Creating Value. For Smart Future.

Singapore Budget Commentary 2016

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Singapore Budget 2016 at a glance

1% - 3%
expected GDP growth
for 2016

$3.4 billion
Estimated FY 2016 overall budget surplus

$5 billion more than FY2015

PRUDENT
Higher spending in education, healthcare, security and urban development

Businesses

Corporate income tax rebate
50%
of tax payable capped at $20,000 for YA 2016 and YA 2017

SME Support
Loan assistance of up to
$300,000

Scale-up of Singapore enterprises

- Business Grants Portal
- Automation Support Package

Deal value cap for M&A tax allowance increased to
$40 million

Safe harbour for exemption of gains on disposal of equity investments extended to
31 May 2022

Finance and Treasury Centre

Tax incentive scheme extended to **31 March 2021** and concessionary tax rate lowered to
8%

Individuals

Personal tax relief capped at
$80,000 from **YA2018**

Silver support scheme payout of
$300 to **$750** every quarter

Foreword


Yeoh Oon Jin


Chris Woo

Delivering his first Budget Statement, as well as the first Budget of the current term of government, Finance Minister Heng Swee Keat draws on the challenges Singapore faces today as the driving force behind the urgency to transform its economy through enterprise and innovation and does not forget the people we need to care for.

It has been clear from the lead-up to Budget 2016 that one of the Minister's priorities would be to encourage Singapore businesses to create value through innovation and to grow by expanding overseas. The turn of the year, however, brought with it uncertainty in the global economic outlook and heightened market volatility. Recognising the impact of these external developments on Singapore's open economy, the Minister put forward various measures, including SME loan assistance, extending corporate tax rebates and Special Employment Credit, as well as deferring foreign workers levy for sectors most affected by the downturn to address the near term concerns.

Where will Singapore be in 1000 years? Acknowledging the challenge of our founding father, the Minister announced wide-ranging initiatives through the Industry Transformation Programme to support the structural changes that Singapore will need to make. These include support for automation, financing and tax incentives for scaling up of local businesses, promoting innovation, leveraging new technologies, investing in people and partnership with industry.

Taken together, Budget 2016 contains measures that address both the cyclical headwinds arising from slowing demands in the major markets, as well as the need for fundamental changes to transform the local economy.

The tax changes proposed in the Budget also continue to be targeted. Incentives that have proven valuable to Singapore have been extended, such as the safe harbour rule for exemption of gains on disposal of certain equity investments, whereas a couple of dated schemes that are no longer relevant will be terminated. The incentives for insurers and trustee companies will be renewed, but with less generous benefits. The Finance and Treasury Centre incentive will also be renewed with the concessionary tax rate lowered to 8%, although incentive applicants will be subject to higher economic commitments. Meanwhile, the corporate tax rebate for the Years of Assessment 2016 and 2017 will be raised to 50% of tax payable (subject to an annual cap of $20,000), an enhancement that would benefit SMEs most. In another targeted move, a cap of $80,000 on personal reliefs is introduced, consistent with the policy objective of enhancing the progressivity of the personal tax regime.

But it was perhaps surprising to some that the government did not take this opportunity to address the recommendations by the Organisation for Economic Co-operation and Development in its Base Erosion and Profit Shifting (BEPS) project, particularly on the country-by-country reporting requirements for Singapore multinationals. Many other countries have already introduced these reporting requirements in response to global expectations from governments and other stakeholders.

Having said that, the Singapore government is on record that it supports the BEPS project and it is clear that BEPS-related considerations are high on its agenda. Further specific detail in this regard will be welcome in the future in order to provide multinationals and locally owned groups operating offshore with more clarity on how the relevant BEPS recommendations will be implemented in Singapore.

While a large part of Budget 2016 is focused on addressing economic challenges, if we were to take a straw poll of the balance of the Budget, the message from most individuals to the Minister is likely "I am glad the Minister recognises the importance of a caring and resilient society. Your budget is balanced to address the economics and social needs." The Minister seeks to forge a closer partnership with the citizenry through supporting families with young children with financial grants, caring for low wage workers by enhancing the Workfare Income Supplement Scheme and helping needy seniors with the Silver Support Scheme. In the long run, it is the people that make a nation. Therefore, it is only by awakening in our people the indomitable will to succeed that their forefathers bore, will the future generations be able to thrive and continue this Singapore story.

Nation building is a journey and there's still much to be done, but with Budget 2016 the Minister has charted the course for the next 50 years and beyond.

Yours sincerely,

Yeoh Oon Jin
Executive Chairman
PwC Singapore

Chris Woo
Tax Leader
PwC Singapore

Corporate income tax rebate

The existing corporate income tax rebate for Years of Assessment (YAs) 2016 and 2017 has been increased from 30% of tax payable to 50% of tax payable. However, the maximum rebate remains capped at $20,000 per year. This higher percentage rebate is obviously targeted at the small and medium sized enterprises (SMEs), but nonetheless, any company with chargeable income of approximately $235,000 will be able to reap the maximum benefit of the enhancement.

While such enhancement may be a welcomed move under the current economic environment, loss-making SMEs will not be able to benefit from it. A one-off SME cash rebate similar to that implemented in YA 2011 may have been more palatable to the SMEs, as cash flow is usually one of their greatest concerns. That said, this Budget contains other measures that will be applauded by SMEs, such as the SME Working Capital Loan scheme.

SME Working Capital Loan scheme

The government introduced the SME Working Capital Loan scheme that provides loans of up to $300,000 for local SMEs. The government will co-share 50% of the default risk of these loans with participating financial institutions (PFIs). These funds may be used for daily operations or for automation and upgrading of factory and equipment.

Businesses may apply for a SME Working Capital Loan if they meet these criteria:

- Registered in Singapore;
- Have at least 30% local shareholding; and
- Group annual sales of not more than $100 million or group employment size of not more than 200.

The Ministry of Trade and Industry will announce more details of this at the Committee of Supply.

Foreign Worker Levy

In view of the challenging business conditions in the Marine and Process sectors and the reduction in the number of Work Permit holders in these sectors, the planned foreign worker levy increase for Work Permit holders in these sectors will be deferred for one year. This will no doubt be welcomed by companies in these sectors.

Meanwhile, Manufacturing Work Permit levies will remain unchanged for another year, whereas levy increases for Services and Construction Work Permit holders, as well as S Pass holders in every sector, will proceed as planned.

Automation Support Package

To support companies in scaling up automation projects, the new Automation Support Package (ASP) was introduced. It comprises the following four components:

- SPRING Singapore's Capability Development Grant (CDG) will be expanded to support these automation projects. The funding for these projects will be up to 50% of project cost, with a maximum grant of $1 million.

- For qualifying projects (approved capital expenditure capped at $10 million per project), a new 100% investment allowance will be granted for automation equipment (net of grants). This is in addition to the existing 100% capital allowance that is already available.

- The government will enhance the risk-share with PFIs from 50% to 70% for qualifying projects, thus improving access to loans for SMEs. For non-SMEs, the risk-share will be 50%.

- IE Singapore will also work with SPRING Singapore to help businesses embark on large-scale automation projects, which enable such firms to scale up and to access overseas markets.

While this new package will no doubt drive the Smart Nation vision in the right direction, some areas that may need to be looked at include:

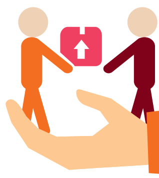
- The question of what constitutes "automation project" will have to be answered. While SPRING Singapore may wish to lay down certain ground rules, it is hoped that the criteria will not be too rigid, making it difficult for projects to qualify.

- Including the CDG under the ASP means claimants of such benefits will first have to be assessed by SPRING Singapore. While the application process for grant support of $30,000 or less has been simplified to encourage more SMEs to apply for the CDG, the ASP offers a higher level of grants and will likely be subject to more stringent evaluation. Guidance to applicants for the ASP should be readily available to help the intended beneficiaries take advantage of it.

- It is no surprise that SMEs need greater help in their automation journey, and therefore the government has decided to enhance the risk-share with PFIs from 50% to 70% for qualifying projects. However, it remains to be seen whether this is sufficient to encourage lending by financial institutions which will continue to be exposed to a portion of the risk.

For now, we await more details of the ASP which forms a key measure in the Industry Transformation Programme for catalysing the transformation of local enterprises.

Mergers & Acquisitions scheme



Under the current mergers and acquisitions (M&A) tax allowance scheme, a qualifying Singapore company can claim a deduction of 25% of the cost of acquisition, capped at $20 million, for qualifying share purchases.

In Budget 2016, the cap on the cost of acquisition is increased to $40 million. The increase doubles the claims amount from $5 million to $10 million for acquisitions of at least $40 million in value. Translating this into tax savings, a company can look to save up to $1.7 million ($10 million x 17% corporate tax rate) which is rather significant. The savings can go a long way to defray transaction costs especially for local SMEs seeking to grow through acquisitions.

Stamp duty relief for shares will also be capped at the cost of acquisition of $40 million. Singapore stamp duty is applicable on the acquisition of shares in Singapore companies and hence does not impact SMEs which are looking to grow through overseas acquisitions.

This change will take effect for qualifying M&A deals made from 1 April 2016 to 31 March 2020.

The enhancements to the M&A scheme are in line with the continued efforts of the government to encourage local SMEs to expand and grow through acquisitions. However, it remains to be seen if SMEs can fully benefit from these enhancements given deals of this size may be beyond their reach.

Further details of the scheme will be issued by the Inland Revenue Authority of Singapore (IRAS) by June 2016.

Exemption of gains on disposal of equity investments

First introduced by the government in Budget 2012, the safe harbour rule on the exemption of gains on divestments of ordinary shares provided certainty for many corporate investors contemplating a share disposal. Broadly speaking, to obtain the relief, the divesting company must hold a minimum of 20% of the ordinary shares in the investee company for at least 24 months prior to the disposal.

However, the rule came with an expiry date of 31 May 2017. In Budget 2016, the government announced an extension of the rules to 31 May 2022. All other features of the scheme remain unchanged.

This announcement will be welcomed by the business community. It provides significant stability for businesses wanting to use Singapore as the holding location for their operations and investments.

Given the requirement for the disposal to take place on or before 31 May 2022, and the two-year holding period, this means the extended safe harbour will only cover investments acquired on or before 31 May 2020.

While the extension to the rules will certainly be welcomed, it leaves one to wonder why the scheme is not made a permanent feature in our tax regime. This will again create anxiety for investors making purchases near to expiry. Further, only providing exemption to investors holding ordinary shares does not take into account today's environment where varied equity instruments are used.

Double Tax Deduction for Internationalisation

The Double Tax Deduction for Internationalisation (DTDi) scheme was first introduced to encourage Singapore businesses to venture abroad. Under the DTDi scheme, companies can claim a 200% tax deduction on qualifying expenditure incurred for qualifying market expansion and investment development activities. In the past four years, the scheme was enhanced to provide further deduction for certain expenses for which no pre-approval is needed (subject to cap) as well as to cover qualifying manpower costs (capped at $1 million per approved entity a year) to encourage posting of Singaporeans overseas.

In line with the objectives set out in Budget 2016 to press on with economic transformation and overseas expansion, the DTDi scheme will now be extended for four years from 1 April 2016 to 31 March 2020. This extension does not come as a surprise as the DTDi scheme, which was slated to expire on 31 March 2016, was enhanced in Budget 2015 to apply to qualifying manpower expenses incurred from 1 July 2015 to 31 March 2020. As such, it is logical to expect the DTDi scheme to be extended to 31 March 2020 to align with the Budget 2015 enhancement.

The existing automatic double tax deduction on expenses up to $100,000 will also be extended to qualifying expenditure incurred during the same period. All other conditions of the scheme remain the same. IE Singapore will release further details of the change by June 2016.

This extension should be welcomed by local businesses which are keen to seek new markets and growth opportunities overseas.

Productivity and Innovation Credit scheme

The Productivity and Innovation Credit (PIC) scheme was introduced in Budget 2010 for a period of five years, i.e. YA 2011 to YA 2015 to encourage businesses to invest in areas which would increase productivity and to undertake value-creation activities. The PIC scheme was subsequently extended for another three years to YA 2018 in Budget 2014.

The government has decided not to extend the PIC scheme beyond YA 2018.

The current cash payout rate will be reduced from 60% to 40% for qualifying expenditure incurred on or after 1 August 2016.

What does the end of PIC and reduced PIC cash payouts signal?

PIC is a tax measure which is broad-based and open to all taxpayers. There has been a good take up rate for acquisition and leasing of information technology and automation equipment as well as employee training. These tax measures targeted at increasing productivity appear to have achieved their goals. In contrast, the other four categories of PIC (related to intellectual property rights (IPRs), registration of certain IPRs, research and development (R&D) and design projects) geared towards innovation saw relatively low take up rate.

The reduction in PIC cash payout and definitive expiry of the PIC scheme is in line with the policy of continuously reviewing the various support schemes to assess their relevance. The end of PIC signals the shifting away from a broad-based support approach to a more targeted, sector-focused approach, for example the newly announced Business Grants Portal and the Automation Support Package.

Intellectual property rights

Introducing an anti-avoidance rule for intellectual property rights transfers

The Budget proposes to include an anti-avoidance rule on IPR transfers. This proposed mechanism looks to the open market value (OMV) of an IPR, and is meant to empower the IRAS to make pricing adjustments in the following situations:

- If the acquisition price is higher than the OMV, IRAS may restrict writing-down allowance (WDA) based on OMV of the IPR; and
- If the disposal price is lower than the OMV, the IRAS may regard the OMV as disposal price to compute the balancing charge.

This specific anti-avoidance rule is introduced because of the lack of specific provisions to clearly allow the IRAS to pursue pricing adjustments for IPR transactions. It is meant to apply to acquisitions, sales, transfers or assignments of IPRs made from 25 March 2016, and we understand that it could apply to both related party transactions as well as dealings between unrelated persons.

It is not clear why the IRAS would want to invoke such a provision for transactions between unrelated parties. In any ordinary business dealing between third parties acting on a willing buyer and willing seller basis, the price agreed refers to the outcome of commercial bargaining and should be accepted for tax purpose. It is quite irrelevant what another party could or would offer because the circumstances of that dealing would have been different.

In the case of a related party transfer, it is understandable that the IRAS would want to apply a higher level of scrutiny over valuation. That being said, a valuation report is typically required so that should serve as a check against any abuse.

It is also unclear under what circumstances and how the IRAS would invoke the rule – e.g. does a mere price differential automatically trigger the provision? If so, would the taxpayer have a chance to consider IRAS's valuation basis so that any differences may be discussed and reconciled?

It is hoped that IRAS could give detailed guidance on the scope and operation of the (proposed) provision which confers it with discretionary authority. Otherwise, the uncertainty around its application would affect Singapore's ambition to be an intellectual property hub.

While a move towards tightening anti-avoidance rules may be inevitable given the broader international tax developments on curbing abuse, it is important for such (new) rules to be properly clarified so as to minimise the unintended effect of their application.

Providing an election for the writing down period for intellectual property rights under section 19B of the Income Tax Act

At present, WDA on the acquisition cost of qualifying IPRs is claimed over five years.

It is proposed that taxpayers be given the option to claim the WDA over five, 10 or 15 years in recognition of the varying (economic) useful lives of IPRs.

The election must be made at the point of submitting the tax return of the year of assessment relating to the basis period in which the qualifying cost is first incurred. The election, once made, is irrevocable.

This change is meant to apply to qualifying IPR acquisitions made within the basis periods for YA 2017 to YA 2020.

This proposed change, broadly speaking, accords welcome flexibility to taxpayers. The ability to elect WDA claim over the (economic) useful lives of IPRs may help to achieve greater alignment between financial accounting and tax reporting.

Currently, unutilised WDAs can be carried forward subject to the shareholder continuity test and same business test. The company may apply for waiver of the former if there is a substantial change in its shareholders. In this context, the flexibility to claim over a period of 10 or 15 years could well reduce the need to deal with uncertainty of eligibility to carry forward unutilised WDAs, for example, in the event of a substantial change in shareholding, especially for cases where most of the income derived from the IPR is expected to accrue after the initial years.

The election option to seek a longer tax useful life is also useful given the general inability to defer tax amortisation (i.e. under current rules WDA must be claimed and cannot be deferred).

Further details will be released by 30 April 2016 by IRAS.

"While a move towards tightening anti-avoidance rules may be inevitable given the broader international tax developments on curbing abuse, it is important for such (new) rules to minimise the unintended effect of their application."

Land Intensification Allowance

The current Land Intensification Allowance (LIA) was first introduced in Budget 2010 with the view of supporting enhanced land productivity among businesses, in particular those that have large land takes and low gross plot ratios. The LIA is administered by the Economic Development Board (EDB).

To qualify for LIA, the user of the approved LIA building or structure must carry out one of the qualifying activities as its principal activity in the building or structure and also meet the relevant gross plot ratio benchmark. Further, at least 80% of the total floor area of the approved building or structure must be used by a single user for carrying out the principal activity. Once approval is obtained, an initial allowance of 25% and an annual allowance of 5% can be claimed on the qualifying capital expenditure incurred on the construction or renovation of the approved building or structure.

To further encourage industrial land productivity, the LIA scheme has now been enhanced to include buildings used by single or multiple related users, for one or multiple qualifying trades or businesses. This is subject to conditions being met.

This change will be effective for applications made from 25 March 2016.

This liberalisation of the LIA is a much welcomed move, but it is unclear for now how related parties would be defined, or if there would be an extended list of qualifying activities. More details will be released by EDB by July 2016.

Treatment of pre-commencement expenses

Section 14U of the Income Tax Act deems the first day of the accounting year in which a business earns its first dollar of trade receipts as the date of business commencement. Under section 14U, businesses can claim tax deductions on revenue expenses incurred up to 12 months before this date.

Currently, if a business is awarded an incentive that commences in the same accounting year in which the first dollar is earned, section 14U does not specifically require it to allocate expenses to pre-incentive or incentive income for tax computation purposes.

To ensure a fair allocation and provide certainty on the allocation method, the following approach has been proposed:

- Section 14U and pre-commencement expenses that were directly incurred to derive the pre-incentive or incentive income will be specifically identified and set off against the relevant income.
- The balance of the section 14U and pre-commencement expenses will then be allocated between the pre-incentive and incentive income based on income proportion (e.g. using turnover, gross profits).

Our initial view is that the prescribed allocation key based on income proportion may not be the most appropriate one for all expenses. As such, it would be welcomed if the IRAS could provide a prescribed list of different allocation keys for consideration for different types of expenditure.

The proposed change will take effect for expenses incurred from 25 March 2016. More details of the change will released by the IRAS by June 2016.

Finance and Treasury Centre

The Finance and Treasury Centre (FTC) scheme was due to expire on 31 March 2016. Budget 2016 extends the expiry date to 31 March 2021 and provides the following changes with effect from 25 March 2016:

- The concessionary tax rate will be reduced from 10% to 8% and the business requirements to qualify for the scheme will be increased;
- FTCs will be allowed to obtain funds indirectly from approved companies and offices;
- Scope of withholding tax exemption expanded to include interest payments on deposits placed with the FTC by its non-resident approved companies, provided the funds are used for qualifying activities.

With greater competition from our regional neighbours to attract finance and treasury activities (e.g. Hong Kong's recent move to incentivise treasury management activities), the extension of the FTC scheme for another five years had been anticipated.

The decrease in the concessionary tax rate from 10% to 8% is a timely move to enhance Singapore's competitiveness. Against the backdrop of the changing international tax environment, the statement that there will be an increase in the substantive requirements to qualify for the lower tax rate is not unexpected, but we nevertheless hope that the increase will be commensurate with the nature of FTC operations and not overly burdensome.

One of the key benefits sought by FTCs in Singapore is the exemption of withholding tax on their interest expenses on foreign loans. The new provisions make it clear that FTCs may obtain indirect funding from their approved network companies. FTCs of multinational groups which operate multiple cash pools globally will stand to benefit. With new roundtripping safeguards to be put in place, it would have been preferable if the funding rules for the incentive were further simplified to cater for the different avenues by which FTCs can raise funding, given the sophisticated financial markets that they are now operating in.

Meanwhile, it will be useful to clarify the extension of scope to "deposits by non-resident approved companies".

More details will be announced by the EDB in June 2016.

Banking and capital markets

For the banking sector, it is a somewhat placid Budget, with little by way of specific enhancements. Nonetheless, we note that many of the Budget announcements to develop the overall ecosystem to promote innovation and internationalisation of Singapore enterprises will have a positive impact on the banking sector.

Helping banks help SMEs

The announcement that the government will co-share the default risk of loans made by banks to SMEs (under the SME Working Capital Loan scheme), bears testament to its commitment towards nurturing the growth of domestic businesses.

This newest measure complements the raft of assistance programmes that have been introduced to help local companies obtain funding, which include the Intellectual Property Financing Scheme administered by the Intellectual Property Office of Singapore, under which businesses can use their granted patents as collateral to secure bank loans.

Yet, more could have been done. The Minister could have allowed an enhanced deduction for losses suffered by banks on IPR-collateralised loans made to SMEs. This would have had helped spur banks to be more receptive towards making loans to SMEs in general and to attenuate their (understandable) hesitation towards accepting IP as collateral in particular. It would also have hastened Singapore's progress towards its aspirations of being a Global Intellectual Property Hub in Asia.

Promoting the symbiotic relationship between banks and treasury centres

Treasury centres require a robust and vibrant financial services infrastructure to provide the requisite support for their funding, cash optimisation and risk management needs. As an established financial hub, Singapore is well placed to satisfy these demands.

The extension of and the enhancements to the FTC incentive should be well-received by banks and multinational corporations looking to establish such treasury centres in Asia. Given the synergistic effect on the wider financial sector, having more treasury centres in Singapore can help to expand the depth and breadth of our financial institutions' expertise and product offerings. In turn, this will help to develop and promote greater liquidity for Singapore's capital markets.

Asset and wealth management

Singapore has seen a strong growth in the asset and wealth management (AWM) sector. Over the past five years, the assets under management in Singapore grew at a 14% compound annual growth rate reaching more than $2.4 trillion today. This industry has been a key pillar of growth for Singapore. This Budget continues the measured approach the government has taken to grow the industry. Although it only contains one specific announcement on AWM, we note various refinements have been made to the AWM tax incentives in recent years.

Approved Trustee Companies

The tax incentive for approved trustee companies was due to lapse on 31 March 2016. The Minister announced that this incentive regime will be subsumed under the Financial Sector Incentive award and appropriately extended.

Trustee companies play a key role in the AWM industry. With increasing standards of tax transparency around the world, traditional centres such as the Cayman Islands, Channel Islands and Switzerland are coming under scrutiny. Due to its high standard of transparency and regulatory strength, Singapore offers a good alternative for setting up trust structures, be it for families, charities or investment funds. Encouraging trustee companies to set up here by offering a strong business environment and tax incentives is the need of the hour.

Whilst the extension of the tax incentive beyond 31 March 2016 is a welcome move, we note the incentive rate will be increased from 10% to 12%. As businesses are required to make certain economic commitments to obtain tax incentives (which come with attendant compliance requirements), the rate differential of 5% may be seen by some as not being attractive enough. That being said, it should be noted that the incentive will be on par with many of the financial sector tax incentives today which also offer a 12% concessionary rate.

Further details will be released by the Monetary Authority of Singapore by June 2016.

Venture capital funds

Whilst there was no direct announcement of incentives for the venture capital industry, the general direction of the Budget is encouraging for this industry. Many initiatives have been announced to encourage entrepreneurship, investment in technology and innovation. With many venture funding and support schemes for accelerators and incubators administered by the various government agencies, Singapore offers a conducive environment for venture capitalists to operate from. We have also seen growing interest from venture capitalists to set up venture capital funds in Singapore. It is clear that the government is determined to foster an environment where the next Facebook or Google will emerge.

Possible enhancements in the future

As many would know, Singapore offers a competitive framework for establishing investment funds. That said, some tweaks to the incentive schemes could further enhance its position; the key ones being (1) the definition of "designated investments" and (2) making it easy for co-investment structures.

Designated investments

Very broadly, specified income from designated investments is exempt from tax under various fund incentive schemes. While the definition of "specified income" was changed to an exclusion list four years ago, the definition of "designated investments" remains an inclusion list. No change to this was announced in the Budget this year. We hope that in the near future, the government will change the "designated investment" definition to an exclusion list as well. This will help make the schemes more progressive and ease the overall administration. Such change would have contributed to reducing uncertainty and costs of operating in Singapore.

Co-investment structures

Globally, although private equity fundraising is returning to pre-2008 financial crisis levels, it is believed that a significant portion of this growth is attributable to external co-investments. It perhaps has something to do with the uncertain global economy which lowers investors' appetite for large investments.

Unfortunately, the current tax exemption schemes in Singapore are not conducive for co-investment structures. It is hoped that the government will revisit the above as it continues to fine-tune the current tax regime to make it more user-friendly for the AWM industry.

Bringing AWM to the next level

While the Budget contains only one direct measure for the AWM industry, there is something to cheer about. The big announcement for the AWM industry was made on 16 March 2016, when the government said it is studying the introduction of a new regulatory framework for open-ended investment companies (OEIC), and that it is working with a target timeline of introducing OEIC within a year. This is in fact one of the most exciting initiatives in the AWM industry since 2006 when the Singapore Resident Fund scheme was introduced.

The OEIC regime will be a game changer and a great boost for the AWM industry in Singapore. This is something PwC has been lobbying for years and it is expected to come to fruition soon.

Insurance

Those who had hoped for more measures to boost the insurance industry did not have their wishes granted. The biggest impact from Budget 2016 is, instead, the end of tax exemption incentive schemes that had served the insurance industry so well for decades.

Revised insurance tax incentive framework

In a rather unexpected move, the Minister announced a number of changes to the current incentive schemes. It would appear that almost all the current incentive schemes will eventually migrate under the Insurance Business Development (IBD) umbrella scheme. In addition, it would appear that the baseline standard incentive rate being offered is 10%.

Marine Hull and Liability Insurance scheme

This scheme, which is due to expire on 31 March 2016, currently offers either a 5% concessionary tax rate (for renewals) or tax exemption (for new awards) for qualifying income derived from the carrying out of Marine Hull and Liability (MHL) insurance business (both onshore and offshore). It is widely seen as a scheme that complements the various initiatives to promote Singapore as a maritime hub.

While the scheme has technically been extended in Budget 2016 to 31 March 2020, the concessionary tax rate that will be available to all new and renewal awards offered with effect from 1 April 2016 will now be 10%.

This new concessionary tax rate under the MHL incentive is thus no different from that which is currently available under the standard IBD scheme (formerly known as "offshore insurance business" scheme). The only additional benefit (albeit relatively marginal) is that the new IBD-MHL scheme incentivises both onshore and offshore MHL business, whereas the standard IBD scheme only incentivises offshore business.

Specialised Insurance Business scheme

Currently, the Specialised Insurance Business (SIB) scheme grants an exemption to approved insurers on qualifying income earned from accepting offshore risks of the following specialised lines of business: terrorism risks, political risks, energy risks, aviation and aerospace risks, agriculture risks and catastrophe XOL risks. This scheme was targeted at growing Singapore as a hub for the writing of these specialised lines, a move intended to propel Singapore further up the insurance value chain.

The current SIB scheme, which is due to expire on 31 August 2016, has been extended by another five years to 31 August 2021. However, the applicable tax rates offered under the new IBD-SI scheme will be revised as follows:

For new awards, the following will apply throughout the award period:

- where the award is granted up to 31 August 2016 – 0% (under existing SIB scheme)
- where the award is granted between 1 September 2016 and 31 August 2019 – 5%
- where the award is granted between 1 September 2019 to 31 August 2021 – 8%

For all renewals, the following will apply throughout the award period:

- where the award is granted up to 31 August 2016 – 0% (under existing SIB scheme)
- where the award is granted between 1 September 2016 and 31 August 2021 – 10%

In addition, with effect from 1 September 2016, the IBD-SI scheme will be expanded to cover onshore specialised business. This expansion to cover onshore business is applicable to all new and existing award holders with effect from 1 September 2016.

The expansion of the SIB scheme to cover onshore business is a positive development. However, it remains to be seen whether the concessionary tax rates offered of 5% to 10% are attractive enough for insurers to take up the new schemes (along with having to meet the attendant compliance requirements) as the savings may be considered marginal.

There is still a short window period available for insurers who wish to apply for the tax exemption scheme. They will need to apply and be awarded the SIB on or before 31 August 2016.

Insurance

Captive Insurance scheme

Currently, the Captive Insurance scheme grants a tax exemption for 10 years to an approved captive for qualifying income derived from accepting offshore captive insurance business. This incentive is due to expire on 31 March 2018.

It is proposed that with effect from 1 April 2018, all new and renewal awards under the Captive Insurance scheme will only enjoy a 10% concessionary tax rate.

There is still time to apply for the tax exemption scheme. Applicants must ensure they are granted the award (both new and renewal) on or before 31 March 2018.

The next phase of industry development

Could these changes be reactions by the government to the global spotlight on tax transparency and the "tax morality debate" over the fair share of taxes payable by multinational enterprises? In that regard, let us not forget that Singapore's tax incentive schemes typically require the applicant to commit to having substantive business operations in Singapore, and to contribute to talent development in the industry by committing to hire a specified number of qualified professionals here. In our view, these schemes have served Singapore well and continue to play an important role in Singapore's ambition to be a global marketplace by 2020.

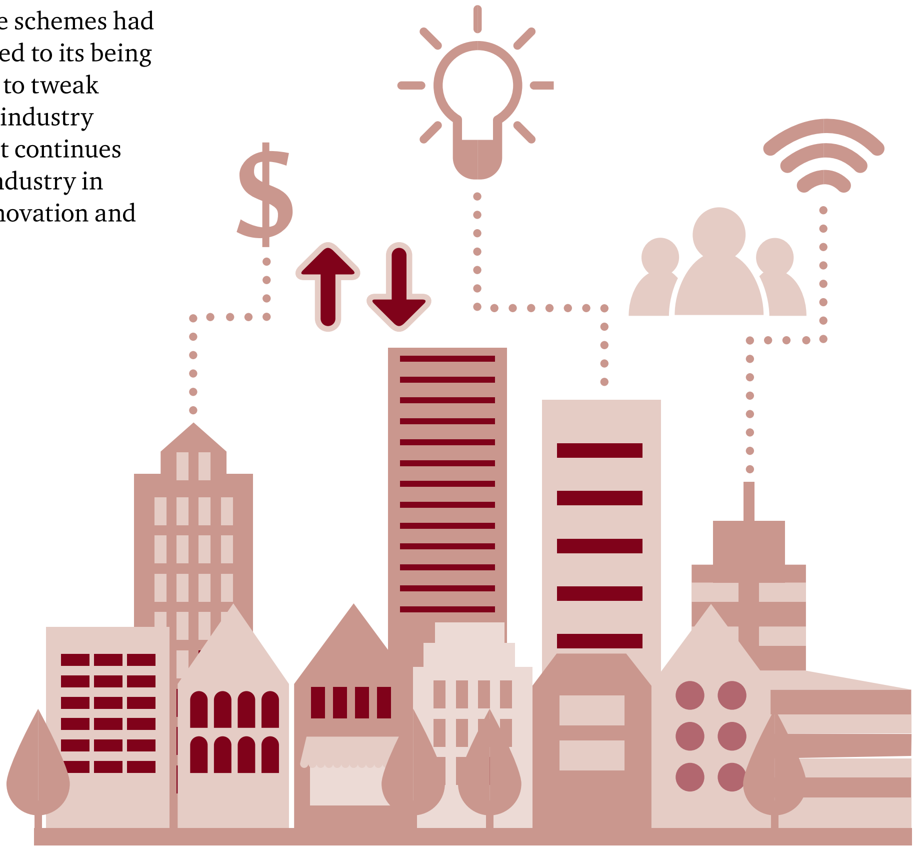
That being said, while these tax incentive schemes had served Singapore well and had contributed to its being a major insurance hub, perhaps it is time to tweak them as appropriate in the next phase of industry development. We believe the government continues to support the growth of the insurance industry in Singapore, particularly on promoting innovation and building deep insurance talent.

The long-waited change that is not to be

In Budget 2016, the Minister announced an extension of a scheme (first introduced in 2012) that offers certainty of non-taxation for gains derived by a company from the disposal of equity investments that meet the specified conditions (the safe harbour rule). The insurance industry has been specifically excluded from this safe harbour rule under the 2012 scheme and in the renewal announced today, insurers remain excluded.

This exclusion was premised on the presumption that insurers do not derive capital gains from investments. However, the Courts have decided in 2014* that such presumption is not correct and that the nature of gains made from investments by insurers should, like any other taxpayer, be determined based on ordinary tax principles. On policy grounds, there is therefore no need to exclude insurers from this safe harbour rule.

The continuing exclusion of insurers from the safe harbour rule makes Singapore less competitive as a holding company location as compared to other regional countries (e.g. Hong Kong) from the perspective of certainty of tax outcome. Instead of being able to avail themselves of certainty of non-taxation, insurers will have to prove the nature of the gains based on a facts and circumstances test, which inevitably contains an element of subjectivity.



* *Comptroller of Income Tax v BBO* [2014] SGCA 10

Maritime

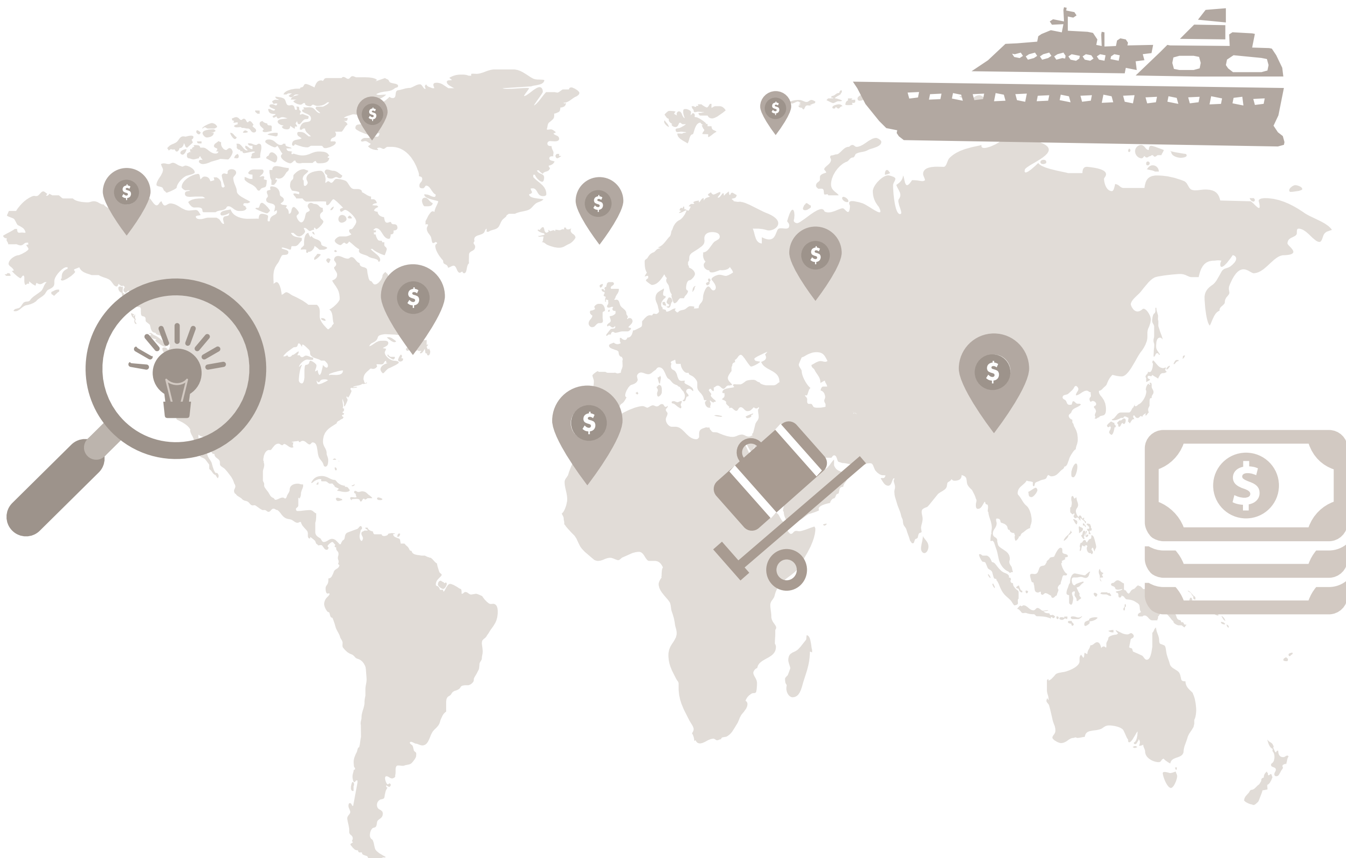
The landmark global climate deal sealed in Paris in 2015 by almost 200 nations aims to cut greenhouse gas pollution from burning fossil fuels, deforestation and agriculture that is heating up the atmosphere and oceans. Singapore received global recognition for playing an “outsized” role in making the Paris deal happen. It would appear that it continues to want to play its good global corporate citizen role by putting its money where its mouth is. For example, the Maritime and Port Authority of Singapore (MPA) has signed more than 90 green initiatives to reduce the impact on the environment from shipping and shipping related activities.

If nations are to meet their commitments to increase greenhouse emission cuts, it can be expected that there will be more substantive investment in renewable energy and less polluting transportation. Now, the Minister has announced enhancements to the Maritime Sector Incentive (MSI) which covers the niche shipping companies supporting the offshore renewable energy sector. With effect from 25 March 2016, the tax exemption under the MSI is now expanded to include income from the operation of ships used for exploration or exploitation of offshore energy. This conceivably includes renewable energy such as wind, ocean thermal, wave or tidal energy.

The MSI was also expanded to cover income from the operation of ships used for exploration or exploitation of offshore minerals. This should cover another niche sector in seabed mining of non-oil and gas resources such as sand, phosphate, gold and diamonds.

For ship leasing companies enjoying the MSI-Maritime Leasing (Ship) award, they will now enjoy tax exemption on income from the leasing of ships to any lessee as long as the ships are used for qualifying activities outside the port limits of Singapore. Prior to 25 March 2016, only income from the leasing of the ships to qualifying lessees was covered.

Further details will be released by the MPA by June 2016.



Global Trader Programme

The Global Trader Programme (Structured Commodity Finance) (GTP (SCF)) scheme, a sub-award of GTP, was introduced in 2010 to encourage GTP participants to conduct commodity finance activities. An approved GTP (SCF) company is granted a concessionary tax rate of 5% or 10% on its income from qualifying activities. The list of qualifying activities will be expanded from 25 March 2016 as shown in Table 1. Further details will be released by IE Singapore by June 2016.

The addition of new qualifying activities reflects the government's desire to grow intellectual capital in structured financing and risk management, which are knowledge-based activities ancillary to physical trading activities. It is part of the efforts to fortify Singapore's position as a global commodity trading hub. It also demonstrates the government's efforts in keeping up with the times, adjusting the incentive to meet changing business needs.

The enhancement will be welcomed by sophisticated commodity trading companies which manage risks in a variety of ways, for example by securing supply through the use of streaming financing to secure long term commodity contracts. It also addresses the rising trend of commodity traders utilising options that extend the range of financing and advisory activities beyond the traditional equity, trade finance and debt raising. It is hard to say the addition of the three qualifying activities would attract more companies to take up the GTP (SCF) scheme, given the specialised nature of the business.

One final point to note, the term "designated investments" is not defined. We hope that a broad definition is applied when the law is amended to include the new activities.

Table 1: GTP (SCF) qualifying activities

Existing qualifying activities	Additional qualifying activities (from 25 March 2016)
a) Factoring	a) Consolidation, management and distribution of funds for designated investments
b) Forfeiting	b) M&A advisory services
c) Prepayment	c) Streaming financing
d) Countertrade	
e) Warehouse receipt financing	
f) Export receivable financing	
g) Project finance	
h) Islamic trade finance	
i) Transacting in derivatives to hedge against risks relating to any of the activities from (a) to (h) above	
j) Advisory services in relation to any of the activities from (a) to (h) above	

Personal tax reliefs

There is not much to cheer for on the personal tax front: no tax rebates, no new tax reliefs.

In fact, Budget 2016 proposed the opposite: the total tax reliefs one may claim will be capped at $80,000 with effect from YA 2018.

The objective of the change is to make the tax system more progressive; however when one looks a little deeper, there could be a question of whether this cap will affect the behavioural changes which other incentives are meant to encourage.

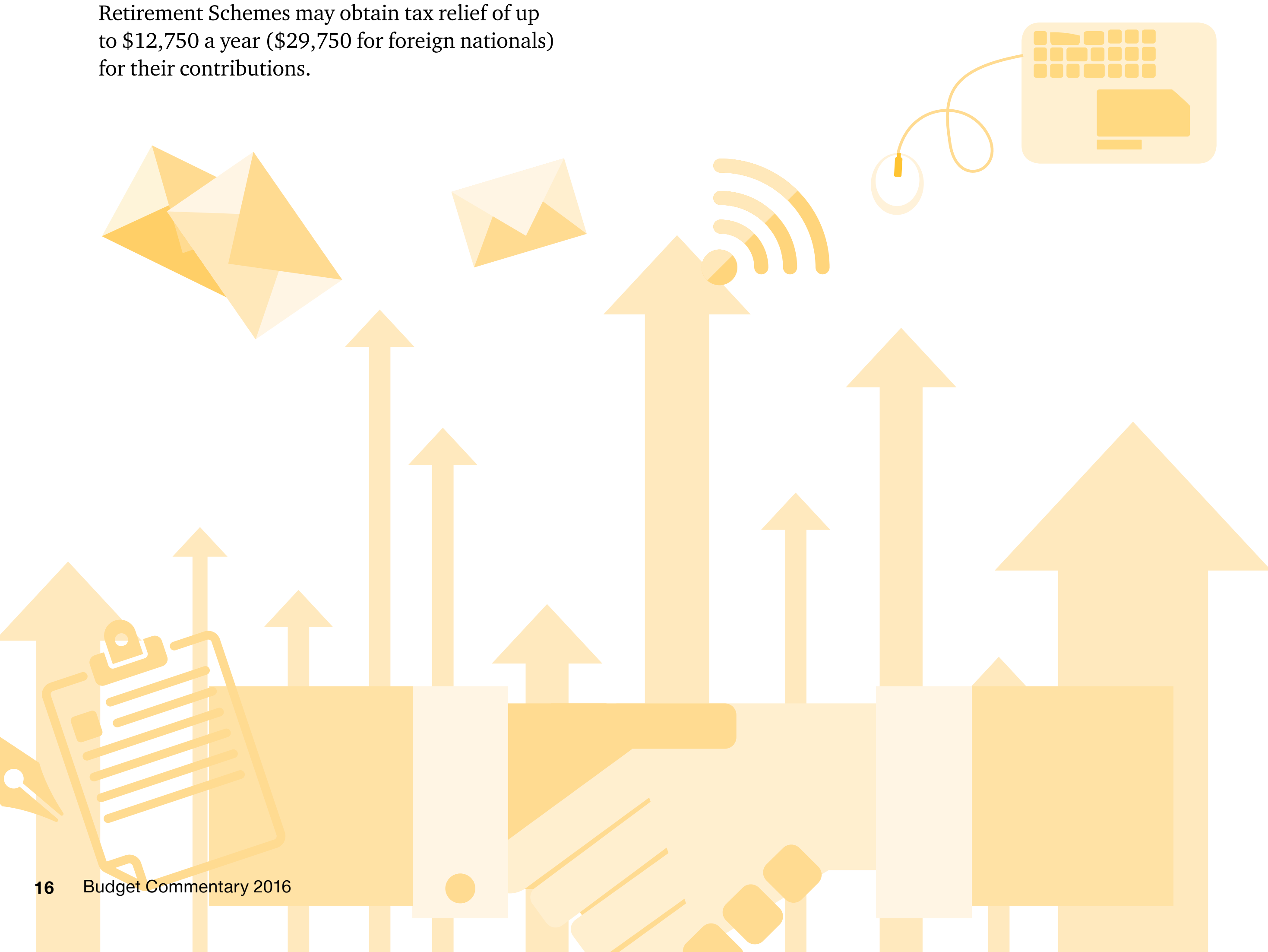
Most personal tax reliefs are relatively small; however there are a few reliefs which can be material, for example:

- Working Mother's Child Relief (WMCR) allows working mothers of Singaporean children to exempt up to $50,000 (including qualifying child relief or handicapped child relief) of her income from tax for each child;
- Parent Relief provides tax relief of up to $14,000 for each dependent for taxpayers who care for their parents/grandparents;
- Individuals who contribute into Supplementary Retirement Schemes may obtain tax relief of up to $12,750 a year ($29,750 for foreign nationals) for their contributions.

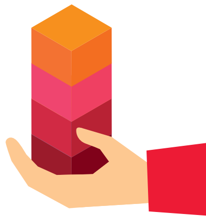
A working mother earning $150,000 with one child may well be affected by the proposed relief limitation. Indeed, the Minister recognises that 1 in 10 who claim WMCR will have their total tax reliefs curtailed. If the cap is reduced in future Budgets (or even left at this level as wages rise with inflation), more working mums may end up paying more tax. The capping of tax relief is likely to weigh most heavily on working mothers. Had WMCR been exempted from the cap, qualifying working mothers would have continued to enjoy the full incentive to return to work.

Aside from this, the current concession allowing partial exemption of employer-provided home leave trips to foreign national employees and their families will be removed from YA 2018. This is unlikely to have a significant effect on many taxpayers or their employers.

A recurring theme running through previous Budgets has been to refine tax concessions in a bid to create a simpler basis of taxation, as well as to enhance progressivity of the personal income tax regime: whether these measures taken as a whole will eventually increase the cost of taxation to undesirable levels and affect Singapore's international competitiveness remains to be seen.



Other measures



Administration

In line with the government's Smart Nation vision, the following were announced:

- Mandatory electronic-filing (e-Filing) of PIC cash payout applications from 1 August 2016; and
- Mandatory e-Filing of corporation income tax returns (including estimated chargeable income, Form C and Form C-S) in stages, with all companies required to e-File for YA 2020.

To help SMEs access the wide range of schemes available, the Minister announced that the government will launch the Business Grants Portal in the fourth quarter of this year.

Incentives withdrawn

The Approved Investment Company scheme under section 10A of the Income Tax Act will be withdrawn from YA 2018.

Tax exemption on income derived by non-residents trading specified commodities in Singapore via consignment arrangements under section 13(1)(n) of the Income Tax Act will be withdrawn from YA 2018.

Extending the Not-for-Profit Organisation tax incentive

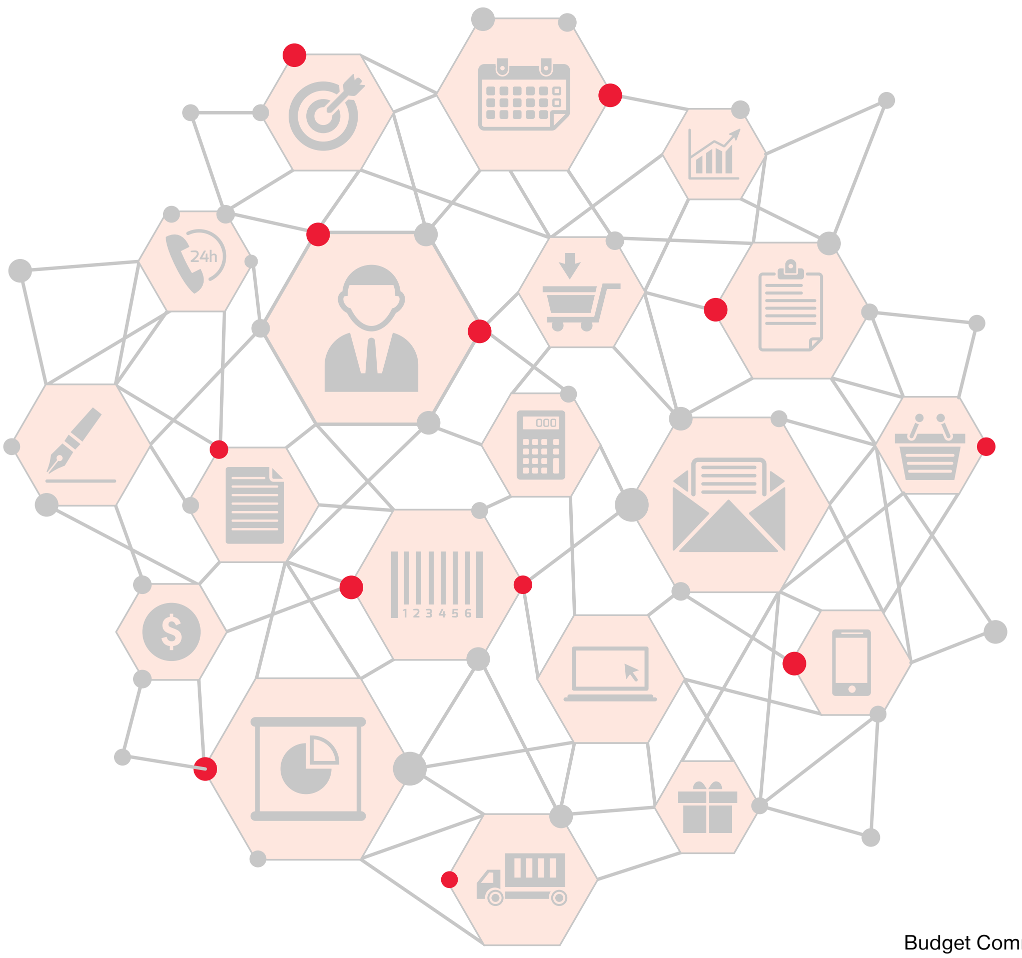
The Not-for-Profit Organisation (NPO) tax incentive under Section 13U of the Income Tax Act will be extended till 31 March 2022.

Encouraging corporate social responsibility endeavours

The government introduced the Business and Institution of a Public Character (IPC) Partnership Scheme (BIPS) to further incentivise businesses that take an interest in nurturing societies and communities in which they operate. Under BIPS, businesses will enjoy an additional 150% tax deduction on wages and incidental expenses when they send their employees to volunteer (including secondment) and provide services to IPC, subject to various caps and the IPC's agreement.

The scheme can help encourage businesses to undertake corporate social responsibility activities that benefit the community and motivate employees while enjoying the same tax breaks as making a direct cash donation.

The Ministry of Finance and IRAS will release further details by June 2016.



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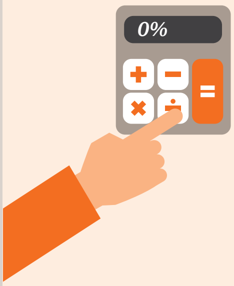
Key Tax Highlights



Corporate Tax

- The corporate tax rebate will be raised to 50% of tax payable for Years of Assessment (YA) 2016 and YA 2017, and capped at $20,000 a year.
- Initiatives to help Singapore enterprises scale-up and internationalise include:
  - Automation Support Package, including a 100% investment allowance for approved automation equipment.
  - Increase of cap on deal values for the mergers and acquisitions tax allowance to $40 million a year.
  - Exemption for gains on disposal of equity investments is extended to 31 May 2022.
  - The Double Tax Deduction for Internationalisation scheme is extended to 31 March 2020.
  - Writing down allowances for acquisition costs of intellectual property rights may be claimed over five, 10 or 15 years; introduction of an anti-avoidance rule.
  - Productivity and Innovation Credit (PIC) cash payout rate will be reduced to 40% for expenditure incurred from 1 August 2016. The PIC scheme will lapse after YA 2018.
- Business and Institutions of a Public Character Partnership Scheme (BIPS) is introduced to encourage corporate social responsibility. It provides an additional 150% deduction (subject to various caps) for wages and incidental expenses incurred by businesses that send employees to volunteer and provide services to IPCs. The scheme takes effect from 1 July 2016.
- Tax incentives to encourage higher industrial land productivity, finance and treasury, global trading and maritime activities will be extended and enhanced. Not-for-Profit Organisation tax incentive scheme will be extended, whereas the incentive scheme for insurance companies and trustee companies will be extended and revised.

Personal Tax

- From YA 2018 onwards, the total amount of personal tax reliefs is capped at $80,000 a year.

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Budget Commentary 2016

Proposals to enhance Singapore's economy

White paper on Singapore's tax policy