Singapore Budget 2018

Highlights of Proposed Tax Changes

An independent member of Baker Tilly International

Contents

Income Tax Changes for Businesses

1. Enhancing and extending the Corporate Income Tax ("CIT") rebate

Current

Companies can enjoy a 20% CIT rebate, capped at S$10,000, for the Year of Assessment ("YA") 2018.

Proposed

The CIT rebate for the YA 2018 will be increased to 40% of tax payable, with an enhanced cap set at S$15,000.

The CIT rebate will be extended to the YA 2019, but at a rate of 20% of tax payable (capped at S$10,000).

2. Enhancing the tax deduction for qualifying expenditure incurred on qualifying Research and Development ("R&D") projects performed in Singapore

Current

Businesses may claim the following deductions in respect of expenses incurred on qualifying R&D activities in Singapore:

- 100% deduction in respect of qualifying expenditure (including staff costs and consumables);
- Additional 50% deduction in respect of staff costs and consumables; and
- Additional 250% deduction in respect of staff costs and consumables under the Productivity and Innovation Credit (PIC) scheme, which will phase out after the YA 2018.

Proposed

The deduction for staff costs and consumables incurred on qualifying R&D activities in Singapore will be increased from 150% to 250%.

This change will apply to qualifying expenses incurred in the basis periods for the YsA 2019 to 2025.

3. Enhancing the tax deduction for costs of protecting Intellectual Property ("IP")

Current

Businesses may claim 100% deduction in respect of qualifying IP registration costs incurred.

This scheme is scheduled to lapse after the YA 2020.

Proposed

This scheme will be extended till the YA 2025.

In addition, with effect from the YA 2019 to the YA 2025, the deduction for the first S$100,000 of qualifying IP registration costs incurred in each basis period will be increased from 100% to 200%.

4. Enhancing the tax deduction for costs of IP in-licensing

Current

Businesses may claim the following deductions in respect of qualifying IP in-licensing costs:-

- 100% deduction in respect of qualifying expenditure; and
- Additional 300% deduction under the PIC scheme, which will phase out after the YA 2018.

Proposed

The deduction for the first S$100,000 of qualifying IP in-licensing costs incurred in the basis period for each of the YsA 2019 to 2025 will be enhanced:

Qualifying IP in-licensing costs	Tax deduction allowed
First S$100,000	200%
Amount exceeding S$100,000	100%

Qualifying in-licensing costs include payments made by a qualifying person to public funded research performers or other businesses but exclude related party licensing costs, or IP costs where any allowance was previously made to that person.

5. Enhancing the Double Tax Deduction ("DTD") for Internationalisation scheme

Current

Businesses that incur qualifying expenditure of up to S$100,000 per YA on the following four qualifying activities may claim a 200% deduction, without the need to obtain prior approval from International Enterprise Singapore ("IE Singapore") or Singapore Tourism Board ("STB"):-

(a) Overseas business development trips/ missions;
(b) Overseas investment study trips/ missions;
(c) Participation in overseas trade fairs; and
(d) Participation in local trade fairs approved by IE Singapore or STB.

Qualifying expenditure in excess of the S$100,000 will require prior approval from IE Singapore or STB before the 200% deduction can be claimed.

Proposed

The expenditure cap for the 200% deduction without prior approval will be increased from S$100,000 to S$150,000 per YA.

Qualifying expenditure exceeding the S$150,000 cap or incurred on other qualifying activities will still require approval from IE Singapore or STB.

All other conditions of this scheme remain the same.

This change will apply to qualifying expenditure incurred in or after the basis period for the YA 2019.

The IE Singapore and STB will provide further details by April 2018.

6. Adjusting the Start-up Tax Exemption ("SUTE") scheme

Current

Under the SUTE scheme, a new company can, in each of the first three YsA and subject to conditions, be eligible for:

(i) 100% exemption on the first S$100,000 of normal chargeable income*; and
(ii) 50% exemption on the next S$200,000 of normal chargeable income.

* Normal chargeable income refers to chargeable income that is taxed at the prevailing corporate income tax rate.

Proposed

The benefits of the SUTE scheme will be adjusted to:

(i) 75% exemption on the first S$100,000 of normal chargeable income; and
(ii) 50% exemption on the next S$100,000 of normal chargeable income.

All other conditions remain the same. The above change will take effect on or after the YA 2020 for all qualifying companies under the scheme. For example, if a qualifying company's first YA is 2019 the current SUTE parameters will apply in the YA 2019 with the new parameters only applying in the YsA 2020 and 2021.

7. Adjusting the Partial Tax Exemption ("PTE") scheme

Current

Under the PTE scheme, all companies (excluding those that are availing themselves of the SUTE scheme) and bodies of persons, can qualify for, in each YA:-

(i) 75% exemption on the first S$10,000 of normal chargeable income; and
(ii) 50% exemption on the next S$290,000 of normal chargeable income.

Proposed

The benefits under the PTE will be adjusted to:-

(i) 75% exemption on the first S$10,000 of normal chargeable income; and
(ii) 50% exemption on the next S$190,000 of normal chargeable income.

All other conditions of the scheme remain the same.

The above change will take effect on or after the YA 2020 for affected taxpayers.

8. Extending the 250% tax deduction for qualifying donations

Current

For qualifying donations made to Institutions of a Public Character ("IPCs") and other qualifying recipients from 1 January 2016 to 31 December 2018, donors are eligible for a 250% tax deduction.

Proposed

The said 250% tax deduction will continue to apply, provided the qualifying donations are made on or before 31 December 2021.

All other conditions of this scheme remain the same.

9. Extending the Business and IPC Partnership Scheme ("BIPS")

Current

Provided certain conditions are satisfied, a qualifying person can enjoy a total of 250% tax deduction on qualifying expenditure such as wages incurred by him from 1 July 2016 to 31 December 2018 in respect of:-

(i) Services provided by his qualifying employee to an IPC during that period; or

(ii) The secondment of his qualifying employee to an IPC during that period.

Proposed

The BIPS will be extended till 31 December 2021.

Further, the Ministry of Finance and Inland Revenue Authority of Singapore (IRAS) will review the administrative processes for BIPS based on feedback received. Details of any change will be provided in the second half of 2018.

10. Introducing a tax framework for Singapore Variable Capital Companies ("S-VACCs")

Current

Funds structured as companies[1], trusts[2] and limited partnerships[3] may qualify for tax exemption under Sections 13CA, 13R and 13X of the Singapore Income Tax Act (SITA). Further, these incentivised funds are accorded GST remission, which allows them to claim GST based on a fixed recovery rate.

Fund managers approved under the Financial Sector Incentive – Fund Management ("FSI-FM") scheme may qualify for a concessionary tax rate of 10% on the income derived from managing an incentivised fund.

The Monetary Authority of Singapore (MAS) is studying the regulatory framework for S-VACCs to further position Singapore's stature as a hub location for both fund management and fund domiciliation. An S-VACC is a new structure designed for collective investment schemes, and will accommodate a wide range of traditional and alternative asset classes and investment strategies.

Proposed

To complement the S-VACC regulatory framework, a tax framework for S-VACC will be introduced:

(a) The S-VACC will be regarded as a company and a single entity for tax purposes[4];

(b) Tax exemption under Sections 13R and 13X of the SITA will be extended to S-VACCs;

(c) Concessionary tax rate of 10% under the FSI-FM scheme will be extended to approved fund managers managing an incentivised S-VACC; and

(d) The present GST remission for funds will be extended to incentivised S-VACCs.

The conditions under the existing schemes in (b), (c) and (d) remain unchanged.

The changes will take effect on or after the effective date of the S-VACC regulatory framework.

The MAS will release further details of the tax framework for S-VACCs by October 2018.

[1] Under Sections 13CA, 13R and 13X of the SITA
[2] Under Sections 13CA and 13X of the SITA
[3] Under Section 13X of the SITA
[4] For compliance ease, only one set of tax return is required to be filed with the IRAS

11. Broadening the Enhanced-Tier Fund (“ETF”) scheme under Section 13X of the SITA

Current

Tax exemption under the Enhanced-Tier Fund scheme applies to companies, trusts and limited partnerships, subject to the relevant qualifying conditions.

Proposed

To allow for more diverse fund structures, tax exemption under the Enhanced-Tier Fund Scheme will be made available to all fund vehicles constituted in all forms. Apart from companies, trusts and limited partnerships, all fund vehicles will be able to qualify for the Enhanced-Tier Fund scheme if they satisfy all qualifying conditions.

All other conditions of the scheme remain the same.

The change will take effect for new awards approved on or after 20 February 2018.

The MAS will release further details of the change by May 2018

12. Extending the tax transparency treatment for Singapore-listed Real Estate Investment Trusts ("S-REITs") to Singapore-listed Real Estate Investment Trusts Exchange-Traded Funds ("REITs ETFs")

Current

Distributions made by S-REITs (out of specific income) to REITs ETFs are subject to tax at the prevailing corporate tax rate of 17% in the hands of the REITs ETFs. In turn, the distributions made by REITs ETFs out of such income will not be taxed in the hands of the investors of the REITs ETFs.

Proposed

To align the tax treatment between investing in S-REITs and REITs ETFs (that invest in S-REITs), the following tax outcomes will be accorded to REITs ETFs:

(a) Tax transparency treatment on the distributions received by REITs ETFs from S-REITs (made out of its specified income);

(b) Tax exemption on such REITs ETFs distributions received by individuals, excluding individuals who derive any distribution:

  (i) through a partnership in Singapore; or

  (ii) from the carrying on of a trade, business or profession; and

(c) Concessionary tax rate of 10% on such REITs ETFs distributions received by qualifying non-resident non-individuals.

Subject to conditions, the tax concessions for REITs ETFs will take effect on or after 1 July 2018, with a review date of 31 March 2020 which is the same as that for other tax concessions for S-REITs. Application for the tax transparency treatment can be submitted to the IRAS on or after 1 April 2018.

The MAS and IRAS will release further details of the change by March 2018.

13. Extending and enhancing the Financial Sector Incentive (“FSI”) scheme

Current

The FSI scheme (originally scheduled to lapse after 31 December 2018) provides for certain qualifying income to be taxed at concessionary tax rates of 5%, 10%, 12% and 13.5%.

A qualifying activity that is allowed a concessionary tax rate of 13.5%, is the trading in loans and their related collaterals, excluding movable property.

Proposed

The FSI scheme will be extended till 31 December 2023.

Further, the scope of trading in loans and their related collaterals is broadened to include collaterals that are prescribed infrastructure assets or projects. This is applicable to income derived on or after 1 January 2019 in respect of new and renewal awards approved on or after 1 June 2017.
All other conditions of the scheme remain the same.

The MAS will release further details of the change by May 2018.

14. (a) Insurance Business Development – Insurance Broking Business ("IBD-IBB") scheme
(b) Insurance Business Development – Specialised Insurance Broking Business ("IBD-SIBB") scheme

Current

Currently, the IBD-IBB and IBD-SIBB schemes provide for concessionary tax rates to apply to qualifying commission and fee income derived from the following activities:-

	Schemes	**Qualifying persons**	**Qualifying activities**	**Concessionary tax rate**
(a)	IBD-IBB	Approved insurance and reinsurance brokers	Insurance broking and advisory services	10%
(b)	IBD-SIBB	All insurance and reinsurance brokers	Specialty insurance broking activities (i.e. insurance against terrorism, political, energy, aviation and aerospace, agriculture risks and risks from natural catastrophe under catastrophe excess of loss reinsurance arrangements)	5%

The two schemes are scheduled to lapse after 31 March 2018.

Proposed

(a)	IBD-IBB scheme	The qualifying period for this scheme will be extended till 31 December 2023. All other conditions of the IBD-IBB scheme remain the same.
(b)	IBD-SIBB scheme	This scheme will be allowed to lapse after 31 March 2018. The specialised insurance broking and advisory services will therefore be incentivised under the IBD-IBB scheme, i.e., qualifying income will be taxed at the concessionary tax rate of 10%.

Further details will be released by the MAS by May 2018.

15. Extending the tax deduction for banks (including merchant banks) and qualifying finance companies for impairment and loss allowances made in respect of non-credit-impaired financial instruments

Current

Under Section 14I of the SITA, banks and qualifying finance companies may claim tax deductions for:

(a) impairment losses on non-credit-impaired loans and debt securities made under the Financial Reporting Standard 109; and

(b) any additional loss allowances as required under MAS Notices 612, 811 and 1005, subject to a cap.

The above is scheduled to lapse after:

- YA 2019 (for banks and qualifying finance companies with December financial year end); or

- YA 2020 (for banks and qualifying finance companies with non-December financial year end).

Proposed

The deduction under the Section 14I will be extended till:

- YA 2024 (for banks and qualifying finance companies with December financial year end); or

- YA 2025 (for banks and qualifying finance companies with non-December financial year end).

All other conditions under the Section 14I shall remain.

Further details of the extension will be released by the MAS by May 2018.

16. Withholding Tax (“WHT”) exemptions for the financial sector

Current

Interest payments made by Singapore tax residents or permanent establishments in Singapore to non-Singapore tax residents are subject to WHT, at 15%.

Exemptions from WHT are available to different financial institutions for payments made under different types of financial transactions.

Proposed

(a) A review of the tax concessions for certain payments made under different types of financial transactions is scheduled to take place by 31 December 2022. The WHT exemptions currently applicable to the following will be reviewed:

- (i) Payments made under cross currency swap transactions made by Singapore swap counterparties to issuers of Singapore dollar debt securities;
- (ii) Payments made under interest rate or currency swap transactions by financial institutions;
- (iii) Payments made under interest rate or currency swap transactions by MAS; and
- (iv) Specified payments under securities lending or repurchase agreements by specified institutions.

(b) The following WHT exemptions will be legislated and apply to the following payments made under agreements entered into on or after 18 December 2018:

- (i) Interest on margin deposits paid by members of approved exchanges for transactions in futures; and
- (ii) Interest on margin deposits paid by members of approved exchanges for spot foreign exchange transactions (that do not involve the Singapore dollar).

These will be reviewed by 31 December 2022.

(c) The following WHT exemptions will no longer be available for the following payments to be made under agreements entered into on or after 1 January 2019:

- (i) Interest from approved Asian Dollar Bonds; and
- (ii) Payments made under over-the-counter financial derivative transactions by companies with FSI-Derivatives Market awards that were approved on or before 19 May 2007.

If the WHT exemptions under (a) and (b) above are not extended after the review date, WHT will apply to payments to be made under agreements entered into on or after 1 January 2023.

However, WHT exemptions will continue to apply to payments to be made on or after 1 January 2023 under agreements entered into on or before 31 December 2022.

All other conditions of the schemes remain the same.

Further details of the extension will be released by the MAS by May 2018.

17. Extending the tax incentive scheme for Approved Special Purpose Vehicle (“ASPV”) engaged in asset securitisation transactions (“ASPV Scheme”)

Current

The tax concessions granted to an ASPV engaging in asset securitisation transactions under the ASPV scheme are as follows:

(a) Income derived by an ASPV from approved asset securitisation transactions is exempt from income tax;

(b) GST incurred on its qualifying business expenses can be recovered at a fixed rate of 76%;

(c) Payments to qualifying non-residents in respect of over-the-counter financial derivatives in connection with an asset securitisation transaction are exempt from WHT; and

(d) Stamp duties remission is available in respect of instruments relating to the transfers of assets to the ASPV for approved asset securitisation transactions.

The above scheme is scheduled to lapse after 31 December 2018.

Proposed

Apart from the stamp duties remission specified in (d) above, the other tax incentives mentioned above will be extended till 31 December 2023.

All other conditions of the scheme remain the same.

Further details of the extension will be released by MAS by May 2018.

18. Extending the Qualifying Debt Securities ("QDS") incentive scheme and allowing the Qualifying Debt Securities Plus ("QDS+") incentive scheme to lapse

Current

The QDS scheme provides the following tax concessions on qualifying income from QDS:-

(i) 10% concessionary tax rate for qualifying companies and bodies of persons in Singapore; and

(ii) Tax exemption for qualifying non-residents and qualifying individuals.

Debt securities must be substantially arranged by financial institutions in Singapore, for these to qualify as QDS.

The QDS+ scheme grants tax exemption for all investors on qualifying income derived from QDS that are:-

(i) Debt securities (excluding Singapore Government Securities) with an original maturity of at least 10 years; and

(ii) Islamic debt securities or sukuk (subject to conditions).

Both the QDS and QDS+ schemes are scheduled to lapse after 31 December 2018.

Proposed

The QDS scheme will be extended till 31 December 2023.

The QDS+ scheme will be allowed to lapse after 31 December 2018.

For debt securities with tenure beyond 10 years and Islamic debt securities that are issued:

(i) after 31 December 2018, the tax concessions under the QDS scheme will apply if the conditions of the scheme are satisfied;

(ii) on or before 31 December 2018, the tax concessions under QDS+ scheme will continue to apply if the conditions of the scheme are satisfied.

The MAS will release further details by May 2018.

19. Extending the tax exemption on income derived by primary dealers from trading in Singapore Government Securities ("SGS")

Current

Tax exemption is granted on income derived by primary dealers from trading in SGS. This is scheduled to lapse after 31 December 2018.

Proposed

The said tax exemption will be extended till 31 December 2023.

20. Extending the Investment Allowance (“IA”) scheme to include qualifying investment in submarine cable systems landing in Singapore

Current

There are no provisions for companies to claim IA in respect of capital expenditure incurred on submarine cable systems.

Proposed

Where the relevant conditions can be satisfied, the IA scheme will be extended to include qualifying capital expenditure incurred on newly constructed submarine cable systems landing in Singapore. The submarine cable systems can be used outside Singapore and can be leased out under the indefeasible rights of use arrangements.

This change will apply to qualifying capital expenditure incurred between 20 February 2018 and 31 December 2023, both dates inclusive.

21. Introducing a review date for the WHT exemption on container lease payments made to non-resident lessors

Current

Lease payments made to non-resident lessors (excluding permanent establishments in Singapore) for the use of qualifying containers for the carriage of goods by sea are exempted from withholding tax.

Proposed

To ensure that this scheme continues to be relevant in time to come, a review date of 31 December 2022 will be introduced. As such, unless the current exemption is extended, such lease payments on or after 1 January 2023 will be subject to withholding tax.

Other Tax Changes

1. Introducing Goods and Services Tax ("GST") on imported services

Current

GST is chargeable on supplies of goods and services made in Singapore except for exportation of goods, international services and exempt supplies.

Services are treated as made in Singapore if the supplier belongs in Singapore, i.e. his usual place of residence is in Singapore, or he has a business establishment or fixed establishment in Singapore to which the services are most directly connected.

Proposed

GST will be chargeable on imported services provided by overseas suppliers from 1 January 2020 onwards.

The GST will be levied via:-

(a) a reverse charge mechanism for B2B imported services – this will apply to businesses that either make exempt supplies or do not make any taxable supplies; or

(b) an Overseas Vendor Registration mechanism for B2C imported services – this requires the affected overseas suppliers and/or electronic marketplace operators to register for GST with the IRAS.

The IRAS will provide further details by end-February 2018.

2. Raise Buyer's Stamp Duty ("BSD") on the value of residential property in excess of S$1 million

Current

The BSD rates for both residential and non-residential properties are as follows:-

Rates	Tiers
1%	First S$180,000
2%	Next S$180,000
3%	Amount exceeding S$360,000

Proposed

For residential properties acquired on or after 20 February 2018, BSD rate will be increased by 1% to 4% on the value of any residential property in excess of S$1,000,000. The BSD rates are revised as follows:-

Rates	Tiers
1%	First S$180,000
2%	Next S$180,000
3%	Next S$640,000
4%	Amount exceeding S$1,000,000

3. Increasing excise duties for tobacco products

There will be a general 10% increase in excise duties for all tobacco products with effect from 19 February 2018.

Category	**Current excise rates**	**New excise rates**
Cigarettes	38.8 cents for every gram or part thereof of each stick of cigarette	42.7 cents for every gram or part thereof of each stick of cigarette
Other manufactured tobacco	S$388 / kg	S$427 / kg
Beedies, Ang Hoon and smokeless tobacco	S$299 / kg	S$329 / kg
Unmanufactured and cut tobacco and other tobacco refuse	S$352 / kg	S$388 / kg

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