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Budget Commentary 2015

Solving tomorrow's problems today

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Welcome message


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Deputy Prime Minister and Minister for Finance, Mr Tharman Shanmugaratnam, presented the 2015 Budget Statement on 23 February 2015. We call it a "Darwinian Hong Bao" Budget – as the focus is on the need to evolve to stay up front in an increasingly competitive and globalised economy, while at the same time, attempting to support an inclusive society. In essence, the Budget focuses on Singapore's need to build for the future by solving tomorrow's problems today.

There are four main thrusts to this Budget – encouraging innovation and internationalisation, enhancing competitiveness, securing the revenue base and strengthening social security.

Our commentary looks at each in depth, and asks how they affect you and your business, and what are some of the potential things to look out for in the future.

We hope you find this commentary informative, and look forward to working with you.

Yours sincerely,

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Solving tomorrow's problems today

The endemic low economic growth around the world has presented fiscal policy challenges to governments. With the United States as the only bright spot of economic growth among its major trading partners, Singapore heads into its Golden Jubilee facing strong headwinds in the quest to transform its economy. While this year calls for celebration, the government has avoided overly generous hand-outs but presented a very measured response to the global and domestic issues facing the nation.

This year's Budget continued the government's twin foci on economic restructuring by promoting productivity and innovation, and on strengthening the social safety nets. To sustain our past economic successes and promote further growth, the most significant measure this year has to be the SkillsFuture development effort. The emphasis on lifelong learning by every Singaporean, starting from formal education and continuing into his working life, should provide much needed help to fulfil the aspirations of all. The comprehensive approach to SkillsFuture, which ranges from training subsidies to mentoring programmes, aims to cover all bases.

Continuing the relentless pursuit of economic transformation, Deputy Prime Minister and Minister for Finance, Mr Tharman Shanmugaratnam, refined the current suite of broad-based support measures for productivity contained in the Transition Support Package (TSP) and enhanced the various offerings that seek to spur innovation and internationalisation efforts of Singapore businesses. A deferral of the previously announced hikes in foreign worker levies should bring a welcome, albeit short-lived, relief to businesses in the construction and service sectors as well as for small and medium sized enterprises (SMEs) in general. Given the impending additional adjustments to levy rates which will kick in after next year, productivity must continue to be the focus for these important sectors of our economy.

It is interesting to note the renewed focus on encouraging our companies to internationalise, given that it was in the 1990s when the external economy was first touted as a new wing to Singapore's growth. Besides the higher grant levels and enhanced tax deductions, the new International Growth Scheme (IGS), in conjunction with the enhanced tax allowance scheme for mergers and acquisitions (M&A), looks to encourage currently domestic-focused companies to expand into new markets overseas. With almost all of this year's tax measures targeted at domestic businesses, the absence of anything specific for foreign direct investments might be a signal of the government's cautious approach to dealing with the changing global tax environment in the light of the OECD's Action Plans to address base erosion and profit shifting issues by international businesses.

The Minister rather fittingly reserved the social measures of the Budget for the second half of his speech. To paraphrase the Minister, our people are at the heart of Singapore's transformation. The Silver Support scheme, together with increases to the Central Provident Fund (CPF) contribution ceilings and rates for older workers, will help to provide the most vulnerable in our society with greater support to blunt the harshness of life's hand. The extra interest to be paid on CPF balances of senior citizens adds an icing on the cake. With various other measures like MediShield Life and CPF Life, the government looks to tackle potential issues that would come with our aging population early, rather than pass these on to the future generations.

Another key group which received attention is the family with various top-ups to take care of the costs of education, particularly for the lower-income households. Higher pay-outs under the Goods and Services Tax Voucher (GSTV) schemes, rebates for service and conservancy charges and personal tax rebates aim to afford greater relief against the high costs of living in Singapore.

While short on specific details, of potentially even greater significance is the government's intention to increase development expenditures to around $30 billion by 2020. This represents a more than doubling of the level of investment within a 10 year time frame. Important infrastructure developments such as Changi Airport Terminal 5, Tuas Seaport and investment in our public healthcare system will serve as pillars for economic growth in the next decade and beyond. To enable it to fund the expected increase in future expenditures, the government will increase personal income tax rates for the higher income earners and revise the framework under which it can include the expected investment returns of its three investment entities in its revenue base.

At the end of the day, Budget 2015 does not contain any significant surprise. It characterised the government's longstanding prudent fiscal policy. While the government sought to capitalise on our strong fiscal position by sharing the fruits of the past economic successes, the nation is also being positioned for future challenges with the emphasis on skills development for specific priority industries, measures to encourage value creation and investment in our economic infrastructure. In laying the foundation for social cohesiveness through improving the social safety nets, the government ensures that the economic progress of the past 50 years is preserved by addressing potential social problems in the bud. As the Minister repeatedly stated in his speech, "It is the fair thing to do". So while we enjoy the SG50 festivities this year, we can confidently toast to our aspirations for another 50 glorious years.

Happy birthday, Singapore!

Encouraging innovation and internationalisation

Encouraging innovation and internationalisation

Transition Support Package

Launched in 2013, the TSP was intended to cushion the adverse impact of the economic restructuring on businesses. This package included the Wage Credit Scheme (WCS), Corporate Income Tax (CIT) Rebate, and Productivity and Innovation Credit Bonus (PIC Bonus).

Wage Credit Scheme

Under the current WCS, over the period from 2013 to 2015, the government co-funded 40% of wage increases given to each Singaporean employee earning a gross monthly wage of up to $4,000. The aim was to allow businesses to free up resources to make investments in productivity and to share the productivity gains with their employees.

The Minister has announced that the WCS will be extended for two more years to give employers more time to adjust to the tight labour market. However, this extension will be accompanied by a reduction of the co-funding to 20% of wage increases given to Singaporean employees.

Corporate Income Tax rebate

For the Years of Assessment (YAs) 2013 to 2015, companies received a 30% CIT rebate that is subject to a cap of $30,000 for each year.

The Minister has extended the CIT rebate for another two years, through YAs 2016 and 2017, to allow companies to cope with cost pressures in this restructuring period. However, the rebate is now capped at $20,000 per YA.

Productivity and Innovation Credit Bonus

The PIC Bonus gave businesses a dollar-for-dollar matching cash bonus for YAs 2013 to 2015, subject to an overall cap of $15,000 for all three YAs combined. This benefit was given in addition to the existing benefits under the PIC scheme.

The Minister confirmed that the PIC Bonus was intended as a transitional measure and has been successful in spreading the culture of productivity amongst SMEs. Hence, the scheme will be allowed to lapse after YA 2015.

The gradual withdrawal of the different elements of the TSP perhaps signifies the end of a phase in the restructuring journey. Businesses will now have to factor in lower support from the government as it turns its resources to other causes.

"While the 10 percent tax rate of the International Growth Scheme is attractive, withholding taxes may erode its impact. The need of the hour is to expand our treaty network and refresh our old treaties."

– Abhijit Ghosh, International Tax Partner, PwC Singapore

International Growth Scheme

As part of an array of measures to support Singapore companies in their internationalisation efforts, a new IGS will be introduced. The main benefit for companies which qualify for IGS is a concessionary tax rate of 10% on their incremental income from qualifying activities for a period not exceeding five years. When further details of the IGS are released in May 2015, it is hoped that the administering agency International Enterprise Singapore (IE Singapore) will clarify various aspects of the scheme, such as the type of Singapore companies which can qualify. For now, the references to "larger Singapore companies" and "high potential companies which anchor key functions in Singapore" may imply fairly subjective criteria unless specific markers to gauge these are implemented. It would also be interesting to know what the qualifying activities are under this scheme and whether there will be restrictions to qualifying income streams.

Apart from the above, there are certain fundamental matters that ought to be addressed prior to implementation of the scheme:

1. Interaction of IGS with existing tax incentives

   In principle, the Development and Expansion Incentive (DEI) scheme can accord similar tax benefits (e.g. a 10% tax rate on incremental income) as that presently designated for the IGS. At first glance, the qualifying activities for a typical company that enjoys the DEI (combined with possibly an International Headquarters Award) do not appear markedly different from those broadly described under the IGS scheme. Furthermore, it is conceivable that many DEI businesses can also be "larger Singapore companies" and/or "high potential companies which anchor key functions in Singapore", i.e. the specific types currently designated for the IGS.

   It is not only important for the agencies to clarify the differing objectives, coverage and qualifying conditions of these schemes, but also to set out clear guidelines to avoid confusion.

Are Singapore companies ready to take advantage of IGS to expand overseas?

2. Will foreign withholding tax diminish the intended tax benefits of the IGS

   In practice, many Singapore companies with overseas customers suffer foreign withholding tax at source particularly on their service income.

   It is also not a given that any foreign withholding tax suffered is creditable in Singapore (eg. where service income is considered sourced in Singapore). Therefore, a concessionary tax rate of 10% that has the potential to reduce an IGS company's global effective tax rate in theory, may not bring about the intended tax benefits once non-creditable foreign withholding taxes are taken into account. The amount and type of income (e.g. service or non-service) earned by the IGS company from overseas can also clearly influence this.

   While having the IGS can present an alternative for Singapore companies seeking to expand overseas, it is important that the implementation issues be addressed to provide the needed clarity.

Mergers and acquisitions

Currently, under the M&A tax allowance scheme, a qualifying Singapore company can claim a deduction of 5% of the cost of acquisition, up to a maximum of $5 million, for all qualifying share acquisitions in the basis period. In a continued effort to encourage local SMEs to expand and grow through acquisitions, the government has increased the M&A allowance rate significantly from 5% to 25%.

Now, while the allowance rate has increased, the deduction cap remains at $5 million. In other words, this move provides greater benefits for smaller-sized qualifying acquisitions. Qualifying deals worth at least $20 million will get to enjoy the same tax deduction as those acquisitions of $100 million under the existing rule.

The intention of the change is to support smaller acquisitions which are usually undertaken by SMEs.

From the perspective of a $20 million deal, a cash tax saving of $850,000 (17% X $5 million) is not insignificant. Such tax savings which a Singapore SME can derive from the scheme could be factored into the valuation, allowing the company to be more competitive when bidding against other overseas competitors. With the changes to the scheme, the number of M&A transactions that can qualify for the allowance is expected to increase.

In addition, the current shareholding condition states that the acquisition must result in the acquirer owning:

- more than 50% of the ordinary shares of the target company if before the date of the acquisition, it owned 50% or less; or

- at least 75% of the ordinary shares of the target company if before the date of the share acquisition, it owned more than 50% but less than 75%.

Now the threshold for this has been changed to the following:

- at least 20% ordinary shareholding in the target company if the acquirer's original ownership in the target company was less than 20%; or

- more than 50% ordinary shareholding in the target company if the original shareholding was 50% or less.

With the 75% shareholding eligibility tier removed, any acquisition where the existing ownership is already above 50% no longer qualifies for the scheme.

Will this spur SMEs to expand overseas through inorganic means? Only time will tell.

A third change relates to the stamp duty relief for unlisted shares which will now be capped based on a maximum $20 million acquisition value, giving a total of $40,000 of stamp duty relief per financial year. Effectively, the stamp duty relief has now been reduced as the previous cap on the value of acquisition was for a $100 million acquisition value (i.e. stamp duty relief of up to $200,000). As stamp duty is applicable on the acquisition of shares in Singapore companies, and given that overseas acquisitions are not impacted by the change, local acquisitions may lose some of their appeal to investors.

The changes to the M&A scheme are in line with the objective of supporting the internationalisation of businesses in providing greater benefits for Singaporean companies to venture into new emerging markets with minority stakes. It caters for strategic partnerships as opposed to the old rules which primarily benefitted those seeking a controlling stake of the target. This should be a welcomed move especially for companies who are making overseas acquisitions for the first time and do not want to over-expose themselves by taking a majority stake in unfamiliar territories.

The last change is the extension of the M&A allowance scheme for another five years, i.e. up to 31 March 2020 and removal of the 12–month look back period for step-acquisitions. Further details will be released by the Inland Revenue Authority of Singapore (IRAS) in May 2015.

The Internationalisation Finance Scheme administered by IE Singapore will also be extended to cover the acquisition of equity stakes in businesses to support overseas expansions by Singapore-based companies. Further details are to be released by IE Singapore.

Double tax deduction for internationalisation

The double tax deduction (DTD) scheme for internationalisation was first introduced in Budget 2011 to encourage Singapore companies to expand overseas. Under the DTD scheme, companies can claim a 200% tax deduction on qualifying expenditures incurred for qualifying market expansion and investment development activities. Qualifying expenses under the scheme include airfare, hotel accommodation and meals, costs associated with promotional roadshows, freight and insurance of exhibits, third party consultancy fees, etc. In Budget 2012, the DTD scheme was enhanced to allow companies to automatically claim a 200% tax deduction without the need to seek approval from IE Singapore on specific qualifying activities, up to a limit of $100,000 per YA. Expenditures exceeding $100,000 would still require the approval of IE Singapore.

To provide greater support to companies venturing overseas and to create more opportunities for Singaporeans to work overseas, the DTD scheme will be enhanced to cover qualifying manpower expenses incurred from 1 July 2015 to 31 March 2020 for Singaporeans posted to new overseas entities. The amount of qualifying manpower expenses will be capped at $1 million per approved entity per year, i.e. for a potential annual tax savings of up to $170,000. An application to IE Singapore would have to be made for companies to enjoy the new benefit.

The enhancement looks attractive at the outset. However, this raises several considerations from a practical perspective.

1. "Overseas entities"

   Overseas expansion can take different legal forms. The definition of overseas entities should be wide enough to encompass the various legal forms allowed by the foreign jurisdiction, e.g. representative offices, branches, companies, partnerships, etc. Where the Singapore company expands overseas through joint ventures, this should also be considered as a qualifying overseas entity.

2. "Qualifying manpower expenses"

   The scope of what constitutes qualifying manpower expenses needs to be clarified. In addition to the remuneration package, it is worthwhile to consider whether ancillary expenses such as relocation costs and other staff benefits can also be included.

   Where the Singapore company bears such qualifying manpower expenses, the DTD may be available. However, in many overseas postings, it is not uncommon for the overseas entity to bear the related manpower expenses given that the employee would work for the benefit of the overseas entity (unless it is a representative office of the Singapore company). It is unclear if the DTD will be allowed in this case. In addition, consideration should be given to allowing the DTD in circumstances where the Singapore company has to bear certain costs arising from commercial reasons, such as where the overseas expansion is carried out through a joint venture entity and the joint venture partner is reluctant for the joint venture entity to bear the full costs of Singaporean personnel who could be more costly than local hires. The Singapore company may therefore have to absorb the excess.

   In a scenario where the Singapore company is being recharged by the overseas entity for the qualifying manpower expenses, we would hope that these recharges can be considered as "qualifying manpower expenses" for the purposes of the DTD.

The key question is therefore, how one can ensure the enhancements to be made to the DTD scheme will be relevant to the Singapore companies given the considerations above. We are hopeful that further clarity can be obtained when IE Singapore releases further details by May 2015.

Withholding tax on foreign loans and royalties

The Approved Foreign Loan (AFL) incentive was introduced in the 1960s to encourage companies to invest in productive equipment for the purpose of carrying on substantive activities in Singapore and is administered by the Economic Development Board (EDB). To qualify as an AFL, the loan must be taken from a non-resident person to purchase productive equipment and unless otherwise approved, the quantum of the loan must be at least $200,000. Once approved, tax exemption or a concessionary tax rate may be granted on interest payments made to the non-tax resident.

In Budget 2015, it was announced that the minimum loan quantum under the AFL incentive would be increased to $20 million from 24 February 2015. The increase in loan quantum is not unexpected (and in fact overdue), given that AFL was introduced more than half a century ago. Like before, the Minister for Trade and Industry has the discretion to approve an AFL application of a lower amount. In addition, a review date of 31 December 2023 will be legislated to ensure the relevance of the AFL incentive.

The Approved Royalties Incentive (ARI) was introduced to encourage companies to access advanced technology and know-how for substantive activities in Singapore. Under the incentive administered by the EDB, tax exemption or a concessionary tax rate may be granted for approved royalties, fees or contributions to research and development (R&D) costs made to a non-tax resident.

Similar to AFL, Budget 2015 introduced a review date of 31 December 2023 for this incentive.

The introduction of review dates for AFL and ARI is likely to be part of Singapore's global messaging that the government is keeping a close and diligent watch on its incentives, given the current global tax environment with increased focus on base erosion and profit shifting, although the review date is set to be eight years down the road.

Grants for innovation and internationalisation

Innovation and productivity

SPRING currently administers a number of support schemes to help SMEs defray the costs of investing in innovation and productivity solutions. To be eligible for these schemes, the SME must generally meet the following criteria:

1. be registered and operating in Singapore,
2. have at least 30% local shareholding, and
3. group annual sales turnover not more than $100 million or a workforce of not more than 200 employees.

In the Budget, the Minister introduced a number of measures to strengthen these schemes.

Capability Development Grant

Capability Development Grant (CDG) is a financial assistance programme for SMEs that provides grants of up to 50% or 70% of qualifying costs on approved projects. It seeks to help SMEs develop capabilities across 10 areas, ranging from raising service standards, adopting technology to staff training and overseas expansion.

Currently, SMEs wishing to avail themselves of the CDG must follow prescribed application procedures and submit certain documents to SPRING, including a project proposal, detailed costing and proof of quotation. To make the CDG more accessible, the Minister has announced that the government will simplify the application process for projects below $30,000. More details are expected in due course.

The current basic level of support is for up to 50% of qualifying costs. This was increased in Budget 2012 to 70% for three years to 31 March 2015. In Budget 2015, the Minister announced that the higher support level will be extended for another three years to 31 March 2018.

Collaborative Industry Projects

Collaborative Industry Projects (CIP) is a SPRING-managed programme aimed at incentivising industry players and partners such as trade associations to work with SMEs to develop productive and innovative solutions that are scalable across certain industries. Under the CIP, approved projects are eligible for up to 70% funding support for qualifying development and adoption costs.

The Minister has announced that the number of CIP projects will be increased from five to 15 per year and be expanded to all industry sectors. More details will be announced.

Partnerships for Capability Transformation

The Partnerships for Capability Transformation (PACT) programme fosters collaborations between local companies and large enterprises/organisations to enable co-innovation, capability upgrading and sharing of best practices within the supply chain. Approved projects will be eligible for up to 70% funding support for qualifying costs.

It is now proposed that PACT would be extended and enhanced. More details will be announced by the Ministry of Trade and Industry shortly.

Internationalisation

IE Singapore offers the Market Readiness Assistance (MRA) grant and the Global Company Partnership (GCP) grant to help Singapore companies expand overseas. Each caters to a different category of companies but they have similar objectives.

"SMEs often face challenges of accessing government assistance schemes. The easier application process for Capability Development Grants (CDG) for innovative projects that are below $30K will help SMEs to enjoy CDG and enhance productivity."

– Lennon Lee, Entrepreneurial & Private Clients Tax, PwC Singapore

Market Readiness Assistance

The MRA grant is designed to help overseas ventures by subsidising pre-scoped professional services for market assessment, market entry and business restructuring through internationalisation.

The MRA grant is available to companies with global headquarters anchored in Singapore with an annual turnover of less than $100 million based on the most recent audited report. Currently, IE Singapore will co-fund up to 50% of the eligible third-party professional fees for the above activities, capped at $20,000 per company per year. Companies may make up to two applications each year and the maximum project period shall not exceed six months for each project.

Global Company Partnership

The GCP grant is designed to help take Singapore businesses global through a partnership with IE Singapore, building on four business capabilities: capability building, market access, manpower development and access to financing.

The GCP grant is available to companies with global headquarters anchored in Singapore with a turnover of at least $500,000 per annum. The grant also requires fulfilment of other criteria such as annual total business spending, minimum paid-up capital and headcount requirement. Companies eligible for the GCP grant can enjoy a basic level of support of up to 50% of the qualifying costs.

Increased support from IE Singapore

In Budget 2015, it was announced that the grant support level for SMEs will be raised from 50% to 70% for all activities under the MRA and GCP schemes for another three years until 31 March 2018. This will be effective from 1 April 2015.

While an increase in funding is appreciated, a simplification of the application or administrative procedures could be considered to help promote the take-up rate, especially for the MRA grant which has a relatively low funding cap.

Catalysing enterprise financing

Enhancements were made to the SPRING Startup Enterprise Development Scheme (SEEDS) and Business Angel Scheme (BAS) to encourage innovation and internationalisation of SMEs.

Under the SEEDS and BAS schemes, the government co-invests with private investors in companies less than five years old with innovative products and strong international growth potential. To reduce early-stage funding gaps for start-ups, it was announced that the government will increase the co-investment cap under SEEDS and BAS to $2 million per company, allowing companies to receive up to $4 million each in total funding. In addition, the government will top up the BAS by $75 million in order to partner more angel investors with experience in nurturing innovative start-ups.

Research and development

Since 2011, public sector R&D spending in Singapore has catalysed $8.6 billion of industry R&D, supported approximately 400 start-ups, and generated 800 licenses. To further support domestic R&D, the government will enhance efforts to help companies develop, test, and commercialise new products and solutions. Details are forthcoming later this year as part of the government's next Research, Innovation and Enterprise five-year plan.

Specifically, to continue to invest in R&D to enhance the long-term potential of our economy, a top-up of $1 billion will be provided to the National Research Fund.

“The broadening of the scope of qualifying income in the Maritime Sector Incentive – Maritime Leasing Award should revive interest in the incentive and attract new players.”

– Elaine Ng, Transport & Logistics Tax Leader, PwC Singapore

Enhancing competitiveness

Enhancing competitiveness

Maritime sector incentive

There were no measures proposed for the Maritime Cluster for the past two years other than the extension of the Maritime Sector Incentive-Approved International Shipping Enterprise (MSI-AIS) for up to a possible maximum of 40 years. Hence, the industry should welcome the proposed enhancements in Budget 2015. Different sectors in the Maritime Cluster have been asking for some of the proposed changes to keep pace with the changes in the industry and economic landscape in order to strengthen Singapore's competitiveness as an International Maritime Centre.

Some of the proposed changes provide welcomed tweaks to the current incentive regime to provide clarity and certainty on tax treatment on what constitutes qualifying income or qualifying activities. For example, certainty was needed on the scope of qualifying tax-exempt income to cover mobilisation fees, demobilisation fees and holding fees under the MSI-Shipping Enterprise (Singapore Registry of Ships) (MSI-SRS) and MSI-AIS. This is of particular relevance to the growing offshore sector in Singapore. The inclusion of incidental container rental income as tax-exempt income helps to address the concerns of the traditional liner operators which may face excess capacity when global trade is in decline and opportunities arise to keep assets productive. Approved foreign branches of MSI-AIS entities can now remit their qualifying profits and enjoy tax exemption without having to meet the "headline tax rate" and "subject to tax" conditions under section 13(8) of the Income Tax Act (ITA). Existing MSI-Shipping-related Support Services (MSI-SSS) award recipients can now renew their award tenure for a further five years, subject to qualifying conditions and higher economic commitments.

It remains to be seen what the wider shipping community can welcome when the changes to the definition of qualifying ship management activities under the MSI-SRS, MSI-AIS and MSI-SSS awards are released. The signs are, however, promising that the Maritime and Port Authority of Singapore (MPA) has been listening intently to feedback.

The lobby efforts of the shipping industry also saw the inclusion of finance lease and hire purchase payments as payments automatically qualifying for exemption from withholding tax, subject to meeting certain conditions. This is quite a departure from the usual plain vanilla financing to acquire vessels or special purpose vehicles (SPVs) owning vessels. These and the inclusion of intercompany loan financing provide ship owners and operators with more flexibility in financing and structuring their operations.

An interesting move is the proposed expansion of the MSI-Maritime Leasing (MSI-ML) award to cover income derived from finance leases treated as a sale. When first introduced in 2006 (then known as the Maritime Finance Incentive (MFI) Scheme), the scheme covered income from finance lease arrangements. However, when the MFI scheme was extended in 2011, the qualifying leasing income of an approved shipping enterprise approved on or after 1 March 2011 excluded income derived from finance leases treated as a sale for tax purposes. This had the effect of disqualifying most finance leases which are almost always treated as a sale for tax purposes and rendered the MFI scheme less attractive. This proposed enhancement reflects the government's intent to keep pace with industry changes and may attract more financial players into Singapore. However, this proposal does not extend to similar finance lease arrangements under the MSI-SRS and MSI-AIS awards.

The enhancements to the MSI take effect from 24 February 2015. The approval window to award MSI-AIS, MSI-Maritime Leasing (MSI-ML) (Ship), MSI-ML(Container) and MSI-SSS will be extended to 31 May 2021. The withholding tax exemption will also be extended to qualifying payments made, or qualifying loans taken, on or before 31 May 2021. The MPA will release further details by May 2015.

Investments in aerospace and logistics sector

These Budget proposals are complemented by the substantial expansion of Changi Airport's new Terminal 5, for which the $3 billion has been set aside in the 2015 Budget, and the Tuas Seaport which is an enormous project that will both increase the capacity of the Singapore port and free up valuable land adjacent to the city centre over time. These, along with the maritime tax incentives, and the Goods and Services Tax (GST) remission for Registered Business Trusts (RBTs) in the ship and aircraft leasing sectors, will enable Singapore to maintain its position as a key global logistics and transportation hub.

International legal services

To cement Singapore's position as a world-class legal and dispute resolution centre, a slew of tax measures were introduced or extended for the legal industry in Singapore.

Development and Expansion Incentive

The DEI for International Legal Services (DEI-Legal) scheme was introduced in Budget 2010 to encourage law practices to do more offshore legal work from Singapore, and to attract international law practices to set up offices in Singapore. A law practice which is awarded the DEI-Legal incentive enjoys a 10% concessionary tax rate for a period not exceeding five years on its qualifying income from the provision of international legal services in Singapore, provided it commits to certain offshore revenue and manpower milestones as agreed with the EDB.

The DEI-Legal incentive was scheduled to lapse after 31 March 2015 but, as announced in Budget 2015, will now be extended for five years till 31 March 2020.

The extension of the incentive will be welcomed by the legal sector and will encourage more foreign law practices to set up in Singapore as it not only serves to develop Singapore's legal industry but it is also appropriate against the backdrop of the recent establishment of the Singapore International Commercial Court and the push for Singapore to dominate on a world platform in court-based commercial litigation for international cases.

Tax exemption for non-resident mediators

Currently, non-resident mediators deriving income from mediation work carried out in Singapore are taxed on this income. Tax is either withheld at source at the rate of 15% of the gross income payable to the non-resident mediator, or if the non-resident mediator elects to be taxed on his net income, applied on the net income at the tax rate of 20%.

As announced in Budget 2015, income derived by a non-resident mediator for mediation work carried out in Singapore from 1 April 2015 to 31 March 2020 will be exempt from tax. More details will provided by the Ministry of Law by March 2015.

This change is opportune in light of the establishment of the Singapore International Mediation Centre (SIMC) in March 2014, which aims to provide best-in-class mediation services for parties involved in cross-border commercial disputes. The new treatment also aligns the tax treatment of income earned by non-resident mediators with the tax exemption currently enjoyed by non-resident arbitrators on income derived from arbitration work carried out in Singapore.

With the introduction of the incentive for non-resident mediators, the SIMC is well positioned to extend Singapore's success in arbitration into commercial mediation for international cases.

Tax exemption for non-resident arbitrators

Currently, income derived by a non-resident arbitrator for arbitration work carried out in Singapore is exempt from tax. The tax exemption is applicable to all non-resident arbitrators who are appointed for any arbitration which is governed by the Arbitration Act or by the International Arbitration Act, or would have been governed by either of those Acts had the place of arbitration been in Singapore.

The Budget 2015 has introduced a review date of 31 March 2020 to ensure that the relevance of the exemption is periodically reviewed. The review date is consistent with the expiry date of the new tax exemption for non-resident mediators.

“The message in Budget 2015 for the REIT industry is clear – go regional or international.”

– Teo Wee Hwee, Real Estate Tax Leader, PwC Singapore

Real estate investment trusts and registered business trusts

Real estate investment trusts

The Minister has proposed a number of measures related to listed real estate investment trusts (REITs) and RBTs. These will continue to promote the listing of REITs and RBTs in Singapore and strengthen Singapore's appeal to the promoters and sponsors. This is particularly important as the increasing focus of regional governments on infrastructure spending presents a good opportunity for Singapore to lead the region in effectively using the financial and capital markets to fund the investments.

Tax concessions form an important component of the overall strategy to attract REITs. Currently, REITs listed on the Singapore Exchange enjoy tax transparency if the trustee distributes at least 90% of its taxable income to unit holders in the same year in which the income is derived. In addition, listed REITs enjoy various concessions such as a concessionary tax rate of 10% for the non-resident, non-individual investors, tax exemption on qualifying income and stamp duty remission on the transfer of certain properties.

The continuing availability of the various REIT tax concessions due to expire this March has been the subject of much industry speculation in the last 12 months. This has created much uncertainty for many aspiring promoters and sponsors of REITs. Now it is finally clear that with the exception of stamp duty concessions, all REIT-related tax concessions will be extended for another five years to 31 March 2020, in addition to a surprise enhancement to the GST concessions.

Whilst many have speculated that not all of the concessions will be extended, it nonetheless still came as a surprise (and for some, disappointment) that an important concession that helped to build the Singapore REIT market to where it is today will lapse. For others, however, this may be good news. Specifically, compared to other real estate investors, REITs have always had a competitive advantage since they do not have to bear the hefty stamp duty costs associated with a Singapore property acquisition. Therefore, the expiry of the stamp duty concessions should be welcomed by these investors now that it is a level playing field for everyone.

Nonetheless, the removal of the stamp duty remission will unlikely curtail the REITs' appetite for Singapore real estate acquisitions. For impending deals though, there could possibly be a rush to complete the acquisition by 31 March 2015. In fact, given that a direct acquisition is going to be costly, REITs are likely to look at acquiring the shares of the property holding entity as an alternative. The reason is simple. Acquiring the shares will mean the REITs are only required to pay stamp duty at 0.2% of the net asset value of the property holding entity, assuming it is incorporated in Singapore. Whilst this means that the REITs have to incur additional professional costs to conduct tax, financial and legal due diligence, plus costs of maintaining the property holding entities, the incremental costs may be relatively small compared to paying the 3% stamp duty on direct property acquisitions.

There is, however, one potential issue associated with purchasing the property holding companies - that is, unlike REITs that enjoy tax transparency on income from properties held directly or through special purpose trusts, these companies have to pay tax on their rental income. This does not automatically mean that the property holding company will end up paying substantial Singapore tax because there are deductions such as capital allowances, which typically range from 20% to 40% of the construction costs, depending on the type of property. The tax exempt dividend paid by these companies would also be tax exempt in the hands of the REITs and their investors. If full tax transparency is desired, the REIT may also choose to convert these companies into limited liability partnerships (LLPs). Currently, conversion of companies into LLPs, subject to meeting certain conditions, would qualify for stamp duty relief and such conversion could be neutral from the income tax and GST perspectives as well. Of course, a ruling from the IRAS may be inevitable as a matter of best practice and prudence. In the market, there are REITs which own properties in Singapore through an LLP structure and are claiming the tax transparency treatment.

Whilst we understand the decision to withdraw the stamp duty remission, one cannot help but wonder why some flexibility could not have been given to those currently in the midst of setting up a REIT. It was stated that the purpose of this remission is to enable the industry to create a critical mass of local assets, as a base from which REITs can expand abroad. In that case, why not extend it to new REITs which are seeking to build up an initial portfolio of Singapore-based assets? Further, if the intention is to help the REITs to expand their portfolio through the acquisition of foreign properties, why not also extend a stamp duty remission to acquisition of shares in Singapore companies that indirectly own overseas properties? It is hoped that the MAS could provide some clarifications and perhaps, transitional provisions in this regard.

On a more positive note, the extension of the other REIT tax concessions is certainly a signal of the government's continued efforts to grow Singapore as a hub for listing real estate in Asia and beyond. In particular, the GST enhancement also deserves special mention, for it allows a REIT setting up an SPV for fund raising purposes to claim GST incurred on its business expenses.

The message in Budget 2015 for the REIT industry is clear – go regional or international. Whilst this is certainly the right direction for the industry, let us not forget that there are many medium-sized home grown real estate companies in Singapore which are aspiring to set up REITs to further evolve their business and create value for shareholders. It is therefore hoped that changes may be introduced in the future to continue to fine-tune the regime so as to promote the development of the Singapore REIT industry.

Registered Business Trusts

Similar to REITs, the GST remission for RBTs in the infrastructure, ship leasing and aircraft leasing sectors will be extended to 31 March 2020. RBTs will also be allowed to claim GST on the business expenses of SPVs used solely to raise funds for the trusts. This enhancement is effective for GST incurred from 1 April 2015 to 31 March 2020.

Banking and finance

Tax deduction for collective impairment provisions

Banks, merchant banks and finance companies in Singapore are required under the Monetary Authority of Singapore (MAS) Notices to book adequate levels of impairment provisions in their accounts, which may include collective impairment provisions. A collective impairment provision reflects an estimate of the losses which may arise on a portfolio of loans in total, but which have not been identified on a loan-by-loan basis.

Any increase in the collective impairment provision is booked as an expense in the accounts of the bank or finance company and, reflecting that such an expense is a cost of banks and finance companies doing business, a concession was introduced to allow for a deduction (subject to certain caps contained in section 14I of the ITA) for such provisions. That concession was scheduled to lapse after YA 2016 or YA 2017, depending on the financial year end of the bank or finance company.

The Singapore Accounting Standards Council has adopted the International Financial Reporting Standard (IFRS) on Financial Instruments, IFRS 9, as Singapore Financial Reporting Standard (FRS) on Financial Instruments, FRS 109, which is to apply for the financial year beginning on or after 1 January 2018. There are significant differences in the approach to recognition of impairment losses between FRS 109 and FRS 39. Further, the current legislation that aligns the tax and accounting treatment of financial assets and liabilities held on revenue account (on the timing of recognition of gains and losses) is specific to FRS 39 accounting only. Recognising that banks and finance companies need to maintain appropriate levels of impairment provisions under the MAS Notices as they switch to the new accounting standard, the Minister has proposed to extend the concessional tax deduction regime by a further three years to YA 2019 or YA 2020, depending on the financial year end of the bank or finance company.

"The financial sector in Singapore is robust. We are very competitive and in a good place. Hence, no major announcements. However, some changes could have been made to send a positive signal to this very important sector."

– Anuj Kagalwala, Financial Services Tax Leader, PwC Singapore

Fund management

The asset management sector has been the key pillar of growth for the financial services sector over the last decade. Today, there are close to 600 fund management companies (FMCs) in Singapore managing over $1.8 trillion of assets. The credit for this growth should go to the pro business policies of the government. This includes the bold step of introducing a tax exemption for Singapore domiciled funds back in 2006. Over the years, the government has taken on board feedback from the industry and has been continuously adding value to Singapore. This Budget is no different.

Approvals for Singapore fund structures on a collective basis

To encourage fund managers to set up operations in Singapore, a tax exemption regime for offshore funds has been in place since the early 1980s. In 2006, the exemption regime was extended to approved Singapore resident funds (the Singapore Resident Fund Scheme, also referred to as the SRF Scheme) to enhance the appeal of Singapore and attract more fund managers to be based here. The government did not stop there and brought in the Enhanced-Tier Fund Tax Incentive Scheme (ETF Scheme) in 2009 which was a great addition to the regime. Today both the SRF and the ETF schemes co-exist and are being extensively used by fund managers.

With the increased sophistication in the use of Singapore domiciled funds, the limitations of these schemes came to the fore.

For example, a practical difficulty arises when a Singapore fund acquires the ultimate investment via a Singapore SPV. The need for such an SPV is driven by legal and commercial reasons. The limitation of the ETF and SRF schemes is that whilst the main fund might have obtained a tax exemption under the SRF or ETF scheme, its wholly owned SPV will not be automatically exempted (it will continue to be exposed to Singapore tax). In order for the SPV to qualify for tax exemption, the SPV needs to independently apply for tax exemption and satisfy an additional set of conditions to obtain the ETF or SRF status. This leads to additional costs and compliance burden.

This Budget seeks to address this difficulty. From the reading of the Annex to the Budget Statement, it seems that funds approved under the ETF scheme can now obtain tax exemption for their SPVs. It is expected that the conditions that are normally applicable to ETF applicants may be tweaked to make them a bit more extensive in order to include the exemption for the SPVs. However, it is hoped that the conditions will be less onerous than having to apply for tax exemption individually for the SPVs. This announcement will be welcomed by the industry.

This enhancement will take effect for applications made from 1 April 2015 and further details are expected to be released by the MAS by May 2015.

Venture capital

Venture capital funds

Currently, venture capital funds approved under section 13H of the ITA (13H Funds) can enjoy exemption on income derived from making approved investments.

Most tax incentive schemes come with a review date to give the policy makers an avenue to review the relevance of a particular scheme after a period of time. A review date for the section 13H scheme has now been set at 31 March 2020.

The scope of the section 13H incentive is narrower than those of the SRF and ETF schemes. All the three schemes provide tax exemption, however the section 13H incentive is more restrictive in terms of the income that is exempt. It also comes with a limited term. This is in recognition of the fact that the various schemes each serve a different purpose. That being said, this incentive can be made more attractive if its scope is broadened to provide more flexibility in the structuring of investments.

Venture capital fund management companies

Venture capital FMCs managing 13H Funds have historically enjoyed tax exemption on management fee and performance bonus received from 13H Funds. This exemption was available under the Pioneer Service incentive and was subject to certain conditions.

As managing venture capital funds is no longer considered a pioneering activity in Singapore, the tax exemption will no longer be available to new applicants with effect from 1 April 2015. Instead, a 5% concessionary tax rate will be accorded to approved venture capital FMCs managing 13H Funds. The approval period will be from 1 April 2015 to 31 March 2020.

The allure of applying for the section 13H incentive was that besides the exemption of income at the fund level, the FMC could enjoy tax exemption on its fee income. With the increase in tax rate to 5% on the fee income of the FMC, the attractiveness of 13H would reduce. In future Budgets, the government may perhaps consider reducing the tax rate under the Financial Sector Incentive for Fund Managers (FSI-FM) to 5% (from the current rate of 10%). The FSI-FM is applicable to FMCs managing funds which are granted the SRF or ETF status and certain offshore funds. These would serve to align the concessionary tax rates of all FMCs, providing the uniformity that will help simplify Singapore's tax regime.

Angel Investors Tax Deduction

The Angel Investors Tax Deduction (AITD) Scheme was first introduced in the 2010 Budget. This was aimed at encouraging individuals to invest in start-up companies by offering a deduction of 50% of the cost of qualifying investments (capped at $500,000 of investments a year) against the individuals' taxable income.

This deduction is available provided the individual is an approved angel investor and amongst other conditions, invests a minimum of $100,000 into a start-up company within a year and holds the qualifying investment continuously for two years. The AITD Scheme is administered by SPRING and was available for qualifying investments made between 1 March 2010 and 31 March 2015.

The AITD Scheme has now been extended till 31 March 2020 to continue encouraging investment in start-up companies.

In addition, the AITD Scheme has now been enhanced to include investments made (from 24 February 2015 to 31 March 2020) by approved angel investors that are co-funded by the government under the SEEDS or BAS.

The extension and enhancement of the AITD Scheme is principally a positive step boosting entrepreneurship – the very essence of what makes Singapore so successful today. Such initiatives do lay the ground in harnessing the next best thing after Facebook and Alibaba. Along with the crowd funding initiative announced at last year's Budget and the venture debt risk-sharing programme under which SPRING will provide 50% risk sharing with selected financial institutions, as well as the various co-investment programmes, the government continues to develop an ecosystem to catalyse enterprise financing by plugging the early funding gaps for promising start-ups.

The enhanced AITD scheme is a positive step towards boosting entrepreneurship – the very essence of what makes Singapore so successful today

Insurance

Extending and refining the existing tax incentive schemes

It is no surprise to the insurance industry that the government has announced a five-year extension of the following offshore insurance business tax incentive schemes (collectively known as the OIB Schemes), which were due to expire on 31 March 2015:

- Approved Offshore General Insurers;
- Approved Offshore Life Insurers; and
- Approved Offshore Composite Insurers.

The extension of the OIB Schemes is in line with the government's continued effort to develop Singapore into a global insurance hub. The renewed scheme will now be termed the Insurance Business Development Incentive (IBD). The MAS will release further details of the new scheme by May 2015.

While the OIB Schemes have been successful in helping to develop Singapore as an insurance hub, more can be done to enhance the attractiveness of our regime. It is hoped that the government can consider the following measures in the future to further encourage insurers to establish and expand their operations in Singapore.

10% tax rate

The existing tax rate for the OIB Schemes has been at 10% for more than 30 years. Over this period, the normal corporate tax rate has reduced from 40% to the current rate of 17%. Some may therefore be disappointed that the concessionary tax rate of the OIB Schemes remains at 10%.

Hong Kong now levies an 8.25% tax rate (being half of its corporate tax of 16.5%) on offshore reinsurance business. Although its corporate tax rate may be 25%, Malaysia offers a concessionary tax rate of 5% on inward reinsurance and offshore insurance business. As for Labuan – which is actively promoting itself – it offers a near-zero percent tax regime with flexibility to base various operations in Kuala Lumpur.

Singapore could perhaps consider lowering the 10% rate in the future in order to remain competitive in the region.

Qualifying criteria

Currently, in order to enjoy any of the OIB Schemes, an insurer should demonstrate continued commitment in Singapore by having a minimum headcount of three qualifying professionals, a three-year business plan and relevant track record. It is hoped that the qualifying criteria will be maintained in the new IBD scheme to ensure that it remains attractive to potential market entrants, as Singapore continues to develop into a global insurance hub.

Scope of qualifying income for offshore life business

Unlike the OIB Schemes for offshore general business, the scope of qualifying underwriting income for offshore life insurance business is currently limited to premium only. Fee income derived from the underwriting of life business is not currently qualifying income for the purposes of the OIB Schemes for an approved life insurer.

It is hoped that the scope of qualifying underwriting income for offshore life business will be extended to include fee income, as limiting the qualifying underwriting income for life business to premiums could restrict the life insurers' ability to offer innovative products to sophisticated consumers. This enhancement should encourage product innovation and more growth in the offshore life insurance market.

Treatment of gains from share disposals

In Budget 2012, the government announced that certainty of non-taxation will be given to gains derived by a company from the disposal of equity investments that meet the specified conditions (the safe harbour rule). However, the insurance industry was specifically excluded from the safe harbour rule.

Despite a Court ruling that an insurer may derive capital gains from share disposal, after three years of lobbying the position for the industry remains unchanged. It is hoped that the safe harbour could be extended to insurers in the future to give them the certainty of tax outcome. Such a development will certainly make Singapore a favourable location for insurers to hold their regional businesses.

Venture debt risk-sharing programme

From a business perspective, banks may see increased funding requests from high growth companies thanks to the pilot programme to be administered by SPRING known as the Venture Debt Risk-Sharing Programme. Under this programme, high growth companies will be provided with an alternative to traditional equity and debt funding through mezzanine debt, where the government will provide 50% risk-sharing with selected financial institutions offering venture debt over an initial period of two years. Mezzanine debt can be structured as unsecured loans for borrowers in exchange for equity options which allow lenders to share in the borrower's eventual performance. The rationale for the programme is for high growth / higher risk enterprises to benefit from:

- enhanced access to capital with minimal collateral requirements;
- minimal short-term impact on cash flow given deferred payment terms; and
- less shareholding dilution than traditional equity investments (e.g. ordinary shares).

Further details of the pilot programme will be announced by SPRING, but the aim of the pilot programme is to catalyse approximately 100 venture debt loans, totalling approximately $500 million.

"Good to see financial support for SMEs in sharing of financial risks. Sharing of 50% risk is a fair proportion."

– Anuj Kagalwala, Financial Services Tax Leader, PwC Singapore

Goods and Services Tax – pre-registration input tax claim

There are no surprises for GST in this year's Budget – no changes to GST rules and no new schemes/reliefs are introduced to promote or to relieve the costs for specific industries. And, as expected, no change is proposed to the GST rates although an increase in the future years would not be unexpected in view of the need to finance social spending.

The only tweaks for GST (besides the extension of and enhancement to the GST remission for listed REITs and RBTs) are the simplification of the rule for claiming GST on expenses incurred prior to GST registration, and the enhancement of the GSTV.

Pre-registration input tax claim

This move by the government to simplify GST rules should be welcomed by businesses although the benefit would not be enjoyed by the majority of the GST-registered businesses since the change affects businesses that are GST-registered with effect from 1 July 2015.

Pre-registration GST refers to GST incurred on purchases of goods and services prior to GST registration. Generally, GST-registered businesses can only claim pre-registration GST on the portion of goods and services used or to be used to make taxable supplies after GST registration. Where goods and services are used to make supplies straddling its date of GST registration or where goods are partially consumed before GST registration, the newly GST-registered business is required to apportion the pre-registration GST on these goods and services and can only claim the portion attributable to taxable supplies made after GST registration. The requirement to perform apportionment and the application of different apportionment rules to determine what can or cannot be claimed, make the process of making a claim convoluted and time-consuming. Hence, businesses often choose to give up the potential input tax claims to avoid the risk of getting the claims wrong. They may also opt to not to pursue the potential GST claims if they believe it may not be a worthwhile exercise after considering the significant time and resources required to compute the recoverable GST amount.

With effect from 1 July 2015, the government will allow a newly GST-registered business to claim pre-registration GST in full on the following goods and services that are acquired within the six months before the GST registration date:

1. Goods held by the business at the point of GST registration; and
2. Property rental, utilities and services, which are not directly attributable to any supply made by the business before GST registration.

With this change, a business will not need to apportion the pre-registration GST on these goods and services even if they have been used to make supplies straddling GST registration or if these goods have been partially consumed before GST registration, if the goods or services are used for the making of taxable supplies.

More details of the change will be released by the IRAS by June 2015.

Other measures

Investment Allowance scheme for Energy Efficiency

Currently, the Investment Allowance Scheme for energy efficiency and green data centres grant incentives for investments in qualifying capital expenditures where the investments result in more efficient energy utilisation. The former scheme is jointly administered by the EDB with the National Environment Agency whereas the latter for data centres is administered by the Infocomm Development Authority of Singapore. They were scheduled to lapse after 31 March 2015.

It was announced that the two schemes will be consolidated into a single "Investment Allowance – Energy Efficiency" (IA-EE) scheme. The incentive will be extended to 31 March 2021 and will now be administered solely by the EDB. Further details will be announced by March 2015.

Data centres are energy-intensive facilities where reducing operational power consumption is a key concern. Singapore is a good location for housing data centres because of its connectivity, availability of stable power source, and its geographic hub location in Southeast Asia that is generally free from natural catastrophes. It is hoped that this consolidated scheme will continue to encourage businesses to locate their data centres in Singapore. Companies who are planning significant capital investment in green or sustainability initiatives to reduce energy consumption should be able to benefit from the IA-EE scheme.

International telecommunications submarine cable system

Currently, capital expenditure incurred on the acquisition of an indefeasible right to use any international telecommunications submarine cable system is entitled to a writing down allowance on a straight line basis.

It was announced in Budget 2015 that a review date of 31 December 2020 will be introduced to ensure that the relevance of the scheme is periodically reviewed.

Foreign worker levies

Previously announced hikes in foreign worker levies will be recalibrated in view of the significant slowdown in foreign worker inflows and progress in raising productivity. The levy increases for S Pass and Work Permit holders for all sectors originally proposed for 1 July 2015 will be deferred by a year. Levies for the manufacturing sector will be frozen at 1 July 2014 rates until 30 June 2017. Levies for the construction sector will be revised to incentivise the upgrading of existing R2 workers and the hiring of R1 workers. This recalibration should bring welcome, if short-term, relief for businesses.

Offshore leasing

The Minister has surprisingly decided to do away with the concessionary rate of tax of 10% for offshore leasing available under section 43I of the ITA. With effect from 1 January 2016, income accruing in or derived in Singapore from the offshore leasing of plant and machinery will be subject to the prevailing corporate tax rate. The reason given for the withdrawal is that there are adequate targeted incentives for the leasing of aircraft, aircraft engines, ship and sea containers which have diminished the relevance of section 43I.

By withdrawing section 43I, certain other sectors such as the oilfield services and consumer product companies that have invested in setting up a hub here to do offshore leasing are now going to face an incremental tax bill of about 7% from YA 2017. It may not be surprising if a few of these companies find this incremental tax costs too much to bear and seek out lower cost locations to base their operations.

Operational headquarters

Section 43E of the ITA was introduced in the mid-1980s to provide for the Operational Headquarters (OHQ) incentive. The OHQ incentive was introduced to create a conducive tax regime to attract multinational corporations which were looking to set up regional headquarters to locate these headquarters in Singapore. With some tweaks over the years, the section 43E as it stands today, provides an incentive for headquarters providing management, technical or other supporting services to their approved network companies or offices.

With the trend of multinationals adopting centralised principal/entrepreneurial models, the business models of headquarters have evolved through the years. These companies which conduct entrepreneurial activities in addition to being management and support service providers, could qualify for the DEI provided under the Economic Expansion Incentives (Relief from Income Tax) Act, or the Finance and Treasury Centre incentive under section 43G of the ITA.

In the light of such developments, it is natural for the government to consider whether there is sufficient value add in cost centre-type headquarters to justify a separate tax incentive. Hence, it is not surprising that the Minister has proposed the withdrawal of the OHQ incentive under section 43E with effect from 1 October 2015.

Royalties

Section 10(16) of the ITA provides for concessionary treatment for specified persons on royalties and other payments from approved intellectual property (IP) or innovation. In essence, the person will pay tax on the lower of:

1. the amount of royalties or other payments remaining after deductions and capital allowances (if any); or

2. an amount equal to 10% of the gross amount of royalties or other payments, i.e. on a non-resident's basis.

It was announced that this tax concession was assessed to be no longer relevant and will be withdrawn from YA 2017.

Securing the revenue base

Securing the revenue base

Personal tax

Increase in income tax rates for high income earners

One of the recurring themes of the last few Budgets has been the focus on enhancing the progressiveness of the individual tax system. This began in 2010 when the property tax structure was updated; followed by a rationalisation of the income bands and corresponding tax rates from 2011. In this Budget, the Minister has taken the bold step of increasing the top marginal income tax rate from 20% to 22%, effective from YA 2017, and also introducing two new income bands, in order to ensure that higher income earners contribute more towards the revenue base.

Chargeable Income ($)		Tax rate (%)	
		YAs 2015 & 2016	YA 2017
On the first	20,000	0	0
On the next	10,000	2.00	2.00
	30,000		
On the next	10,000	3.50	3.50
	40,000		
On the next	40,000	7.00	7.00
	80,000		
On the next	40,000	11.50	11.50
	120,000		
On the next	40,000	15.00	15.00
	160,000		
On the next	40,000	17.00	18.00
	200,000		
On the next	40,000	18.00	19.00
	240,000		
On the next	40,000	18.00	19.50
	280,000		
On the next	40,000	18.00	20.00
	320,000		
On income above	320,000	20.00	22.00

Increasing the top tax rates generally attracts attention both domestically and internationally. While the reception amongst the majority of Singaporeans should be positive, it remains to be seen how this increase will be perceived internationally.

Income tax rebate

For the YA 2015, Singapore tax residents will enjoy a one-time tax rebate of 50% of their final tax liability, subject to a cap of $1,000. This should be well received, particularly the middle income households, who stand to benefit most.

Rental expenses

In order to simplify tax compliance from YA 2016, landlords will be able to choose whether to deduct their actual expenses against their passive rental income, or a proxy for their expenses, calculated as 15% of gross rental income. Either would be in addition to deductible interest (i.e. mortgage) expenses, which can be separately considered. This simplification will avoid the need to collect and retain records of actual expenses, however it remains to be seen whether landlords will find the 15% "deemed expenses" comparable to their actual outlays. Landlords will also await further details from the IRAS on this scheme, expected by May 2015, particularly on whether the option to choose between actual and deemed expenses can be reconsidered annually and applied differently across multiple properties.

Foreign maid levy

From 1 May 2015, the concessionary rate of Foreign Domestic Worker Levy will be reduced from $120 to $60 per month. Families with children aged between 12 and 16 (who currently pay the full levy of $265 per month) will now qualify for the concessionary rate, thus saving them close to $2,500 per year.

Vehicles taxes

Carbon emissions-based vehicle scheme

The Carbon Emissions-based Vehicle Scheme was first introduced in 2013 to encourage car owners to shift to car models with lower carbon emissions. This scheme is due to expire on 30 June 2015. Encouraged by the success of the scheme, the government has extended the scheme to 30 June 2017. The surcharge and rebate bands have also been revised to reflect improvements in vehicle engine technology, and the highest rebate and surcharge amounts have been increased from $20,000 to $30,000.

Petrol duty and road tax rebate

Petrol duty rates have been increased with immediate effect from $0.44 to $0.64 per litre for premium grade unleaded petrol (RON 97 and above) and from $0.41 to $0.56 per litre for intermediate grade unleaded petrol (RON 90 and above but under RON 97).

To (partially) offset the increase in petrol duties, a one-off road tax rebate for petrol vehicles will be given for the period from 1 August 2015 to 31 July 2016. This rebate ranges from 20% for cars to 100% for commercial vehicles and taxis.

“The 2% marginal tax rate increase for top earners did come as a “surprise”, but consistent with Minister’s continued focus on a more progressive tax system. However, will it be perceived to negatively impact our “competitiveness”?

Girish Vikas Naik, Director – Global Mobility,
PwC International Assignment Services (Singapore)

Strengthening social security

Strengthening social security

Assurance in retirement

This year's Budget touches on strengthening assurance in retirement whereby the four pillars of our social security system are highlighted – Home Ownership, CPF System, Healthcare Assurance and Workfare. To buffer our retirement adequacy, the Enhanced CPF and Silver Support Schemes are introduced.

Under the Enhanced CPF scheme, there will be an increase in the CPF salary ceiling from $5,000 to $6,000, higher contribution rates for older workers aged 55 to 65, and an additional 1% extra interest on the first $30,000 of CPF balances for members aged 55 and above. These are all highly laudable steps that the government is taking towards building up the retirement nest-egg of every Singaporean. The scheme will also act as an incentive for CPF members, especially the low- to middle-income earners to raise their account balance to the Basic Retirement Sum level or perhaps even aspire towards the Full Retirement Sum level recommended by the CPF Advisory Panel in February this year. That said, it should be remembered that these increments should only be sufficient to meet our basic needs on retirement. Above and beyond that, additional retirement pillars outside of CPF are necessary to act as a bulwark against the escalating costs of living.

The higher contribution cap within the Supplementary Retirement Schemes (SRS) will also help reinforce our other retirement pillar, but since it is a voluntary contribution-based scheme, only time will tell if the cap hike will - or will not – lead to an accompanying increase in the take-up rate.

Besides the above proposal, another retirement vehicle that often gets overlooked is the employer-sponsored schemes (also known as the "Section 5 schemes") – where the rules and regulations are prescribed in section 5 of the ITA. These schemes ought to be encouraged and endorsed by the government as they provide an additional source of retirement funding for our citizenry – as a potential source of reliable income in our twilight years, these will help supplement retirement incomes.

The much-anticipated Silver Support Scheme, first hinted at by Prime Minister Lee Hsien Loong in his National Day Rally speech, was also unveiled in this Budget. The scheme targets the neediest 20% to 30% of Singaporeans aged 65 and above. The qualifying conditions for the scheme are based on an assessment of their lifetime wages, household support and the type of housing. Retirees who qualify under the scheme will receive an additional $300 to $750 every quarter on top of what they draw from their retirement funds and other assistance schemes. This initiative will help those who fall into the cracks of the country's existing social safeguards and will provide the needy seniors a better means of coping with the costs of living.

Temporary Employment Credit

To help businesses cope with the impact of the additional CPF contributions, the Temporary Employment Credit (TEC) has been extended to 2017. The relevant rates are summarised as follows:

Year	TEC*
2015	1% of wages up to the CPF salary ceiling of $5,000
2016	1% of wages up to the CPF salary ceiling of $6,000
2017	0.5% of wages up to the CPF salary ceiling of $6,000

* *Employers of workers earning above the CPF ceiling will receive TEC that corresponds to the CPF contributions payable at the CPF salary ceiling.*

Special Employment Credit

The Special Employment Credit (SEC) was first introduced as a Budget initiative in 2011 and enhanced in 2012 to provide employers with further support to hire older Singaporeans. In Budget 2014, the SEC for 2015 was enhanced for one year to help employers cope with cost increases associated with the increase in CPF contribution rates. Companies who hire Singaporeans aged above 50 years will receive SEC of up to 8.5% of an employee's wages, and an additional SEC of up to 3% of wages for workers aged 65 and above.

"A commendable focus on growth initiatives coupled with a theme of improving our social safety net."

– Florence Loh, Tax Partner, PwC Singapore

SkillsFuture credit and training

In this fast changing and highly competitive world, maintaining the status quo is not an option, especially if any entity or nation desires to grow (or even survive!) To enable Singapore to compete in the global marketplace, the Budget provides for a major long-term thrust to build deeper skills and advanced capabilities of its human capital. Through the 'SkillsFuture' initiative, monetary and non-monetary support for the life-long learning are provided to equip Singapore's workforce to better adapt to the evolving needs of the economy.

While government initiatives will act as an important catalyst, both the employee and the employer will have to keep questioning whether their skills and capabilities are adequate or relevant to current needs. Even a highly skilled employee or highly successful company cannot assume they are on the right track when faced with constant changes in the business environment. As Will Rogers once said, "Even if you're on the right track, you'll get run over if you just sit there."

<table>
<tr><th>Target group</th><th colspan="3">Programmes & Initiatives</th></tr>
<tr><td>Students</td><td>• Education and career guidance
• Enhanced internships
• Young Talent Programme – overseas market immersion programme</td><td rowspan="3">SkillsFuture Credit of $500 – for Singaporeans aged 25 years and above with regular tops-ups to be given out subsequently</td><td rowspan="3">Individual Learning Portfolio – education, training and career guidance online portal</td></tr>
<tr><td>Early-career</td><td>• Earn and Learn Programme
• Study Awards – cash award of up to $5,000 to develop and deepen skills in future growth clusters</td></tr>
<tr><td>Mid-career</td><td>• Enhanced course subsidies – minimum of 90% course fee subsidy
• Multiple subsidies for modular courses
• Study Awards and Fellowships – cash awards of up to $10,000 to enable individuals achieve mastery of their fields in growth clusters</td></tr>
<tr><td>Employers</td><td colspan="3">• Earn-and-Learn Programme - $15,000 to offset cost of training
• Sectoral Manpower Plans – 23 key sectors to roll out by 2020
• Central Pool of Mentors with Industry Specialisms
• Leadership Development – collaboration to develop high potential talent
• Innovative Lab – support innovation efforts in training</td></tr>
</table>

Donations

Taxpayers who make qualifying donations to approved charities (such as Institutions of a Public Character, approved museums, prescribed educational institutions) during the calendar years from 2009 to 2015 are currently eligible for a 250% tax deduction.

The Minister has proposed an increased tax deduction of 300% for donations made in 2015. This means that companies could enjoy tax savings of up to $51 for every $100 donation, while top earners could save up to $60 for the same amount donated (taking the top marginal rate of 20% for YA 2016). This measure is intended to encourage more philanthropy in the 50th year of independence so as to help make Singapore a more inclusive society.

The 250% tax deduction, which was due to expire on 31 December 2015, has also been extended to donations made from 2016 to 2018.

SkillsFuture will help deepen the skills and knowledge of Singaporeans. It will, over time, create a capable resource pool to support our future economic growth.

"The more you give; the more you receive. Strong message about Jubilee move to increase tax deduction to 300%."

– Elaine Ng, Transport & Logistics Tax Leader, PwC Singapore

GST vouchers

The GSTV were first introduced in Budget 2012, and it is in the form of cash, Medisave top-ups and U-Save rebates to offset utilities bills. This year, an enhancement is announced for the existing GSTV, with a focus on helping elderly Singaporeans with their daily expenses. The changes are as follows:

- GSTV-Cash: This will be increased by $50 from 2015 onwards. Eligible Singaporeans will now receive either $150 or $300, depending on the annual value of their homes.

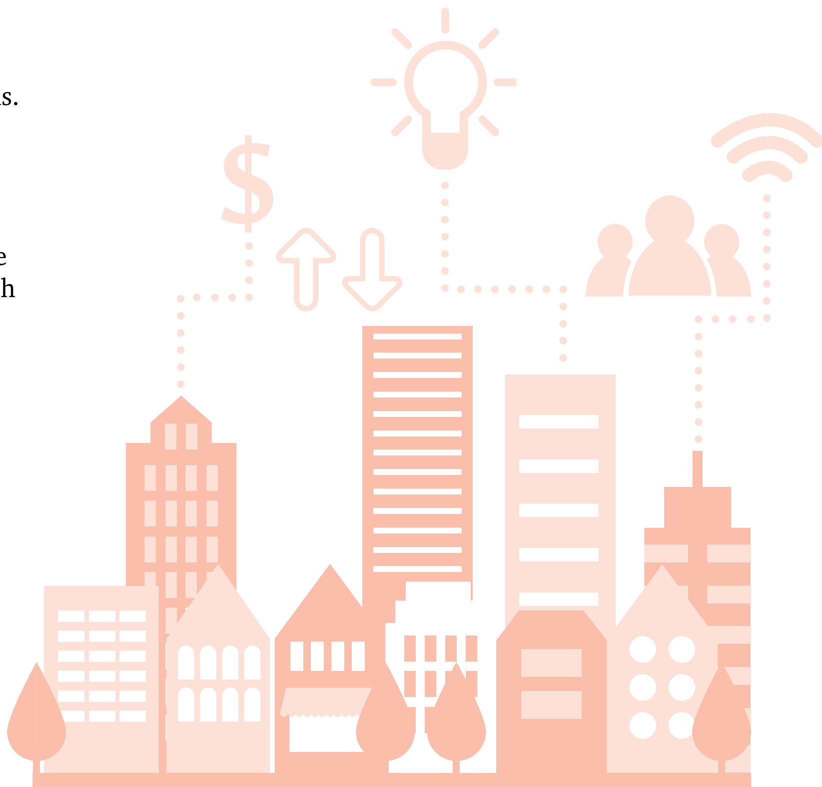
- Additional GSTV-Seniors' Bonus in 2015: For eligible Singaporeans aged between 55 and 64, the amount given is either $150 or $300. For eligilble Singaporeans aged 65 and above, the amount is either $150 or $600. In either case, the amount to be received depends on the value annual value of their home.

The enhancement to the GSTV-Cash is expected to cost the government $70 million per year and is expected to benefit 1.4 million Singaporeans. The GSTV-Seniors' Bonus is expected to cost the government $315 million this year and will benefit more than 660,000 elderly Singaporeans. This move, along with the other measures introduced in this year's Budget, is a firm reflection of the government's long standing stance that financial assistance to lower (and middle) income group would be provided in the form of schemes and subsidies to help them with the increasing costs of living.

Transfers to households

The Minister announced additional top-ups this year to help fund the education of young Singaporeans. Children aged six and below will receive a top-up to their Child Development Accounts (CDA). Students aged seven to 16 (including students above 16 who are still in secondary school) will receive a one-off additional top-up of $150 to their Edusave Accounts. Singaporeans aged 17 to 20 years who are not eligible for the Edusave top-up will have their Post-Secondary Education Accounts (PSEA) topped up. The top-up amount for the CDA and PSEA depends on the annual value of the student's home.

In addition, households living in HDB flats will be given rebates for service and conservancy charges of one to three months in order to help them with cost of living expenses.

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2014 in snapshot

2014 saw various legislative changes introduced and circulars issued by the IRAS and other agencies. Some highlights of the year's tax changes are set out below. Many of these were introduced in the 2014 Budget.

General corporate tax		
IP rights	February	The writing down allowances on IP rights and tax deduction for IP registration costs were extended to YA 2020. The accelerated writing down allowance scheme for Media and Digital Entertainment companies was also extended to YA 2018. It was clarified that customer-based intangibles and documentation of work processes do not fall within the scope of IP rights for the purposes of the writing down allowances.
Land Intensification Allowance (LIA)	February / July	The EDB released a circular to provide details on the enhancements to the LIA scheme, including the extension of the scheme to 30 June 2020.
Banks	February / May	The Minister announced that Basel III Additional Tier 1 instruments (other than shares) issued by Singapore-incorporated banks will be treated as debt for tax purposes. Details are available in a circular issued by the MAS in May.
Hybrid instruments	May	The IRAS issued a circular detailing the income tax treatment of hybrid instruments.
PIC and PIC+scheme	September	The IRAS issued a revised circular on the PIC scheme to reflect the changes announced in the 2014 Budget. Some of the changes include the extension of the scheme to YA 2018 and the introduction of the PIC+ scheme for qualifying SMEs.
Incentives		
R&D	February / August / October / January 2015	The IRAS revised its circular on R&D tax measures to incorporate the changes announced in the 2014 Budget, including the extension of the incentives. The revised circular also introduced details in annex for application software R&D projects and the food and beverage industry. The extension of the section 14DA incentive to YA 2025 was mentioned in the annex of the IRAS' circular on PIC.
Aircraft rotables	February	The investment allowance scheme for aircraft rotables will be allowed to lapse after 31 March 2015.
Fund management	February / May	The MAS issued a circular to provide details of the refinements to the incentives for asset management and extension of those schemes to 31 March 2019. With these refinements, the section 13C scheme for trustees will lapse after 31 March 2014.

Designated unit trusts (DUT)	February / May	The MAS issued a circular to provide details on the changes to the DUT scheme. A review date of 31 March 2019 of the scheme was also introduced for the scheme.
Tax administration		
Withholding tax	February	The Minister announced that from 21 February 2014, tax will not need to be withheld on payments to Singapore branches of non-resident companies.
Personal tax		
Dependent reliefs	February	The Minister announced increased reliefs for individuals supporting their parents (including grandparents and great-grandparents) or handicapped dependents.
Transfers of qualifying deductions between spouses	February	The Minister announced that married couples can no longer transfer qualifying deductions and deficits to each other (including under the loss carry-back scheme) with effect from YA 2016.
Goods and Services Tax		
Fund management	March / December	The MAS issued a circular prescribing the fixed GST recovery rate prescribed funds managed by prescribed fund managers for 2015. The MAS also issued a circular to extend the GST remission for prescribed funds to 31 March 2019.
Hotels	July	The IRAS issued a circular to explain the GST principles applicable to the hotel industry.
Other taxes		
Stamp duties	February	The IRAS issued circulars detailing changes to the rate structure of the following types of stamp duty: • Buyer's stamp duty • Share transfer duty • Lease duty • Mortgage duty
Betting duties	February	Certain duty rates were increased with effect from 1 July 2014.
Tobacco excise duties	February	Excise duties for cigarettes and other manufactured tobacco products were increased with effect from 21 February 2014.
Liquor excise duties	February	Excise duties for all liquor types were raised with effect from 21 February 2014.
Agreements for the avoidance of double taxation		
New treaties	January to December	Singapore signed new treaties with Laos, Seychelles, Rwanda and San Marino during the year. These treaties have not been ratified and do not have the force of law. Treaties with the following countries were ratified and came into force during the year: • Morocco (15 January 2014) • Barbados (25 April 2014) • The Czech Republic (24 June 2014) • Liechtenstein (25 July 2014)

Revised treaties	January to December	Treaties with the following countries were revised in 2014: • Poland – revised treaty entered into force on 6 February 2014 • Austria – exchange of notes entered into force on 1 May 2014 • Sri Lanka – revised treaty signed on 3 April 2014 Kazakhstan – protocol entered into force on 12 September • Czech Republic – protocol entered into force on 12 September 2014 • United Arab Emirates – protocol signed on 31 October 2014
Income tax cases		
General anti-avoidance rules	February	*Comptroller of Income Tax v AQQ*: The Court of Appeal agreed with the High Court that the arrangement in question constituted tax avoidance under section 33 of the ITA. This is a landmark case as it is the first to deal with Singapore's statutory general anti-avoidance rules. It also clarifies the scope of the Comptroller's powers and the principles that should be applied to determine whether an arrangement constitutes tax avoidance.
Taxation of management corporations	July	*BLP v Comptroller of Income Tax*: The High Court held that special levy contributions collected by the management corporation of a development for the purposes of retrofitting and upgrading the development were capital in nature.
Deductions	July	*BFC v Comptroller of Income Tax*: The Court of Appeal held that discounts and premiums are not "interest" under section 14(1)(a) of the ITA and are not deductible on the grounds that the bonds in question were capital in nature. It also reconciled the operation of section 14(1)(a) with that of section 15(1)(c), holding the interest that is capital in nature may be deductible under the former provision.

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	*http://app.mof.gov.sg/*
Inland Revenue Authority of Singapore	*http://www.iras.gov.sg/*
Economic Development Board	*http://www.edb.gov.sg/*
International Enterprise Singapore	*http://www.iesingapore.gov.sg/*
Monetary Authority of Singapore	*http://www.mas.gov.sg/*
The Maritime and Port Authority of Singapore	*http://www.mpa.gov.sg/*
Ministry of Manpower	*http://www.mom.gov.sg/*
Central Provident Fund Board	*http://mycpf.cpf.gov.sg/*
Singapore Tourism Board	*https://app.stb.gov.sg/*

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About us

PricewaterCoopers Services LLP is one of the largest providers of professional tax services in Singapore. With close to 300 tax professionals and directors, we help individuals, businesses, both public and private organisations, with tax strategy, planning and compliances. From financial services, treasury, asset management, mergers and acquisitions, international tax planning (inbound and outbound), real estate, insurance, healthcare and pharmaceuticals, company fiduciary & administration services, transport & logistics and Goods and Services Tax (GST) to value chain transformation and transfer pricing, our tax professionals will provide you with the ideal tax solution.