SINGAPORE BUDGET COMMENTARY 2016

Partnering for the Future

Contents

Foreword

The Singapore Budget 2016 themed "Partnering for the Future" was unveiled by the Finance Minister, Mr Heng Swee Keat on 24 March 2016. The message was clear for all to come together as partners to transform Singapore's economy through enterprise and innovation and to build a more caring and resilient society.

Recognising current business conditions are difficult and uncertain, the Government is providing support to address the near-term concerns of businesses, whilst supporting enterprises and industries to restructure and move forward. The shift from broad-based to targeted support is applauded given that it is an imperative approach towards building a stronger and more productive economy for the long term.

A caring and resilient society is as important as a robust and productive economy. Hence, this Budget is aimed at caring for our people, namely our young, seniors, low wage earners and people with disabilities. At the same time, this Budget also sought to encourage corporate social responsibility and the spirit of giving. A little disappointing, though, is the silence on personal tax rebate.

In good and bad times, opportunities are abundant. Businesses which are prepared to take risks, engage in deep innovation, grow through non-organic means, invest in capability building and training and expand internationally have much to gain from this Budget. They can also expect easier access to the various government assistance schemes with the launch of the Business Grants Portal.

As Singapore continues its journey in economic and social transformation, the way forward is to seize opportunities amidst challenges and charge ahead through strengthened partnership.

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CORPORATE TAX

Corporate income tax rebate

Current Treatment

- Presently, companies enjoy a corporate income tax (CIT) rebate of 30% of tax payable for the Years of Assessment (YAs) 2016 and 2017, capped at S$20,000 per YA.

New Treatment

- The CIT rebate will be raised to 50% of tax payable for YA 2016 and YA 2017, subject to a cap of S$20,000 per YA.

Our Comments

- It is heartening to note that the Government has committed to move away from providing broad-based support and delivering more targeted assistance instead. The move is aimed specifically at assisting the small and medium-sized enterprises (SMEs) to help alleviate cash flow pressure amidst the current economic slow-down.
- As the CIT rebate is computed as a percentage of tax payable, the measures will benefit companies in tax payable position. Companies with chargeable income of approximately S$387,000 (before partial exemption) will stand to gain most from this enhancement.

Automation Support Package

Current Treatment

- There is currently no Automation Support Package (ASP) available.

New Treatment

- To support companies to automate, increase productivity and scale up, an ASP will be introduced for an initial period of three years.
- The new ASP will be implemented by SPRING and will comprise the following four components:

(i) **SPRING's Capability Development Grant (CDG)**: CDG will be expanded to support the initial roll out or scaling up of automation projects up to 50% of qualifying cost, with a maximum grant of S$1 million.

(ii) **New Investment Allowance (IA)**: For qualifying projects, IA of 100% of approved capital expenditure, net of grants, will be granted for automation equipment. The IA is in addition to the existing capital allowance for plant and equipment. The approved capital expenditure is capped at S$10 million per project.

(iii) **Enhanced financing support**: The Government will increase the risk-share with participating financial institutions (PFIs) under SPRING's Local Enterprise Finance Scheme (LEFS) equipment loan from 50% to 70% for qualifying projects. Additionally, the LEFS will be expanded to cover equipment loans for non-SMEs at 50% risk-share with PFIs.

(iv) **Access to overseas markets**: International Enterprise (IE) Singapore will work with SPRING to help relevant businesses that have embarked on large scale automation projects and able to scale up, to internationalise.

- Details will be released by the Ministry of Trade and Industry (MTI) at the Committee of Supply.

Our Comments

- The four-pronged support under the ASP combines several enhanced versions of existing stand-alone incentives into a single package to be administered by SPRING which we presume will reduce the underlying paperwork and therefore improve the take-up rate of this scheme.
- The various support and incentives offered are undoubtedly attractive. What remains unclear at this juncture is who the targeted beneficiaries of the ASP are. Would it be merely for the SMEs as defined currently or a broader group of companies? We will need to await further clarification from MTI.
- The current CDG scheme covers a broad range of areas and provides a support rate of 70% of qualifying project cost. Some of the areas under the current CDG scheme (e.g. technology innovation) appear to overlap with "automation projects". Clearly further guidance is required from MTI on what would be defined as an "automation project" under the ASP.
- The granting of IA at 100% of approved capital expenditure under the ASP is generous compared to the current IA incentive which is typically at a rate of 50%-60% of approved capital expenditure.
- The Inland Revenue Authority of Singapore (IRAS) has clarified that prior to the phasing out of the Productivity and Innovation Credit (PIC) scheme, qualifying companies may claim enhanced allowance under the PIC scheme and claim 100% IA on the remaining approved capital expenditure.

Mergers and Acquisitions scheme

Current Treatment

- The Mergers & Acquisitions (M&A) scheme was first introduced in Budget 2010 to encourage companies to consider M&A as a strategy for growth.
- The M&A scheme was enhanced in Budget 2015 to provide M&A allowance based on 25% of the deal value, subject to a cap of S$20 million of qualifying share purchases per YA. This works out to be S$5 million of M&A allowance per YA.
- Stamp duty relief is granted on the transfer of Singapore unlisted shares, capped at S$20 million of qualifying acquisitions. This works out to a cap of S$40,000 of stamp duty per financial year.

New Treatment

- The existing cap for value of qualifying M&A deals will be doubled from S$20 million to S$40 million which translates to M&A allowance of S$10 million.
- Stamp duty relief on the transfer of Singapore unlisted shares will correspondingly be granted up to S$40 million of qualifying M&A deals, which increases the stamp duty relief to S$80,000.
- This change will take effect for qualifying M&A deals made from 1 April 2016 to 31 March 2020.
- Details will be released by IRAS by June 2016.

Our Comments

- Further enhancement to the M&A scheme in this year's Budget is the Government's continued efforts to spur companies to grow through strategic M&A.
- Companies which are currently in the process of concluding M&A deals with consideration in excess of S$20 million should be mindful of the effective date so as to enjoy maximum benefits from this enhancement.
- Any untilised M&A allowance will not be available for transfer under group relief system or carry-back.

Non-Taxation of companies' gains on disposal of equity investments

Current Treatment

- Section 13Z of the Singapore Income Tax Act (SITA) provides upfront certainty on the tax treatment on disposal of equity investments by companies. Gains from share disposal will not be taxed in the following scenarios:

(i) The divesting company has owned legally and beneficially at least 20% of the ordinary shares in the investee company; and

(ii) The divesting company maintains that 20% shareholding at all times during a continuous period of at least 24 months immediately prior to the disposal.

- The treatment (or safe harbour rule) applies to disposals during the period between 1 June 2012 and 31 May 2017 (both dates inclusive).

New Treatment

- The scheme under Section 13Z will be extended until 31 May 2022.
- All other conditions remain unchanged.

Our Comments

- The ease of doing business together with our world-class infrastructures have made Singapore an attractive holding company location. The extension of the safe harbour rule provides further boost to Singapore as the strategic holding company location for many investors' operations and investments.
- The safe harbour rule continues to be inapplicable to:

(i) disposal of shares in a company which is in the business of trading or holding Singapore immovable properties (excluding property development), where the shares are not listed on a stock exchange in Singapore or elsewhere;

(ii) disposal of shares by a partnership, limited partnership or limited liability partnership one or more of the partners of which is a company or are companies; or

(iii) gains or profits from disposal of shares which are included as part of the income of an insurer.

Double Tax Deduction for Internationalisation

Current Treatment

- Presently, under the Double Tax Deduction (DTD) for Internationalisation scheme, companies are given DTD for qualifying expenses incurred on qualifying activities, subject to the approval of IE Singapore or Singapore Tourism Board (STB).
- The qualifying activities for the above DTD scheme are as follows:
  - (i) Overseas business development trips/ missions;
  - (ii) Overseas investment study trips/missions;
  - (iii) Overseas trade fairs;
  - (iv) Local trade fairs approved by IE Singapore or STB;
  - (v) Market survey/Feasibility Study and Investment Feasibility/Due Diligence;
  - (vi) Design of packaging for overseas markets;
  - (vii) Product/Service Certification;
  - (viii) Overseas advertising and promotional campaign;
  - (ix) Master Licensing and Franchising;
  - (x) Overseas Marketing Office;
  - (xi) Printing of corporate brochures for overseas distribution;
  - (xii) Advertising in Approved Local Trade Publications.
- To help ease the tax compliance burden of companies, particularly the SMEs, the DTD for Internationalisation was enhanced in Budget 2012 to allow automatic DTD for companies undertaking the above first four qualifying activities, subject to a cap of S$100,000 per YA. Companies that incur qualifying expenses in excess of S$100,000 per YA will still require the approval of IE Singapore or STB.
- This DTD for Internationalisation scheme, including the automatic DTD above, was scheduled to expire on 31 March 2016.

New Treatment

- To support businesses in their internationalisation efforts, the DTD for internationalisation scheme will be extended for another four years from 1 April 2016 to 31 March 2020.
- The existing automatic DTD on qualifying expenses incurred up to S$100,000 will also be extended for the same period up to 31 March 2020.
- All other existing conditions of the scheme remain unchanged.
- Details will be released by IE Singapore by June 2016.

Our Comment

- In line with the Government's various incentive packages to assist companies to automate, innovate and internationalise, this extension comes as no surprise. The extension demonstrates the Government's commitment in helping companies, especially SMEs, to tap into the overseas markets and grow beyond local shores.

Land Intensification Allowance

Current Treatment

- The Land Intensification Allowance (LIA) scheme was introduced in Budget 2010 to encourage intensification of industrial land. Businesses may claim LIA on qualifying capital expenditure incurred for the construction or renovation of a qualifying building or structure.
- The scheme grants an initial allowance of 25% and an annual allowance of 5% on the qualifying capital expenditure incurred for the construction or renovation of a qualifying building or structure.
- The qualifying criteria are:

  (i) the use of the building or structure must fall within one of the prescribed qualifying activities;

  (ii) the scheme is applicable to businesses carrying out qualifying activities on land that is zoned as Business 1/Business 2 (excluding Business 1 White and Business 2 White) under the Urban Redevelopment Authority master plan;

  (iii) the building or structure must meet the Gross Plot Ratio (GPR) benchmark relevant for the qualifying trade or business; or is at least 10% more than its current GPR if the existing building or structure already meets or exceeds the GPR benchmark; and

  (iv) at least 80% of the total floor area of the relevant building or structure is used by a single user for carrying out the qualifying trade or business.
- The scheme will lapse after 30 June 2020.

New Treatment

- In order to encourage higher industrial land productivity, the scheme will be extended to buildings used by a single user or multiple users, who are related, for one or multiple qualifying trades or businesses, if certain conditions are met.
- In addition, a new criterion requiring the LIA applicants to be related to the qualifying user or users of the building will be introduced.
- The new treatment will be effective for:-

(i) LIA applications made on or after 25 March 2016; and

(ii) application for planning or conservation permissions for construction or renovation made on or after 25 March 2016.

- The qualifying capital expenditures incurred prior to 25 March 2016 are excluded from such enhancement.
- Further details will be released by the Economic Development Board (EDB) by July 2016.

Our Comments

- The scheme is easy to access with multiple users and multiple qualifying trades or businesses being now allowed compared to a single user previously. However, with the new criteria requiring LIA applicants and qualifying user or users of the building to be related, the benefits of the scheme will be channelled more efficiently. The LIA applicants without any related party user will be unable to access the scheme.
- The term "related" has not been defined and the conditions are not announced at this juncture. We presume that the term would be interpreted in accordance with Section 13(16) of the SITA even though the scheme is administered by EDB and not IRAS.

Intellectual property rights

1. Election for writing down period

Current Treatment

- Under Section 19B of the SITA, companies or partnerships can claim writing-down allowance (WDA) on the acquisition cost of qualifying intellectual property rights (IPR) over a period of five years.

New Treatment

- Companies or partnerships may elect for their WDA under Section 19B of the SITA to be claimed over a writing-down period of five, 10 and 15 years.
- The election, which is irrevocable, must be made at the point of submitting the tax return of the YA relating to the basis period during which the qualifying cost is first incurred.
- This change takes effect for qualifying IPR acquired within the basis periods for YA 2017 to YA 2020.
- Details will be released by IRAS by 30 April 2016.

Our Comments

- The change is intended to align the tax life with the useful life of the IPR, which hopefully leads to better matching of tax claims against the taxable income.
- Flexibility provided under this change allows incentivised businesses an option to choose a longer writing down period with the view of claiming the WDA against their income taxed at normal tax rate upon expiry of the tax incentive.
- Foreign tax credit claims will be maximised as WDA can be stretched to a maximum period of 15 years, which otherwise would be lost under a shorter writing-down period if there is little or no Singapore tax liability.
- There would be further flexibility, especially for loss-making businesses, if WDA is allowed on a due claim basis, which means businesses can choose to defer the WDA in any year. We hope IRAS will address this issue when the details are released.

Intellectual property rights

2. Anti-avoidance mechanism

Current Treatment

- There are no specific provisions which allow IRAS to make adjustments to the transacted price of an IPR to ensure that it is at market value.

New Treatment

- Section 19B of the SITA will now include an anti-avoidance mechanism to empower IRAS to make adjustments to the transacted price if the IPR is not transacted at open market value (OMV). This is to ensure that the WDA are granted based on transacted values that reflect the OMV.
- Where the acquisition price is higher than the OMV, IRAS may use the OMV to compute the WDA.
- In the situation of a disposal and where the disposal price is lower than the OMV, IRAS may use the OMV for the purpose of computing the balancing charge.
- The change takes effect for acquisitions, sales, transfers or assignments of IPRs that are made from 25 March 2016.

Our Comments

- IRAS has clarified that the anti-avoidance mechanism applies to both related party and third party transactions. It is puzzling to note that the adjustments apply to third party transactions as the price would have been agreed on a willing buyer willing seller basis.
- Currently, third party valuation reports are required for submission for transactions exceeding certain thresholds when companies lodge their WDA claims. It is an issue if such claims will also be subjected to the above adjustment. To prevent any disputes, IRAS should provide guidance on the valuation methodologies, or to clarify on what was provided by EDB when Section 19B was first introduced should still apply.
- In the event that OMV is used to compute balancing charge, the amount of balancing charge would still be capped at the WDA claimed previously. In view of potential tax consequences, businesses should ensure valuation reports (based on acceptable methodologies) are available to support the transacted price.

Productivity and Innovation Credit scheme

Current Treatment

- Under the PIC scheme, businesses can claim 400% deduction/allowances for qualifying expenditure up to S$400,000 for each of the six activities per YA. For qualifying SMEs, the expenditure cap is S$600,000 under the PIC+ scheme.
- This broad-based scheme was available from YA 2011 to YA 2018 (YA 2015 to YA 2018 under the PIC+ scheme).
- Businesses (including sole proprietors and partnerships) may opt to convert the qualifying expenditure into a non-taxable cash payout. The cash payout rate is 60% on up to S$100,000 of qualifying expenditure across the six activities.

New Treatment

- The PIC scheme will expire after YA 2018 and will not be available from YA 2019 onwards.
- For qualifying expenditure incurred from 1 August 2016, the cash payout rate will be lowered from 60% to 40%.
- All other conditions of the scheme remain unchanged.

Our Comments

- The PIC scheme has been tapered as the Government moves towards more targeted measures such as the Industry Transformation Programme. Businesses with plans to incur the qualifying expenditure should take note of the scheme's expiry date and the change in cash payout rate effective from 1 August 2016.

Business and Institution of Public Character Partnership scheme

Current Treatment

- Currently, corporate social responsibility made by businesses is deductible as part of their business expenses as they receive benefits such as goodwill, branding and enhanced corporate image in return.

New Treatment

- To incentivise employee volunteerism through businesses, a pilot Business and Institution of Public Character Partnership scheme (BIPS) will be introduced from 1 July 2016 to 31 December 2018.
- Under BIPS, businesses will enjoy an additional 150% tax deduction on wages (wages of owners in sole proprietorships, partnerships and companies are disqualified from tax deductions) and incidental expenses when they send their employees to volunteer and provide services to IPCs, including secondments.
- This will be subjected to the receiving of IPCs' agreement, with a yearly cap of S$250,000 per business and S$50,000 per IPC on the qualifying costs.
- There will be no restriction on the type of services (including volunteering activities organised with IPCs, subject to receiving IPC's agreement); however, donation of goods will not qualify for tax deduction.
- All types of secondments will be allowed subject to IPCs' agreement with businesses (some possible sectors include legal, IT, accounting, and other professional services, where IPCs require assistance). No limit on duration, including flexible secondment arrangement (e.g. interspersed secondment work).
- All entities deemed to be carrying on a business will be a qualifying donor while the beneficiaries will be IPCs only.
- Any unutilised tax deductions will be eligible to carry forward and set-off as per existing tax rules.
- Details of the scheme will be released by the Ministry of Finance and IRAS by June 2016.

Our Comments

- The additional 150% tax deduction over and above the base 100% deduction is a welcome move which will encourage businesses to work towards developing Singapore as a caring and resilient society. More IPCs will stand to benefit from the act of volunteerism.
- What needs to be clarified is the definition of "incidental expenses incurred directly in connection with the services provided to IPCs", whether the yearly cap refers to financial year or calendar year, amongst other details.

Pre-commencement expenses

Current Treatment

- Section 14U of the SITA deems the first day of the accounting year in which a business earns its first dollar of trade receipt as the date of business commencement.
- Under Section 14U of the SITA, businesses can claim tax deduction on expenses incurred up to 12 months before this date as well as revenue expenses incurred before the first dollar is earned (collectively, "Section 14U expenses").
- Presently, if a business is awarded with an incentive that commences in the same accounting year in which the first dollar is earned, there is no requirement to allocate the Section 14U expenses to the pre-incentive and incentive income.
- Similarly, pre-commencement expenses that have been granted deductions are not required to be allocated to the pre-incentive and incentive income.

New Treatment

- To ensure fair allocation of Section 14U and pre-commencement expenses to pre-incentive and incentive income derived by businesses enjoying tax incentives, and provide certainty on the allocation method to be used:

(i) Section 14U and pre-commencement expenses that are directly incurred to derive the pre-incentive income or incentive income will be specifically identified and set-off against the relevant income; and

(ii) For all remaining Section 14U and pre-commencement expenses, they will be allocated between the pre-incentive and incentive income based on income proportion (e.g. using turnover, gross profit).

- This change is effective for expenses incurred from 25 March 2016.
- Details will be released by IRAS by June 2016.

Our Comments

- Whilst the prescribed allocation key based on income proportion provides ease and clarity for taxpayers, it may not be appropriate for all expenses and all businesses. We hope IRAS will allow flexibility based on specific taxpayer's situation when the need arises.

Mandatory e-filing for CIT returns

Current Treatment

- Businesses may file their annual CIT returns via hardcopy or through IRAS' e-Services platform.

New Treatment

- In line with the Government's direction for more effective delivery of public services and to be aligned with the Smart Nation vision to harness technology to enhance productivity, mandatory e-filing of CIT returns will be implemented in stages as follows:

  (i) YA 2018 – Companies with turnover of more than S$10 million in YA 2017;

  (ii) YA 2019 – Companies with turnover of more than S$1 million in YA 2018; and

  (iii) YA 2020 – All companies.

Mandatory e-filing for PIC cash payout application

Current Treatment

- Businesses may submit their PIC cash payout applications via hardcopy or through IRAS' PIC e-Services.

New Treatment

- To streamline and expedite processing of PIC cash payout applications, mandatory e-filing of PIC cash payout applications will be introduced.
- The mandatory e-filing of PIC cash payout applications will be effective from 1 August 2016.

Tax incentive scheme for approved trustee companies

Current Treatment

- Under the scheme, approved trustee companies are granted a concessionary tax rate of 10% on qualifying income derived from the provision of trustee and custodian services, and trust management or administration services.
- The scheme is scheduled to lapse after 31 March 2016.

New Treatment

- The scheme will be subsumed under the Financial Sector Incentive (FSI) scheme from 1 April 2016.
- In recognition of the importance of strengthening the competitiveness of the financial and trading sector, the scope of qualifying income derived from the provision of trustee and custodian services, and trust management or administration services will be expanded for new and current approved trustee companies under Section 43J of the SITA to align with the merger of this scheme with FSI-Standard Tier scheme from 1 April 2016.
- The current incentive recipients will continue to enjoy existing benefits till their awards expire. They may apply for a renewal of their awards under the FSI scheme thereafter.
- A concessionary tax rate of 12% will apply to new awards from 1 April 2016 compared to 10% previously.
- Details will be released by MAS by June 2016.

Finance and Treasury Centre scheme

Current Treatment

- Approved Finance and Treasury Centre (FTC) currently enjoys a concessionary tax rate of 10% on qualifying income derived from qualifying activities or services.
- To qualify, funds must be obtained directly by the FTC from approved offices and associated companies.
- Withholding tax exemption under Section 13(4) of the SITA is also granted on prescribed payments made by the FTC to its non-residents approved offices or associated companies, subject to conditions.
- The scheme will lapse after 31 March 2016.

New Treatment

- To enhance activities in the areas of finance and treasury, the scheme will be extended until 31 March 2021.
- The concessionary tax rate will be lowered to 8% with increased substantive requirements to qualify for the scheme.
- In addition, the scheme has now been refined to allow FTC to obtain funds indirectly from approved offices and associated companies. Safeguards will be put in place to address the round-tripping risks.
- Section 13(4) of the SITA will be expanded to cover interest payments on deposits placed with the FTC by its non-residents approved offices or associated companies for funds used for the conduct of qualifying activities or services.
- The changes will take effect from 25 March 2016.
- Details will be released by EDB by June 2016.

Our Comments

- As regional competition to attract FTCs intensifies, this extension is a crucial and welcome move to fortify Singapore's financial hub position.
- By allowing FTC to obtain funds indirectly from approved offices and associated companies would give a greater flexibility in attracting funds into Singapore and encourage more financing activities to be done in Singapore. Multinationals that have multiple FTCs across the globe may benefit from this move by setting up a regional FTC within Singapore and allowing a more fluid exchange of funds between these FTCs.

Global Trader Programme (Structured Commodity Finance)

Current Treatment

- An approved Global Trader Programme (Structured Commodity Finance) (GTP/SCF) company currently enjoys a concessionary tax rate of 5% or 10% on qualifying income derived from the following list of qualifying activities:

  (i) Factoring;

  (ii) Forfeiting;

  (iii) Prepayment;

  (iv) Countertrade;

  (v) Warehouse receipt financing;

  (vi) Export receivable financing;

  (vii) Project finance;

  (viii) Islamic trade finance;

  (ix) Transacting in derivatives to hedge against risks relating to any of the activities from (i) to (viii); and

  (x) Advisory services in relation to any of the activities from (i) to (viii).

New Treatment

- To strengthen Singapore's trade finance capabilities, the scheme has been enhanced to expand the list of qualifying activities to include:

  (i) consolidation, management and distribution of funds for designated investments;

  (ii) mergers and acquisitions advisory services; and

  (iii) streaming financing.

- The changes will take effect from 25 March 2016.
- Details will be released by IE Singapore by June 2016.

Our Comments

- The existing list of qualifying activities was introduced in 2010. The expansion of the list reflects the Government's commitment for the programme to stay relevant and meet changing business needs. This further strengthens Singapore's position as a global commodity trading hub.

Maritime Sector Incentive

Current Treatment

- Under the Maritime Sector Incentive (MSI), ship operators and ship lessors enjoy tax benefits as summarised below:

(i) **MSI-Shipping Enterprise (Singapore Registry of Ships) (MSI-SRS)**: Tax exemption on qualifying income derived from operating Singapore-flagged ships under Section 13A of the SITA

(ii) **MSI-Approved International Shipping Enterprise (MSI-AIS)**: Tax exemption on qualifying income derived from operating foreign-flagged ships under Section 13F of the SITA

(iii) **MSI-Maritime Leasing (Ship) [MSI-ML(Ship)]**: Tax exemption on income derived from leasing of ships used for qualifying activities to counterparties for use outside the port limits of Singapore.

New Treatment

- To further enhance the competitiveness and promote Singapore as an international maritime centre, the MSI will be enhanced to cover the following income as tax exempt:

(i) MSI-SRS and MSI-AIS award will cover income derived from operation of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activity relating to exploration or exploitation of offshore energy or offshore minerals;

(ii) MSI-ML(Ship) award will cover income derived from leasing of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activity relating to exploration or exploitation of offshore energy or offshore minerals; and

(iii) MSI-ML(Ship) income derived from leasing of ships used for qualifying activities to any counterparties for use outside the port limits of Singapore.

- These changes will take effect from 25 March 2016.
- Details will be released by the Maritime and Port Authority of Singapore by June 2016.

Our Comments

- Expanding the coverage to include income derived from operation of ships used for exploration and exploitation of natural resources is certainly a step towards enhancing the competitiveness of Singapore as an international maritime centre. This also puts Singapore on par with other major ship owning nations. The coverage will no doubt lure ship owners to place their operations in Singapore.
- Further, with the relaxation of the requirement from leasing of ships to only qualifying counterparties, a sizeable number of MSI-ML(Ship) entities will be able to enjoy tax exemption.
- The above changes come at an opportune time when the industry is struggling to keep afloat with record low oil prices and demand tapering. These changes will provide the much needed boost to enable entities to take on more projects for the near and long-term future.

Approved Investment Company scheme

Current Treatment

- The subject scheme under Section 10A of the SITA provides upfront certainty to an Approved Investment Company (AIC) on the tax treatment of gains derived from the disposal of their securities.
- The gains from disposal of securities are taxed according to a schedule based on the length of time that the securities were held.

New Treatment

- As the scheme is assessed to be no longer relevant, it will be withdrawn with effect from YA 2018.

Tax exemption on income derived by non-residents trading in Singapore in specified commodities via consignment arrangements

Current Treatment

- Income derived by non-residents trading in Singapore through consignees in specified commodities produced outside Singapore is tax exempt.

New Treatment

- As the scheme is assessed to be no longer relevant, it will be withdrawn with effect from YA 2018.

The Not-for-Profit Organisation tax incentive

Current Treatment

- The Not-for-Profit Organisation (NPO) tax incentive grants tax exemption under Section 13U of the SITA on the income derived by an approved NPO, which is scheduled to lapse after 14 February 2017.

New Treatment

- The scheme will be extended until 31 March 2022.

Personal income tax reliefs

Current Treatment

- The current personal income tax reliefs for individual taxpayers are tabulated in **Appendix 2**. There is currently no limit on the total amount of personal income tax reliefs that an individual taxpayer can claim as long as the qualifying conditions for the respective relief are fulfilled.

New Treatment

- The total amount of personal income tax reliefs that an individual taxpayer can claim will be capped at S$80,000 per YA.
- This change will take effect from YA 2018.

Our Comments

- This change will enhance the progressivity of our personal income tax regime and to avoid reducing the taxable income unduly for a small proportion of high income taxpayers.
- It is anticipated that the majority of resident taxpayers will not be affected by the new total personal income tax relief cap, however, working mothers who are eligible for working mother child relief and qualifying child relief (capped together at S$50,000 per child) may be most affected.
- A question arises as to whether the change resonates well with the Government's emphasis on increasing the Singapore's birth rate which has been on decline. The thrust on getting more women into the workforce will be regressive with this change. Hopefully, with other reliefs available for working mothers, the overall impact is kept marginal affecting only the high income earners.

Home leave passages for expatriate employees

Current Treatment

- Home leave passages provided to expatriate employees and their immediate family members are taxed at 20% of the cost of airfare. This is restricted to one home leave passage for the expatriate employee and his spouse and two home leave passages for each dependent child per year.
- This concession is not applicable if the expatriate employee is a Singapore Citizen or Singapore Permanent Resident.

New Treatment

- The tax concession of taxing only 20% of the value of home leave passages for expatriate employees and their immediate family members will be removed.
- This change will take effect from YA 2018.

Our Comments

- This change is intended to simplify the personal income tax regime and introduce equality in the tax treatment for foreigners and Singapore Citizen/Singapore Permanent Resident employees.

MISCELLANEOUS

SME Mezzanine Growth Fund under Co-Investment Programme

- The SME Mezzanine Growth Fund (MGF) was launched in Budget 2014 under Phase II of the Co-Investment Programme to provide mezzanine capital to qualifying investee companies.
- The companies must have their key management and headquarter functions in Singapore.
- In order to better support the smaller SMEs, the Government will increase the fund size from S$100 million to S$150 million by providing additional funding of up to S$25 million to match new private sector investment on a 1:1 basis.
- This new funding will be dedicated to smaller SMEs with annual revenues of S$50 million and below at the time of investment.

Community Chest

- The Government will match, dollar-for-dollar, the increases in annual donations made through Community Chest's SHARE programme, over and above the FY2015 level for three years.
- Businesses participating in SHARE can claim 50% of the matching grant attributed to the increase in their donations, up to a cap of S$10,000 a year, for approved corporate social responsibility initiatives.

Special Employment Credit

- Special Employment Credit (SEC) will be extended for three years from 1 January 2017 to 31 December 2019 providing wage offsets to employers hiring Singaporean workers aged 55 and above, and earning up to S$4,000 a month.
- The wage offsets will be tiered from up to 3% of monthly wages for those aged 55 to 59, up to 5% for those aged 60 to 64 and up to 8% (plus additional 3% until the re-employment age is raised in 2017) for those aged 65 and above.
- Employers who hire workers aged 65 and above, with monthly wages of not more than S$3,000 per month will receive the highest SEC of 8% of the employees' monthly wage.
- To better support the employment of Persons with Disabilities (PWDs), employers who hire PWDs will receive a SEC of up to 16% of the PWD's monthly wage, regardless of the age. The monthly SEC will be capped at S$240 per PWD.
- Example of monthly SEC amounts for wages paid in 2017 to 2019

Wage of employee in a given month S$	SEC for the month for each employee		
	Aged 55 to 59 (up to 3% of monthly wage) S$	Aged 60 to 64 (up to 5% of monthly wage) S$	Aged 65 and above (up to 8% of monthly wage) S$
500	15	25	40
1,000	30	50	80
1,500	45	75	120
2,000	60	100	160
2,500	75	125	200
3,000	90	150	240
3,500[1]	45	75	120
4,000 and above	Not available	Not available	Not available

[1] A lower SEC is provided for workers who earn between S$3,000 and S$4,000.

- The extended SEC will apply to employees on the payroll from 1 January 2017 to 31 December 2019, and will be paid twice a year, in March and September.

SME Working Capital Loan

- To support viable SMEs that may have cash flow concerns, SME Working Capital Loan scheme will be introduced for a period of three years for loans of up to S$300,000 per SME.
- The Government will co-share 50% of the default risk of such loans with participating financial institutions to encourage lending to SMEs.
- The funds should be used for daily operations or for automation and upgrading of factory and equipment.
- Businesses may apply for the loan if they meet the following criteria:

(i) registered in Singapore;

(ii) have at least 30% local shareholding; and

(iii) company's group annual sales of not more than S$100 million OR company's group employment size of not more than 200.

- Further details will be released by MTI at the Committee of Supply.

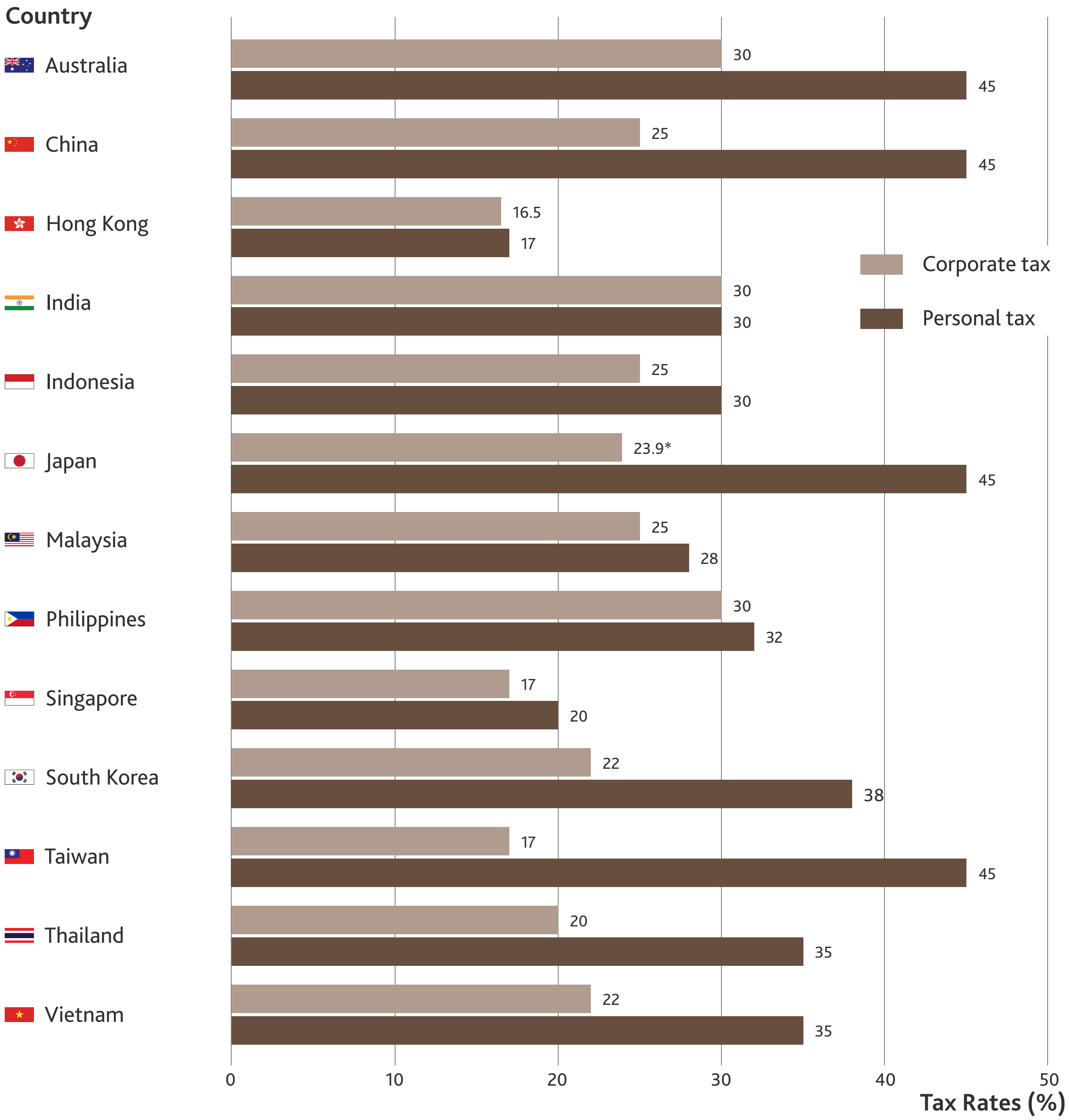
Foreign Worker Levy

- For Marine and Process sector, the levy increase will be deferred for one year.
- As announced in Budget 2015, there will be no changes to work permit levies for the Manufacturing sector. Therefore the work permit holder levy rates for all tiers and skill levels will remain at 1 July 2014 rates until 30 June 2017.
- For Construction sector, the basic tier levy for R2 workers will be raised from S$550 currently to S$650 on 1 July 2016 and then to S$700 on 1 July 2017. In addition, the minimum experience requirement for Man Year Entitlement waiver workers will be raised from two years to three years from 1 July 2017 in order to engage firms to retain their more experienced workers to support productivity.
- For Services sector, the levy rates for R2 workers in all tiers will be raised. For basic tier from S$420 to S$450, tier 2 from S$550 to S$600 and tier 3 from S$700 to S$800.
- For S-pass holders, levy rates will increase on 1 July 2016 as previously announced. For basic tier from S$315 to S$330 and tier 2 from S$550 to S$650.

APPENDICES

Appendix 1:	Prevailing corporate tax rates and top marginal personal tax rates in selected countries as at 1 January 2016
Appendix 2:	Personal reliefs/rebates for tax residents
Appendix 3:	Personal income tax rates for tax residents

Appendix 1: Comparison prevailing corporate tax rates and top marginal personal tax rates in selected countries as at 1 January 2016



* The national corporate tax rate of Japan will be reduced to 23.4% for taxable years beginning on or after 1 April 2016.

Appendix 2: Personal reliefs/rebates for tax residents

(All values are in Singapore dollars)

Year of Assessment (YA)	YA 2016		Changes with effect from YA 2017
1. Earned Income Relief	Normal	Handicapped	
Below 55 years old	$1,000	$4,000	
55 - 59 years old	$6,000	$10,000	
60 years and above	$8,000	$12,000	
2. Spouse / Handicapped Spouse Relief	Normal	Handicapped	
Spouse Relief	$2,000		
Handicapped Spouse Relief		$5,500	
3. Child Relief	Normal	Handicapped	
Qualifying Child Relief (QCR) each:			
1st, 2nd, 3rd, 4th, 5th child and beyond	$4,000		
Handicapped Child Relief (HCR)		$7,500	
4. Working Mother's Child Relief (WMCR)* #			
Birth Order:	Amount of Relief:		
1st child	15% of earned income		
2nd child	20% of earned income		
3rd child and beyond (each)	25% of earned income		
Maximum per child (WMCR + QCR/ HCR)	$50,000		
Maximum total WMCR (capped)	100% of mother's earned income		
5. Dependent Parent Relief			
Normal Parent Relief	$5,500 (not staying with taxpayer)		
	$9,000 (staying with taxpayer)		
Handicapped Parent Relief	$10,000 (not staying with taxpayer)		
	$14,000 (staying with taxpayer)		
6. Dependent Sibling Relief			
Handicapped Sibling Relief	$5,500		
7. Grandparent Caregiver Relief (GCR)*			
	$3,000		

Year of Assessment (YA)	YA 2016	Changes with effect from YA 2017
8. Central Provident Fund (CPF)^ Relief		
CPF contribution for employees (based on age band)	Full statutory employee CPF contribution, subject to annual income cap of $85,000 ($5,000 x 17 months)	Full statutory employee CPF contribution, subject to annual income cap of S$102,000 ($6,000 x 17 months)
CPF contribution for self-employed	Maximum $31,450, i.e. 37% of net trade income ceiling at $85,000	Maximum $37,740, i.e. 37% of net trade income ceiling at $102,000
Voluntary cash contribution specifically directed to Medisave Account (MA)	The lowest of the following: 1. Voluntary cash contribution directed specifically to MA; or 2. Annual CPF contribution cap of $31,450, less mandatory contribution; or 3. Prevailing Basic Healthcare Sum, less the balance in MA before voluntary cash contribution	The lowest of the following: 1. Voluntary cash contribution directed specifically to MA; or 2. Annual CPF contribution cap of $37,740, less mandatory contribution; or 3. Prevailing Basic Healthcare Sum, less the balance in MA before voluntary cash contribution
9. CPF Cash Top-up Relief		
CPF cash top-ups for self/ parents/ grandparents/ non-working spouse/ siblings	Maximum $14,000 ($7,000 for self and $7,000 for family members)	
10. Life Insurance Premium Relief		
Where total compulsory employee CPF contribution or self-employed Medisave/ Voluntary CPF contribution or both is less than $5,000, taxpayer may claim qualifying life insurance premiums (i.e. not more than 7% of the insured value) on his or his wife's life as a relief, subject to a maximum of $5,000 (including the aforementioned CPF contribution)		
11. Course Fees Relief		
	Maximum $5,500	
12. Foreign Maid Levy Relief#		
	Twice levy paid for 1 maid only (Maximum $6,360, or $1,920)	Twice levy paid for 1 maid only (Maximum $6,360, or $1,440)

Year of Assessment (YA)	YA 2016		Changes with effect from YA 2017
13. NSman Relief^			
Active NSman	$3,000		
Inactive NSman	$1,500		
NS key command and staff appointment holders	$2,000<		
<This relief will be given in addition to basic NSman relief (active/ inactive) above			
14. Wife/ Parent of NSman Relief^			
Wife of NSman	$750		
Parent of NSman	$750		
15. Supplementary Retirement Scheme (SRS)			
The relief allowed is the actual SRS contribution made by taxpayer and/ or employer:			
Singapore citizens and Singapore Permanent Residents (SPRs)	Maximum $12,750 (i.e. 15% of $85,000)		Maximum $15,300 (i.e. 15% of $102,000)
Foreigners	Maximum $29,750 (i.e. 35% of $85,000)		Maximum $35,700 (i.e. 35% of $102,000)
Total Annual Reliefs' Cap			
$80,000 with effect from YA 2018			
Parenthood Tax Rebate (PTR)*	**For child born in 2004 to 2007**	**For child born in or after 2008**	
To be offset against either or both your and your spouse's income tax:			
1st child	$0	$5,000	
2nd child	$10,000	$10,000	
3rd child	$20,000	$20,000	
4th child	$20,000	$20,000	
5th child and beyond (each)	$0	$20,000	

Note on key eligibility criteria: -

* For a child, who is a Singapore citizen, only

\# For female taxpayers only

^ For Singapore citizens and SPRs only

Appendix 3: Personal income tax rates for tax residents

Tax rates for resident individuals for YA 2016 - based on income earned in the year 2015

	Chargeable income S$	Rates	Gross tax payable S$	ETR
On the first	20,000	0	0	
On the next	10,000	2.0%	200	
On the first	30,000		200	0.67%
On the next	10,000	3.5%	350	
On the first	40,000		550	1.38%
On the next	40,000	7.0%	2,800	
On the first	80,000		3,350	4.19%
On the next	40,000	11.5%	4,600	
On the first	120,000		7,950	6.63%
On the next	40,000	15%	6,000	
On the first	160,000		13,950	8.72%
On the next	40,000	17%	6,800	
On the first	200,000		20,750	10.38%
On the next	120,000	18%	21,600	
On the first	320,000		42,350	13.23%
Above	320,000	20%	Varies	

Tax rates for resident individuals for YA 2017 - Based on income earned in the year 2016

	Chargeable income S$	Rates	Gross tax payable S$	ETR
On the first	20,000	0	0	
On the next	10,000	2.0%	200	
On the first	30,000		200	0.67%
On the next	10,000	3.5%	350	
On the first	40,000		550	1.38%
On the next	40,000	7.0%	2,800	
On the first	80,000		3,350	4.19%
On the next	40,000	11.5%	4,600	
On the first	120,000		7,950	6.63%
On the next	40,000	15%	6,000	
On the first	160,000		13,950	8.72%
On the next	40,000	18%	7,200	
On the first	200,000		21,150	10.58%
On the next	40,000	19%	7,600	
On the first	240,000		28,750	11.98%
On the next	40,000	19.5%	7,800	
On the first	280,000		36,550	13.05%
On the next	40,000	20%	8,000	
On the first	320,000		44,550	13.92%
Above	320,000	22%	Varies	

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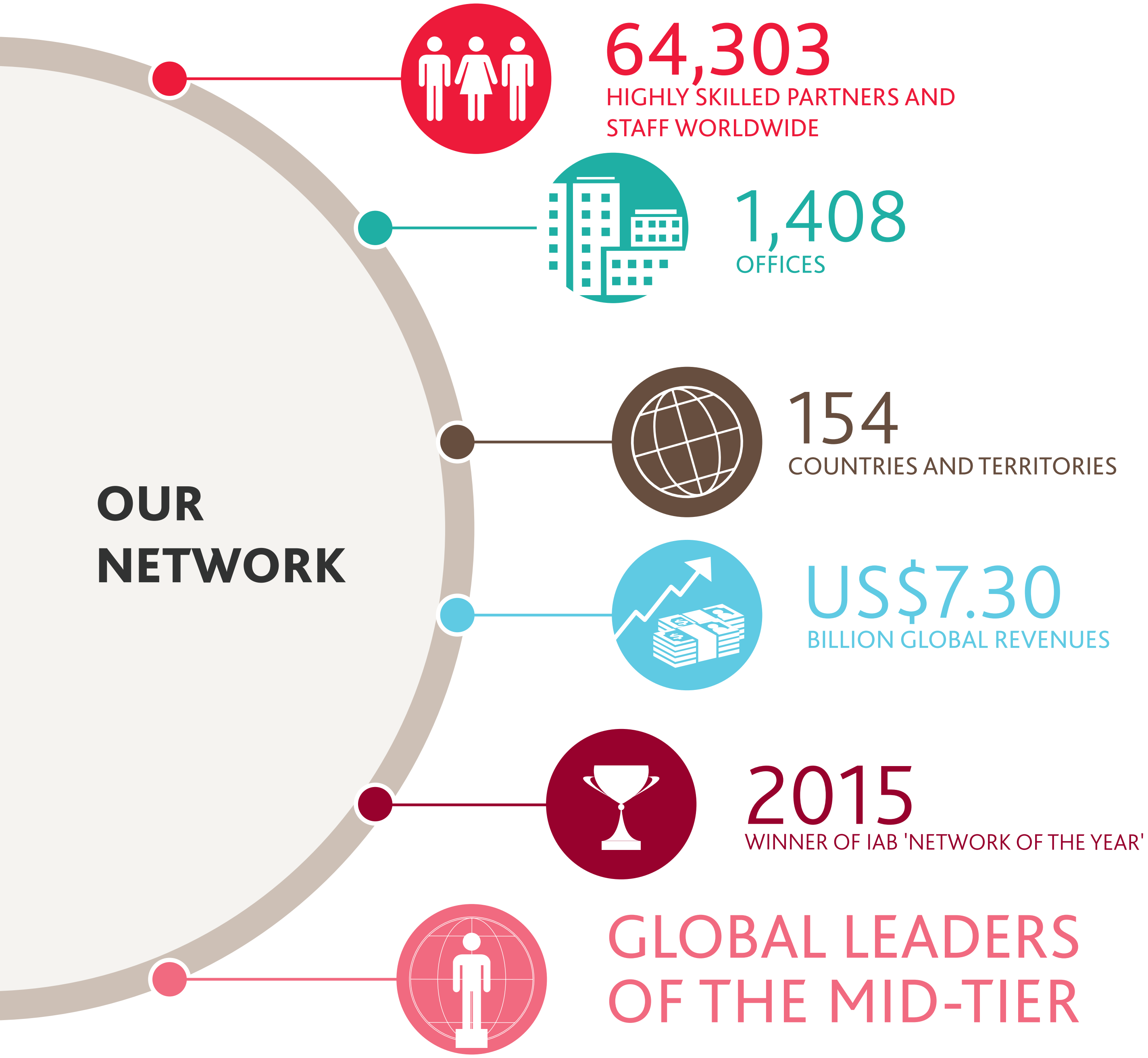

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