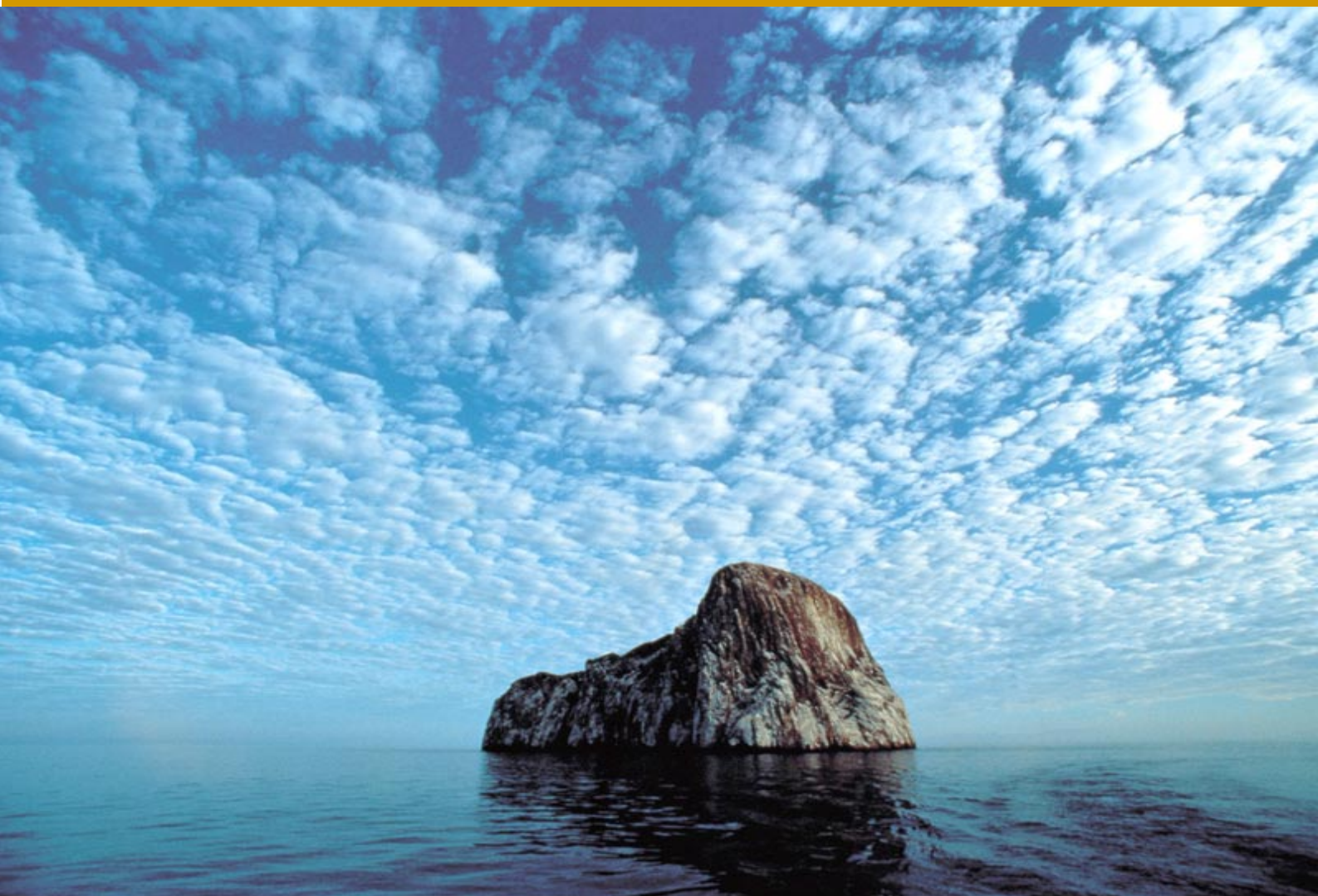


2000 Singapore Budget Commentary



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Contents

Introduction	3
Company and Business Taxation	5
Change in tax rate	5
Incentives for financial services	5
<i>Financial guaranty insurance contracts</i>	5
<i>Swap trading</i>	6
<i>Interest rate and currency swaps</i>	6
<i>Offshore financial derivatives</i>	6
Royalty payments	7
<i>Authors and composers</i>	7
<i>Inventors and innovators</i>	7
Personal Taxation	8
No change in tax rates	8
5 per cent tax rebate for year of assessment 2000	8
Supplementary Retirement Scheme	8
Changes in dependant relief	9
Employee Stock Option Schemes	9
Central Provident Fund	10
CPF contribution rates	10
CPF Top-Up Scheme	10
CPF Minimum Sum Scheme	10
CPF Top-Up Scheme for grandparents	11

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Goods and Services Tax	11
No change in Goods and Services Tax rate	11
Zero-rating for certain trustee services	11
Stamp Duties	12
Relief for corporate reorganisations	12
Abolition of duty on contract notes	13
Property Tax	13
Commercial and industrial properties	13
Land under development	13
Estate Duty	13
Appendices	14
A. Corporate tax rates in the Asia-Pacific for income year 2000	
B. Resident individual tax rates	
C. Regional comparison of tax liability for a married man with two children based on 1999 income	

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Introduction

When Dr Richard Hu announced early in his Budget Speech on Friday, 25 February 2000 that the Asian economic crisis was largely behind us, this was indicative of the limited tax benefits he was to hand out this year. Singapore had emerged relatively unscathed from the regional crisis whilst the outlook for 2000 was, on balance, optimistic. This confidence had its roots in a favourable external environment although we will remain susceptible to the capriciousness within the US, Japanese and European economies, as well as to the robust competitiveness of China for the investment dollar.

To benefit from the external environment, Singapore had to become and remain globally competitive. Dr Hu emphasised that “unless we are among the world’s best, we will be relegated to a peripheral role in the global economy”. For Singapore to develop this global competitive edge, the Minister for Finance relied on the following conditions:

- an educated and highly skilled work force augmented and invigorated by foreign talent;
- a conducive environment to grow entrepreneurs who can combine technology and business acumen; and
- opening up of the services sector including financial services, communications and power so as to compel it to compete globally.

Whilst the Minister for Finance referred to the Ministry of Manpower instead of tax benefits to spearhead the initiatives for achieving a highly competitive workforce, he did propose several measures to foster an entrepreneurial environment. Heading the list was the enhanced (i.e. advantageous) tax treatment for stock options for start-up companies. He also acknowledged, without specifically referring to a tax concession, the role of stock options for mature enterprises. Stock options was acknowledged

as a means to recruit, motivate and retain employees and as such could apply to address the needs of talent be it Singaporean, foreign or entrepreneurial. The Minister's statement on stock options was enlightening but a scheme will be announced only in May 2000 and then only for high tech start-ups.

On opening up the services sector, Dr Hu introduced concessions to further develop the securities, bond and swap markets, and to expand the trading of offshore financial derivative products. There was also a GST concession for offshore trustee services. On the deregulation of the non-financial areas of the services sector, however, the tax changes in the Budget Speech had little application. It will be interesting to see if tax will have any major influence in levelling the global playing field for the services sector as we keenly await the next chapter from Dr Hu.

26 February 2000

Company and Business Taxation

Change in tax rate

The corporate tax rate will be reduced by 0.5 per cent from 26 per cent to 25.5 per cent for year of assessment 2001 to maintain Singapore's competitiveness. This rate also applies to withholding tax where reduced rates are not applicable and for franking dividends.

The corporate tax rate remains unchanged at 26 per cent for year of assessment 2000. The 10 per cent corporate tax rebate granted in year of assessment 1999 will not be extended because the economy has rebounded strongly. A comparison of corporate tax rates in the Asia-Pacific region is provided in Appendix A.

Incentives for financial services

Financial guaranty insurance contracts

The Asian debt market is expected to grow sharply in the next few years to meet the financing needs of Asian economies as they resurface from the recent financial crisis. In facilitating the procurement of longer-term funds, financial guaranty insurers play an important role in providing credit enhancement and improving the appeal of Asian bond issues to international investors.

In 1998, the Monetary Authority of Singapore (MAS) amended its regulations to encourage multi-line insurers, reinsurers and branches of foreign insurers in Singapore, to write financial guaranty business. To further promote this activity, the Minister for Finance has proposed the abolition of withholding taxes on claim payments to non-resident beneficiaries under financial guaranty insurance policies made by licensed financial guaranty insurers. The proposal takes immediate effect. Typically, such payments are subject to withholding tax on the basis that they constitute payments made in connection with indebtedness. The withholding tax exemption applies to claim payments on all debt issues. This move is in line with the Government's goal to develop the local bond market and to establish Singapore as an international financial services centre.

Swap trading

Various tax incentives have been introduced since 1997 in a bid to develop an active bond market in Singapore. In particular, a concessionary 10 per cent tax rate was introduced in 1998 for income earned by financial institutions in Singapore from trading in debt securities. The term "financial institutions" refers to all institutions licensed or approved by the MAS including Approved Fund Managers and Finance and Treasury Centres. The Government recognises the importance of the swap market to the development of an active local bond market. To encourage the development of the local swap market, the Minister for Finance has proposed an extension of the concessionary 10 per cent tax rate to income earned by financial institutions in Singapore from trading in interest rate and currency swaps. The incentive will take effect from the year of assessment 2001 and will apply until 27 February 2003, which is also the expiry date of the various existing bond incentives.

Interest rate and currency swaps

Withholding tax exemptions are currently available in relation to interest and currency swaps for inter-bank transactions and transactions between an Asian Currency Unit (ACU) of a bank and specified counterparties where the transaction does not involve the Singapore dollar. This exemption has been extended to cover all financial institutions for payments under all bona fide interest rate and currency swaps.

This extension may benefit finance and treasury centres which accept surplus cash and provide financing within a group of companies. It should also benefit fund managers, insurance companies, securities companies and finance companies, which are financial institutions that are not covered by existing exemptions. The exemption takes effect from 25 February 2000.

Offshore financial derivatives

The 10 per cent tax rate applying to certain income of ACUs will be extended to income derived by ACUs from all offshore derivative transactions in currencies other than the Singapore dollar. Currently, the 10 per cent tax rate applies to income from transactions of financial futures denominated in foreign currencies with other ACUs, Singapore Exchange (SGX) members, or non-residents and to income from services relating to transactions in foreign currencies with other ACUs or non-residents involving interest rate or currency swaps. The 10 per cent tax rate will now apply to income of an ACU from other financial derivatives in foreign currencies with other ACUs and non-residents. The extension will take effect for five years from year of assessment 2001.

Royalty payments

The Minister for Finance has announced the liberalisation and extension of tax concession schemes that are currently applicable to royalty and other income earned by authors, composers, inventors and innovators.

Authors and composers

Under the existing scheme, authors and composers enjoy a tax concession in respect of royalties or other payments received from a Singapore publisher for the assignment of, or for the right to use the copyright in any literary, dramatic, musical or artistic work. The tax concession provides that the amount of income chargeable is deemed to be the net qualifying income after deduction of all allowable expenses and capital allowances, if any, or 10 per cent of the gross amount of the qualifying income, whichever is the lower.

This tax concession can also be enjoyed by a company, if its entire issued share capital is beneficially owned by any author or composer. However, the tax concession does not apply to royalties or other payments received from work published in newspapers or periodicals. It is proposed that with effect from year of assessment 2001, this tax concession should be expanded to cover royalties and other payments received from recording, film or drama companies in Singapore.

Inventors and innovators

Currently, the chargeable income of an individual earned from the assignment of, or from granting rights over an approved invention or an approved product innovation is deemed to be the lower of the net qualifying income after deduction of all allowable expenses and capital allowances, if any, and 10 per cent of the gross amount of the qualifying income. This concession now applies only to citizens and permanent residents of Singapore. Another condition is that it applies only to manufacturing-related approved inventions or product innovations.

The Minister for Finance has proposed to extend the concession to apply also to approved inventions or innovations from non-manufacturing sectors. Further, to qualify for the tax concession, the invention or innovation must be capable of being patented or protected by copyright or otherwise.

The concession will be extended to foreigners, provided that the created work relating to the invention or innovation is substantially carried out in Singapore. Consequently, foreigners who have not acquired permanent resident status will now be able to take advantage of this concession. It is proposed that the changes to the scheme will have effect for a period of five years with effect from year of assessment 2001.

Personal Taxation

No change in tax rates

The tax rates for the year of assessment 2000 remain unchanged. The personal tax rates for year of assessment 2000 are set out in Appendix B. These rates have remained unchanged since year of assessment 1997.

5 per cent tax rebate for year of assessment 2000

With the economy on its way to recovery, a one-off across-the-board tax rebate of 5 per cent has been announced for year of assessment 2000. The rebate applies to resident taxpayers only. This is in contrast to a 10 per cent rebate that was given for the previous year of assessment.

An example of how the 5 per cent tax rebate is calculated in arriving at the net tax payable is illustrated below:

	\$
Tax payable	20,000
Less double taxation relief	<u>(1,000)</u>
	19,000
Less 5% tax rebate	<u>(950)</u>
	18,050
Less GST rebate	<u>(500)</u>
Net tax payable	<u>17,550</u>

Supplementary Retirement Scheme

To encourage employees to save for their retirement, a Supplementary Retirement Scheme (SRS) will be set up. Employees will be allowed to contribute voluntarily into the SRS, which will be in addition to the Central Provident Fund (CPF).

Participants will be able to claim a tax deduction on the contributions, which will be subject to a ceiling based on a percentage of their salary. Employers will not be required to contribute to the SRS, therefore there will be no additional cost for them. In contrast to the CPF however, participants will be taxable on withdrawals. It is not clear at this stage whether income and gains derived by the SRS will be taxed.

Indications are that foreigners working in Singapore will also be eligible to participate in this scheme. This may be particularly attractive to foreign employees as they have been unable to contribute to the CPF scheme since 1 January 1999. It is expected that the SRS will be implemented by 2001. However, details remain to be worked out in consultation with the private sector.

Changes in dependant relief

To encourage greater family cohesiveness and to provide greater recognition for those who live with and support their parents, the tax relief for maintaining each dependant parent will be \$5,000 from year of assessment 2000. The tax relief for maintaining a dependant parent who is not staying in the same household remains unchanged at \$3,500.

This relief is also available for maintaining spouse's parents, grandparents or great-grandparents. A taxpayer is allowed a maximum claim of two dependants a year. In order to qualify for the relief, the dependant must be over 55 years of age or physically or mentally handicapped and must not have income in excess of \$2,000 a year.

Employee Stock Option Schemes

An employee is taxed on the gain derived from the exercise of a stock option at the time when he exercises the option. The taxable gain is based on the difference between the market value of the shares at the date of exercise and the price paid by the employee.

Under a qualifying Employee Stock Option Plan (ESOP), the employee has the option to defer payment of tax on the option gains for up to five years. The tax deferred will be subject to an interest charge, pegged to the average prime rate offered on 15 April each year by the Big Four banks in Singapore. Our newsletter, *The Executive*, dated January 2000 provides further details.

The Government will improve the tax treatment of ESOPs further, particularly for high tech start-up companies. Details of the enhanced scheme will be announced by the end of May 2000.

Central Provident Fund

CPF contribution rates

With effect from 1 April 2000, the employer's CPF contribution rates will be increased to 12 per cent from the current 10 per cent. The CPF contribution rates for calendar year 2000 for employees below the age of 55 are summarised below:

	1 January – 31 March 2000		1 April – 31 December 2000	
	Employer %	Employee %	Employer %	Employee %
Singapore citizens and permanent residents	10	20	12	20
New permanent residents				
1 st Year	2.5	5	3	5
2 nd Year	7.5	15	9	15
3 rd Year	10	20	12	20

CPF Top-Up Scheme

The Government will make a top-up of \$250 into the ordinary account of every Singaporean CPF member aged 21 and above as at 31 December 1999. In order to qualify, the CPF member must have made at least one CPF contribution within the period 1 January 1998 to 31 December 1999. The top up will be credited in March 2000.

CPF Minimum Sum Scheme

CPF members can withdraw CPF savings in excess of the Minimum Sum on reaching the age of 55. The Minimum Sum, which is currently \$60,000, may be left with the CPF Board, deposited with an approved bank, or used to purchase an annuity. At present, income from these investments is not taxed.

To encourage more prudent financial planning for old age, income derived from annuities bought with CPF savings in excess of the Minimum Sum will also be exempt from tax. Similar treatment will also be given to income derived from

deposits made using this excess. However, several conditions will apply and the details will be released by the CPF Board in due course.

CPF Top-Up Scheme for grandparents

A taxpayer who tops up his own or his parent's CPF account is allowed tax relief of up to \$6,000 per annum. With effect from year of assessment 2001, a taxpayer will also be allowed tax relief for cash top-up payments made for grandparents.

Goods and Services Tax

No change in Goods and Services Tax rate

There is no change in the standard rate of Goods and Services Tax (GST) which remains at 3 per cent.

Zero-rating for certain trustee services

The supply of goods and services in Singapore is subject to a standard rate of 3 per cent. Zero-rating, however, applies to the export of goods and to "international services". While there is no change to the standard rate of 3 per cent, the Minister for Finance has announced that zero-rating treatment will be extended to certain trusts which have non-resident settlors and beneficiaries. Prior to this change, various services provided by trustees such as administration, custodian and investment portfolio management were standard-rated if the trustee was situated in Singapore, notwithstanding that the settlors and beneficiaries of the trust were all foreign.

For zero-rating to apply, at least 80 per cent of the settlors and beneficiaries must be non-resident and at least 80 per cent of the assets of the trust must originally have been contributed by settlors who are non-resident.

It will be necessary to clarify whether "non-resident" will follow the "belonging" concept which is used for determining the GST treatment of services or will follow income tax concepts. The point in time at which the 80 per cent tests are to be applied will also be an important aspect of the change.

Stamp Duties

In the 1998 Budget, stamp duty was abolished on all dutiable instruments except for those relating to stocks and shares, and immovable properties. The 2000 Budget contains two stamp duty changes with significant implications for the continued development of our stock exchange and the current trend of corporate reorganisations.

Relief for corporate reorganisations

Section 15 of the Stamp Duties Act provides stamp duty relief for corporate reorganisations involving transfer of shares or the undertaking of a particular company provided certain prescribed conditions are met. These conditions are not always easy to satisfy thus resulting in a limited number of corporate reorganisations which qualify for the relief. Where a corporate reorganisation does not qualify for stamp duty relief, the duty payable can be substantial.

At present, conditions relate both to the assets to be transferred and to the consideration payable. For any transfer of assets to qualify, not less than 90 per cent of the consideration must be in the form of shares issued by the acquiring company. Where shares are to be transferred, an additional condition is that the transfer must involve at least 90 per cent of the issued share capital of the target company. Where either of these conditions is not met, the acquisition would not qualify for stamp duty relief.

These two conditions need no longer be fulfilled for transfers of undertakings or shares between associated companies. Two companies are associated where one owns 75 per cent or more of the other company, or where a third company owns at least 75 per cent of both.

For listed companies or companies intending to list after a reorganisation, the two-year restriction on changes in beneficial ownership of the shares limits the potential application of the relief. This restriction has been lifted on the consideration shares held by public shareholders. Similarly, companies intending to list after a corporate reorganisation are allowed to float a portion of their issued share capital up to 25 per cent (which may include the consideration shares issued in the reorganisation). The 25 per cent ceiling represents the current minimum listing threshold required by SGX for its mainboard listing. The changes will come into effect shortly upon the release of details by the Inland Revenue Authority of Singapore.

Abolition of duty on contract notes

With effect from 30 June 2000, stamp duty on contract notes on share transactions will be abolished to give an additional boost to the competitiveness of our equity market. Currently, the stamp duty on contract notes on share transactions is 0.05 per cent. However, collection of the duty has been suspended since 30 June 1998 to help stimulate the Singapore stock market during the economic crisis.

Property Tax

Commercial and industrial properties

The property tax rebate applying to commercial and industrial properties will be extended by another year to 30 June 2001 at the rate of 25 per cent of the tax payable. Housing Development Board, Jurong Town Corporation and other Government agencies will pass most of the rebate to their tenants. The Minister for Finance has urged private sector landlords to pass on at least half of the rebate to their tenants.

Land under development

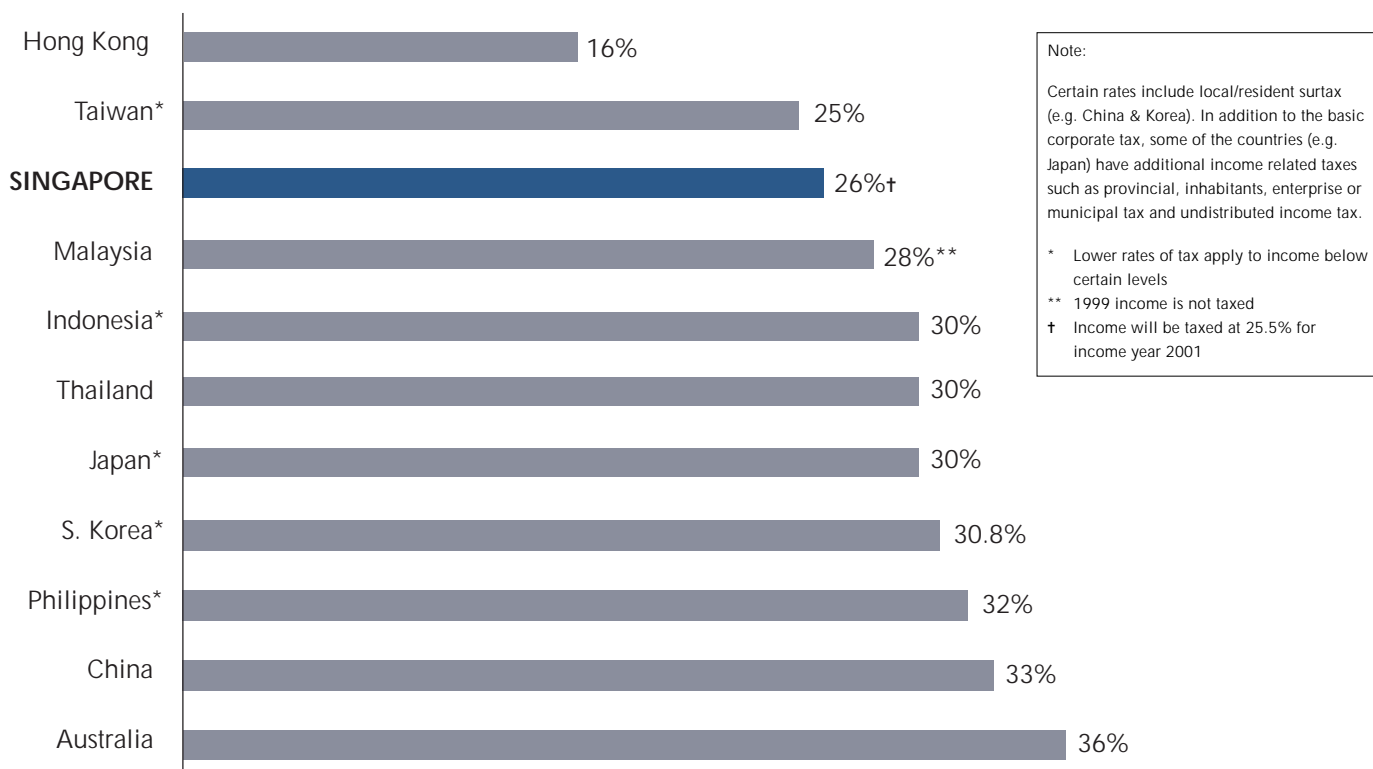
The property tax exemption for vacant land under development has been withdrawn with effect from 25 February 2000. However, the change will only affect new projects, as existing projects which previously qualified for the concession will continue to enjoy the existing exemption.

Estate Duty

Currently, the \$9 million estate duty exemption for dwelling-houses does not apply if the house is used wholly or partly for any trade, business, profession or vocation. Therefore, to encourage people to work from home, the estate duty exemption rules for residential properties will be relaxed. A Singapore residential property used for business activity will now qualify for the \$9 million estate duty exemption as long as the residential character of the property is not materially affected. This relaxation takes effect from 25 February 2000.

Appendix A

Corporate tax rates in the Asia-Pacific for income year 2000



Appendix B

Resident individual tax rates

	Chargeable Income \$	Rate %	Tax \$
On the first	7,500	2	150
On the next	12,500	5	625
On the first	20,000		775
On the next	15,000	8	1,200
On the first	35,000		1,975
On the next	15,000	12	1,800
On the first	50,000		3,775
On the next	25,000	16	4,000
On the first	75,000		7,775
On the next	25,000	20	5,000
On the first	100,000		12,775
On the next	50,000	22	11,000
On the first	150,000		23,775
On the next	50,000	23	11,500
On the first	200,000		35,275
On the next	200,000	26	52,000
On the first	400,000		87,275
On income above	400,000	28	

Regional comparison of tax liability for a married man with two children based on 1999 income

	Total Remuneration US\$50,000	Effective Tax Rate	Total Remuneration US\$75,000	Effective Tax Rate	Total Remuneration US\$100,000	Effective Tax Rate	Total Remuneration US\$200,000	Effective Tax Rate
	Tax Liability US\$	%	Tax Liability US\$	%	Tax Liability US\$	%	Tax Liability US\$	%
Singapore	2,748	6	7,200	10	12,425	12	36,173	18
Hong Kong	1,100	2	5,350	7	9,600	10	26,600	13
India	15,837	32	24,087	32	32,337	32	65,337	33
Indonesia	13,341	27	20,731	28	28,122	28	57,684	29
S. Korea	6,339	13	14,589	19	24,562	25	68,562	34
Malaysia	9,545	19	16,795	22	24,045	24	53,045	27
Myanmar	7,500	15	11,250	15	15,000	15	30,000	15
China	9,057	18	15,867	21	23,729	24	65,103	33
Philippines	15,072	30	23,322	31	31,572	32	64,572	32
Taiwan	4,541	9	9,850	13	17,350	17	54,511	27
Thailand	9,594	19	17,094	23	24,594	25	60,977	30
Vietnam	8,328	17	16,484	22	26,484	26	76,219	38

Note:

1. Deductions for social security are not taken into account unless the contributions are compulsory by law.
2. Standard deductions are taken into account.

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