



Budget Commentary

18 February 2005

2005 Singapore

No surprises in a tax-free Budget

As in 2004, little was expected from this year's Budget and on reflection, expectations were met. In terms of changes to direct taxes, these were probably the tamest yet, although with tax rates at the most competitive in the region, it was always difficult to see how any more juice could be squeezed out of the tax lemon.

Not surprisingly therefore, this was a tidying-up Budget, with some loose ends identified and tied down. The Real Estate Investment Trust (REIT) market was given a boost with stamp duty concessions and withholding tax reductions, and the Central Provident Fund (CPF) was given a manicure. The tourism industry was given a little pepping up with investment allowances now available for certain capital expenditure in the retail, food & beverage and entertainment sector, and certain financial services activities with growth potential were given some limelight.

Interestingly, there was little of substance to address growing concerns over demographics and the Republic's long-short position on ageing population and babies.

And for those of you looking for a windfall tax-free year as we change to a current year basis of tax, you were surely neither surprised nor disappointed when the Finance Minister announced the plan had been shelved for the moment. They do say that "if something seems too good to be true, that is probably because it is".

Budget Commentary

2005 Singapore

18 February 2005

Contents

Reduction in personal tax rates	3
Financial services incentives	3
Start-up fund managers	3
Exemption for Foreign Charitable Trusts (FCTs)	3
Securities borrowing and lending transactions (SBL)	4
Real Estate Investment Trusts (REITs)	4
Islamic finance	5
Approved Finance and Treasury Centre (FTC) incentive	6
Commodity derivatives trading	6
Logistics incentives	6
Bonded warehouse scheme	6
Extension of Approved International Shipping Enterprise (AIS) incentive	7
Extension of the Global Trader Programme (GTP)	7
Tourism incentives	7
Investment allowances	7
Concessionary tax rate for tourism events	8
Carry-back of tax losses	8
Welfare measures for Singaporeans	10
Streamlining of limits for CPF contributions	10
Voluntary CPF contributions by employees	10
Voluntary CPF contributions by the self-employed	10
Relaxation of CPF Minimum Sum topping up criteria	11
Simplification of the Supplementary Retirement Scheme (SRS)	11
Cultivating a more charitable society	12
Definition of charitable purposes	12
Equalisation of tax treatment of donations	12
Extension of computer donation scheme to IPCs	12
Stamp duty	13
Estate duty	13
2004 in retrospect	13
Foreign-sourced income exemption	13
Limited Liability Partnerships (LLPs)	14
Business Trusts	14
Goods and Services Tax (GST)	14
2004 in snapshot	16
Appendices	
A. Comparison of Asia-Pacific corporate tax rates	21
B. Comparison of Asia-Pacific individual tax liabilities	22
C. Resident individual tax rates	23
D. Tax savings from the reduction in personal tax rates	24

Reduction in personal tax rates

In keeping with the promise to maintain Singapore as one of the most competitive individual tax regimes globally, the top marginal tax rate for individuals has been reduced in two phases, to 21 per cent for Year of Assessment (YA) 2006 and further to 20 per cent for YA 2007. Marginal tax rates for all income brackets have been reduced as well.

An overview of the proposed tax rates for YA 2006 and YA 2007 is set out in Appendix C.

Financial services incentives

The financial services tax scene continues to evolve as the Finance Minister announced an array of measures intended to consolidate Singapore's position as an international financial centre.

Start-up fund managers

The fund management industry in Singapore appears to have attained a critical mass in 2003/2004 in terms of size and the number of hedge fund managers now operating from here. Towards the end of 2004, there were approximately 60 Singapore-managed hedge funds, which is an increase of 250 per cent since 2001. One reason for this growth appears to be the relative regulatory ease with which hedge fund managers can set up and operate in Singapore, as compared to some other regional locations. This is further sweetened by the tax exemptions or incentives offered by the Government to foreign funds managed from Singapore.

Generally, under domestic law, a Singapore-based discretionary fund manager of a foreign fund would constitute a "permanent establishment" for the fund in Singapore. This would mean that any income and gains the fund earned would be exposed to Singapore corporate tax (currently at 20 per cent). However, under a specific exemption, the foreign-sourced income and gains of a foreign fund managed by a Singapore-based fund manager, would be exempt from tax. This is provided the fund is not a Singapore tax resident (i.e. its control and management is offshore), and not more than 20 per cent of its share capital is owned by persons

resident in or citizens of Singapore (known fondly in hedge fund circles as the "80:20 rule"). In addition, if the above conditions are met, under the fund management incentive the tax on the fund management fees earned by the Singapore-based fund manager can be reduced to 10 per cent.

A difficulty faced by start-up management activities is that in many cases, the seed capital needed to "kick-start" the fund comes from the managers themselves, who are tax resident in Singapore. Accordingly, until they can get significant foreign investor interest in their fund immediately, they will be simply unable to meet the 80:20 rule. This will have the effect of driving them back offshore, or into a variety of structures that will enable them to protect the fund's interest.

In order to address this situation and encourage managers to move towards simpler and more localised structures, the 80:20 rule is to be relaxed. New fund managers will be granted a 12-month period during which they can build up the foreign ownership of their funds under management to the 80 per cent level which will qualify the funds for tax exemption, or their own income for the 10 per cent rate.

However, given that it could typically take a number of years for a fund manager to build up his track record and reputation, the 12-month period may be short for the proposal to provide a real incentive for these new activities to localise. One idea would be to scrap the rule altogether and treat funds managed locally along the lines of the REIT or Designated Unit Trust. Few tax dollars would be lost with this, and the benefits in terms of attracting not only the managers but also the funds, with all their ancillary service providers, could be immense.

Exemption for Foreign Charitable Trusts (FCTs)

To add more breadth to Singapore's wealth management industry, the Finance Minister has introduced a new incentive to exempt the specified income of qualifying foreign trusts which have been set up for charitable purposes. The tax exemption will be granted regardless of the expenditure levels of the FCTs or what the funds are utilised for specifically. Typically, a Singapore-based trustee who has discretionary powers over the assets of the trust could create a permanent establishment in Singapore for the trust which would, in the absence of exemptions, cause the trust's income and gains to be exposed to Singapore tax.

Although there is already an existing regime which exempts the income of a foreign trust managed by a Singapore-based trustee, this new incentive is likely to have been introduced to provide certainty of tax treatment in situations where the foreign charitable trust cannot identify its beneficiaries or their location, and hence cannot satisfy the requirements of the current regime.

Although not mentioned in the Budget Speech, it would seem unlikely that Singapore residents donating to such trusts would obtain tax deductions as they do for local Institutions of a Public Character (IPCs).

Securities borrowing and lending transactions (SBL)

SBL is a key activity to promote the liquidity of debt and equity capital markets. It offers an opportunity for institutions such as banks, insurance companies or pension funds to generate incremental income from their investment portfolios, while enabling hedge funds and broker-dealers to obtain the benefits of short-term performance differentials.

Currently, a company which has qualified for the Financial Sector Incentive (standard-tier) award will be taxed at the concessionary rate of 10 per cent on its income derived from SBL transactions involving foreign securities. It may also enjoy the 10 per cent tax rate if it arranges a SBL transaction between a foreign investor and another FSI company.

The Finance Minister has extended the scope of this tax concession to cover income from SBL transactions involving Singapore securities. In addition, approved companies and financial intermediaries would also qualify for the 10 per cent concessionary tax rate. It is hoped that when details of the extended concessions are announced by the Monetary Authority of Singapore (MAS), all the key industry players noted above will be included for the purposes of the tax concession. In particular, there appears to be no reason why the concession should only be accorded to SBL transactions involving prescribed counterparties.

Real Estate Investment Trusts (REITs)

REITs are rapidly emerging as a new asset class in many parts of Asia, bringing with them the potential to unlock the value tied up in real estate, enhancing the liquidity of the real estate market and freeing up the capital of companies that hold significant real properties

for other higher-yielding activities.

There has already been substantial interest in this area in Singapore, as demonstrated by the five REIT listings posted to date. It has been estimated that the current crop of REITs investing in Singapore-based properties accounts for only a fraction of the investment-grade real estate available here. Hence, there remain significant opportunities for growth in the local market. However, following the successful launch of Fortune REIT (which is invested in Hong Kong properties), there has been increasing interest in establishing cross-border REITs for listing in Singapore, notably involving the People's Republic of China.

As the Finance Minister points out, if Singapore is to strengthen its bid to be the preferred location in Asia for REIT listings, then continuing enhancements need to be made, given that Australia, Malaysia and Hong Kong are all actively developing their own markets.

The Finance Minister therefore proposed three changes to the current arrangements for REITs as a means of lowering their set-up costs and enhancing their appeal to investors, particularly those from overseas.

The first of these is a waiver of stamp duty normally applicable when the real estate is transferred into the REIT. This is currently imposed as follows:

First \$180,000	1%
Next \$180,000	2%
Excess	3%

It will be seen for properties with values running into the tens of millions, that the duty approximates 3 per cent of the value for all intents and purposes. The change will be in place for a five-year period, but it applies to all future transfers into REITs whether already listed on the Singapore Exchange or about to be so. Although not stated in the Budget Speech, it is expected that this will have effect for all transfers on or after Budget Day (18 February 2005).

The second is that the Finance Minister proposes a reduction in the withholding tax rate on distributions out of taxable income made to non-resident corporate investors from 20 per cent to 10 per cent. This is a relatively generous concession as it means effectively that non-residents investing in a REIT will either suffer no Singapore tax on the net rental income if they are individuals, or 10 per cent if corporates. Sadly though, Singapore corporate entities continue to be taxed at the

full corporate rate of 20 per cent.

The final change - almost a throw-away one liner in the Budget Speech - is that "most of the qualifying conditions for tax transparency will also be removed". Tax transparency is where the Inland Revenue Authority of Singapore (IRAS) agree not to tax the net taxable income at the trust level, but only when it finds its way into the hands of the unitholders, if at all. There is generally a whole raft of qualifying conditions, however the most important of these are that:

- i) the trustee must deduct tax on all distributions made to investors who are not qualifying unitholders or who may be qualifying unitholders but have not submitted the required documentation;
- ii) the trustee must provide an indemnity to indemnify the IRAS against any loss of revenue due to its failure to recover tax from the unitholders;
- iii) the REIT must distribute at least 90 per cent of its computed taxable income each year; and
- iv) the REIT should not distribute any gains on the disposal of properties until the relevant computations are agreed with the IRAS.

There are other conditions usually imposed which address issues such as documentation, accounting periods, submission of accounts and the like.

It is clear that the first condition above must remain. However, it is not clear what other conditions are likely to be affected by the proposals, although it has long been thought that the indemnity is excessive and unnecessary.

It should be noted that the first two changes will only have an impact on REITs that invest in Singapore real estate. This is because Singapore stamp duty only applies to the transfer of Singapore-based properties. In addition, distributions out of REITs that hold foreign properties are exempt from tax for all unitholders, if the Fortune REIT model is to be replicated for future launches involving overseas properties.

Nevertheless, stimulating interest in the local property sector will assist in creating the critical mass that will lead to the inflow of talent and experience needed to take the market to the next level of depth and sophistication.

Islamic finance

The global Islamic finance industry has grown significantly. Today, the size of this market is estimated

to be more than US\$300 billion in over 70 countries. With annual double-digit growth expected, it represents one of the most dynamic segments of the global financial system. To enhance Singapore's competitiveness as an international financial centre, the Finance Minister has announced various tax measures to facilitate Singapore's development into a hub for Islamic finance activities.

The principles of Islamic banking and finance are founded on the teachings of Islam ("Shari'ah"). While many details are subject to discussion, some widely-accepted principles have crystallised:

- Prohibition of *riba* (usury), forbidding any kind of interest payments
- Prohibition of *gharar* (speculative investment), making the use of derivatives difficult
- Prohibition of investment in non-acceptable (*haram*) assets such as alcohol and gambling related items

In view of the above, certain financial transactions would need to be structured in a manner that is *Shari'ah*-compliant, in order to cater for investments by Islamic investors.

As payment of interest is not permitted under Islamic finance principles, funding for real estate transactions may need to be structured as a cost-plus sale arrangement as follows:

1. Bank buys assets at spot price (say \$100) and on-sells to investment fund at a premium (say \$120) on deferred payment terms



2. Fund settles sales price (comprising spot price plus premium of \$20) some time in the future

In the above transaction, the premium represents the time value of money for the use of the funds over the deferred payment period.

Where the subject matter of the transaction is Singapore real property, such an arrangement will attract the imposition of stamp duty on two occasions - once on purchase of the property by the bank and again on the sale of the property to the fund. In line with the aim of developing Singapore into a centre for Islamic financial

services, the Finance Minister has proposed to remove the double imposition of stamp duties for Islamic transactions which involve real estate.

For reasons noted above, the issuance of bonds with periodic interest coupons is not permitted. Hence, payouts from Islamic bonds are not legally structured as interest. In this respect, the Finance Minister has proposed to accord the concessionary tax treatment that is currently applicable to conventional financial instruments to payouts from Islamic bonds to ensure parity of tax outcome. This appears to be an attempt to align these products with qualifying debt securities that offer interest withholding tax exemption for foreign investors and reduced tax rates on interest for local corporates.

Approved Finance and Treasury Centre (FTC) incentive

The scope of the FTC incentive has been enhanced in two ways:

In the first instance, the associated companies of the FTC which are in Singapore can now qualify as approved network companies for the purposes of the incentive. In addition, the scope of the qualifying activities and services are now extended to include transactions denominated in Singapore dollars.

For an approved FTC, this would mean that the tax compliance burden is substantially reduced as the liberalisation should eliminate the requirement to keep track of the currency of its numerous transactions and the counterparties with whom it transacts to ensure that it can qualify for the 10 per cent concessionary tax rate.

The expansion of the scope of the FTC incentive could lead to a number of interesting situations:

- Where Singapore-based affiliates of the approved FTC are approved as network companies for the purposes of the incentive, the income which the approved FTC derives from transactions with these parties (e.g. from the provision of treasury services or interest from loans) will be taxed at the 10 per cent concessionary rate. Such Singapore-based affiliates may however, be claiming tax deductions for their payments to the approved FTC at the current corporate rate of 20 per cent. As a result, there could be some revenue leakage to the Government in that it taxes the income of the Singapore FTC at 10 per cent but gives a 20 per cent deduction for the same amount to the Singapore network company. It

remains to be seen if the relevant authorities would introduce computation rules on the approved FTC's incentivised income (akin to that of a qualifying base under the new Financial Sector Incentive) in an attempt to mitigate the revenue loss.

- One of the most valuable benefits of the FTC incentive is the withholding tax exemption granted to the approved FTC for interest payments on loans from overseas parties where the funds from these loans are used for the conduct of qualifying FTC activities. This tax exemption typically leads to reduced borrowings costs for the approved FTC.

With the expansion of the incentive to cover Singapore-based network companies and Singapore dollar denominated transactions, it is likely that multinational companies will increasingly use their Singapore-based FTCs as intermediaries in funding their Singapore subsidiaries. While this certainly increases the attractiveness of the FTC incentive, there are doubts as to whether it is the intention of the Government to relax the rules such that Singapore becomes a centre for conduit financings as this could give rise to concerns among Singapore's treaty partners and the Organisation for Economic Co-Operation and Development (OECD) as to whether the country is engaging harmful tax practices.

Commodity Derivatives Trading

The Commodity Derivative Trading incentive, introduced in the last Budget, will be enhanced to provide for a 5 per cent concessionary tax rate for qualifying income derived by the Approved Commodity Trader from exchange-traded commodity derivatives.

Logistics incentives

To strengthen our position as a logistics hub and to give our export-oriented industries further edge over competitors within the region, the Government proposes to introduce three logistics-related changes.

Bonded warehouse scheme

As part of the measures to grow the services sector and strengthen Singapore's position as a logistics hub, the Finance Minister announced the lifting of the 80 per cent export percentage requirement for the Bonded Warehouse Scheme with effect from 1 January 2006. This is intended to make it easier for logistics companies and importers of goods to qualify for the Bonded

Warehouse Scheme, which enables Goods and Services Tax (GST) to be suspended on the goods imported, and traded within, designated bonded warehouses.

While well-meaning, there are still costs associated with operating a bonded warehouse and the change does not seem significant in the light of existing schemes for the logistics sector. One example is the Approved Third Party Logistics (3PL) Company Scheme, which offers relief from GST on goods imported on behalf of overseas principals and on the supply of the goods to other approved 3PL companies and customers with the Major Exporter Scheme (MES) status. All this is available without the need to operate a bonded warehouse and bear the costs of licence fees for operating the warehouse.

What seems to make more interesting reading about GST in the Budget Speech is that the full-year GST collections for financial year (FY) 2004 are estimated at \$3.7 billion, which represent a significant increase of 25 per cent over the \$3.0 billion collected in FY2003. The GST collections are expected to increase by 8.1 per cent to \$4.0 billion in FY2005 if private consumption expenditure continues to recover. This reflects the fact that GST is an increasingly important source of Government revenue, as the tax now makes up about one-quarter (compared to about one-sixth in FY1994) of the total revenue collected from personal income tax, corporate income tax and GST.

Extension of Approved International Shipping Enterprise (AIS) incentive

Currently a company enjoying AIS status is tax exempt in relation to income from the chartering or operating of ships. However, it currently does not extend to financial leasing arrangements. In order to introduce greater flexibility into the options open to shipping companies for managing their fleets, the proposal is to allow income from the leasing of ships to qualify for the exemption.

The incentive is given for a maximum of ten years, but is renewable upon expiry.

Extension of the Global Trader Programme (GTP)

Companies enjoying the GTP incentive are taxed at a rate of 5 per cent or 10 per cent on income from qualifying trades in specified goods and commodities. One of the conditions for the incentive however is that it only applies where the trades are denominated in

currencies other than the Singapore dollar. The proposal is that trades conducted in Singapore dollars will now also qualify for the reduced tax rate, thereby adding flexibility of choice to the incentive.

Tourism incentives

To keep ahead of the increasing competition from other Asia-Pacific countries, the Singapore tourism and retail sectors need to come up with new and innovative offerings to attract more visitors and entice them to stay longer. The Finance Minister proposed two new incentives to attract investments to spice up Singapore.

Investment allowance

A company granted investment allowance on an approved project is allowed to claim an allowance based on an approved percentage (up to 100 per cent) of the fixed expenditure incurred on plant, machinery, buildings and acquired know-how or patents for carrying out the approved project. Where the fixed expenditure qualifies for capital allowance, the investment allowance would be an additional allowance on top of the capital allowance claimed.

Under the Economic Expansion Incentive (Relief From Income Tax) Act, there are currently eight categories of projects which may qualify for investment allowance on the fixed capital expenditure incurred for such projects subject to the Finance Minister's approval. A project for the promotion of the tourism industry (other than a hotel) in Singapore is already one of the existing eight categories. To attract investments in flagship concept projects in retail, food & beverage and entertainment which do not necessarily qualify as a project for the promotion of the tourism industry, the Finance Minister proposed that the Investment Allowance incentive scheme be extended to such projects approved from 1 April 2005 to 31 March 2010.

Whilst we await further details of the scheme, we share some observations and comments:

1. For the existing eight categories of projects, there is no limitation on the timeframe to apply for approval of investment allowance on fixed capital expenditure for the projects, whereas there is a sunset clause for flagship concept projects.
2. To qualify for investment allowance, the fixed capital expenditure must be incurred within a qualifying

period not exceeding five years, but in the case of a project for the promotion of the tourism industry, the qualifying period is not to exceed 10 years from the commencement day. It seems logical that the qualifying period for flagship concept projects should be the same as for projects for the promotion of the tourism industry.

3. A building (other than a hotel) used for the promotion of the tourism industry may qualify for both investment allowance and industrial building allowances. It would seem equitable for buildings for flagship concept projects to also qualify for industrial building allowance.

It is suspected that this could be a pre-cursor to the contemplated Integrated Resort project.

Concessionary tax rate for tourism events

In 2004, a large population of Singapore residents and tourists from neighbouring countries watched world-class events staged in Singapore such as Mamma Mia!, the Eagles Concert and the World Powerboat Race. To attract more of such world-class events, the Finance Minister proposed to grant events company a concessionary tax rate of 10 per cent for qualifying tourism events approved from 1 April 2005 to 31 March 2010.

This incentive has a sunset clause and is limited to qualifying tourism events. It would appear that the tax incentive for event organisers is not quite on par with the tax incentive for approved exhibition organisers and conference organisers which offers a possibility of tax holidays or a concessionary rate of tax of not less than 5 per cent on incremental income from qualifying activities during the tax incentive period.

Carry-back of tax losses

The Government continues to introduce measures to help small businesses. This year, the new measure put forward is to help them cope with cash-flow problems.

Due to cyclical downturns, a small business may find itself profitable in one year and suffering losses in the next. Having paid tax for the profitable year, the small business may find itself strapped for cash in the next, crippling its growth. Small businesses have appealed to

the Government to introduce a loss carry-back feature into the Singapore corporate tax system to help them navigate through the waves of economic downturn. By carrying back losses, the company may be able to obtain a refund of taxes previously paid.

Heeding the call of small businesses, the Finance Minister has decided to allow a one year loss carry-back for corporate taxes subject to a cap of an aggregate amount of \$100,000 of current year unutilised capital allowances and trade losses. The carry-back will be given on due claim and the ability to carry back losses will be subject to the satisfaction of tests which currently apply for the carry forward of unutilised trade losses and capital allowances, namely the substantial shareholding and same business tests.

Whilst the introduction of the loss carry-back was chiefly designed for the benefit of small businesses, the Finance Minister has allowed it to apply to all businesses, including sole proprietors and partnerships.

More details on the implementation of loss carry-back will be released by the IRAS by June 2005. A number of interesting questions are raised however.

Would it always be beneficial for a company to elect to carry-back losses?

Interestingly, it would depend on the company's stage in life. Currently, up to \$52,500 of a company's chargeable income is exempted from tax. If, however, the company is newly set up, there is a tax exemption for the first \$100,000 of chargeable income for the first 3 years of assessment that fall between year of assessment 2005 and 2009.

It is not clear if the loss carry-back would be set off before the exemption amount or after the exemption amount. If they were to follow the order of set-off for group relief provisions, the loss carry-back would have to be set-off before the exemption amount. As illustrated in the following table, the order of set-off could have a negative impact on the amount of unutilised losses available for carry forward, for which small businesses would feel the pain most. If the intention is to help small businesses, the loss carried back should be set off after exempting the income.

Would tax be refunded upon submission of loss carry-back claim? What if the tax losses have not been agreed?

It is not clear when the IRAS would refund any tax following the claim for loss carried back. Before making any refund of taxes for any particular year of assessment, the IRAS would generally ensure that the tax matters have been finalised for that year of assessment.

If that is the case, the company may be better off to carry forward the loss to offset future profits and reduce the cash tax outlay when paying up the estimated taxes.

What more could be done to help small businesses and encourage entrepreneurship?

In the United Kingdom, if a company ceases to carry on a trade, the company is able to carry back losses against the profits of the three years preceding the year in which the loss is incurred. If this were allowed, businesses that have failed may be able to obtain some cash back and end up paying tax by reference to the performance over a longer period and not by reference to discrete accounting periods, which are an artificial accounting convention.

Illustrations on carry back losses

Illustration	Loss carry back set off after exempt income			
	31.12.04	31.12.05	31.12.06	
	\$	\$	\$	
Net profit / (loss)	100,000	(20,000)	100,000	
Less: Capital Allowance	(20,000)	(50,000)	(20,000)	
	80,000	(70,000)	80,000	
Less: Losses brought forward	0	0	(32,500)	
Less: Exempt Income	(42,500)	0	(26,250) <small>Note</small>	
Chargeable Income / (Loss carry forward)	37,500	(70,000)	21,250	
Less: Loss carry back	(37,500)	37,500	0	
Adjusted chargeable income / unutilised donations carry forward	0	(32,500)	21,250	
				Total Tax Liability
				\$
Tax payable after loss carry back	0	0	4,250	4,250
Tax payable before loss carry back	7,500	0	4,250	
Tax liability / (refund)	(7,500)	0	0	
				Total Tax Liability
				\$
Tax payable after loss carry back	500	0	7,500	8,000
Tax payable before loss carry back	7,500	0	7,500	
Tax liability / (refund)	(7,000)	0	0	

Illustration	Loss carry back set off before exempt income			
	31.12.04	31.12.05	31.12.06	
	\$	\$	\$	
Net profit / (loss)	100,000	(20,000)	100,000	
Less: Capital Allowance	(20,000)	(50,000)	(20,000)	
	80,000	(70,000)	80,000	
Less: Losses brought forward	0	0	0	
Less: Loss carry back	(70,000)	70,000	0	
Chargeable Income / (Loss carry forward)	10,000	0	80,000	
Less: Exempt income	(7,500)	0	(42,500) <small>Note</small>	
Adjusted chargeable income / unutilised donations carry forward	2,500	0	37,500	
				Total Tax Liability
				\$
Tax payable after loss carry back	500	0	7,500	8,000
Tax payable before loss carry back	7,500	0	7,500	
Tax liability / (refund)	(7,000)	0	0	

Pay more tax if loss carried back is set off before exempt income!

Note: For the first \$10,000 of chargeable income, 25% is taxable. For the next \$90,000 of chargeable income, 50% is taxable.

Welfare measures for Singaporeans

As part of the Government's drive to foster a caring and inclusive society, to help Singaporeans cope with changes and save more for their retirement needs, and to provide Singaporeans better access to quality education and excellent medical care, the Budget proposes Government top-ups to various schemes as follows:

- Special one-off top up of \$100 to Edusave account of every eligible primary and secondary school student;
- Age-based Medisave top-ups between \$50 and \$350 for Singaporeans aged 21 and above; and
- Top-ups of \$100 to the Central Provident Fund (CPF) Special/Retirement accounts of Singaporeans aged 50 and above.

Streamlining of limits for CPF contributions

Voluntary CPF contributions by employees

Historically, employees and their employers have been required to make mandatory contributions into the CPF scheme, which are fully tax deductible. The mandatory contributions are subject to an overall limit (for both employer and employee contributions) which is presently:

17 months x monthly salary ceiling (presently \$5,000 x 33 per cent, i.e. \$28,050).

Hence, employees who earn less than the monthly salary ceiling and have therefore not reached the overall contribution cap mentioned above are allowed to make voluntary contributions to the CPF scheme, subject to a different contribution limit of \$23,760. However these voluntary contributions are not tax deductible.

As the earlier limits for voluntary CPF contributions were not aligned with the mandatory contribution cap, the Budget aims to do this. The voluntary contribution caps will thus be aligned with the overall cap of 17 months' salary as well as a contribution rate of 33 per cent. The stated objective for this change is to encourage Singaporeans to save more for their retirement. A

comparison of the present and the proposed limits is as follows:

Present limit	Proposed limit
\$23,760	\$28,050 @

@ 5,000 x 17 x 33%

By way of illustration, an employee who earns \$4,000 per month would have contributed (along with his employer's contribution) a sum of \$15,840 as mandatory contributions, allowing him to contribute an additional \$7,920 as voluntary contributions, based on the present limits. With this proposed alignment, he will now be able to contribute an additional \$4,290 as voluntary contributions, making the top-up \$12,210 in total.

However, whether the proposal would actually encourage employees to contribute more into the CPF scheme is not clear. In the past, even with the lower limits, employees had often opted not to make voluntary contributions, since the contributions they made were not tax deductible. It is therefore difficult to anticipate how the alignment of the limits upwards would encourage employees to put more into the CPF scheme, unless the new proposal also seeks to introduce a full tax deduction for the voluntary contributions. Whether this is contemplated is not very clear from the Budget proposals, but if the tax deduction is introduced, it can certainly serve as a push factor for employees to contribute more into the scheme.

However, if the purpose of the proposal is to encourage employees who earn below the CPF income ceiling to put more into the scheme, a tax deduction may not necessarily achieve the objective. This is simply because such employees pay little or no income tax and hence, the benefit of the tax deduction, if any, may not be significant enough to drive these employees to contribute more.

Voluntary CPF contributions by the self-employed

Unlike employees, self-employed individuals are only required to make compulsory Medisave contributions to the CPF. However, to encourage them to contribute to CPF, voluntary contributions they make are eligible for tax deduction, subject to certain limits. The present limits are however not aligned with the limits applicable to employees. Accordingly, the limits for voluntary CPF contributions as well as the tax relief for the self-employed will also be raised to align them with the tax

relief given to employees. A comparison of the present and the proposed limits is as follows:

Present limits and allowable tax relief	Proposed limits and allowable tax relief
\$21,780 *	\$28,050 @

* \$5,500 x 12 x 33%
 @ \$5,000 x 17 x 33%

The proposed change in the limits and the tax relief for the self-employed throws up an interesting debate. If voluntary contributions by the self-employed are eligible for tax deduction, it is not clear why voluntary

contributions made by employees are not given the same benefits. Moreover, now that the overall CPF limits have been aligned at the same level for employees as well as for the self-employed, it may only be fair to remedy this anomaly by introducing this deduction in the present Budget proposals.

Relaxation of CPF Minimum Sum topping up criteria

The criteria for enabling top-ups to Retirement Accounts of members' parents or their non-working spouses aged 55 and above have been relaxed, as presented in the table below:

Relaxation of CPF Minimum Sum topping up criteria

Present criteria	Proposed criteria
<p>Regrossed CPF balance must exceed twice the prevailing CPF Minimum Sum of \$84,500.</p> <p>AND</p> <p>Net balances in the Ordinary and Special Accounts must exceed twice the prevailing CPF Minimum Sum</p>	<p>Net balances in the Ordinary and Special Accounts (including amounts withdrawn for investments) must exceed 1.5 times the prevailing CPF Minimum Sum</p>

The maximum top-up that can be received is also to be increased. The details of this will be released by the CPF Board later.

Simplification of the Supplementary Retirement Scheme (SRS)

Traditionally, the SRS contribution limits have been different for employees and the self-employed. For employees, the SRS limits were aligned with the mandatory CPF limits. On the other hand, the income ceiling for the self-employed was \$72,000. This has now been aligned to an absolute cap of 17 months of the salary ceiling, which is presently \$5,000 per month.

We illustrate below the impact of these changes:

For a Singaporean employee who earns \$3,000 per month (with no bonus)

	Limit	SRS contribution
Current	\$3,000 x 12 @ 15%	\$5,400
Proposed	\$3,000 x 17 @ 15%	\$7,650

For Singaporean employee who earns \$10,000 per month (with no bonus)

	Limit	SRS contribution
Current	\$5,000 x 12 @ 15%	\$9,000
Proposed	\$5,000 x 17 @ 15%	\$12,750

For Singaporean self-employed person

	Limit	SRS contribution
Current	\$72,000 @ 15%	\$10,800
Proposed	\$5,000 x 17 @ 15%	\$12,750

The SRS scheme has seen at best a lukewarm response thus far. It is therefore difficult to understand how an upward alignment of the limits will increase the SRS intake, unless the basic taxing rules on withdrawal of the SRS funds are re-examined. Given that most direct investments by individuals now yield tax-free returns, there was a hope that the withdrawal tax on SRS funds could be dispensed with. However, as this has not been forthcoming, at least for now, the SRS may still not be a viable option for many.

Cultivating a more charitable society

In the last few years, the Government has been encouraging Singaporeans to be charitable and contribute to the community, either by donating to charitable societies, or by participating in volunteer work. Tax concessions, such as double deductions for qualifying donations, as well as the introduction of the Public Sculpture Scheme, have been implemented to promote the spirit of philanthropy.

Following this, a few refinements have been made to the various tax incentives for charities.

Definition of charitable purposes

To be registered as a charity in Singapore and enjoy tax exemption, the charity has to be set up for “charitable purposes”, and must carry out activities to achieve these purposes. Currently the “charitable purposes” recognised by the Government are:

- the prevention and relief of poverty;
- the advancement of education;
- the advancement of religion; and
- other purposes beneficial to the community.

To encourage more Singaporeans to set up new charities, the Government will now recognise the advancement of sport as a charitable purpose, where the sport advances the health of individuals. In addition, the Government will also specifically recognise the following as “other purposes beneficial to the community”:

- the advancement of health;
- the advancement of citizenship or community development;

- the advancement of the arts, heritage or science;
- the advancement of environmental protection or improvement;
- the relief of those in need by reason of youth, age, ill-health, disability, financial hardship or other disadvantage; and
- the advancement of animal welfare.

It should be noted, that currently, there are charities that promote the above causes which have been approved for registration and tax exemption. The above changes serve to provide more clarity to persons who wish to register a charity.

Equalisation of tax treatment of donations

Perhaps the change most welcomed would be the equalisation of the tax treatment between donations with naming opportunities, and those without. Presently, qualifying donations made to IPCs and other approved beneficiaries (e.g. approved museums) qualify for double tax deduction, provided the donations do not carry naming rights. Where the donations carry naming opportunities, they will only qualify for single tax deduction. With effect from 1 January 2005, all donations to IPCs and approved beneficiaries will qualify for double tax deduction, regardless of whether they involve naming opportunities.

Extension of computer donation scheme to IPCs

Currently, donors of computers (including software and related peripherals) to prescribed educational and research institutions in Singapore enjoy double tax deductions. The Government has now extended the scheme to donations of computers and peripherals to IPCs. This will allow IPCs better access to information technology to improve efficiency and effectiveness in their operations and activities.

Stamp duty

In addition to a stamp duty waiver on the transfer of Singapore properties into REITs and the removal of the double imposition of stamp duty incurred in Islamic finance transactions which involve real estate, prospective property buyers can now recover the stamp duty paid when a sale and purchase agreement for a property is subsequently aborted. However, a \$50 charge will be imposed to cover the administrative costs of the Government.

The Government has further enhanced the scope of stamp duty relief by removing the need for transferee companies to be Singapore tax resident when assets (primarily shares in Singapore companies or Singapore real estate) are transferred between associated companies. This is a welcomed change, however, other improvements could still be made. It is not clear, for example why, in group situations, there is a need for the assets to be transferred at market value in order to qualify for exemption.

Finally, stamp duty relief is now also extended to include the transfer of mortgages.

These changes will take effect from 18 February 2005.

Estate Duty

Currently, individuals who die within a short period of each other and who pass their assets from one to another are taxed on each death, causing a burden to the bereaved families. From 1 January 2006, estate duty paid on the earlier death will be deducted from the estate duty payable on the same assets in the beneficiaries' subsequent deaths. The table below shows the applicable rates of relief.

Table - Estate duty relief for deaths in quick succession

For successive deaths occurring within	Estate Duty Relief
≤ 6 months	100%
7-12 months	75%
13-18 months	50%
19-24 months	25%
> 24 months	0%

Whilst this is an equitable and welcome change, it remains a mystery why estate duty is not dispensed with entirely as part of the Government's aim to strengthen the appeal of Singapore as a world-class wealth management centre.

2004 in Retrospect

2004 was another busy year on the tax scene with another rash of circulars and public feedback exercises. The more significant of these are discussed below. This is followed by a calendar of events describing the various issues and announcements.

Foreign-sourced income exemption

Although brought in with effect from 1 June 2003, there was still a degree of uncertainty surrounding certain aspects of the so-called simplified process for dealing with foreign dividends, branch profits and service fee income, well into 2004.

However, during the course of the year, two areas became clearer, either through the issue of a circular or discussion with the IRAS. The first was a concession in relation to dividends. Under the rules, one of the conditions for a dividend to be exempt from tax when brought into Singapore was that the dividend, or the profit out of which it was paid, had been subject to tax in the other jurisdiction. However, where a company was operating in a foreign jurisdiction and had not actually paid tax on profits out of which dividends were paid as a result of an incentive granted to it, then dividends from that entity would potentially be taxable.

By way of concession however, the IRAS have agreed that such dividends would be regarded as having met the "subject to tax" condition and would thus be exempt from tax when remitted to Singapore, provided the entity was carrying on *bona fide* substantive activities in that country.

The second revelation was that it would be necessary to trace back to the source of profits out of which dividends were paid, in order to determine whether, specifically, tax had been paid on all items. For example where a Hong Kong company had made a tax free capital gain and had also generated some Hong Kong taxable income, the portion of any dividend paid out of the gain would be taxable when remitted, the portion attributable to the taxed profits would be exempt.

As a result, it became clear that the new exemption was not entirely the simplification process that it had been billed as originally.

Limited Liability Partnerships (LLPs)

In response to general law that allows the creation of LLPs in Singapore, legislation was enacted to give effect to the tax treatment of these entities. Essentially, an LLP is accorded tax transparent treatment, that is, it is the partners who individually pay tax on their share of the profits, not the partnership as a separate entity. Any losses could also be attributed to the partners and used by them for set-off against other sources of Singapore income they might have. However, the loss available for use is restricted to the amount of capital the partner has contributed. This is calculated on a cumulative basis. In theory, the excess can be carried forward for set-off against future income from the partnership although this does not fall easily from the legislation.

Business Trusts

The business trust concept has been created as yet another way of enabling businesses to be carried on in a flexible manner that suits the needs and tastes of their owners.

A circular was issued by the IRAS which, rather disappointingly, suggested that business trusts were going to be taxed as if they were Singapore corporate entities operating under the one-tier system. As a result, any thoughts of tax transparency that could have allowed these vehicles to be used as an alternative to the REIT must now be put aside. With the proposed restricted treatment, it is not clear what the future of these entities will be, however it does not look rosy.

Goods and Services Tax (GST)

Apart from the GST rate hikes in 2003 and 2004, Budget announcements do not normally offer much excitement in terms of GST and 2005 is no exception. However, this is not to say that the GST has not had any developments during the year, as the IRAS had been busy issuing a number of circulars on a wide-ranging number of issues.

Some of the more significant (if not somewhat controversial) circulars worth noting include two matters that we had said require attention, in our 2004 Budget Commentary.

Grants - to claim or not claim input tax

In our Budget Commentary last year, we highlighted the problem of a long-held view of the IRAS that the receipt of grants could give rise to a restriction of input tax claims on expenses funded by the grants. In a circular issued in July 2004, the IRAS expressed that this is no longer the case and considered that the input tax restriction would only arise if the recipient of the grants carried on activities that would be non-business in nature. The circular further clarifies what the IRAS regards as non-business activities. These include free activities without commercial reason and activities carried out by organisations with objects in the public domain or which are of a political, religious, philanthropic or patriotic nature. In such cases, a restriction or apportionment of the input tax would be required.

International services that "directly benefit" someone in Singapore

Another issue previously raised is the problem of a Singapore service provider who is required to charge (and collect) GST on an invoice that is raised to an overseas client who had contracted for the services. If the services are received by someone in Singapore, the IRAS would regard that local person to "benefit" from the services and hence, the services would be liable to GST which is not recoverable by the overseas client. The phrase "directly benefit" is now written into the GST law through amending legislation in November 2004 with its application further confirmed in a subsequent IRAS circular released in early 2005.

The above continues to give rise to practical difficulties as the Singapore service provider has to be certain that there is no one in Singapore that can be said to "directly benefit" from his services if zero-rating is to be applied to his billings to the overseas client. The need to charge GST on what should be regarded as international services does not help efforts to grow Singapore's regional and global services.

Paying GST on free use of business premises

2004 also saw the IRAS releasing a surprising circular which looked at a situation where a taxable person allows a part of his business premises to be occupied and used by a third party (including related parties) for free. In such a case, the IRAS considers the free use of the business premises by the third party to be unconnected with the business of the taxable person. As a result, the taxable person has to account for GST output tax on the deemed supply of services to the third

party. Further, the taxable person is not to claim GST on common operating expenses (e.g. utilities, telephone charges) for which he does not re-bill or seek reimbursement of the expenses from the third party.

The costs of getting it wrong

Last but not least, let's not forget the IRAS collections from GST audits. According to the IRAS Annual Report 2003, the tax and penalties collected from GST audits for the year ended 31 March 2004 amounted to \$247 million.

It just goes to show that the GST can be a real cost to businesses if one gets it wrong.

2004 in snapshot

2004 was another busy year for legislative changes and circulars from the Inland Revenue Authority of Singapore (IRAS). Set out below are some of the highlights.

January	Interest Income for Individuals	The IRAS replaces the formula for calculating the amount of taxable interest income from Singapore deposits with an absolute figure. This effectively benchmarks the taxable interest income (from non-POSB standard deposits) against the first \$100,000 of a notional POSB savings account. The maximum taxable amount for year of assessment 2005 was set at \$125.
	Not Ordinarily Resident (NOR) Scheme	The IRAS releases a Supplementary Circular detailing a concession to include the 3-year administrative concession in the residency test for the NOR scheme.
	Withholding Tax	The Maritime Port Authority (MPA) issues a Circular with details on the tax exemption for interest payments (on overseas loans) made by shipping companies which qualify for the Block Transfer Scheme (BTS). This takes effect from 1 January 2004.
	Salaried Partners	The IRAS clarifies that it will standardise the tax treatment for all salaried partners - they will be assessed as employees and tax relief for CPF contributions will be allowed in accordance with the prescribed limits for employees. This takes effect from YA 2004.
	Supplementary Retirement Scheme (SRS)	The Ministry of Finance (MOF) announces adjustments to the SRS contribution caps with effect from 1 January 2004, to reflect the changes in CPF contribution caps.
	Double Tax Agreements (DTAs)	The Egypt-Singapore DTA is ratified.
February	Regional Headquarters (RHQ) Incentives	The Economic Development Board (EDB) revises the RHQ guidelines to reflect the extended qualifying period proposed in the 2004 Budget Speech.
	Financial Services Incentives	The Monetary Authority of Singapore (MAS) releases details on the 2004 Budget proposal for the various new / enhanced financial services incentives.
	Enterprise Investment Incentive	SPRING (Standards, Productivity and Innovation Board) and EDB issue details of the 2004 Budget-proposed expansion of the Enterprise Investment Incentive scheme (previously known as the Technopreneur Investment Incentive) scheme.
	DTAs	Singapore signs its 52nd DTA with Bahrain.

March	Non-Singapore Dollar Functional Currency	The IRAS revises its Circular dated 31 December 2003 to clarify that taxpayers need to submit their income tax computations and prepare their financial statements in their functional currency.
	Non-Resident Directors	The IRAS confirms that fees paid to non-resident directors (i.e. purely in their capacity as directors) by non-resident companies with no presence in Singapore are not sourced in Singapore - which is not surprising.
	Expansion Incentive for Partnerships (EIP) Programme	The EDB launches a new Expansion Incentive for Partnerships (EIP) programme for audit, accounting and law firms.
April	Economic Expansion Incentives (Relief from Income Tax) Act	The Economic Expansion Incentives (Relief from Income Tax) (Amendment) Act 2004 is gazetted.
	Automatic Writing Down Allowances (WDA) for Intellectual Property (IP) Rights	The EDB fine-tunes the earlier guidelines issued in October 2003 and adds a new requirement for qualifying companies to submit a declaration form for the auto-WDA claims.
	Approved Commodity Derivatives Incentive	The MAS issues a Circular setting out guidelines for the Approved Commodity Derivatives Incentive.
	Global Trader Programme (GTP)	International Enterprise (IE) Singapore releases detailed guidelines on the Global Trader Programme (GTP).
	Simplification of Tax Rules and Procedures	The IRAS broadens the scope of the acceptable person's confirmation for the shareholder continuity test in yet another simplification of the income tax rules and procedures.
	DTAs	The Belgium-Singapore supplementary agreement is ratified.
May	High Value-Added Processing Services Supporting Financial Activities	The MAS releases a Circular on the tax incentive scheme for the provision of high value-added processing services supporting financial activities.
	Foreign Talent Recruitment	The Ministry of Manpower (MOM) updates its guidelines on the further deduction scheme for foreign talent recruitment & relocation expenses to include new limits on the deduction allowed.
	Audit Exemption for Exempt Private Companies	The MOF announces an increase in the audit exemption threshold for exempt private companies to an annual revenue of \$5 million from the previous \$2.5 million. This applies to companies with financial periods beginning on or after 1 June 2004.
June	DTAs	The MOF seeks feedback on areas of improvement for DTAs with 11 countries; namely Australia, China, India, Indonesia, Japan, Malaysia, Philippines, South Korea, Thailand, Taiwan and United States of America.

	Separate Assessment for Husband and Wife	The IRAS announces the removal of combined assessment for husband and wife with effect from year of assessment 2005.
	DTAs	The Lithuania-Singapore DTA is ratified. A new Germany-Singapore DTA is signed (not yet in force).
July	Simplification of Tax Rules and Procedures	The IRAS announces that the assessment of non-trade income and deductions for approved donations will now be dealt with on an accounting year basis.
	Exemption of Foreign Source Income	The IRAS issues a supplementary circular which: <ul style="list-style-type: none"> 1. details a new tax concession for the "subject to tax" condition under Section 13(8) of the Income Tax Act; and 2. clarifies what is considered a fixed place of operation for the foreign-sourced service income exemption under that section.
	Limited Liability Partnerships (LLP)	The IRAS issues guidance on the tax treatment of LLPs.
	Goods and Services Tax (GST)	The IRAS issues three circulars / guidelines covering: <ul style="list-style-type: none"> 1. Exchange Rates for GST Purposes 2. A Guide on Exports 3. GST on Non-Business Receipts
August	MOF Consultation Paper - Current Year Assessment	The MOF seeks feedback on changing the basis of taxation to a current year basis of assessment.
	Stock Options / Share Ownership Plans	The IRAS announces an alternative to the deemed exercise rule for the taxation of the gains realised from stock option or share ownership plans when an employee leaves Singapore.
	Financial Sector Incentive (FSI) Scheme	The MAS releases details on the extension of the FSI Scheme to include secondary loan trading activities.
	Marriage and Parenthood Measures	The IRAS releases details of a new package of tax measures to support parenthood.
	Stamp Duty on Transfer of Shares and Distribution of Assets-in-Specie	The IRAS announces changes to the following: <ul style="list-style-type: none"> 1. stamping of a transfer of shares; and 2. consequences of a distribution in Singapore of assets in the course of a winding up.

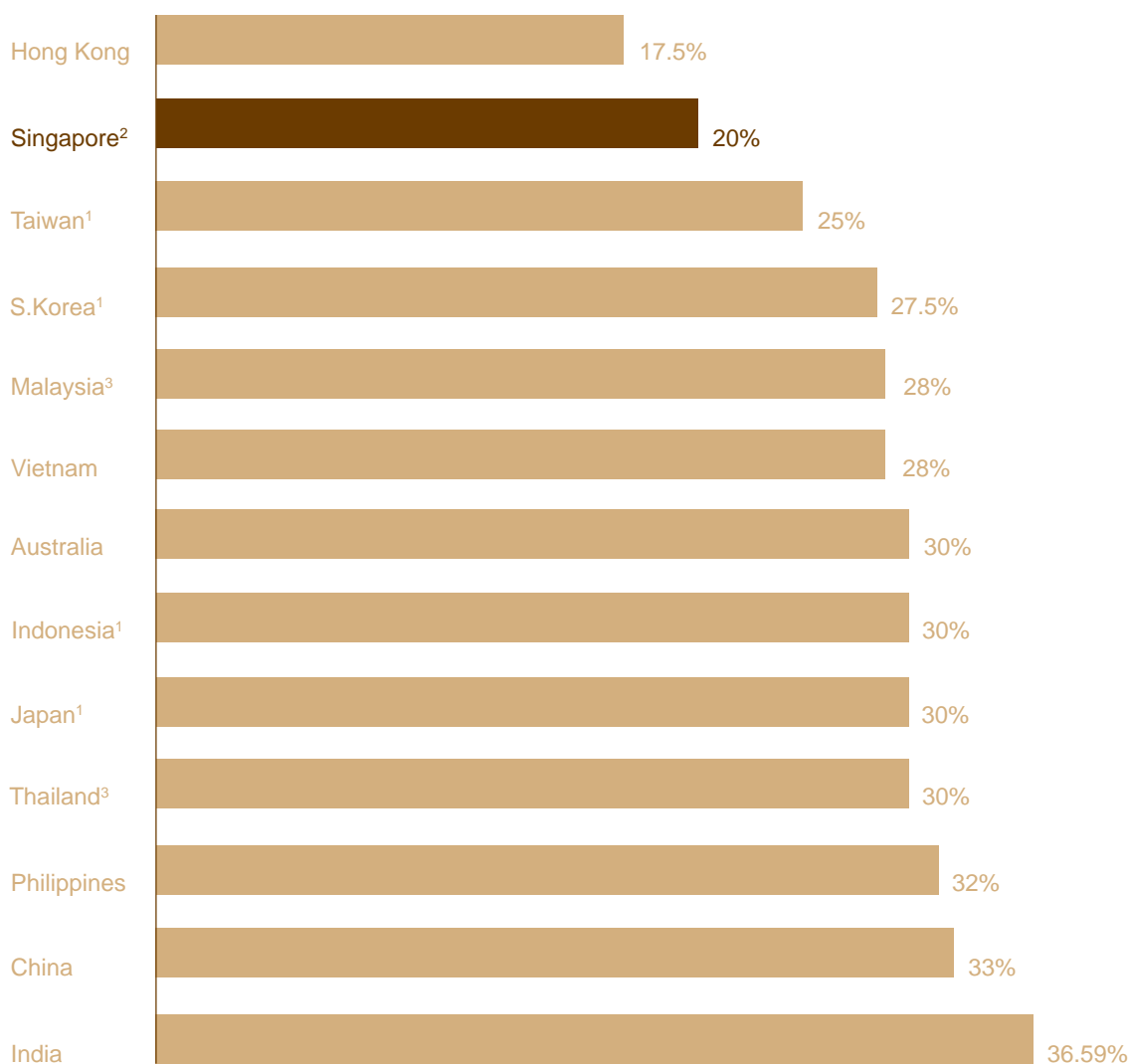
September	Simplification of Tax Rules and Procedures	The IRAS issues a Circular detailing the simplification of the rules for capital allowance (CA) claims for assets costing not more than \$1,000 each. A 1-year CA claim will be allowed for such assets, subject to a \$30,000 annual CA cap. This takes effect from YA 2005.
	Tax Treatment of Benefits-in-kind (BIK)	The IRAS confirms that it will continue to administer the tax treatment of BIK through administrative concessions and announces two new exemptions.
October	“Keyman” Insurance Premiums	The IRAS clarifies some issues on the deductibility of “keyman” insurance premiums.
	DTAs	The Mongolia-Singapore DTA is ratified. Singapore signs a revised treaty with Malaysia (not yet in force).
November	Amendments to Tax Legislation	The following Amendment Acts are gazetted: 1. Income Tax (Amendment) Act 2004 2. Economic Expansion Incentives (Relief from Income Tax)(Amendment No. 2) Act 2004 3. Goods and Services Tax (Amendment) Act 2004 Few of the amendments incorporate feedback received in response to the MOF’s public consultation exercise carried out in June and July 2004.
	GST	The IRAS issues two GST circulars / guidelines relating to: 1. the use of business premises by third parties for free; and 2. GST relief on the purchase of land used for residential development
December	Business Trusts	The IRAS releases guidelines on the tax treatment of business trusts. These will effectively be treated on the same way as companies subject to the one-tier system of taxation.
	GST	The IRAS issues a GST circular which sets out the guidelines for the Marine Fuel Trader Scheme.
	DTAs	The Hong Kong-Singapore limited treaty on air transport and shipping is ratified. The Bahrain-Singapore DTA is ratified.

For more details, visit our Singapore tax website at <http://www.pwc.com/sg>, or call your usual PricewaterhouseCoopers contact. A list of useful links is also provided below:

MOF	http://app.mof.gov.sg/
IRAS	http://www.iras.gov.sg/
EDB	http://www.sedb.com/
IE Singapore	http://www.iesingapore.gov.sg/
MPA	http://www.mpa.gov.sg/
MOM	http://www.mom.gov.sg/
SPRING	http://www.spring.gov.sg/

Appendix A

Comparison of Asia-Pacific corporate tax rates (for income year 2005)



Note: Certain rates include local/resident surtax or surcharge (e.g. China, India & S. Korea). In addition to the basic corporate tax, some of the countries (e.g. Japan) have additional income related taxes such as provincial, inhabitants, enterprise or municipal tax and undistributed income tax.

¹ Lower rates of tax apply to income below certain levels.

² Partial exemption of up to \$52,500 applies to the first \$100,000 of chargeable income.

³ Lower rate of tax apply to small and medium-sized enterprises.

Appendix B

Comparison of Asia-Pacific individual tax liabilities (a married man with two dependent children for income year 2004)

	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\$	%
Singapore	5,075	7	8,825	9	27,557	14
Australia ³	25,490	34	37,864	38	87,365	44
China	15,867	21	23,728	24	65,099	33
Hong Kong	6,629	9	11,629	12	31,629	16
India	24,429	33	32,844	33	66,504	33
Indonesia	21,753	29	30,376	30	64,865	32
Japan	5,397	7	11,050	11	48,125	24
Malaysia	15,646	21	22,646	23	50,646	25
Philippines	22,879	31	30,879	31	62,879	31
Taiwan	10,109	13	17,609	18	55,186	28
Thailand	17,304	23	24,804	25	61,556	31
Vietnam	17,605	23	27,605	28	67,605	34

Notes

1. Deductions for Social Security are not taken into account unless the contributions are compulsory by law.
2. Standard deductions are taken into account.
3. Based on new tax rates for year ending 30 June 2005.
4. In view of the budget changes for the next two years, Singapore will be even more tax competitive.

Appendix C

Resident individual tax rates for years of assessment 2005 to 2007

Chargeable Income	Current		Proposed in 2005 Budget			
	Year of assessment 2005		Year of assessment 2006		Year of assessment 2007	
	Rate	Tax	Rate	Tax	Rate	Tax
\$	%	\$	%	\$	%	\$
On the first 20,000	0.00	0.00	0.00	0.00	0.00	0.00
On the next 10,000	4.00	400.00	3.75	375.00	3.50	350.00
On the first 30,000		400.00		375.00		350.00
On the next 10,000	6.00	600.00	5.75	575.00	5.50	550.00
On the first 40,000		1,000.00		950.00		900.00
On the next 40,000	9.00	3,600.00	8.75	3,500.00	8.50	3,400.00
On the first 80,000		4,600.00		4,450.00		4,300.00
On the next 80,000	15.00	12,000.00	14.50	11,600.00	14.00	11,200.00
On the first 160,000		16,600.00		16,050.00		15,500.00
On the next 160,000	19.00	30,400.00	18.00	28,800.00	17.00	27,200.00
On the first 320,000		47,000.00		44,850.00		42,700.00
On income above 320,000	22.00		21.00		20.00	

Appendix D

Tax savings from the reduction in personal tax rates

	Current			Proposed Changes			Tax Savings (D) / (A)			
	Chargeable Income	Year of assessment 2005	Tax (A)	Year of assessment 2006	Tax (B)	Cumulative Tax Savings		Year of assessment 2007	Tax (D)	Cumulative Tax Savings
	\$	Rate %	\$	Rate %	\$	(C) = (B) - (A) \$		Rate %	\$	(D) - (A) \$
On the first	20,000.00	0.00	0.00	0.00	0.00		0.00	0.00		
On the next	10,000.00	4.00	400.00	3.75	375.00		3.50	350.00		
	30,000.00		400.00		375.00	(25.00)		350.00	(50.00)	
On the next	10,000.00	6.00	600.00	5.75	575.00		5.50	550.00		
	40,000.00		1,000.00		950.00	(50.00)		900.00	(100.00)	
On the next	40,000.00	9.00	3,600.00	8.75	3,500.00		8.50	3,400.00		
	80,000.00		4,600.00		4,450.00	(150.00)		4,300.00	(300.00)	
On the next	80,000.00	15.00	12,000.00	14.50	11,600.00		14.00	11,200.00		
	160,000.00		16,600.00		16,050.00	(550.00)		15,500.00	(1,100.00)	
On the next	160,000.00	19.00	30,400.00	18.00	28,800.00		17.00	27,200.00		
	320,000.00		47,000.00		44,850.00	(2,150.00)		42,700.00	(4,300.00)	
Above	320,000.00	22.00		21.00			20.00			

Your PricewaterhouseCoopers contacts

Tax Partners

Corporate Tax

Chan-Cheng Wei	cheng.wei.chan@sg.pwc.com	65 6236 3808
Paul Cornelius	paul.cornelius@sg.pwc.com	65 6236 3718
Paula Eastwood	paula.eastwood@sg.pwc.com	65 6236 3648
Nicole Fung	nicole.fung@sg.pwc.com	65 6236 3618
Abhijit Ghosh	abhijit.ghosh@sg.pwc.com	65 6236 3888
Ho Mui Peng	mui.peng.ho@sg.pwc.com	65 6236 3838
Khoo Ghee Khong	ghee.khong.khoo@sg.pwc.com	65 6236 3828
Noris Ong	noris.ong@sg.pwc.com	65 6236 3688
David Sandison	david.sandison@sg.pwc.com	65 6236 3675
Florence Tan-Nguyen	florence.nguyen@sg.pwc.com	65 6236 3868
Peter Tan	peter.tan@sg.pwc.com	65 6236 3668
David Toh	david.toh@sg.pwc.com	65 6236 3908
Yip Yoke Har	yoke.har.yip@sg.pwc.com	65 6236 3938

Personal Tax

Richard Schulte	richard.schulte@sg.pwc.com	65 6236 3768
Jenny Goh	jenny.goh@sg.pwc.com	65 6236 3638

Goods & Services Tax

Koh Soo How	soo.how.koh@sg.pwc.com	65 6236 3600
-------------	------------------------	--------------

Visit our Singapore tax website at www.pwc.com/sg/tax

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services for public and private clients. More than 120,000 people in 144 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

"PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Copyright©2005 PricewaterhouseCoopers Singapore. All rights reserved.

8 Cross Street, #17-00 PWC Building, Singapore 048424 • Tel 65 6236 3388 • Fax 65 6236 3715

These notes are designed to keep clients up to date with tax developments. They are of a general nature only and are not intended to be comprehensive. Readers are therefore advised that before acting on any matter arising from these notes, they should discuss their particular situation with the Firm. No liability can be accepted for any action taken as result of reading the notes without prior consultation with regard to all relevant factors.