Singapore Budget 2017

Highlights of Proposed Tax Changes

An independent member of Baker Tilly International

Contents

Tax Changes for Businesses

1. Corporate income tax rebate

Current

The corporate income tax rebate available for the Years of Assessment (YsA) 2016 and 2017 is 50% of the corporate tax payable, capped at S$20,000.

Proposed

The corporate income tax rebate cap for the YA 2017 will be raised from S$20,000 to S$25,000. The rebate rate of 50% remains unchanged.

The tax rebate will be extended to the YA 2018 except that the rate will be reduced to 20% of the corporate tax payable, capped at S$10,000.

2. Extending the withholding tax exemption on payments made to non-resident non-individuals for structured products offered by financial institutions ("FIs")

Current

An exemption from withholding tax applies to payments made to non-resident non-individuals in relation to structured products offered by FIs for contracts which take effect, are renewed or extended during the period from 1 January 2007 to 31 March 2017, subject to conditions.

Proposed

The qualifying period for the withholding tax exemption will be extended till 31 March 2021.

All other conditions of this scheme remain the same.

3. Extending the tax incentives schemes for project and infrastructure finance

Current

The set of tax incentive schemes for project and infrastructure finance includes:

(a) Tax exemption of qualifying income from qualifying project debt securities;

(b) Tax exemption of qualifying income from qualifying infrastructure project/assets received by approved entities listed on the Singapore Exchange ("SGX");

(c) Concessionary tax rate of 10% on qualifying income derived by an approved infrastructure trustee manager/fund management company from managing qualifying SGX-listed business trusts/infrastructure funds in relation to qualifying infrastructure projects/assets; and

(d) Remission of stamp duty payable on the instrument of transfer relating to qualifying infrastructure projects or assets to qualifying entities listed, or to be listed, on SGX.

The above tax incentives are scheduled to lapse after 31 March 2017.

Proposed

Apart from the stamp duty remission specified in (d), the other tax incentives mentioned above will be extended till 31 December 2022 without any change to the existing conditions.

The stamp duty remission will be allowed to lapse after 31 March 2017.

Further details of the extension will be released by the Monetary Authority of Singapore ("MAS"), by May 2017.

4. Introducing an Intellectual Property ("IP") Regime that encourages the exploitation of IP arising from research and development ("R&D") activities of the taxpayer

Current

IP income from qualifying activities can fall within the scope of the Pioneer-Services/ Headquarters Incentive and the Development and Expansion Incentive-Services/Headquarters.

Proposed

To encourage the exploitation of IPs arising from taxpayer's R&D activities, IP income will be incentivised under a new IP Regime named the IP Development Incentive ("IDI"). In line with Singapore's support for the Base Erosion and Profit Shifting ("BEPS") project's recommendations, the IDI incorporates the BEPS-compliant modified nexus approach.

Correspondingly, IP income will be removed from the scope of Pioneer-Services/Headquarters Incentive and the Development and Expansion Incentive-Services/Headquarters for new incentive awards approved on or after 1 July 2017. Existing incentive recipients will continue to have such income covered under their existing incentive awards till 30 June 2021.

The IDI will take effect on or after 1 July 2017, and will be administered by the Singapore Economic Development Board ("EDB")

The EDB will release further details of the change by May 2017.

5. Refining the Finance and Treasury Centre ("FTC") scheme

Current

Under the FTC scheme, *inter alia*, an approved FTC company will enjoy a concessionary tax rate of 8% on qualifying income.

Proposed

The qualifying counterparties for certain transactions of approved FTCs will be streamlined. The objective is to ease the compliance burden of approved FTCs, and this change is meant to apply to new or renewal incentive awards approved on or after 21 February 2017.

The EDB will release further details of the change by May 2017.

6. Enhancing the Global Trader Programme ("GTP")

Current

The GTP grants a concessionary tax rate of 5% or 10% on qualifying income derived by approved companies from qualifying transactions.

Proposed

To facilitate and encourage more local trading activities and to simplify the GTP, the programme will be enhanced as follows:

(a) The need for qualifying transactions to be carried out with qualifying counterparties will be removed. Consequently, the concessionary tax rate will be granted to approved companies on income derived from qualifying transactions with any counterparty;

(b) The concessionary tax rate will be granted to approved companies on physical trading income:
   i. derived from transactions in which the commodity is purchased for the purposes of local consumption or for the supply of fuel to aircraft or vessels within Singapore; and
   ii. attributable to local storage or any activity carried out in Singapore which adds value to commodity by any physical alteration, addition or improvement (including refining, blending, processing or bulk-breaking).

The enhancements in (a) and (b) will apply to qualifying income derived on or after 21 February 2017 by approved global trading companies from qualifying transactions.

It is also proposed that the substantive requirement to qualify for the GTP will be increased, and this will apply to new or renewal incentive awards approved on or after 21 February 2017.

The International Enterprise ("IE") Singapore will provide further details of the change by May 2017.

7. Withdrawing the tax deduction for Computer Donation scheme

Current

Companies donating computers (including computer software and peripherals) to an Institution of Public Character ("IPC") or prescribed educational, research or other institution in Singapore are currently entitled to a 250% tax deduction.

Proposed

The scheme will be withdrawn with effect from 21 February 2017.

8. Withdrawing the Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology ("ADA-EEET") scheme

Current

Accelerated capital allowance of 100% may be granted in respect of capital expenditure incurred for the acquisition of certified energy efficient and energy saving equipment.

Proposed

The ADA-EEET scheme will be withdrawn with effect from 1 January 2018 and will not be available for equipment installed on or after 1 January 2018.

9. Allowing the accelerated Writing-Down Allowances (“WDA”) for acquisition of Intellectual Property Rights (“IPRs”) for Media and Digital Entertainment (“MDE”) content scheme to lapse

Current

Capital expenditure incurred by an approved MDE company or partnership to acquire IPRs relating to MDE content used for the purpose of its trade will qualify for accelerated WDA over two years.

The scheme is scheduled to lapse after the last day of the basis period for the YA 2018.

Proposed

The scheme will be allowed to lapse as scheduled. With effect from the YA 2019, MDE companies or partnerships may make an irrevocable election to claim WDA over a period of 5, 10 or 15 years on the capital expenditure incurred to acquire IPRs under Section 19B of the Singapore Income Tax Act (“SITA”).

10. Allowing the International Arbitration Tax Incentive (“IArb”) to lapse

Current

Approved law practices may enjoy, for a period of up to 5 years, a 50% tax exemption on the qualifying incremental income derived from the provision of legal services in connection with international arbitration.

The incentive is scheduled to lapse after 30 June 2017.

Proposed

The incentive will be allowed to lapse as scheduled.

11. Allowing the Approved Building Project ("ABP") scheme to lapse

Current

Subject to conditions being met, building projects that have the ABP status are granted an exemption from property tax for a period of up to three years during the project's construction period.

The scheme is scheduled to lapse after 31 March 2017.

Proposed

The scheme will be allowed to lapse as scheduled. From 1 April 2017, property tax will apply even when the land is under development.

12. Cost Sharing Agreements ("CSAs") for R&D projects

Current

In claiming Section 14D tax deduction for R&D expenditure for payments made under a CSA ("CSA payments"), taxpayers must ensure that expenses specifically disallowed under Section 15 of the SITA have been excluded. As such, a detailed breakdown of the expenditure covered by the CSA payments is required.

Proposed

A safe harbour rule is proposed for CSA payments, which can reduce taxpayers' compliance costs. Taxpayers may opt to claim tax deduction under Section 14D for 75% of the payments made under a CSA incurred for qualifying R&D projects, instead of providing a breakdown of the CSA payment components. This change will apply to CSA payments made on or after 21 February 2017.

Further details of the change will be released by the Inland Revenue Authority of Singapore ("IRAS") by May 2017.

13. Extending the withholding tax exemption on payments for international telecommunications submarine cable capacity under an Indefeasible Rights of Use ("IRUs") agreement

Current

Payments made to non-residents during the period from 28 February 2003 to 27 February 2018 (both dates inclusive) for the use of international telecommunications submarine cable capacity under an IRU agreement are exempted from withholding tax.

Proposed

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

14. Extending and refining the Aircraft Leasing Scheme ("ALS")

Current

The ALS, originally scheduled to lapse after 31 March 2017, provides for:-

(a) income derived by approved aircraft lessors from the leasing of aircraft or aircraft engines and qualifying ancillary activities under Section 43Y* of the SITA to be taxed at concessionary tax rates of 5% or 10%; and

(b) income derived by approved aircraft managers from managing approved aircraft lessor and qualifying activities under Section 43Z of the SITA to be taxed at a concessionary tax rate of 10%.

* Under Section 43Y of the SITA, qualifying ancillary activities include provision of finance in the acquisition of any aircraft or aircraft engines by any airline company.

Under the ALS, automatic withholding tax exemption is granted on certain payments made by approved aircraft lessors to non-Singapore tax residents for qualifying loans entered into on or before 31 March 2017 to finance the purchase of aircraft and aircraft engines.

Proposed

To spur the growth of the aircraft leasing sector, the ALS will be extended till 31 December 2022, along with the following refinements:

(i) The two concessionary tax rates stated in (a) above will be rationalised to a single tax rate of 8%. This will be applicable to both new and renewal incentive awards approved on or after 1 April 2017; and

(ii) The scope of qualifying ancillary activities for approved aircraft lessors under Section 43Y of the SITA will be updated to include incidental income from the provision of finance in the acquisition of aircraft or aircraft engines by any lessee. This change will apply to income earned on or after 21 February 2017 for all incentive recipients.

Qualifying payments made on qualifying loans entered into on or before 31 December 2022 will also be eligible for the automatic withholding tax exemption.

Further details will be released by the EDB by May 2017.

15. Extending and refining the Integrated Investment Allowance ("IIA") scheme

Current

The IIA scheme, originally scheduled to lapse after 28 February 2017, allows a qualifying company to claim an additional allowance on the fixed capital expenditure incurred on qualifying productive equipment placed with an overseas company for an approved project.

One of the qualifying requirements under the IIA scheme is that the qualifying productive equipment must be used by the overseas company solely to manufacture products for the qualifying company under the approved project.

Proposed

The IIA scheme will be extended till 31 December 2022.

Further, the qualifying requirement is now liberalised such that the qualifying productive equipment may be used by the overseas company ***primarily*** (as opposed to solely) to manufacture products for the qualifying company under the approved project. This new change will apply to expenditure incurred on qualifying productive equipment for projects approved on or after 21 February 2017.

Tax Changes for Individuals

1. Personal income tax rebate

Current

There is no personal income tax rebate for the YA 2017.

Proposed

Individuals who are resident in Singapore for income tax purposes will enjoy a personal income tax rebate of 20% of tax payable (capped at S$500) for the YA 2017.

Other Tax Changes

1. Changes to foreign worker levies ("FWL")

Work permit holders

Sector	Current (R1 / R2) [1] S$	Proposed (R1 / R2) [1] from 1 July 2017 S$
Construction - Basic Tier	300 / 600	300 / 700
Marine - Basic Tier	300 / 400	No change instead of 350 / 500 [2]
Process - Basic Tier - MYE[3]-waiver	 300 / 450 600 / 750	 No change instead of 300 / 500 [2] No change instead of 600 / 800 [2]

[1] R1: higher skilled; R2: basic skilled
[2] previously announced
[3] Man-year entitlement

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