



# *New Directions: Inflections and Reflections*

Budget Commentary Singapore



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## *New Directions: Inflections and Reflections*

The need to transform its economy coupled with having to cope with changing social demographics means that Singapore as a nation has crossed an inflection point, when it has to embark in new directions in its strategy for sustainable growth.

Recognising this early, the government has introduced a number of measures to promote innovation and productivity in recent years. Budget 2014 seeks to build on these measures, with a particular focus on Singapore businesses and small and medium enterprises (SMEs). These include enhancement to the Productivity and Innovation Credit (PIC) scheme for SMEs, financial assistance to encourage early and wider adoption of info-communications technology solutions, as well as the extension of financing schemes for companies at different stages of growth. Businesses were reminded of ‘the permanent reality of a tight labour market’, and this means there is no choice but to increase efficiency, move up the value chain and explore new markets outside Singapore.

The raft of tax and financial assistance schemes should be welcomed by businesses, as they provide some relief against rising costs while businesses restructure and expand beyond Singapore’s shores. It would, however, be useful if more targeted tax measures could have been introduced to complement this overall strategy, for example, in commercialisation of intellectual property. In other areas such as asset management, the enhancements will ensure Singapore stays competitive but more can be done to take it to the next level.

With an eye on quality growth, the Budget 2014 proposals reflect the government’s intention to reward the more dynamic and efficient players – those who are prepared to invest and restructure so as to achieve innovative breakthroughs; or in the Minister for Finance’s words, help is given to those who have their ‘own money in the game’.

The philosophy of helping those who help themselves is also reflected in the measures proposed in building a fair and equitable society. Here the Minister emphasised the social compact between the state and its citizenry – that it is one of personal as well as collective responsibility. Financial assistance in education for children from lower and middle income households is but one example, for it seeks to ensure equal opportunities are available for all, but does not guarantee equal outcomes. In the same vein, those who helped in nation building – the pioneer generation – will be looked after through a generous package that will see to their wellbeing in their golden years.

Medical-related benefits in the form of heavy subsidies for outpatient treatment, Medisave top-ups and MediShield Life entail significant costs for which a Pioneer Generation Fund (of \$8 billion) will be established. Along with other healthcare-related measures and a temporary employment credit to partially offset increased Central Provident Fund (CPF) contribution rates for older workers, the increased spending reflects the changing demographics of an ageing population.

The Minister has clearly articulated the twin challenges of economic transformation and building an inclusive society. He has also laid out what will be necessary to address these challenges. It is only by achieving the former that there will be sufficient resources to fund the programmes needed for the latter. As Singapore reflects on its past and pays tribute to the pioneer generation in the run-up to the 50th anniversary of its independence next year, it can take comfort that while the stakes may be high, the direction to achieving success is clear.

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## **Corporate tax**

### **Budget perspectives – foreign multinational corporations**

As expected, the focus of this year's Budget was on achieving a fair and equitable society. Many of the proposed tax measures (such as the enhanced PIC Scheme) were focused on assisting SMEs to improve their productivity and encourage innovation – and rightfully so. Similarly, Singapore-based companies will benefit from enhanced financing aid to assist them in expanding overseas. Certainly, these are key steps towards enhancing the vibrancy of Singapore's economy.

But what about foreign multinational corporations (MNCs) that are already operating in Singapore, looking to expand their presence in Singapore or considering Singapore as a strategic hubbing and headquarter location? Foreign direct investment (FDI) continues to form a key pillar of Singapore's economy. The continued inflow of FDI and know-how will be critical in developing advanced capabilities to safeguard Singapore's current position as a dynamic place for doing international business.

This year's Budget contained certain enhancements and tax measures to promote Singapore as a research and development (R&D) and intellectual property (IP) hub, which invariably could be applicable to MNCs. However, foreign MNCs today are faced with increasing uncertainties as they globalise. Aside from weak market environments, political uncertainties and an overall rise in the cost of doing business, MNCs are also facing fast-changing developments in the international tax environment – and as such, would find respite in certainty and clear tax policies. Amidst these uncertainties, we would have looked forward to measures which reiterated Singapore's support for FDI and enhancement of Singapore's competitiveness. These could have included, for instance, proactive clarification of Singapore's forward-looking stance on certain international tax developments. And on a more concrete note, the government could have provided welcome clarification and more certainty on the safe harbour exemption rules on the sale of shares as well as enhancements to the current foreign tax credit system.

Perhaps we can look forward to some of these developments through off-Budget releases in the coming months.

## PIC scheme

The PIC scheme was introduced in Budget 2010 to encourage productivity and innovation activities in Singapore. Under the existing PIC scheme, which is due to expire in Year of Assessment (YA) 2015, businesses can claim PIC benefits on qualifying expenditure incurred on six qualifying categories:

- Acquisition or leasing of PIC information technology and automation equipment
- Training of employees
- Acquisition or licensing of IP rights
- Registration of IP rights
- R&D activities
- Approved design projects

The existing PIC scheme allows businesses to claim a 400% tax deduction on up to \$400,000 of qualifying expenditure incurred for each year of assessment from YAs 2011 to 2015. Businesses may also opt for a cash payout of 60% of up to \$100,000 of qualifying PIC expenditure incurred in YAs 2013 to 2015. In addition, businesses which invest a minimum of \$5,000 per year of assessment in qualifying PIC activities can also receive a PIC cash bonus of up to \$15,000 from YAs 2013 to 2015.

Based on the high take-up rates and the success of the existing PIC scheme, the government has extended it for another three years until YA 2018. At the same time, the government has also taken the opportunity to streamline the existing PIC scheme, and introduce a new PIC+ scheme in its efforts to provide extra support to SMEs that are making substantial investments on productivity and innovation. The key changes are outlined on the following pages.

### ***Extension of PIC scheme***

The PIC scheme has been extended for three years from YAs 2015 to 2018. The extension will no doubt allow businesses more time to put in place productivity improvements, and will have a positive impact on the economy as a whole.

As with YAs 2011 to 2015, businesses can enjoy a 400% tax deduction and/or allowances on up to \$400,000 of their expenditure per year in each of the six qualifying activities for YAs 2016 to 2018. In addition, the qualifying expenditure cap per activity of \$400,000 may also be combined across YAs 2016 to 2018 (i.e. \$1.2 million per qualifying activity).

### ***Training under centralised hiring arrangements***

Under the current PIC scheme, businesses are generally not allowed to claim PIC benefits on training expenses incurred in relation to individuals who are not their employees.

Following feedback from businesses, the government has recognised the fact that training provided to individuals employed under centralised hiring arrangements can still drive the productivity of a business, notwithstanding that they are not legal employees.

The PIC scheme will be enhanced to allow businesses to claim PIC benefits on training expenses incurred in respect of individuals employed under centralised hiring arrangements with effect from YA 2014. The IRAS will release further details by the end of March 2014.

### ***PIC cash payout***

While the government continues to support the business community through its extension of the PIC scheme, it has also moved to tighten safeguards against possible abuse by taxpayers. With effect from YA 2016, businesses will have to meet the three-local-employee condition for a consecutive period of at least three months prior to claiming the cash payout. This change is made to reinforce the condition that the payouts are made to businesses with active business operations.

### ***Tax deferral option***

The tax deferral option under the current PIC scheme was introduced to help businesses with their cash flow and investment in productivity. With the subsequent introduction of the PIC cash payout option in Budget 2012, the government has decided that there is no longer a need for the tax deferral option as the two options serve the same purpose. To streamline the PIC scheme, the government has allowed the tax deferral option under the PIC scheme to lapse with effect from YA 2015.

### ***PIC+ for SMEs***

One of the biggest tax changes in Budget 2014 is the introduction of a new PIC+ scheme for SMEs. The new PIC+ scheme is introduced to provide support to SMEs who want to make substantial investments to transform their businesses.

For the purpose of the PIC+ scheme, a qualifying SME is defined as an entity which has an annual turnover of not more than \$100 million or a workforce of not more than 200. This criterion will be applied at the group level if the entity is part of a group.

The PIC+ scheme will effectively replace the PIC scheme for qualifying SMEs for YAs 2015 to 2018. The expenditure cap under the PIC+ scheme will be \$600,000 per qualifying activity per year of assessment (instead of \$400,000 per qualifying activity per year of assessment under the PIC scheme).

In view of the introduction of the PIC+ scheme, the combined expenditure cap for qualifying SMEs will be up to \$1.4 million for YAs 2013 to 2015 (i.e. \$400,000 each for YAs 2013 and 2014, and \$600,000 for YA 2015), and up to \$1.8 million for YAs 2016 to 2018 (i.e. \$600,000 for each of the three years of assessment). The expenditure cap for PIC cash payout will remain at \$100,000 of qualifying expenditure per year of assessment.

Interestingly, if the SME qualifies for PIC+ in YA 2016 and utilises the combined cap of \$1.8 million in YA 2016, but subsequently grows into a large corporation, it would seem that there should not be any clawback of the tax benefits.

The IRAS will release further details by the end of March 2014.

## R&D

In addition to extensions and enhancements to the PIC scheme, R&D tax incentives due to expire in YA 2015 have been extended.

The section 14DA enhanced tax deduction of 50% of qualifying expenditure incurred on R&D activities carried out in Singapore has been extended for another ten years to YA 2025. Whilst the hope that the enhanced tax deduction would be a permanent feature of the tax regime was not fulfilled, the ten-year extension is a long term measure that will drive the government's agenda for growth based on innovation and improvements in productivity.

The further tax deduction under section 14E of the Income Tax Act has also been extended for another five years until 31 March 2020. Section 14E allows businesses to claim up to a 200% deduction on qualifying expenditure on R&D projects approved by the Economic Development Board (EDB).

The extension of the R&D tax incentives is a welcomed move, particularly given the long life cycle of R&D activities, and will certainly help Singapore to continue to develop its capabilities as an R&D centre and drive innovation in businesses.

## Writing down allowance

April 2013 saw the release of Singapore's Intellectual Property Hub Master Plan. This details the strategies the government plans to put in place to promote Singapore as a global IP hub.

In line with this ambition, the writing down allowance for prescribed IP rights under section 19B of the Income Tax Act has been extended to YA 2020.

In relation to one of the categories, i.e. trade secrets or information that has commercial value, it was announced that a negative list would be legislated to clarify the types of items that would not qualify for writing down allowance. Two categories of information will be expressly excluded by legislation, customer-based intangibles and documentation of work processes. This follows the intent of the allowance, which is to "encourage the economic exploitation of confidential information that is of the same class or nature as trade secrets and the other forms of IP rights expressly listed in the definition".

Whilst the new list will clarify the position previously taken by the IRAS, it is still arguable that there is commercial value that can be derived from certain aspects of customer-based intangibles. Otherwise, it is not clear why Facebook would agree to pay US\$19 billion for WhatsApp in February 2014<sup>1</sup>, whose active user base is about 450 million – a number that is larger than the population of many countries. With the rise of digital distribution and social media, it is evident that increasing emphasis is being placed on identifying, retaining, expanding and monetising website users. It could therefore be too restrictive, in this digital age, to exclude information that has commercial value akin to trade secrets (as an aside, the US allows tax amortisation for expenditure incurred to acquire customer-based intangibles).

We hope that the published definition of customer-based intangibles will not be a broad-brush exclusion but will provide the opportunity for companies to claim writing down allowances on expenditure on IP that will generate value for Singapore companies and the Singapore economy.

Again, there are work processes that are confidential which have significant value and an ability to generate future benefits for businesses. Proprietary operation systems and processes or franchise arrangements drive value in a company and its brand. We would therefore hope that the negative list does not prevent documentation that lends value to a brand or franchise from qualifying for writing down allowances.

The IRAS will be publishing the negative list on its website by the end of April 2014 and it is expected to be legislated by the end of 2014.

Section 19B also provides for accelerated writing down allowances for media and digital entertainment companies, subject to the EDB's approval. This will be extended for three years until YA 2018.

<sup>1</sup> "Facebook-WhatsApp deal one of the biggest ever in the tech sector", *The Straits Times Online*, 20 February 2014.

## Deduction for IP registration costs

To encourage businesses to invest in innovation and facilitate the commercialisation of IP, a tax deduction used to be granted for costs incurred in registering patents, trademarks, designs and plant varieties (qualifying IP rights) under section 14A of the Income Tax Act. This scheme will lapse after YA 2015.

It was also announced during Budget 2014 that the 100% tax deduction will be extended for five years until YA 2020. Businesses can also continue to claim a further 300% deduction on up to \$400,000 of such qualifying costs under the PIC scheme, which has been extended until YA 2018.

## IP box regime?

While Singapore is well-positioned in providing fiscal relief for the creation, acquisition, in-licensing and protection of IP rights, there is currently no specific tax incentive to support the exploitation or commercialisation of IP.

Of course, Singapore offers a myriad of other tax incentives for substantive businesses carried on here. However, the limited tenure of these incentives may discourage an IP owner from commercially exploiting IP from Singapore. IP management requires upfront investment in return for pay-off over time. For businesses in certain industries (e.g. pharmaceutical), the lifecycle of their IP from creation through to commercialisation and exploitation can be eight to 12 years, if not more. By the time it reaches the exploitation stage, the incentive could well be up for renewal (where further commitments are required) or expiring.

A more useful measure would be a targeted IP incentive scheme like an IP box regime, which essentially mirrors the lifecycle of IP so as to allow businesses to enjoy full benefits of the incentive when exploitation begins.

Given that the government has already invested billions of dollars in R&D, we believe that it is timely to consider such a regime, so as to harness the IP developed or brought in from overseas, and to further encourage exploitation activities to be carried out in and from Singapore.

## Land Intensification Allowance

As part of the Budget measures to “transform the economy”, it was announced that there will be an extension of and enhancements to the Land Intensification Allowance (LIA) to encourage businesses to maximise land use. The allowance is intended to encourage greater intensification of buildings and structures on Singapore’s scarce supply of industrial land.

The allowance was originally introduced in the 2010 Budget to encourage manufacturers to build on industrial Business 1/Business 2 (B1/B2) (excluding B1 White and B2 White) land. To qualify for the incentive, recipients were required to meet Gross Plot Ratio (GPR) benchmarks, i.e. the ratio of a building’s total floor area to the size of the land upon which it sits. Further, at least 80% of the floor area of the relevant building was required to be utilised by a single user.

Applicants who could satisfy these conditions could benefit from an initial allowance of 25% and annual allowances of 5% of qualifying capital expenditure. Qualifying expenditure included costs directly incurred on the construction or renovation/extension of a qualifying building or structure and certain other associated costs.

The LIA was due to expire in 2015. However, to continue efforts to maximise land use, the Minister announced a renewal of the incentive for five years to 30 June 2020.

It was also announced that the incentive will be enhanced. In addition to the industry sectors already qualifying for the LIA, it will now be extended to the logistics sector and businesses carrying out qualifying activities on airport and port land.

A new condition will be introduced requiring existing buildings that have already met or exceeded the GPR benchmark to meet a minimum incremental GPR criterion of 10%. This is to encourage businesses, especially those already in the top quartile of the relevant GPR benchmark, to continue intensifying their land use.

The extension of and enhancements to the LIA are to be applauded as this will encourage better use of scarce industrial land. They are effective for LIA approvals granted and capital expenditure incurred on or after 22 February 2014. It is expected that the EDB will release additional implementation details by the end of May 2014.

## Waiving withholding tax for payments made to branches in Singapore

When payments that fall within the scope of section 12(6) and 12(7) of the Income Tax Act (e.g. interest and royalties) are made to non-residents (which includes a Singapore branch of a non-resident company), the payer has to withhold tax. However, some Singapore branches of non-resident companies have been granted a waiver of withholding tax by the IRAS, such that the payer need not withhold tax when making such payments to them. This is on the basis that they would be reporting the income and eventually paying tax on it. From the payer's perspective, it was necessary to check prior to payment whether the Singapore branch payee had been granted the withholding tax waiver. Otherwise, it ran the risk of incurring penalties for failure to deduct withholding tax within stringent deadlines. From the Singapore branch's perspective, it would have received the payments net of 17% withholding tax, and would have had to claim a credit against its Singapore income tax payable or seek a refund where it was in a tax loss position.

The good news is that, with effect from 21 February 2014, payers will no longer need to withhold tax on section 12(6) and 12(7) payments made to Singapore branches of non-resident companies.

Of course, these branches will still be taxed on the payments and will be required to declare them in their annual tax returns.

This new withholding tax exemption is a positive development as it helps to reduce compliance costs for businesses (both payers and Singapore branches) as well as improve the cash flow for Singapore branches as they will now receive gross payments.

## Investment allowance scheme for aircraft rotables

Singapore boasts an aircraft maintenance, repair and overhaul (MRO) industry which is currently ranked number one in Asia. Many global aerospace majors have set up operations here, especially with the launch of the Seletar Aerospace Park back in 2007.

This investment allowance scheme was introduced in 2004 to encourage investment in aircraft rotables and increase the productive capacity of MRO companies in Singapore. Approved companies were able to claim up to 50% of the capital expenditure incurred on rotables, on top of the normal capital allowance claims, subject to conditions.

The Minister has announced that the scheme will not be extended when it expires on 31 March 2015. If one were to speculate as to the reason for this, it may be that the government is turning its focus on the next phase of growth for the aerospace industry – in areas such as aerospace design, manufacturing operations, the production of complex aero-engine components and of course, R&D.

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## ***Financial services***

### **Capital instruments issued by Singapore-incorporated banks**

In a move that will provide much needed certainty for banks and investors, the Minister has announced that Basel III Additional Tier 1 instruments (other than shares) issued by Singapore-incorporated banks will be treated as debt for tax purposes.

In very broad terms, under Basel III global capital standards, banks are required, as a minimum, to issue Tier 1 capital (essentially instruments which are wholly or very substantially exposed to loss) equal to at least 6% of their risk weighted assets. Of that 6% of Tier 1 capital, at least 4.5% must be provided by Common Tier 1 capital (which is essentially common shares and retained earnings) with the balance being classified as Additional Tier 1 capital. The Monetary Authority of Singapore (MAS) imposes a higher standard on Singapore-incorporated banks than the minimum required under Basel III. Under MAS Notice 637, Singapore-incorporated banks are required to meet these capital adequacy ratios with effect from 1 January 2013, and higher ratios from 1 January 2014 onwards.

Additional Tier 1 capital can take the form of shares or debt, provided that the relevant terms of the instrument accord with various stringent requirements (including that they are subordinated, have no fixed maturity date nor incentive to redeem, and the issuer has full discretion to cancel the coupon without triggering a default event). These strict Basel III requirements essentially ensure that any instrument classified as Additional Tier 1 capital is able to absorb losses on a going concern basis through either conversion or write-down.

The Minister has proposed that from the basis period of YA 2015 onwards, distributions paid on Additional Tier 1 capital (other than shares) issued by Singapore-incorporated banks will be deductible to the issuer and taxable in the hands of the investor, subject to existing rules. For example, this may extend to convertible notes which satisfy the Tier 1 requirements of Basel III. As one would expect, no such deduction will be available for Additional Tier 1 capital issued by a Singapore-incorporated bank's foreign branches. Dividends paid on shares which qualify as Additional Tier 1 capital (e.g. convertible preference shares) will also not be deductible.

It is expected that Additional Tier 1 instruments that are issued as Qualifying Debt Securities (QDS) and QDS Plus will be accorded the concessionary treatment associated with these schemes.

Further detail in relation to this proposal – which is of course essential to fully appreciate the boundaries of the concession – will be released by the MAS by the end of May 2014.

The certainty this proposal provides for Singapore-incorporated banks is welcomed for many reasons, not least of which is that it will remove the need for them to seek tax rulings on the treatment of their Additional Tier 1 instruments prior to issue. In addition, the proposal provides investors with certainty over the after-tax returns of their investments. Notably, the tax treatment of Additional Tier 1 capital in other jurisdictions continues to evolve as Singapore takes the positive step of providing banks and their investors with more certainty in this area. For example, in the UK, recent changes mean that most forms of Additional Tier 1 capital should be deductible whilst in other jurisdictions (such as Australia), the opening position is often that a deduction is unlikely to be available for returns paid on Additional Tier 1 capital, subject to a very precise review of the terms of the relevant instrument and regulatory developments.

## Fund management industry

### The three “R”s of change

The proposed changes in the fund management sector can broadly be summarised as follows:

- Renew
- Rationalise
- Refine

### Renew

To encourage fund managers to set up operations in Singapore to manage funds owned by global investors, a tax exemption regime has been in place since the early 1980s. Over the years, the government has been enhancing and updating the regime to keep pace with developments in the industry. More recently, in 2006 the regime was extended to approved Singapore resident funds to enhance the appeal of Singapore, which has seen the value of its assets under management (AUM) grow from \$276.2 billion in 2000 to \$1.63 trillion in 2012<sup>2</sup>.

It is therefore no surprise to the industry that the government has announced a five-year extension of the following tax exemption schemes, which were due to expire on 31 March 2014, to 31 March 2019:

	Foreign Fund Tax Exemption Scheme (Foreign Fund Scheme)	Singapore Resident Fund Scheme (SRF Scheme)	Enhanced-Tier Fund Tax Incentive Scheme (ETF Scheme)
<b>Place of residence</b>	Offshore	Singapore	Singapore/ offshore
<b>Scope of tax exemption</b>	“Specified Income” from “Designated Investments” – as defined		
<b>Specific approval required?</b>	No	Yes	Yes

<sup>2</sup> MAS Singapore Asset Management Industry Surveys, 2000 and 2012.

On the back of the extension, the Goods and Services Tax (GST) concession awarded to Singapore-based funds approved under the SRF Scheme, the ETF Scheme or the Designated Unit Trust Scheme (DUT Scheme), has also been extended for five years to 31 March 2019. This concession allows approved Singapore-based funds to recover GST on their expenses at a fixed rate.

The move to continue awarding these incentives demonstrates Singapore's commitment to strengthen its position as a leading investment management hub in Asia.

### **Rationalise *Funds with Singapore trustees***

The scheme that did not join the above extension bandwagon was the exemption scheme for trust funds with a Singapore-based trustee and which are managed by a Singapore fund manager (the "Section 13C Scheme"). This scheme will lapse on 31 March 2014. Instead, trust funds with Singapore resident trustees may avail themselves of the Foreign Fund Scheme, which will be suitably enhanced with effect from 1 April 2014. It remains to be seen whether trust funds administered by trustees that are permanent establishments (e.g. branches) in Singapore will similarly be allowed to access the Foreign Fund Scheme.

### ***DUT Scheme***

The DUT Scheme is a popular scheme that applies to unit trusts targeted at the domestic market. It is also used for unit trusts focused on institutional and sophisticated investors (i.e. non-retail unit trusts).

To some, it may be surprising that the DUT Scheme will no longer be available to non-retail unit trusts with effect from 21 February 2014. Existing non-retail unit trusts approved under the DUT Scheme will continue under that status, whereas the new ones will have to consider other tax exemption schemes. This could prove to be a challenge, as the other schemes come with their own conditions that are more stringent than those under the DUT Scheme.

On the brighter side, from 1 September 2014, retail unit trusts can enjoy the benefits of the DUT Scheme on fulfilling certain conditions, without the need to go through an application process.

## Refine

### *List of “designated investments”*

The list of “designated investments” which qualify for tax exemption under the Foreign Fund Scheme, SRF Scheme and ETF Scheme has been expanded to include the following investments:

- loans to qualifying offshore trusts;
- interests in certain limited liability companies; and
- bankers acceptances.

The income from the above will be exempt only if it is derived on or after 21 February 2014.

These additions clearly show that the government is committed to ensuring the relevance of the schemes. In a competitive global investment management industry where fund managers continuously seek higher returns for their investors by investing in complex financial instruments and developing innovative investment structures, the expansion of the designated investment list will be welcomed.

But the real difference will be felt the day the Minister takes the bold step of adopting an exclusion list approach for designated investments. The definition of “specified income” is now an exclusion list, so why not do the same for “designated investments”?

### *Calculation of investors’ ownership level*

The Foreign Fund Scheme and the SRF Scheme carry certain ownership thresholds. Very broadly, they are geared towards limiting the level of ownership by Singapore corporate investors. The ownership levels were previously computed using historical values of the fund’s issued securities. This was an exercise that had to be carried out by investors at the end of the fund’s financial year.

Because investors who invested in a fund at different times would have securities issued to them at different values, it was difficult if not impossible for an investor to calculate his ownership percentage in a fund, as this would require aggregating the historical value of securities held by each investor.

Thus, it is a relief that for the purpose of calculating the ownership percentage, the market value of the issued securities may now be used instead. This change will take effect from 1 April 2014.

Details of the above changes will be announced by the MAS by the end of May 2014.

### ***The change we did not see in the Budget***

As always, we waited with bated breath for the announcement that would bring greater flexibility to the ETF Scheme – but this was not to be.

The ETF Scheme provides for the approval of a master-feeder structure that is managed or advised by a Singapore fund manager. A practical difficulty with this scheme is that it does not operate below the level of the master fund. It does not include within its scope special purpose vehicles (SPVs) that may be established to hold fund assets. The use of SPVs for ring-fencing investments is very common. At the moment, the only way to ensure that Singapore tax will not apply at the SPV level is to apply for approval under one of the tax exemption schemes for each SPV. This can be cumbersome as a practical matter, and also requires the structure to fulfil multiple approval conditions.

It is hoped that the MOF will make this amendment in the future, as doing so will enhance the flexibility of the highly successful ETF Scheme.

### **Listed infrastructure registered business trusts**

Currently, foreign-sourced income derived by listed infrastructure registered business trusts (RBTs) in Singapore is exempt only if approved by the Minister.

In a bid to offer more certainty to such registered business trusts, the Minister has enhanced the tax incentive scheme. Interest income derived from offshore qualifying infrastructure projects/assets will automatically qualify for tax exemption provided the qualifying conditions are met. In addition, the exemption scheme has been expanded to cover dividends originating from foreign-sourced interest income that relates to such qualifying offshore infrastructure projects/assets. The exemption approval process will now be managed by the IRAS and not the MOF. Further details will be released by the IRAS by the end of May 2014.

The above proposals provide greater structuring possibilities and should enhance Singapore's position as the destination of choice for listing infrastructure assets.

## Personal tax and CPF

One of the Minister's objectives over the last few Budgets has been to encourage a more inclusive, fair and equitable society. The present Budget has sought to achieve that goal through increasing CPF contribution rates, especially for older workers, and increasing tax relief for those who care for parents or handicapped dependants.

### CPF changes

Changes were announced to the CPF contribution rates, as summarised in the table below:

Age of employee (years)	Current contribution rate*		Proposed contribution rate* with effect from January 2015	
	Contribution by employer (% of wage)	Contribution by employee (% of wage)	Contribution by employer (% of wage)	Contribution by employee (% of wage)
50 & below	16%	20%	<b>17%</b>	20%
Above 50 to 55	14%	18.5%	<b>16%</b>	<b>19%</b>
Above 55 to 60	10.5%	13%	<b>12%</b>	13%
Above 60 to 65	7%	7.5%	<b>8.5%</b>	7.5%
Above 65	6.5%	5%	<b>7.5%</b>	5%

\* For monthly wages of at least \$750

The additional contributions will be allocated to the individual's CPF accounts as follows:

- The additional employee's contributions will be allocated to the Ordinary Account, which can be used to buy a home, purchase CPF insurance, for investments or education needs;
- The additional employer's contributions of 1% will be directed into the individual's Medisave account, for hospitalisation expenses and approved medical insurance premiums; and
- The balance of the additional employer's contributions will be allocated to the individual's Special Account, to ensure individuals have extra funding for old age and retirement.

The Special Employment Credit will be enhanced, and a Temporary Employment Credit will be introduced, to assist with the increased contributions for the first year. Whilst this will absorb some of the increase in cost – at least for the first year – employers who are already struggling with high business costs are likely to react negatively to this obvious increase thereafter.

It was announced that this will be the last planned CPF change for the near future. This news will also be welcomed by employers, as there have been several rate changes over the last few years which have been administratively cumbersome to apply.

### **Medisave for self-employed persons**

Medisave contribution rates will also be raised by 1% for self-employed persons with annual net trade income of \$18,000 and above, to keep contributions for this group aligned with those of employees.

## Dependant relief

There was very little focus on income tax changes, with the only update being an increase in the existing levels of dependant relief, as shown in the table below:

Type of relief	Current relief	New relief with effect from YA 2015
<b>Parent relief (i.e. parent, grandparent, great-grandparent including in-laws)</b>		
Staying with dependant	\$7,000	<b>\$9,000</b>
Not staying with dependant	\$4,500	<b>\$5,500</b>
<b>Handicapped parent relief (i.e. parent, grandparent, great-grandparent including in-laws)</b>		
Staying with dependant	\$11,000	<b>\$14,000</b>
Not staying with dependant	\$8,000	<b>\$10,000</b>
<b>Handicapped brother/sister relief</b>		
Staying with dependant	\$3,500	<b>\$5,500</b>
<b>Handicapped spouse relief</b>	\$3,500	<b>\$5,500</b>
<b>Handicapped child relief</b>	\$5,500	<b>\$7,500</b>

One welcome change is that parent relief may now be shared between two or more taxpayers. However, in circumstances where a dependant parent only lives with one claimant it is unclear whether the method of apportionment of the relief between multiple claimants will be based on the higher “staying with dependant” relief or otherwise.

### **Sharing of relief between married couples**

Married couples can no longer transfer qualifying deductions and deficits between each other (including under the loss carry-back scheme) with effect from YA 2016. As a transitional concession, qualifying deductions and deficits incurred by a married couple in and before YA 2015 will still be allowed for inter-spousal transfers until YA 2017, subject to existing rules. Any unabsorbed trade losses or capital allowances may still be carried forward to future years to be set off against the future income of the taxpayer until the amount is fully utilised, also subject to existing rules. Similarly, any unutilised donations may be carried forward to future years to be set off against the future income of the taxpayer, up to a maximum of five years. The IRAS will provide more details of the change by the end of May 2014.

### **What more could have been done?**

Overall, the Minister continued the familiar theme from previously-announced changes designed to encourage filial piety and make healthcare more affordable, but there may well have been some missed opportunities from a personal tax perspective in Budget 2014.

#### ***Greater healthcare affordability***

Enhancing healthcare affordability was a major social plank of Budget 2014, whether through the Pioneer Generation Package, the wider enhancements to the CPF contribution rates, or the soon-to-be-implemented MediShield Life. These changes will no doubt have a positive impact on the provision of affordable medical care. The Minister could have gone one step further: by allowing a personal tax relief for private medical insurance costs, the “Sons and Daughters of the Pioneer Generation” could have been encouraged to provide for their future medical care.

### ***Additional retirement planning***

The Supplementary Retirement Scheme (SRS) allows one to make tax-deductible contributions into a self-funded retirement savings plan which is independent of CPF; however its take-up has been lukewarm at best. Allowing for an increase in the cap of tax deductible contributions, providing a weighted tax relief for individual contributions, and regulating SRS providers' annual management fees, could have given further encouragement to younger generations to utilise SRS and reduce dependence on government handouts for their retirement needs.

### ***Encouraging personal life insurance coverage***

The existing tax relief for life insurance premiums can rarely be enjoyed by Singaporeans, as it cannot be claimed by individuals who make CPF contributions of \$5,000 or more. Removing this link to CPF Relief would benefit a significant number of Singaporeans who already have such policies, and would have encouraged others to make such personal provisions.

On balance, the proposed Budget changes are well intended, well directed and are likely to be well received by most. However, as the government may not enjoy the luxury of surpluses every year, the Minister may need to introduce measures in future Budgets to encourage those still working to plan for their own future in order to maintain a more inclusive, fair and equitable society.

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## Others

### **Information and Communications Technology for Productivity and Growth programme**

There are currently a number of schemes available to help SMEs defray the costs of investing in innovation and productivity solutions. In Budget 2014, and in an effort to catalyse the adoption of Information and Communications Technology (ICT) by SMEs, the Minister announced an “ICT for Productivity and Growth (IPG) programme”, to be administered by the Infocomm Development Authority of Singapore (IDA). Under this programme, the government will subsidise between 50% and 80% of the costs SMEs incur on qualifying ICT solutions over a three-year period (financial years 2014 to 2016).

The IPG comprises the following three key initiatives.

#### ***Scaling up proven ICT solutions***

In the past three years, the IDA has been working with various trade associations and the ICT industry to develop and deploy sector-specific solutions. These have been adopted by some SMEs. To extend the reach of these sector-specific schemes, it is now proposed that 70% of the qualifying costs of adopting certain proven ICT solutions will be subsidised by the government. The sectoral solutions must be those that are supported under iSPRINT and that are able to help SMEs achieve productivity gains. It is encouraging to note that SMEs will not need to apply to the IDA for the subsidy, rather they can approach pre-qualified vendors for the solutions they need. The IDA will then reimburse the vendors directly.

#### ***Piloting of emerging solutions***

SMEs that are “first movers” and who can pilot emerging technology solutions can qualify for an 80% subsidy of their qualifying project costs, up to \$1 million per SME. The solution should be one that is transformative and not currently used by Singapore SMEs. The vendor will need to submit a proposal for evaluation by the IDA.

### ***Enabling high-speed connectivity for businesses***

To encourage high-speed connectivity for SMEs, certain one-time costs and 50% (subject to caps) of the monthly recurrent cost of fibre subscription plans can be subsidised. In addition, to encourage more commercial buildings to “wire-up”, the IDA is proposing to subsidise up to 80% of the costs of one-time infrastructure enhancement costs up to a limit of \$200,000 per qualifying building.

### ***Enterprise financing schemes***

A number of financing schemes were announced.

#### ***Co-investment Programme Phase II***

In 2010, the government set aside \$250 million to launch the Co-investment Programme (CIP) under which they would co-invest in the private sector. The purpose of this programme was to catalyse the continued growth of SMEs in the growth and expansion stage and to nurture Singapore-based competitive companies.

In Budget 2014, the Minister announced the launch of Phase II of the programme and set aside another \$150 million of government capital. Qualifying investee companies with revenues of up to \$500 million should have their key management functions and headquarter activities based in Singapore in order to qualify.

#### ***Micro-loan programme for young SMEs***

To assist young SMEs who often face financing challenges and a limited track record, the government launched the Micro-loan Programme (MLP) in 2001. Under the MLP, loans of up to \$100,000 were provided to qualifying local SMEs. The government shared 50% of the loan default risks with financial institutions. A qualifying local SME is one that has at least a 30% local shareholding with not more than ten employees or not more than \$1 million turnover. If it is part of a group, the group’s annual sales must not be more than \$100m and the group’s workforce not more than 200.

In Budget 2014, it was proposed that the loan default risk shared by the government be raised from 50% to 70% for two years.

### ***Financing for internationalisation***

A number of financing schemes were also announced to assist SMEs to internationalise and expand overseas.

### **Stamp duties**

The Budget has streamlined the stamp duty rate structure for leases, land premiums and the purchase of property, share transfers and mortgages.

Currently, stamp duty on a lease of immovable property is chargeable on the annualised rental amount, regardless of the actual lease period. It is split into three specified bands (i.e. up to one year, exceeding one but not exceeding three years, and exceeding three years). For instance, where the monthly rent is the same, a one-month lease is chargeable with the same amount of duty as a one-year lease; a 13-month lease is chargeable with the same amount of duty as a three-year lease, and any lease exceeding three years is chargeable with the same amount of stamp duty.

To address this inconsistency, the basis for charging stamp duty on leases executed on or after 22 February 2014 will be as follows:

- For any lease with a term of up to four years, the stamp duty will be 0.4% of the total rent for the entire period of the lease. This means that stamp duty will be based on the actual rent paid for the full tenure of the lease.
- For any lease with a term exceeding four years, the stamp duty will be 0.4% of four times the average annual rent for the entire period of the lease. This means that stamp duty will be based on four times the average annual rent for the entire period, regardless of the tenure of the lease. Therefore, a five-year lease with an average annual rent of \$10,000 will be chargeable with the same amount of stamp duty as an eight-year lease with the same average annual rent.

With this change, the stamp duty rate structure for short leases of up to four years is made more equitable.

With regard to buyer's stamp duty on land premiums and purchases of property, share transfers and mortgages, there is no change to the amount of stamp duty chargeable on the relevant instruments but the archaic legalese used in describing the rate structure has now been removed and replaced with plain language. For example, for the transfer of stocks or shares, the stamp duty rate is currently "\$0.20 for every \$100 or part thereof of the purchase price or market value of the stocks or shares transferred, whichever is higher". But with effect from 22 February 2014, the rate will be simplified to "0.2% of the purchase price or market value of the stocks or shares transferred, whichever is higher".

### Property tax

Property owners can enjoy a property tax exemption for up to three years for land under development under the Approved Building Project (APB) scheme if the project is supported by the EDB and approved by the Minister. Generally, the Minister will only grant APB status to a development where the project involves a total investment cost of at least \$500 million (excluding land costs) or, where the project does not meet this threshold, the owner is able to satisfy the Minister that the project will create substantial spin-offs benefits for Singapore.

The Minister announced in the Budget that the APB Scheme will be reviewed on 31 March 2017 and this review date will be legislated to ensure the relevance of the Scheme is periodically reviewed.

### Vehicle tax

To give more time to observe the impact of the Carbon Emissions-based Vehicle Scheme (CEVS) (for which rebates were introduced from January 2013 amidst the 2013 vehicle tax changes such as the introduction of the tiered Additional Registration Fee (ARF) and adjustments to the Certificate of Entitlement (COE) system) the Minister has extended the CEVS and Green Vehicle Rebate (GVR) scheme for commercial vehicles, buses and motorcycles from 31 December 2014 to 30 June 2015.

### Duties on betting, tobacco and liquor products

Changes were announced by the Minister to increase tax rates in the areas of betting duties, tobacco and liquor (often referred to as "sin taxes", which are taxes on activities that are regarded as socially undesirable although largely enjoyed at social gatherings!).

### ***Betting duties***

From 1 July 2014, the duty on Totalisators, non-horse oriented Pari-mutuel betting (which refers to mutual betting) and any other system or method of cash or credit betting will be raised from 25% of gross bets (net of GST) to 30% of gross bets (net of GST). The betting duties on Horse Racing, Sports Betting and Sweepstakes will remain unchanged.

### ***Excise duties for tobacco products***

With effect from 21 February 2014, the excise duty on cigarettes and other manufactured tobacco products will increase by 10%, from \$352 per kilogram or 35.2 cents per gram or part thereof of each stick cigarette, to \$388 per kilogram or 38.8 cents per gram or part thereof of each stick of cigarette. A full list of the 13 affected tobacco products is available in Annex A-5 of the Budget Speech. Reference to e-cigarette is conspicuous by its absence.

### ***Excise duties for liquor products***

In what is clearly a different direction from that taken by Hong Kong, which abolished wine and beer taxes in early 2008 to become one of the world's top wine auction centres, Budget 2014 announced a hike of 25% in excise duties across all liquor categories (i.e. beer, wine, spirits, and raw materials to manufacture alcohol). The Minister attributed the increase to the need to keep pace with inflation, as the last effective hike was in 2004. The good news for shandy drinkers is that the excise duty rate of shandy will drop from \$70 per litre alcohol to \$60 per litre alcohol.

The above changes to excise duties for liquor products will take effect from 21 February 2014. Bottoms up!

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## *Looking back – 2013*

For Singapore, 2013 marks the year when the global tide of tax transparency and information exchange truly arrived at our shores. While initially placed on a 'grey list' by the Organisation for Economic Cooperation and Development (OECD) in 2009 as a country which has committed to, but not yet implemented the internationally agreed information exchange standard, Singapore was rather quickly removed from the list as it incorporated that standard into a number of its tax treaties. Domestic law was amended to give effect to the administration of the new exchange of information (EOI) provisions, but various safeguards were introduced to prevent spurious requests and access to customer information held by banks and trust companies needed Court approval.

However, the landscape changed significantly in May 2013, when Singapore adopted a number of measures to strengthen its EOI framework. These included extending EOI assistance to all treaty partners (regardless whether the treaty concerned incorporated the internationally agreed information exchange standard), signing the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, as well as signalling its intention to conclude an inter-governmental agreement with the US, so as to facilitate compliance with the Foreign Account Tax Compliance Act by financial institutions in Singapore. Last but not least, the need for the Inland Revenue Authority of Singapore (IRAS) to seek Court approval for accessing customer information held by banks and trust companies was removed. The global push for greater transparency so as to combat tax evasion – and indeed avoidance – meant Singapore has to align its tax administration policy with international norms. A parallel development in regulatory compliance during this time saw tax crimes being designated as money laundering predicate offences in Singapore from 1 July 2013, following the new requirement of the Financial Action Task Force. Underpinned by the strong political will of the G20 nations, the convergence of tax and financial regulations resulted in more robust compliance requirements for financial institutions, as well as enhanced international cooperation in tax matters.

The emphasis on compliance is also a recurrent theme in the domestic scene, with the IRAS stepping up enforcement actions. Now, one cannot really argue with the IRAS for doing their job in collecting what is properly due, and the law does provide for different level of penalties payable, depending on the culpability of the taxpayer. There is also no question that tax obligations should be strictly observed: a tax authority which is regarded as lax by its overseas counterparts and which does not assiduously carry out its statutory functions will only undermine Singapore's international standing. It is hoped, however, that the IRAS could give more time to taxpayers to make voluntary disclosures to rectify any past (inadvertent) errors, as taxpayers continue to adjust and cope with an increasingly complex business environment.

Despite the above, 2013 wasn't without its bright moments. The continual expansion of Singapore's treaty network will serve Singapore-based businesses well as they venture overseas. The renewal of various tax incentive schemes is also important to preserve competitiveness as businesses restructure in these uncertain times. Finally, more guidance has been given to businesses and individuals, as the IRAS continue to issue circulars to clarify the tax treatment of various items. One should, however, remember that these circulars only reflect the IRAS's view on the matter, and heed Ang J's observation in *BFH v CIT* [2013] SGHC 161 that the IRAS 'is not empowered to make binding determinations of [the] law'. The IRAS may also reconsider their view on the same issue over time – a case in point would be the lapse of the withholding tax exemption for software payments following the IRAS's adoption of a rights-based approach to characterising such payments. This development is very much welcome, for it recognises that based on a reasoned interpretation of the law the exemption was not needed in the first place. The ensuing clarity of the law, indeed, represents one of these moments.

## 2013 in snapshot

2013 saw various legislative changes introduced, and circulars issued by the Inland Revenue Authority of Singapore (IRAS) and other agencies. Some highlights of the year's tax changes are set out below. Many of these were introduced in the 2013 Budget.

General corporate tax		
Insurance premiums	January/ September/ December	The IRAS introduces an administrative concession which allows employers to forgo their deductions for group insurance premiums so that those premiums are not taxable as benefits to their employees. The IRAS subsequently clarifies in September that this concession does not apply to investment holding companies and certain service companies. In December, the IRAS updates its website to clarify the corporate and individual tax treatment of insurance premiums and payouts.
Corporate income tax rebate	February	The Minister for Finance introduces corporate tax rebates for the Years of Assessment (YAs) 2013 to 2015.
Wage Credit Scheme	February	The IRAS clarifies that payouts received under the Wage Credit Scheme are taxable.
Payments for the use of satellite and international submarine cable capacity	February	The withholding tax exemption for these payments expired on 27 February 2013. This exemption is extended to 27 February 2018 for payments made under agreements for indefeasible rights of use. The IRAS announces that, from 28 February 2013, it will treat all other payments for the use of satellite and international submarine cable capacity as payments for services.

Productivity and Innovation Credit (PIC) scheme	February/September	<p>In February, the IRAS clarifies that PIC benefits for the purchase or lease of automation equipment are not available for bundled items, and introduces an administrative concession for small amounts. The IRAS also introduces a Voluntary Disclosure Programme specifically for incorrect claims relating to photocopiers.</p> <p>In September, the IRAS issues a revised circular incorporating enhancements announced in Budget 2013, namely, the introduction of the PIC Bonus, the inclusion of licensing of intellectual property rights as a qualifying activity, as well as an expanded list of qualifying IT and automation equipment.</p>
Start-up tax exemption scheme	February	The Minister announces that the exemption scheme will no longer apply to property developers and investment holding companies incorporated on or after 26 February 2013.
Upfront land premiums	February	The Minister announces that the deduction for upfront land premiums will not be extended after its expiry on 27 February 2013.
Relocation or recruitment of overseas talent	February	The Minister announces that the further deduction for expenses incurred in the relocation or recruitment of overseas talent will not be extended after its expiry on 30 September 2013.
Payments for software and digitised goods	February	The IRAS adopts a rights-based approach for characterising software payments and payments for the use of or the right to use information and digitised goods from 28 February 2013. Accordingly, the withholding tax exemption for such payments was allowed to expire on that date as it is no longer required.
Property developers	March	The IRAS issues a circular which clarifies the tax treatment of property developers and introduces changes to the concession for single-project companies.
Directors' fees and bonuses	March	The IRAS issues a circular detailing the corporate and individual tax treatment of a director's fees and bonuses.
Foreign cars	November	The restrictions on the amount of deductions and capital allowances allowed for foreign cars are removed.
Medisave contributions	November	The corporate tax deduction and individual tax exemption rules for voluntary contributions made by companies to Medisave accounts of employees or self-employed persons working with the company are liberalised.

Public-private partnerships	December	The IRAS issues a revised circular to clarify the tax treatment for arrangements involving a composite source which is accounted for under the intangible asset model.
Real estate investment trusts	December	The IRAS revises the circular mainly to clarify the definition of "qualifying unit holders" and the application procedures for tax transparency treatment.
Circulars re-issued	May/June/ November/ December	The IRAS issues revised circulars on the following topics. These generally do not entail a change in the technical position, but may entail changes to certain administrative requirements: <ul style="list-style-type: none"> <li>• Foreign-source income exemption (May);</li> <li>• Stock options (June);</li> <li>• Renovation and refurbishment works (June);</li> <li>• Research and development tax measures (November); and</li> <li>• Foreign tax credit pooling (December).</li> </ul>
<b>Incentives</b>		
Development and Expansion Incentive	February	The maximum tax relief period under this incentive is increased from 20 to 40 years for headquarter companies.
Overseas Enterprise Incentive	February	The Minister announces the withdrawal of this tax incentive from 25 February 2013.
Approved Cyber Trader Scheme	February	The Minister announces the withdrawal of this tax incentive from 25 February 2013.
Family-owned investment holding companies	February	The Minister announces that the tax incentive for these companies will not be renewed after its expiry on 31 March 2013.
Islamic finance	February/ June	The Minister announces that the offshore insurance business incentives for Islamic insurance and reinsurance, and the Financial Sector Incentive-Islamic Finance (FSI-IF) award will not be renewed after their expiry on 31 March 2013.  The Monetary Authority of Singapore (MAS) issues a circular in June providing details of the inclusion of qualifying Islamic finance activities under the Financial Sector Incentive-Standard Tier (FSI-ST) award.

Insurance	March/ November	<p>The MAS issues a circular detailing the enhancement of the offshore specialised insurance incentive scheme to include Catastrophe Excess of Loss (CAT-XOL) as a qualifying specialised insurance risk.</p> <p>A circular is also issued on the extension of the tax incentive scheme for offshore insurance broking business and the introduction of a new incentive for offshore specialty insurance broking business.</p> <p>In November, the legislation is amended to align the definitions of certain insurance terms with those under the Insurance Act, and the basis of assessment of export credit insurers with general insurers.</p>
Shipping	March	<p>The Minister increases the maximum period for which the Maritime Sector Incentive-Approved International Shipping Enterprise award may be granted from 30 to 40 years.</p>
Asset securitisation	April	<p>The MAS issues a revised circular which details the extension of the tax incentive scheme for approved special purpose vehicles engaged in asset securitisation transactions to 31 December 2018.</p>
Unit trusts	April	<p>The IRAS introduces new application procedures for Designated Unit Trust status which took effect from 3 June 2013.</p>
Financial Sector Incentive	June	<p>The MAS issues a circular providing details of changes to the FSI scheme, including:</p> <ul style="list-style-type: none"> <li>• the extension of the scheme to 31 December 2018;</li> <li>• rationalisation of the FSI-Derivatives Market and FSI-Capital Markets awards;</li> <li>• the introduction of an automatic withholding tax exemption for interest payments under the FSI-Headquarters incentive scheme;</li> <li>• the expiry of the FSI-IF award (see Islamic Finance); and</li> <li>• the introduction of a new minimum “Asset Under Management” criteria for new FSI-Fund Management applicants.</li> </ul>

Debt market	June	<p>The MAS issues a revised circular detailing changes to the tax concessions to promote the debt market including:</p> <ul style="list-style-type: none"> <li>• the extension of the Qualifying Debt Securities (QDS) and QDS Plus schemes to 31 December 2018, and enhancements to these schemes; and</li> <li>• the extension of the tax exemption on income derived by primary dealers from trading in Singapore Government Securities.</li> </ul>
<b>Tax administration</b>		
Dispute resolution	February	The IRAS issues a circular setting out changes to the administrative procedures relating to appeals and objections for corporate taxpayers with effect from 1 January 2014.
Estimated chargeable income (ECI)	April	The IRAS announces that companies must pay through GIRO for ECI instalment payment plans issued from 1 January 2015. Transitional rules apply in the interim.
International tax co-operation framework	April/May	<p>In April, the Organisation for Economic Co-operation and Development Global Forum on Transparency and Exchange of Information for Tax Purposes completes its peer review of Singapore's implementation of the internationally agreed Standard for Exchange of Information (EOI) for tax purposes, and affirms that Singapore's EOI regime is in line with the Standard.</p> <p>In May, the Ministry of Finance, MAS and IRAS jointly announce four measures to strengthen Singapore's framework for international tax cooperation:</p> <ul style="list-style-type: none"> <li>• extension of EOI assistance to all existing double tax agreement partner jurisdictions;</li> <li>• intention for Singapore to conclude the Convention on Mutual Administrative Assistance in Tax Matters. This was signed on 29 May 2013;</li> <li>• removal of the need for the IRAS to obtain a court order for it to request customer information from financial institutions; and</li> <li>• intention to conclude a Model 1 FATCA intergovernmental agreement with the United States.</li> </ul>

Money laundering	July	The MAS designates tax crimes as a money laundering predicate offence in Singapore from 1 July 2013. Financial institutions are now required to enhance their existing anti-money laundering and customer due diligence framework.
Error or mistake	November	The legislation is amended to allow taxpayers to apply for relief for errors or mistakes in their tax returns when no tax is payable for that year of assessment.
Withholding tax	November	The filing date for tax withheld on payments to non-resident individuals and foreign firms, and the due date for opting to be taxed on their net income is extended.
Advance rulings	December	The IRAS increases the fees payable for advance ruling applications from 23 December 2013.
Record keeping	December	The IRAS revises its record keeping guides and introduces simplified record keeping requirements for small businesses from 1 January 2014.
<b>Personal tax</b>		
Personal income tax rebate	February	The Minister announces a one-time income tax rebate for Singapore tax residents in YA 2013.
Insurance premiums	January/ September/ December	Refer to the “General Corporate Tax” section.
Directors’ fees and bonuses	March	Refer to the “General Corporate Tax” section.
Equity-based remuneration	April	The IRAS issues a revised circular providing details of the phasing out of the Equity Remuneration Incentive Scheme, which was announced in the 2013 Budget.
Parent relief	June	The IRAS issues a consultation paper to seek public feedback on how parent relief should be allowed in specified scenarios.
Employer-provided accommodation	November	The IRAS issues guidance summarising changes to the tax treatment of employer-provided accommodation benefits announced in the 2013 Budget.
Medisave contributions	November	Refer to the “General Corporate Tax” section.

Goods and Services Tax		
Taxpayers engagement	January	The IRAS launches the pilot run of its GST Large Taxpayers Engagement Programme.
Business assets put to personal or non-business use	March	From 1 March 2013, where business assets are put to personal or non-business use, businesses are allowed to account for output tax by issuing a tax certificate to the user.
Reimbursement and disbursement of expenses	May	The IRAS releases a circular setting out the treatment of reimbursements and disbursements of expenses. The GST treatment set out in the circular shall apply to transactions taking place on or after 31 May 2013.
Assisted compliance assurance programme (ACAP)	August	The IRAS provides guidelines on the scope of review and audit methodology of the ACAP Annual Review, which businesses accorded the ACAP status are required to perform.
Fund management	September	The MAS issues a circular prescribing the fixed recovery rate for the GST remission for prescribed funds managed by prescribed fund managers for the period from 1 January 2014 to 31 March 2014.
Importing goods on behalf of overseas person	November	The IRAS prescribes certain conditions to be satisfied for the transfer of goods owned by an overseas principal to be made from the current section 33(2) agent to another such agent without the need to repay the import GST previously allowed.
Record keeping	December	The IRAS revises its record keeping guides and introduces simplified record keeping requirements for small businesses from 1 January 2014.

Enforcement	December	<p>The legislation is amended to provide for enforcement powers in relation to:</p> <ul style="list-style-type: none"> <li>• the Tourist Refund Scheme (TRS);</li> <li>• local agents of overseas persons;</li> <li>• the scope of the IRAS's confidentiality obligations to taxpayers;</li> <li>• the Approved Refiner and Consolidator Scheme; and</li> <li>• the sharing of information needed for domestic investigation of money laundering.</li> </ul>
Tax administration	January to December	The IRAS rewrites and/or consolidates a number of circulars of the same topic mainly to improve readability and reflect current GST treatment. They generally do not entail a change in technical position.
<b>Other taxes</b>		
Stamp duties	January	The IRAS issues circulars detailing changes to sellers' stamp duty and additional buyer's stamp duty that are introduced to cool the property market.
	January 2014	The new rules governing the relief from stamp duty upon transfer of assets between associated entities are issued.
Property tax	November	<p>The IRAS issues circulars providing details of the following measures:</p> <ul style="list-style-type: none"> <li>• removal of the refund of property tax on unoccupied buildings;</li> <li>• enhanced progressive property tax rates for owner-occupied residential properties which took effect from 1 January 2014; and</li> <li>• progressive property tax rates for non-owner occupied residential properties which took effect from 1 January 2014.</li> </ul> <p>In November, the legislation is amended to increase the deadline for filing objections and appeals from 21 to 30 days.</p>

### Agreements for the avoidance of double taxation

New treaties	January to December	<p>Singapore signed a new limited treaty with Brazil covering shipping and air transport income, which came into effect on 20 December 2013.</p> <p>Singapore signed new treaties with Barbados, Ecuador, Liechtenstein and San Marino during the year. These treaties have not been ratified and do not have the force of law.</p> <p>Treaties previously concluded with the Isle of Man and Jersey were ratified and entered into force on 2 May 2013. Treaties with Belarus and Guernsey were also ratified and came into force on 27 December 2013 and 26 November 2013 respectively.</p>
Revised treaties		<p>Treaties with the following countries were revised in 2013:</p> <ul style="list-style-type: none"> <li>• Austria – exchange of notes enters into force on 1 May 2014</li> <li>• Belgium – protocol entered into force on 20 September 2013</li> <li>• Czech Republic – protocol signed on 26 June 2013</li> <li>• Kazakhstan – protocol signed on 9 April 2013</li> <li>• Luxembourg – revised treaty signed on 9 October 2013</li> <li>• Malta – protocol entered into force on 28 June 2013</li> <li>• Portugal – protocol entered into force on 26 December 2013</li> <li>• South Korea – protocol entered into force on 28 June 2013</li> <li>• Turkey – protocol entered into force on 7 August 2013</li> <li>• Vietnam – second protocol entered into force on 11 January 2013</li> </ul>

## Income tax cases

Deductions	September	<i>BFC v Comptroller of Income Tax</i> : The taxpayer appealed against the Board of Review's decision that the bond discounts and redemption premium were not deductible. The appeal was dismissed by the High Court on the grounds that the discounts and premium were capital in nature.
	January/ August	<i>BFH v Comptroller of Income Tax</i> : In August, the High Court dismissed the taxpayer's appeal and upheld the Board of Review's decision handed down in January, that a lump sum payment made by a mobile telecommunications operator to secure 3G spectrum rights and 3G Facilities Based Operator licence is capital in nature and hence not tax deductible.
EOI	April/ February 2014	<i>Comptroller of Income Tax v BBO</i> : In April 2013, the High Court upheld the Board of Review's decision that gains arising from the disposal of investments by an insurance company can, in certain circumstances, be treated as capital in nature, and hence non-taxable. The Court of Appeal dismissed the IRAS's appeal in February 2014.
	July	<i>Comptroller of Income Tax v BJY and others</i> : The High Court granted the Comptroller's application for an order requiring two banks to provide information requested by the Indian tax authority under the EOI article in the Singapore-India treaty.  <i>Comptroller of Income Tax v BJX</i> : Later in the same month, the High Court dismissed the taxpayer's application for a stay of execution of the order.  <i>Comptroller of Income Tax v BKW and another</i> : In another case, the High Court dismissed an application to set aside an order previously granted to the Comptroller requiring a bank to provide information requested by the Indian tax authority pursuant to the EOI article under the Singapore-India treaty.
	October	<i>Comptroller of Income Tax v BLM</i> : The High Court dismissed an application to set aside an order granted to the Comptroller requiring a bank to provide information requested by the Japanese tax authority under the EOI article in the Singapore-Japan treaty.

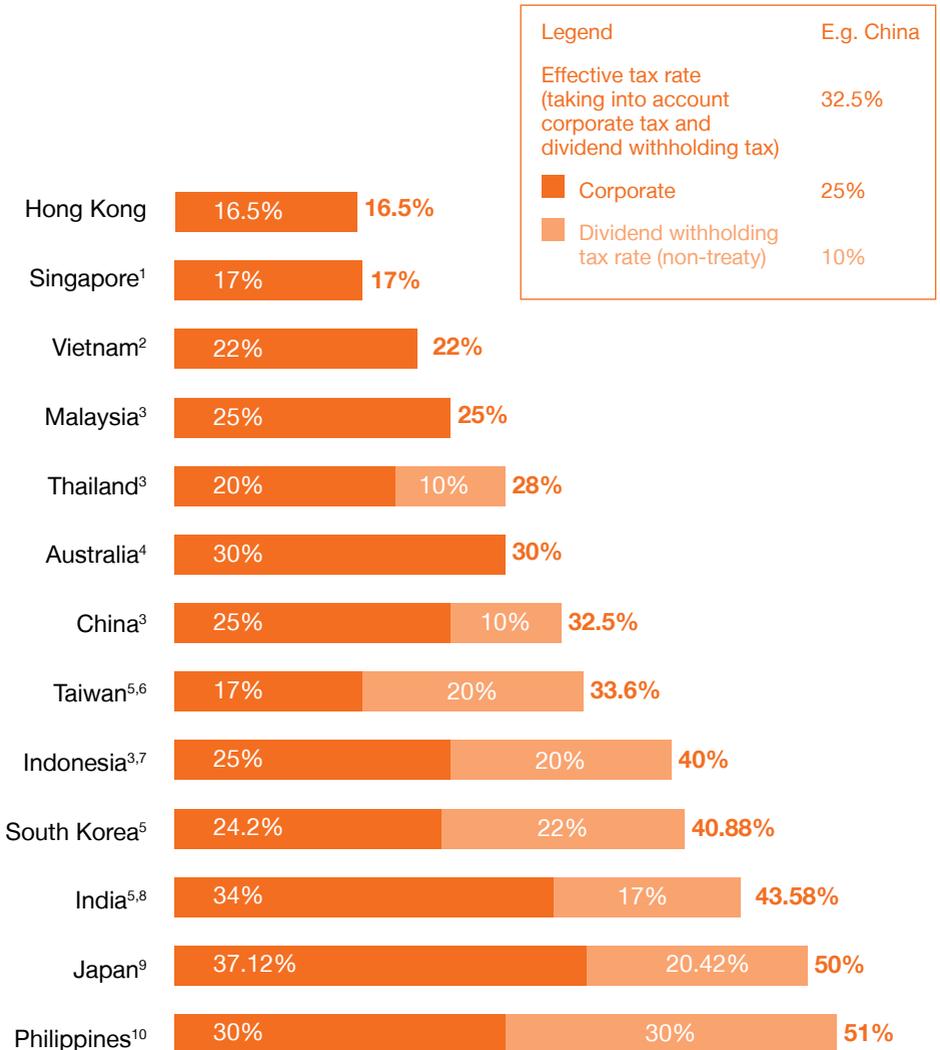
Tax legislation		
Income tax	February	The Economic Expansion Incentives (Relief from Income Tax) (Amendment) Act 2013 is published.
	November	The Income Tax (Amendment) Act 2013 is published.
GST	December	The Goods and Services Tax (Amendment) Act 2013 is published.
Stamp duties	February	The Stamp Duties (Amendment) Act 2013 is published.
Property tax	November	The Property Tax (Amendment) Act 2013 is published.

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

Ministry of Finance	<a href="http://app.mof.gov.sg/">http://app.mof.gov.sg/</a>
Inland Revenue Authority of Singapore	<a href="http://www.iras.gov.sg/">http://www.iras.gov.sg/</a>
Economic Development Board	<a href="http://www.edb.gov.sg/">http://www.edb.gov.sg/</a>
International Enterprise Singapore	<a href="http://www.iesingapore.gov.sg/">http://www.iesingapore.gov.sg/</a>
Monetary Authority of Singapore	<a href="http://www.mas.gov.sg/">http://www.mas.gov.sg/</a>
The Maritime and Port Authority of Singapore	<a href="http://www.mpa.gov.sg/">http://www.mpa.gov.sg/</a>
Ministry of Manpower	<a href="http://www.mom.gov.sg/">http://www.mom.gov.sg/</a>
Singapore Tourism Board	<a href="https://app.stb.gov.sg/">https://app.stb.gov.sg/</a>

## Appendix A

Comparison of Asia-Pacific effective tax rates on repatriated corporate profits  
(for income year 2014)



**Notes:**

Certain rates above are approximate effective rates which include local/resident surtax or surcharge and additional income-related taxes such as provincial, inhabitants, enterprise or municipal tax.

- <sup>1</sup> Partial exemption of up to \$152,500 applies to the first \$300,000 of chargeable income. In addition, Budget 2013 introduced a corporate tax rebate of 30% of tax payable, capped at \$30,000 for YAs 2013 to 2015.
- <sup>2</sup> A lower corporate tax rate of 20% applies to enterprises whose previous year's total revenue is no more than VND20 billion. The nil dividend withholding tax is only applicable to dividends paid to corporate shareholders.
- <sup>3</sup> Lower rates of tax apply to small- and/or medium-sized enterprises.
- <sup>4</sup> Fully-franked dividends paid to non-residents are not subject to dividend withholding tax, but to the extent that a dividend paid to a non-resident is unfranked, withholding tax of 30% will generally apply.
- <sup>5</sup> Lower rates of tax apply to income below certain levels.
- <sup>6</sup> An additional 10% undistributed earnings tax will be imposed on any current earnings that remain undistributed by the end of the following year. However, this amount may be used to offset the dividend withholding tax subsequently, subject to a certain tax limit.
- <sup>7</sup> Listed companies which satisfy certain requirements are subject to tax at 20%.
- <sup>8</sup> India does not impose dividend withholding tax. This is a dividend distribution tax on the dividends declared, distributed or paid by the company in addition to the corporate income tax paid on business profits. Such dividend is exempt from tax in the hands of the recipient shareholders.
- <sup>9</sup> This tax rate applies from fiscal years beginning on or after 1 April 2014. It is an approximate statutory effective rate of corporate tax in Tokyo due to the varying national and local taxes for companies with share capital of JPY100 million or less.
- <sup>10</sup> Dividends paid to a non-resident corporation are subject to a lower rate of 15% if the country in which the recipient corporation is domiciled either does not tax such dividends, or allows a 15% or greater credit for the underlying tax paid by the dividend-paying company.

## Appendix B

Comparison of Asia-Pacific individual tax liabilities (a married man with two dependent children for income year 2013)

	Total Remuneration US\$75,000		Total Remuneration US\$100,000		Total Remuneration US\$200,000	
	Tax Liability US\$	Effective Tax Rate %	Tax Liability US\$	Effective Tax Rate %	Tax Liability US\$	Effective Tax Rate %
Singapore	2,172	3	4,725	5	20,536	10
Australia	16,770	22	26,051	26	65,679	33
China	14,481	19	21,878	22	59,672	30
Hong Kong	2,546	3	6,796	7	23,796	12
India	20,187	27	27,912	28	64,693	32
Indonesia	16,766	22	24,157	24	53,719	27
Japan	6,825	9	13,239	13	50,551	25
Malaysia	14,013	19	20,513	21	46,513	23
Philippines	22,177	30	30,177	30	62,177	31
South Korea	8,881	12	15,327	15	54,457	27
Taiwan	6,558	9	11,623	12	44,799	22
Thailand <sup>4</sup>	13,281	18	20,781	21	54,022	27
Vietnam <sup>5</sup>	18,277	24	27,027	27	62,027	31

### Notes:

- <sup>1</sup> Deductions for Social Security are not taken into account unless the contributions are compulsory by law.
- <sup>2</sup> Standard deductions are taken into account.
- <sup>3</sup> Tax liability figures may differ from prior years due to varying exchange rates of the local currency vis-à-vis US\$.
- <sup>4</sup> Based on new tax rates for calendar year 2013 announced on 8 December 2013.
- <sup>5</sup> Incorporated tax changes effective 1 July 2013.

## Appendix C

Resident individual tax rates for Years of Assessment 2014 and 2015

	Chargeable Income		Years of Assessment 2014 and 2015	
		\$	Rate %	Tax \$
On the first	20,000		0	0.00
On the next	10,000		2.00	200.00
On the first	30,000			200.00
On the next	10,000		3.50	350.00
On the first	40,000			550.00
On the next	40,000		7.00	2,800.00
On the first	80,000			3,350.00
On the next	40,000		11.50	4,600.00
On the next	40,000		15.00	6,000.00
On the first	160,000			13,950.00
On the next	40,000		17.00	6,800.00
On the next	120,000		18.00	21,600.00
On the first	320,000			42,350.00
On income above	320,000		20.00	

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