750	
Manufacturing	Basic Tier	≤ 25%	250/370	250/370	
	Tier 2	25-50%	350/470	350/470	
	Tier 3	50-60%	550/650	550/650	

Contact Information

If you would like further information on any item within this publication, or information on our services please contact:

Lim Peng Huat - Director, Taxation
T +65 6329 2741
phlim@complete-corp.com.sg

Shirley Lim - Director, Corporate Secretarial Services
T +65 6329 2731
shirleylim@complete-corp.com.sg

Bernard Juay - Director, Business Advisory
T +65 6329 2760
bernardjuay@complete-corp.com.sg

Law Pei Serh - Associate Director, Taxation
T +65 6329 2726
lawpeiserh@complete-corp.com.sg

Eugene Lee - Manager, Electronic Polling Solutions
T +65 6329 2733
eugenelee@complete-corp.com.sg

Chintan Shah - Manager, Taxation
T +65 6329 2718
chintanshah@complete-corp.com.sg

Jana Kopackova - Manager, Executive Search
T +65 6329 2791
janakopackova@complete-corp.com.sg

CCS
Complete Corporate Services Pte Ltd

10 Anson Road #32-15, International Plaza, Singapore 079903
T +65 6226 2555 F +65 6221 9265
www.complete-corp.com.sg