



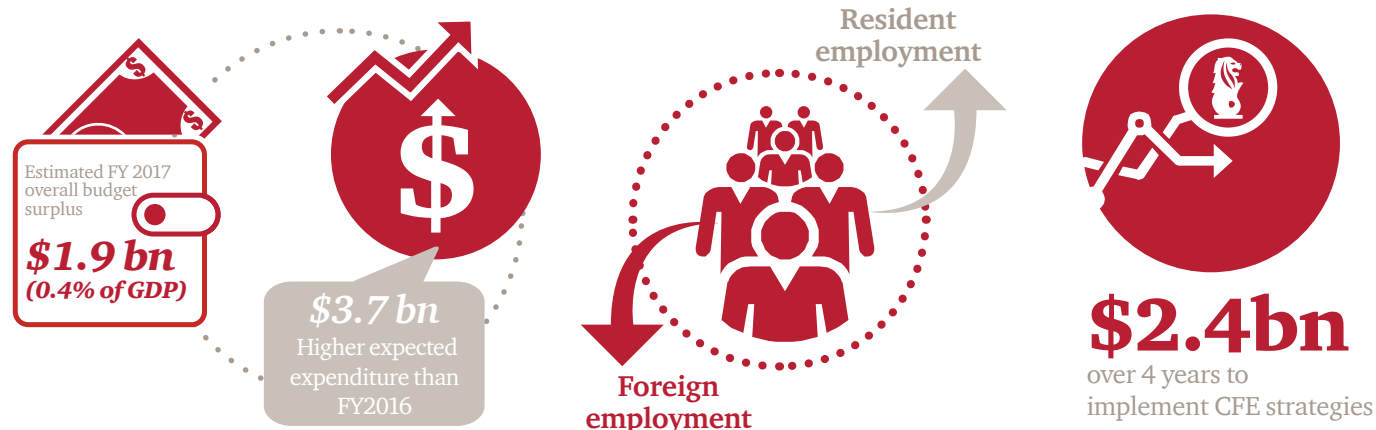
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Singapore Budget 2017

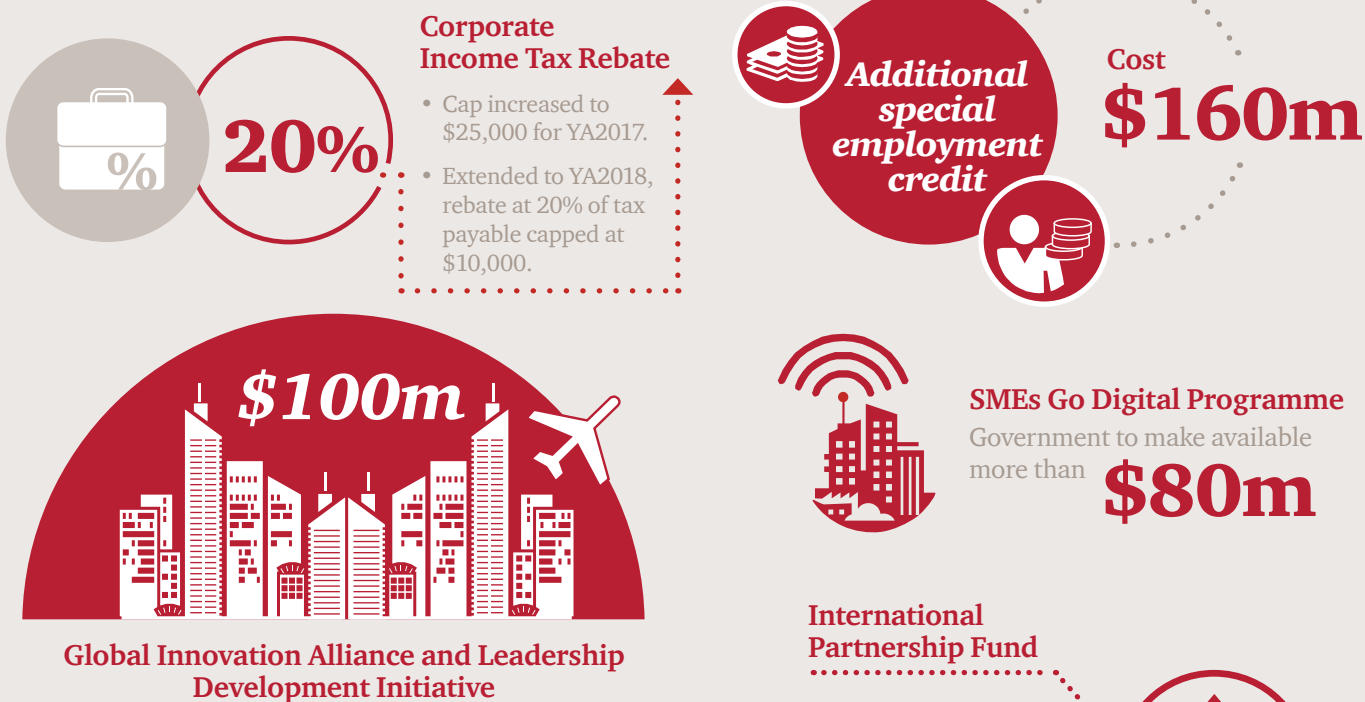


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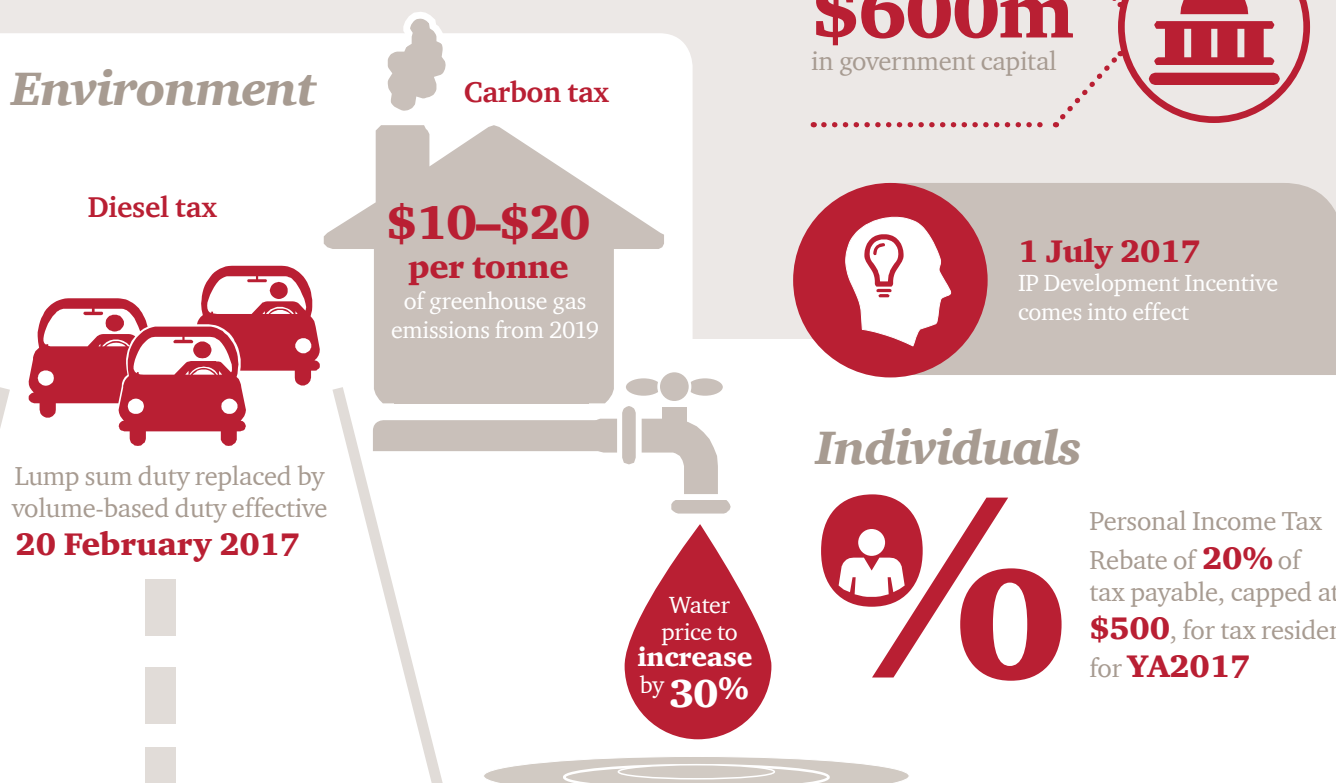
Singapore Budget 2017 at a glance



Businesses



Environment



Foreword

Finance Minister Heng Swee Keat delivered the 2017 Budget Statement on 20 February, less than two weeks after the Committee on the Future Economy (CFE) unveiled its much awaited recommendations to chart the next phase of Singapore's growth.

This Budget is in many ways a transitional one that is rallying us to move forward together. It builds on the various initiatives introduced in past Budgets as Singapore continues to adjust to structural changes in its economy as well as changing global forces at work. At the same time it implements the CFE strategies by strengthening the nation's future competitiveness through investments to enhance the capabilities of our enterprises and people.

It is therefore not surprising that we are seeing themes centred on digitalisation, innovation and internationalisation. The Minister emphasised, yet again, the need for the community and the government to work together to scale up, be it through the Industry Transformation Maps to foster cross-sector collaboration, or working closely with the relevant government agencies. For example, small and medium-sized enterprises (SMEs) should access the SME Go Digital Programme for the adoption of digital technology or partnering A*STAR to co-develop intellectual property (IP). These and many more initiatives have introduced a flavour of "self-help" which is much needed to promote entrepreneurship and to build a more sustainable economy focused on innovation.

Consistent with the objective of moving Singapore up the value chain, and encouraging the use of IP from research and development (R&D), the Minister proposed the introduction of a new IP Development Incentive (IDI) under which income from the commercialisation of IP will be taxed at a concessionary rate. This incentive is in line with the international developments led by the Organisation for Economic Co-operation and Development (OECD) in countering base erosion and profit shifting (BEPS). It should be welcomed by businesses, and will better place Singapore to compete with other countries which have already introduced similar schemes to attract the location of high value added R&D activities.

It is heartening that the Minister continues to stress the importance of building a caring and inclusive society. Budget 2017 supports families and especially those in need. Measures such as the increase in CPF housing grants, increasing capacity for pre-schools and enhancements of bursaries for post-secondary school education assist Singaporeans at various stages of their lives to seize opportunities for advancement. These are in turn complemented by a targeted (and some would say, modest) personal tax rebate directed at the medium income earners,



Yeoh Oon Jin



Chris Woo

in line with the government's stated goal of having a progressive tax system.

What's new in this Budget is the focus on promoting sustainable development – there is a clear message that we need to contribute to a quality environment for the future through the implementation of a carbon tax from 2019, the restructuring of diesel taxes to one based on usage, and a two-phase increase in water prices from July 2017.

The broadening of the sources of government revenues was certainly on the Minister's mind, as he alluded to the increased spending needs of the country amidst rising healthcare costs and an ageing population. Noting the OECD BEPS developments, he stated that the government is studying the taxation of digital transactions and cross-border trade to ensure a level playing field between local and foreign businesses trading with Singapore.

There is no doubt that growing the economy is the first and most important step to increasing revenues in a sustainable manner, and this was made clear by the Minister in his speech. The government also recognised in the CFE report that Singapore's tax regime should remain competitive and pro-growth. It is hoped that these messages will continue to be amplified as we legislate tax policies so that Singapore maintains its competitive edge.

Economic transformation is a journey. It requires all stakeholders to work together, from catalysing entrepreneurship to promoting private and public sector collaboration, from changing mind-sets through education to acquiring lifelong job skills, and from having a quality environment to building an inclusive society.

And it is only by doing so will Singapore remain relevant to the world and achieve sustainable growth for its people.

Yours sincerely,

Yeoh Oon Jin
Executive Chairman
PwC Singapore

Chris Woo
Tax Leader
PwC Singapore

Reactions to the Budget

Innovation, inclusiveness and development of sports and culture - we are moving towards a truly well rounded advanced economy.

– Irene Tai, Corporate Tax Director,
PwC Singapore

The Global Innovation Alliance, a Skills Future Leadership Development Initiative, as well as support for persons with disabilities will support Singapore companies, address their skill gap challenges by encouraging greater diversity and inclusion in the workplace.

– Karen Loon, Diversity Leader,
PwC Singapore

Innovation, productivity, transformation are the key themes underpinning this year's budget. An aspiration of 2-3% GDP growth is to be delivered through a series of targeted incentives to build deeper capabilities to innovate and compete in the global economy.

– Peter Le Huray, Global Tax Service Networks and Markets Leader, PwC

I applaud the move towards specific stimulus to address cyclical and structural weaknesses faced by the various sectors. Deferring the Foreign Worker Levy increase for the marine industry is sensible given the extremely difficult time they are facing.

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

Ability to acquire new skills have kept people employed through past disruption. Enhancement to the Skills Future Programme provides Singaporeans opportunity to acquire deeper and practical skills to remain adaptable and relevant. #CFE recommendations

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

The extension of the working capital loans offered by Participating Financial Institutions and co-shared by the government is a welcomed update. This is especially useful for SMEs on their path towards transformation in an uncertain environment. Banks in Singapore will have to continue to factor the co-sharing of risk by the government in their risk appetite and loan policy, and balance that with supporting their corporate customers.

– Antony Eldridge, Financial Services Leader,
PwC Singapore

While we have been spared an increase in the GST rate in Budget 2017, the Finance Minister has confirmed that the government is studying the introduction of a GST on digital supplies received from abroad, which means that we'll need to prepare ourselves to pay GST on music and video downloads from overseas and possibly low value goods purchased from abroad. This is significant as the ecommerce market is expected to grow to US\$5.4 billion by 2025 of which it is estimated that 55% comprise cross-border sales.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore





Corporate income tax rebate

It has been par for the course in the past few years for the Minister to announce a rebate against the income tax liabilities of companies to help them deal with the uncertain business environment. Due to the way it is structured, the primary beneficiaries of the tax rebate have been the SMEs which have arguably borne the brunt of the economic slowdown, rising business costs and restructuring efforts to improve productivity.

The change for Year of Assessment (YA) 2017 provides more rebate (up to \$25,000 from \$20,000 previously) while maintaining the rebate rate at 50%. However, in YA 2018, the rebate rate will be reduced to 20% of tax payable, capped at \$10,000. This sends a clear signal that this short term measure will be withdrawn eventually in favour of more targeted support measures for our SMEs.





Intellectual Property Development Incentive

The IDI taxes income from certain IP rights at a lower rate. It has been a long time coming. First mooted in the April 2013 Intellectual Property Steering Committee report, Singapore finally has a regime that centres on the “back-end” of the IP life cycle, focusing on income earned from commercialising IP rights.

Currently, the Pioneer Incentive and the Development and Expansion Incentive cover IP income from qualifying activities.

The new IDI is intended to replace the existing incentives where IP income is concerned. Minimal details were made available during the Budget announcement. For instance, we do not know what concessionary tax rate will apply though it may adopt the income tax rates under the existing incentive regimes (e.g. 5% or 10%). What is made known is as follows:

- The IDI, which will be administered by the Economic Development Board (EDB), will take effect from 1 July 2017.
- It will incorporate the BEPS-compliant modified nexus approach. What this means is that broadly, the preferential treatment will be granted to income arising from IP where the actual R&D activities are undertaken by the taxpayer himself or outsourced to third parties. However, under the OECD’s modified nexus approach, non-European Union countries can consider including expenditure incurred for R&D work outsourced to related parties in the same country as qualifying expenditure. In relation to acquired IP, what is not clear is whether R&D expenditure incurred for further development would be qualifying expenditure.
- Existing incentive recipients will continue to have IP income covered under their existing incentive awards till 30 June 2021.
- For incentives awarded under the existing schemes from 1 July 2017, IP income will be removed from the scope of those incentives.

The EDB will be releasing further details by May 2017.

At this juncture, it is perhaps useful to consider how some other jurisdictions operate their IP regimes. This would give us an idea of the way Singapore’s IDI could be designed to further attract foreign direct investment.

IP box regimes in other countries

IP box is more commonly found in European countries, including the UK, the Netherlands, Ireland, and Luxembourg. The way the incentive applies may differ but the policy intent is similar; it is to retain existing IP-intensive businesses and attract more of such businesses to invest in the country.

The qualifying IP rights covered by the regimes could differ from country to country. For example:

- UK’s Patent Box, as the name suggests, focuses on patents. In addition, certain medicinal or botanic innovation rights can also benefit from the regime.
- The current Dutch innovation box regime covers patents or plant breeder’s rights, software and certain prescribed intangible assets.

The common theme across these regimes is that they are mostly technology driven. This means that IP rights that are seen as more marketing based (e.g. trademarks) are typically excluded. While each regime differs, they were largely designed in such a way that benefits not only profits ensuing from that specific IP right, but also all other profits realised with the sale of the product in which that IP is used. Some of these regimes also cover gains derived from the subsequent divestment of the IP rights. Which leads us to the question of what constitutes qualifying income or profits. Parameters are set so as to ring-fence what is to be regarded as qualifying income to benefit from the lower tax rate.

IP box regimes in other countries

Tax Factors	OECD – compliant IP regime	Ireland – Knowledge Development Box	Netherlands Innovation Box* (Modified nexus approach)	UK Patent Box* (Modified nexus approach)
Effective tax rate	Not specifically addressed	6.25%	5%	Minimum 10%
Qualifying IP	Patents and IP functionally equivalent to patents, copyrighted software. For defined small entities, it can be certain other IP, which is non-obvious, useful and novel.	Copyrighted software or patented inventions that are the result of qualifying R&D activities carried out in Ireland	An intangible that ensues from specific approved and subsidised R&D activity and that is software or protected by a patent, a plant breeder's right or a licence to distribute medication (broader categories available to "small taxpayers"). Exclusive licences to software, patent, plant breeder's right or distribution rights also qualify provided the Dutch company has economic ownership and developed the intangible.	Patents, supplementary protection certificates, plant variety rights, and certain medicinal or plant protection products
Qualifying income	Nexus ratio that essentially links the preferential treatment with the R&D expenses incurred by the taxpayer	Profits of a specified trade relevant to the qualifying IP.	Net income from qualifying IP (but adopting nexus approach, where preferential regime is linked to R&D expenses incurred by the taxpayer itself). Determined through 'tracking and tracing' or profit split method.	Net income from qualifying IP. Income from qualifying IP includes all profits from sales of products which incorporate a patented innovation, plus royalty income and gains on sales of patent rights. The UK has adopted the nexus approach, whereby benefit of the patent box are linked to R&D expenses incurred by the taxpayer.
Acquired IP?	Yes, if further development is carried out	Yes, if further self-developed	Yes, if IP is further self-developed (and only for that further self-developed part)	Yes, if further developed. If the acquiring company carried on the R&D prior to acquisition (e.g. as contract R&D), then can include this for the nexus ratio.
Includes embedded royalties?	Yes	Yes	Yes	Yes
Includes gain on sale of qualifying IP?	Yes	No	Yes	Yes
Can R&D be performed abroad?	Yes but limited – benefit of regime depends on level of R&D carried out by taxpayer itself.	Yes but limited - the R&D activities must be undertaken by the Irish company employees in an EU Member State and the costs must not qualify for a tax deduction in such Member State.	Yes, but R&D expenditure that is not incurred by the taxpayer itself (but outsourced to a related party) do not qualify under the "nexus fraction".	Yes but limited – benefit of regime depends on level of R&D carried out by taxpayer itself.

*The regime before the adoption of the modified nexus approach has "grandfathering" rules.

Singapore's IP Development Incentive

The design of the IDI depends partly on the policy objective of introducing the incentive. No doubt Singapore wishes to attract high-tech industries covering advanced manufacturing, urban solutions, digital technology, etc, and this is apparent from the recent CFE report.

On qualifying income, the question is how wide the net should be cast. Should it cover only royalty from licensing of IP? There are many instances where the right to use the IP is not charged separately but embedded within product sales

– on the premise that royalties embedded within the products can be stripped out, does this pose a risk of foreign tax authorities possibly imposing royalty withholding tax?

Finally, in implementing the IDI, it is perhaps timely to also introduce a safe harbour rule for gains derived from the divestment of IP rights used by a company when carrying on its trade or business. It should be clear that the companies are not dealing in IP rights as such. Having a safe harbour rule on such divestment gains provides certainty as well as minimises taxpayers' compliance burden.



Cost sharing agreements

Prior to YA 2012, taxpayers must obtain approval from the EDB to claim one-year writing-down allowances (WDA) on payments made under an R&D cost sharing agreement (CSA) under section 19C of the Income Tax Act. With effect from YA 2012, relief for R&D CSA payment is given by way of deduction under section 14D of the Income Tax Act without the need for approval from the EDB. R&D CSA may also qualify for enhanced tax deduction for qualifying expenditure of staff costs and consumables under section 14DA of the Income Tax Act. Taxpayers are required to maintain contemporaneous R&D project documentation to substantiate that conditions are met.

CSA payments claimed under section 14D are subject to section 15 restrictions, unlike when CSA claims were governed under section 19C where 100% of the CSA payment would qualify for write down. Under section 14D,

the Inland Revenue Authority of Singapore's (IRAS's) approach has been to request a breakdown of the CSA payment so as to exclude certain disallowable expenditure under section 15 (e.g. stock option cost). As announced in Budget 2017, for R&D CSA payments made on or after 21 February 2017, taxpayers may opt to claim deduction under section 14D for 75% of the payments made under an R&D CSA incurred for qualifying R&D projects without the need for the expenditure details. It is not yet clear if taxpayers will be allowed to make a decision on an annual basis to elect for the 75% rule or whether the election is irrevocable for the full duration of the CSA.

More details are expected to be released by May 2017. Overall, whilst this new 75% rule serves to ease compliance, we would recall that prior to YA 2012, CSA on R&D projects pre-approved by EDB enjoyed 100% tax relief.



Accelerated writing-down allowances for acquisition of intellectual property rights for media and digital entertainment content

Currently, companies that incur capital expenditure to acquire legal and economic ownership of qualifying IP rights can claim 100% WDA over five, ten or 15 years, subject to meeting prescribed conditions. Where only economic ownership is acquired, approval must be sought from the EDB before WDA can be claimed.

To encourage media and digital entertainment (MDE) businesses to actively exploit their IP rights from Singapore, an accelerated WDA was introduced in 2009. This allows

approved MDE businesses to claim WDA over two years. The scheme is available till YA 2018.

To simplify and streamline the WDA regime, the accelerated two-year WDA for MDE content will be allowed to lapse after YA 2018. Thereafter, MDE companies may elect to claim WDA over a period of five, ten or 15 years for capital expenditure incurred to acquire the relevant IP rights, just like any other company.



Global Trader Programme

An approved Global Trader Programme (GTP) company is granted concessionary tax rate of 5% or 10% on its income from qualifying transactions. The definition of qualifying transactions and income will be broadened to facilitate and encourage trading activities in Singapore. The substantive requirements to qualify for the GTP will be increased. Further details will be released by IE Singapore in May 2017.

Current		New	Effective date
a	With certain limited exceptions, qualifying trades with Singapore-based non-GTP companies are generally not qualifying transactions.	Qualifying trades with any counterparty are qualifying transactions.	Apply to qualifying income derived on or after 21 February 2017 by approved global trading companies from qualifying transactions.
b	Physical trading income derived from transactions in which the commodity is purchased for the purposes of consumption in Singapore (including supply of fuel to aircraft or vessels within Singapore) does not qualify for the concessionary tax rate.	Physical trading income from trades in which the commodity is purchased for the purposes of consumption in Singapore (including supply of fuel to aircraft or vessels within Singapore) qualifies for the concessionary tax rate.	
c	Physical trading income attributable to storage in Singapore or local value added activities (e.g. refining, blending, processing or bulk-breaking) performed in Singapore does not qualify for the concessionary tax.	Physical trading income attributable to storage in Singapore or local value added activities (e.g. refining, blending, processing or bulk-breaking) performed in Singapore qualifies for the concessionary tax rate.	
d	To qualify for GTP, a company must conduct substantial international physical trading activity, incur significant local business spending and employ experienced trading professionals.	The substantive requirement to qualify for GTP will be increased.	Apply to new or renewal GTP awards approved on or after 21 February 2017.

These changes aim to achieve two key objectives, namely, to make the GTP BEPS-compliant and to simplify the identification of qualifying transactions and income.

The trading community should welcome these changes. They send a positive message that Singapore intends to continue to maintain the GTP, which has proved to be a very effective tool in promoting and retaining Singapore's position as a global trading hub.

Existing GTP companies' compliance burden should reduce significantly as they no longer need to identify non-qualifying transactions (a) to (c) and their associated costs, which is often difficult in practice.

In addition, the enhancements will entice GTP companies to trade with smaller commodity players in Singapore. This will enhance the vibrancy of Singapore's trading community and ecosystem.

These changes will also encourage value added activities to be performed in Singapore and enhance the competitiveness of commodity traders based here. For example, storage and blending are important business activities for oil traders. The enhancement now allows storage and blending margins earned by GTP companies to be taxed at the concessionary tax rate. This should make Singapore's oil storage industry more attractive, although a non-GTP tank owner will not be able to enjoy GTP incentive tax rates on the storage fees it charges to a GTP company.



Finance and Treasury Centre

The Finance and Treasury Centre (FTC) scheme had only just undergone a revamp last year with a five-year extension till 31 March 2021 and a timely reduction of the concessionary tax rate to 8%. Building upon the momentum of last year's enhancements, this Budget proposes further tweaks that will enhance the attractiveness of the FTC incentive as the qualifying counterparties requirements for certain transactions will be further streamlined.

Subject to further details to be announced by the EDB, this refinement should be lauded by the industry to the extent that it contributes towards alleviating an erstwhile hefty compliance burden. We also note that the change, should it remove the onshore:offshore distinction for counterparties, will be aligned with the BEPS Action 5, "Countering Harmful Tax Practices More Effectively, Taking into Account

Transparency and Substance", which considers ring-fencing to be a feature of a harmful tax regime.

We note, however, that the application of this refinement has been limited prospectively to new FTC applications or renewals approved on or after 21 February 2017. The EDB will provide further details by May 2017. This creates an uneven playing field for incumbent FTC award holders whose incentives were recently renewed. This group may miss out on this critical enhancement, a point that the authorities may wish to look into.

It is as yet unclear if the refinement includes the removal of the tracing of qualifying sources of funds for existing and new FTCs, but if so, it would be very much welcomed by FTCs given the associated compliance burden of doing so.





Aircraft Leasing Scheme

Almost a month ago, it was announced that Hong Kong will create a dedicated tax regime to attract aircraft leasing businesses. Hong Kong has reviewed the tax legislation in Singapore and Ireland in order to create new law that would make it an attractive leasing centre. Possibly in response, this year's Budget announced the extension and refinement of scope of the Aircraft Leasing Scheme (ALS) to continue to support Singapore's aviation finance industry.

The ALS, which was due to expire on 31 March 2017, has been extended until 31 December 2022. The Budget also announced the following changes:

- **Concessionary tax rate.** For new awards or renewals approved on or after 1 April 2017, the concessionary tax rate on ALS qualifying income will be 8%. For existing awards, the concessionary tax rates of 5% and 10% continue to apply until they lapse or are renewed.
- **Scope of qualifying ancillary activities.** Currently, the list of ALS qualifying ancillary activities includes the provision of finance in the acquisition of aircraft or aircraft engines by any airline company. The scope of qualifying ancillary activity will be updated to cover such income derived on or after 21 February 2017 regardless of who the lessee is (i.e. no longer confined to airline companies).
- **Withholding tax exemption.** The automatic withholding tax exemption on qualifying payments made by ALS companies was limited to qualifying loans entered into on or before 31 March 2017, subject to conditions. In line with the extension of the ALS, the qualifying period for the withholding tax exemption has been extended to cover qualifying payments on qualifying loans entered into on or before 31 December 2022.

One of the reasons Singapore is attractive to aircraft lessors is the ALS. Is the streamlining of the ALS rate to 8% going to provide sufficient incentive to those lessors that were previously hoping to enjoy a 5% rate? It is better than the 8.25% rate announced by Hong Kong and it will be interesting to see if Hong Kong responds to this in the coming Hong Kong budget. Singapore lessors continue to enjoy full depreciation deductions whereas Hong Kong lessors will be taxed on 20% of their gross rentals less expenses (excluding depreciation).

The single rate does seem to reflect the government's efforts to streamline and simplify tax incentives e.g. the FTC incentive which was similarly revised to a single rate in Budget 2016. The single rate does also offer a more attractive incentive to the companies that would only have been able to meet the previous requirements for the 10% rate.

The expansion of the scope of the ALS incentive and extension of the withholding tax exemption would no doubt be welcomed. To help the aircraft finance industry in Singapore further, the government could also look to strengthen its efforts to negotiate attractive terms in Singapore's tax treaties (e.g. by amending the Royalties article to remove the "right to use movable property / equipment"). This would enable Singapore-based lessors to price leases more competitively.

EDB will release further details of the change by May 2017.



OECD BEPS Project

The Minister's reference to the OECD BEPS initiative reiterates Singapore's commitment to observing international standards in its tax policy design.

This is consistent with the various actions taken by the government in 2016, including participating in the OECD's Inclusive Framework for Implementing Measures against BEPS and the adoption of the four minimum standards therein, namely:

- Country-by-Country Reporting (CbCR);
- Enhancing dispute resolution;
- Countering harmful tax practices; and
- Preventing treaty abuse.

Singapore has already implemented various aspects of these standards in the last 12 months.¹ In Budget 2017, we saw further developments, specifically around the changes to the GTP and the IP incentive.

In the case of the GTP, the substantive requirement for the incentive will be increased along with the removal of the counterparty requirement. The former measure addresses the substance requirement under the BEPS initiative, whereas the latter goes towards removing what could be considered a ring-fencing feature, which is typically found in a harmful tax regime.

The newly introduced IDI will also be implemented in a BEPS compliant manner by adopting a "modified nexus approach". This is another clear illustration of Singapore adopting the OECD principles for our tax system.

These changes, along with the government's on-going study of taxation of digital cross-border transactions, set the tone that taxpayers can continue to expect refinements to Singapore's tax system in line with international developments.



¹These include the (i) update of the Singapore Transfer Pricing (TP) Guidelines on 12 January 2017 to tighten the TP documentation requirements and the introduction of Exchange of Information on tax rulings; (ii) introduction of Related Party Transactions Disclosure forms on 24 October 2016; and (iii) introduction of CbCR in Singapore via the Income Tax (Amendment No. 3) Act 2016.



Financial services

The financial sector is going through transformations as they face technology disruptions and growing cost pressures amidst increasing demands for better and more personalised services from customers.

Coupled with increasing scrutiny from tax authorities and uncertainty arising from the OECD BEPS initiatives, it is not surprising that Budget 2017 continues to be somewhat placid for the financial sector. Nonetheless, it is important to continue to provide existing players with tax certainty and to remove competitive disadvantages posed to resident corporations which need an added edge to compete in the global marketplace. We look forward to more support from the government for the financial sector in the coming years.

Withholding tax exemption on payments for structured products offered by financial institutions

Given the government's continued support in promoting Singapore as a financial hub, it comes as no surprise that the existing withholding tax exemption provided to non-resident non-individuals for structured products offered by financial institutions is extended for another four years. This exemption benefits banks and other financial institutions licensed or approved by the Monetary Authority of Singapore.

We note that the scheme's expiry coincides with the expiry of the broad-based withholding tax exemption applicable to banks, finance companies and certain approved entities as well as the withholding tax exemption available to financial institutions for qualifying over-the-counter financial derivatives, which are all due to expire on 31 March 2021. This provides an opportunity for the streamlining of the various withholding tax exemption schemes in time to come.

Project and infrastructure finance

The package of measures to promote the development of project and infrastructure finance expertise in Singapore was introduced more than a decade ago, when Asia was in the midst of an economic boom with China leading the way. A decade on, Asia's growth, although more muted, still commands the attention of investors globally.

Underpinning the growth story is the Asian governments' infrastructure spending, with China's "One Belt, One Road" initiative being a prime example. Closer to home, the high speed railway linking Singapore to Kuala Lumpur and the government's investment in Changi Airport Terminal 5 are examples of important new investments in infrastructure in South East Asia.

According to a recent PwC report on "Capital project and infrastructure spending outlook: Agile strategies for changing markets", cumulative global infrastructure spending from 2015 to 2020 could range from US\$27 trillion to US\$29 trillion, with a significant part of that spending in Asia. No doubt with an eye to grabbing a share of that pie, the Minister announced that the tax incentives for project and infrastructure finance will be extended from their original expiry date of 31 March this year to 31 December 2022. This means that qualifying project debt securities can continue to yield tax exempt returns to their investors while approved entities which are listed on the Singapore Exchange (SGX) can continue to enjoy tax exemption on the qualifying foreign income from their approved infrastructure projects or assets. In addition, the trustee and/or manager of an approved SGX-listed infrastructure fund can continue to enjoy a concessionary tax rate of 10% on its management fee income.

However, the stamp duty remission where qualifying infrastructure projects/assets are transferred to qualifying entities for purposes of listing on the SGX will be withdrawn. This is not unlike real estate investment trust (REIT) listings where the stamp duty remission was similarly allowed to expire two years ago. Given the focus on developing infrastructure projects outside Singapore where more opportunities lie, the lapse of the stamp duty remission (which applies to Singapore projects) should not impede the growth of this sector.

Asset and wealth management

Singapore has seen a strong growth in the asset and wealth management industry over the past five years, achieving a 14% five-year compound annual growth rate. The challenge is how Singapore can keep up this pace and protect its base amidst the economic uncertainty and various international developments including rising protectionism.

While the Budget is silent on specific measures for this sector, the industry will still cheer on the upcoming introduction of the Singapore Variable Capital Company (S-VaCC). We expect the S-VaCC to bring about an attractive edge for Singapore to becoming a preferred centre to domicile and manage investment funds. We also expect that this will bring about positive spin-off to the entire financial services ecosystem in Singapore. Watch this space for details on the corporate and regulatory framework.



Withholding tax exemption on payments under Indefeasible Rights of Use agreements

Withholding tax exemption for these payments to non-residents, originally due to expire on 27 February 2018, will be extended to 31 December 2023.

The extension of this exemption is consistent with the government's direction to build strong digital capabilities, as recommended by the CFE earlier this year. This extension will also promote the growth of additional

digital infrastructure, which is essential for the digital economy to expand in Singapore.

The IRAS had previously announced an extension of this withholding tax exemption in February 2013 for five years. To provide more certainty for telecommunications operators in the future, we believe that this withholding tax exemption should be a permanent feature of the tax system.



Integrated Investment Allowance

The Integrated Investment Allowance (IIA) scheme was introduced in Budget 2012 to align with the evident trend of businesses outsourcing manufacturing activities to countries with lower manufacturing costs to drive cost efficiency. Businesses adopting this kind of model may retain ownership and control over specialised equipment rather than leaving them at the disposal of the overseas manufacturers.

The IIA provides for an additional allowance on top of the amount normally available for capital expenditure incurred for productive equipment placed overseas on projects approved by the EDB. One of the key qualifying requirements of the IIA is that the qualifying productive equipment has to be used by the overseas company solely to manufacture products for the qualifying company under an approved project. The IIA was due to lapse after 28 February 2017.

In this year's Budget, it was announced that the IIA will be extended till 31 December 2022. The scheme will also be liberalised to include qualifying productive equipment used by the overseas company primarily to manufacture products for the qualifying company under an approved project. This is a welcome change as the less stringent requirement should enable more taxpayers to access the scheme. The liberalised treatment will apply to qualifying expenditure on qualifying productive equipment incurred for projects approved on or after 21 February 2017.

Statistics for the take-up rate for IIA has not been made publicly available by the EDB. However, given that this scheme caters to a very specific business model, the extension and enhancement of the scheme is likely part of the broader push, along with other incentive measures such as those relating to IP, to make Singapore more attractive as the regional hub location, while outsourcing the more labour intensive operations to lower cost jurisdictions.



Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology

Currently, companies may claim accelerated one-year capital allowances for the replacement or installation of certified energy-efficient equipment under section 19A(6) of the Income Tax Act. This scheme will be withdrawn after 31 December 2017 and will not apply to equipment installed on or after 1 January 2018.

Notwithstanding the above, companies will still be able to claim normal capital allowances (i.e. over three years under section 19A of the Income Tax Act) in respect of the expenditure on this equipment.

Existing incentives such as Energy Efficiency Improvement Assistance (EASE) and Productivity Grant (Energy

Efficiency) will still continue to encourage companies to invest in energy efficient equipment or technologies. These incentives are provided in the form of grants that cover qualifying costs including equipment, materials and professional services.

With the government's green initiative to reduce carbon footprint in Singapore, it is well-timed that companies, especially those with high energy consumption, to look into tapping the EASE and Productivity Grant (Energy Efficiency).

We also observe that this proposed change is in line with the government's effort to streamline its incentive offerings.



International Arbitration Tax Incentive

The International Arbitration Tax Incentive was introduced in Budget 2007 to encourage law practices to increase the provision of legal services relating to international arbitration with substantive hearings held in Singapore. It also aimed to attract law practices from abroad that provide international arbitration services to set up offices in Singapore.

As part of the government's regular review of tax incentives,

this scheme will be allowed to lapse after 30 June 2017. The government has, however, stated that it will continue to develop and strengthen Singapore's arbitration landscape by strengthening our legislative framework, expanding Maxwell Chambers (Singapore's integrated dispute resolution complex), and supporting local dispute resolution institutions and top international institutions seeking to base in Singapore or use Singapore as a venue for arbitration activities.



Donations of computers

In this day and age where computers are ubiquitous items associated with our daily lives, it is hard to imagine there was a time when taxpayers had to be given additional tax deductions to encourage them to donate computers to support the good work of our charities, research institutes

and educational institutions. With the decreasing costs of computers, perhaps it is less of an issue for Institutions of a Public Character to fund these equipment purchases. Its withdrawal is therefore a timely move to make the tax code (just) a little simpler.



Personal Tax

The ‘people’ elements of Budget 2017 focused mainly on the development of human capital and human relationships; there were not many fiscal measures impacting individuals in this year’s Budget speech.

Personal tax rebate

The 20% personal tax rebate (capped at \$500) for tax residents is well received, however as these have been given on a biennial basis for nearly a decade, this may no longer be perceived as a “surprise”. Further, this year’s rebate has been scaled back significantly from those in previous years, so it is questionable whether this year’s rebate will make a meaningful impact on the spending power of lower income households, for whom such measures hold the most significance. For instance, a resident taxpayer will only enjoy the full rebate if he has chargeable income of \$67,856 (after all reliefs have been deducted).

A comparison of how the current Budget’s tax rebate proposal compares with previous years is shown in the table below:

Year	Rebate
YA2017	20%, capped at \$500
YA2015	50%, capped at \$1,000
YA2013	For residents aged below 60 years of age: 30% capped at \$1,500 For residents aged 60 years of age and above: 50% capped at \$1,500
YA2011	20%, capped at \$2,000
YA2009	20%, capped at \$2,000

“Adapt and Grow” and “Attach and Train” initiatives

The Minister acknowledged that more retrenched workers are taking longer to find jobs. The Adapt and Grow initiative, which was introduced last year, will be enhanced, to assist job-seekers in finding positions in different sectors/industries. Further, the new Attach and Train initiative will enable businesses in growth sectors, which are not yet able to employ additional headcount, to train job-seekers to take on new careers in these sectors, so that they can make the transition, when the time is right.

Such an initiative is in line with the key message to foster greater togetherness. Those who have the skills that are needed to sustain and grow our economy should help those without.

As the Singapore economy repositions itself for the future, care should be taken not to leave anyone behind. Not only should the unemployment rate be closely monitored, but so should the duration of unemployment: a temporary freeze on monthly GIRO tax payments could provide additional relief should long-term unemployment begin to emerge.

Whilst Budget 2017 did not bring many personal tax updates, we should recognise that Singapore already provides a competitive platform from which businesses can grow, and has continued the journey towards a more inclusive society. At a time when major global economies are finding themselves in increasingly turbulent waters, keeping the ship steady may be more prudent than rocking the boat.

GST Vouchers

The permanent increase in the value of GST Vouchers, augmented by the provision of a one-time GST Voucher – Cash Special Payment of up to \$200, may be a more progressive means of supporting lower-income families. The value of the rebate/voucher is still determined based on the size of the Housing Development Board (HDB) flat the individual lives in; in the future, it may be possible to reach those most in need by allocating GST support based on income levels rather than where one lives. It is not uncommon for families with multiple income earners to reside in HDB flats, and they may be less deserving of these relief measures.



Goods and Services Tax

In the debate in Parliament on the Budget in February 2015, Deputy Prime Minister Tharman Shanmugaratnam said that the increased spending planned for the rest of this decade is sufficiently provided for by measures that the government had already taken including the inclusion of the Net Investment Return Contribution. This was widely taken to mean that the Goods and Services Tax (GST) rate increase is not expected until the new decade.

So there is no surprise that our GST rate stays the same in Budget 2017 although the Finance Minister hinted that revenues will have to be raised through new taxes or increased tax rates. We do not expect the corporate income tax rate to rise, so there is little doubt that the alluded rate change in the near future would be the GST rate.

Taxing the digital economy

At present, GST does not apply to digital purchases made by Singapore consumers from overseas vendors. However, online shopping in Singapore is expected to cost more if the government implements changes to the GST rules for the digital economy.

Specifically, the Minister observed that some countries had taken or are taking steps to apply GST to the increasing volume of digital transactions and rising cross-border trade. While no further details were given, he said that “we (the government) are studying how we can do likewise”. The move does not come as a surprise as a number of countries have implemented or are in the midst of implementing new rules on taxing online business to consumer purchases from overseas vendors. If such rules were to be introduced in Singapore, it would demonstrate Singapore’s commitment to be in line with international standards. Moreover, with the e-commerce market in Singapore expected to grow to US\$5.4 billion by 2025 (according to a report by Temasek and Google), any such introduction can only result in a hefty GST windfall for the government.

Looking at the recommendations by the OECD and the measures implemented by other countries, the options for a digital tax could range from effecting GST registration for overseas vendors such that the vendors and online platforms are required to account for GST on the online sales to Singapore consumers, to lowering the existing import relief threshold of \$400 for postal imports of goods.

For services received from outside Singapore, we would also expect the government to study the possible introduction of the “reverse charge” mechanism for business-to-business transactions which will largely impact partially exempt businesses which are not able to have full recovery of input tax. The reverse charge mechanism is already in our GST legislation but is not activated.

GST Tourist Refund Scheme

With effect from 1 July 2017, the government is withdrawing the GST Tourist Refund Scheme (TRS) for tourists departing Singapore by international cruise and removing the eTRS facilities at the cruise terminals, with the justification that the transaction volume is low. Further information will be released by the IRAS by April 2017. The move was unexpected particularly when the GST TRS was only introduced in January 2013 for tourists departing by international cruise at the Marina Cruise Centre and the Harbourfront International Passenger Terminal. One wonders if there other reasons for the withdrawal of the GST TRS at the international cruise terminals especially when the scheme was introduced to preserve and enhance Singapore’s reputation as a tourist shopping destination regardless of whether tourists depart via the international airports (where the TRS remains unchanged) or by international cruise. It could mean that the government has decided to focus its TRS resources at the international airports where tourist traffic is expected to grow more significantly with the opening of Terminal 4 and Terminal 5.



Environmental taxes

Carbon tax

Following the ratification of the Paris Agreement on climate change last year, Singapore aims to implement a carbon tax on the emission of greenhouse gases in 2019. It is expected that companies will pay \$10 to \$20 per tonne of greenhouse gas emissions. This is in the range of what other countries have implemented. The taxes collected will be used to fund initiatives to reduce emissions.

The introduction of carbon taxes should motivate a switch to clean energy and promote innovations in the clean energy space. This is a big step in the right direction for Singapore towards fulfilling its commitment on decelerating climate change.

Carbon tax will impact certain industries such as the power stations. It remains to be seen if the power and electricity suppliers would pass on the cost of carbon taxes to Singapore consumers. The Minister did not mention whether carbon tax would also apply to other large users of carbon resources such as petrochemical plants and oil refineries. If it does, it could affect Singapore's competitiveness as a major exporter of oil products and chemicals and may even hit the price at the pump. It could also impact future investment plans in these sectors.

The government will introduce appropriate measures to ease the transition and consider prevailing economic conditions in implementation. Details around the carbon tax proposal need to include exemptions or adjustments for export-dependent businesses to help Singapore remain competitive in global markets.

Diesel taxes

Currently, motor fuels such as petrol and compressed natural gas are taxed based on usage. This approach encourages users to reduce consumption, and manufacturers to develop more energy efficient vehicles. However for diesel, an annual lump sum Special Tax is imposed on diesel cars and taxis regardless of the amount of diesel used.

To incentivise users to reduce diesel consumption, the Minister will introduce a volume-based duty at \$0.10 per litre on automotive diesel, industrial diesel and the diesel

component in biodiesel. The annual Special Tax on diesel cars and taxis will be reduced by \$100 and \$850 respectively.

Diesel will also be removed from the Industrial Exemption Factory Scheme – a duty exemption scheme for industries that use dutiable goods as raw materials solely to manufacture non-dutiable finished goods. Industrial diesel will be subject to volumetric diesel duty of \$0.10 per litre.

These changes will take effect immediately. This is yet another step to help protect the environment.

To ease the impact of the diesel duty, road tax rebates will be given for commercial diesel vehicles for three years. In addition, to ease the impact on school bus fees, yearly cash rebates will be given to school buses and eligible private hire buses and excursion buses that ferry school children, subject to conditions.

Vehicular Emissions Scheme

The current Carbon Emissions-based Vehicle Scheme (CEVS) was implemented in 2013 to encourage the take-up of cars and taxis with low carbon emissions. The CEVS will be replaced with a new Vehicular Emissions Scheme, which will consider four other pollutants on top of carbon dioxide. With this scheme, the Minister hopes to encourage the purchase of cleaner and more environmentally friendly models.

The new Vehicular Emissions Scheme will run for two years, starting from 1 January 2018. Meanwhile, the current CEVS, due to expire on 30 June 2017, will be extended till 31 December 2017.

Early Turnover Scheme

In addition, the Early Turnover Scheme for commercial diesel vehicles will be enhanced and extended. This scheme was first introduced in 2013 to encourage the early replacement of older and more pollutive commercial diesel vehicles. As it is due to expire on 31 July 2017, the Minister will extend it for vehicle owners who turn over their existing Euro II and III commercial diesel vehicles for Euro VI vehicles until 31 July 2019. There will also be an enhancement of the Certificate of Entitlement (COE) bonus period for Light Goods Vehicles.



Water prices, taxes and fees

Budget 2017 announced future increases in water prices and the restructuring of the tax and fees on water use. Such changes (including the introduction of the new carbon tax) are two pronged; they tackle environmental issues to protect one of our most valuable and scarce resource. It also reflects the global shift to indirect taxes on consumption, while adding a source of revenue for the government.

Water prices will be increased by 30% in two phases, starting from 1 July 2017. The Sanitary Appliance Fee and the Waterborne Fee will also be restructured into a single, volume-based fee. Water Conservation Tax which was originally introduced on potable water to promote

conservation, is now extended to NEWater and will be 10% of the NEWater tariff, starting from 1 July 2017.

The Minister explained that the above measures are intended to protect our living environment and also to reflect the higher costs of water supply, as the water tariffs were last revised more than a decade ago in 2000. It is line with the increasing cost of water supply in Singapore especially with more desalination plants coming on line. While these will lead to an increase in household costs, the increase in the amount of GST Vouchers given should soften the impact particularly for the lower income households.



International Partnership Fund

The government has committed \$600 million for a new International Partnership Fund to co-invest with Singapore enterprises to scale-up and internationalise, with a focus on Asian markets.

It has also tasked Heliconia Capital Management Pte Ltd, a subsidiary of Temasek Holdings Pte Ltd that focuses on growth-oriented Singapore enterprises, to administer and manage this Fund. While this Fund is available for

Singapore enterprises with annual revenues of no higher than \$800 million, other details are not disclosed.

Through this Fund, the government is looking to directly support selected Singapore enterprises by committing to participate in the risks and rewards of the joint venture. This is further evidence of greater collaboration between the government and the community.





Foreign Worker Levy

Foreign Worker Levy increases in the Marine and Process sectors have been deferred for another year in view of continued economic weakness. Levy increases for the Construction sector, however, will proceed as announced in 2015.



Approved Building Project

Under the Approved Building Project scheme, land under development is granted property tax exemption for up to three years, subject to conditions. This scheme will be allowed to lapse after 31 March 2017. The IRAS's "Investor's Guide to Property Tax (Second Edition)" issued on 20 February 2017 has been updated to reflect this change.



Additional Registration Fee for motorcycles

The Additional Registration Fee for motorcycles of 15% of Open Market Value (OMV) will be replaced by tiered rates (ranging from 15% to 100% of the OMV) to improve the progressivity of the vehicle tax system. These new rates will apply to motorcycles registering with COEs obtained from the bidding exercise to be held on 22 February 2017; or, for motorcycles that do not need to bid for a COE, from 21 February 2017.



What will you, your business, and Singapore be great at?

By Richard Skinner, Strategy Leader at PwC Singapore

This article was contributed to and first published in *The Business Times* on 16 February 2017

WITH the launch of the Committee on the Future Economy report, it's interesting to consider what this means to Singapore as a nation, to our businesses, as well as ourselves as individuals.

While the ideas could generally be seen as common sense, it's the notion of them coming together - with the understanding that we need to act, backed up by investment, and with the willingness for change - that's exciting.

As the report sets out, now is the time to act and change the mindset of everyone.

The approach, and the seven key strategies, are all areas a strategy team (mine included) would generally cover with a company looking to grow and be successful. I think it is a great approach for Singapore, but as with all strategies, success is in the execution.

Firstly, and fundamentally, it's a case of understanding your core capabilities which in Singapore's case are that we are an advanced trading city, with a technically well-educated population. Next, you would look at analysing where you can go and where there is opportunity - for example, new digital technologies, regional and global expansion. Combining the two, consider where the gaps are - do we have a real drive and ability to go abroad; are we global leaders in new technologies; and do we have an education system to achieve this? Do we actually have an appetite for change and risk? Finally, how to get there - what's the plan and what does this mean to all of us as Singaporeans.

Overall, the aim would be to enable everyone and everything to grow profitably, and be viable in the long term. It would be, in a sense, deciding what Singapore will be famous for and great at, over the next 50 years.

Singapore has a fantastic base, one of the strongest globally. It has also proven in the past it can rise to the challenge. However, this new cycle of change, I believe, will be far harder. Some of the reasons for this are factors such as the rise of global and local competition, both in and out of Singapore - the world is changing at a rapid pace, some changes are good, some less so. Singapore has already achieved a comfortable position, therefore it can be hard to convince people to change when we are not facing real adversity.

We have to convince all of Singapore of the need, and we

can't be complacent as it won't just happen. Not all these themes outlined always excite people; many are wary of them and internationally have voted against them, as shown by Brexit and the recent US election. The question is, how do we make sure Singapore rises to the challenge, that we take the whole country with us, and most importantly, make sure that everyone benefits?

One way to illustrate how this could be possible is through examples of how other countries have done it successfully.

- Israel developed its cyber security ecosystem into the second largest exporter globally after the US. This is a great example of the government and private sector working together - with cyber security as part of national service; targeted subsidies to hire R&D talent in the private sector; a thriving and entrepreneurial private sector (including SMEs and startups) backed by VCs and state funding driving world-leading exports.
- Thirty per cent of France's Limousin region is filled with older people. In 2011, Legrand (a French electrical company) partnered SIRMAD (a telecare provider) to instal sensors and light paths to reduce accidents such as falls. The economics of these programmes is such that the telecare and technology are co-funded by private insurance and public funds. This is now being exported globally.

So what does this mean for you as an individual, a professional or a business leader? How can you challenge yourself to drive this new wave of change? The CFE report raises many questions, but think how relevant these may be for you:

How much time have you spent working and studying abroad and in turn, what percentage of your sales as a business are international? What is your knowledge and use of data and analytics; could you create an e-commerce platform; can you and your team do basic coding? Turning closer to home, are you exploiting Singapore's inherent potential as a city? Last but not least is of course, looking to the future. Where do you as a business think you will be in five, 10 or even 20 years? Do your views match the global trends to ensure that you will not be left behind? What will you and your business be famous for in this new world?

We can't expect our government to run our lives or do our jobs for us. Now is the time to look at the potential for Singapore and be a driving part of its future.

Recommendations from the Committee on the Future Economy

What our experts have said...



Source: www.futureeconomy.sg

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#CFE pushing fwd for evolved #strengths, #capabilities & networks for nxt phase of progress. Local cos. & indiv. must rise to the challenge

"The CFE report identifies how Singapore can leverage rapid technological advancement to evolve its established strengths and develop new capabilities. Companies and individuals in Singapore must rise to the challenge to help move our economy forward."

— Yeoh Oon Jin, Executive Chairman, PwC Singapore



PwC Singapore @PwC_Singapore

Achving #CFE..SG can #inspire leading econ. to cont. the journey to more #interconnected, #interdependent & growing global mkts - @WNesfield

"Singapore can be the 'globalisation laboratory' for the rest of the advanced world...its success within a smaller but highly advanced ecosystem will inspire other leading economies to make the tough decisions to continue the historical journey to more inter-connected, inter-dependent and growing global markets."

— Winston Nesfield, Partner, Strategy&

Patrick Yeo @Patrick_PwCSG

A simpler reg. framework'll help encourage #VCs' move to the forefront, raising SG's VC industry profile to attract more growth capital #CFE

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Key challenge to open SG's mkt fr more foreign competition, convince other countries SG's a "giver" & a "taker" #CFE - #PwC's Frank Debets

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Leveraging our tax system to stimulate incremental rev. & profitability for #enterprises in SG - we cant remain static - #PwC Chris Woo #CFE

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Grooming #SG's nxt blockbuster cos. to innovate & be #differentiated thru collaborations betw. #synergistic orgs - #PwC's Wilson Chew #CFE

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Execution is now key. Mindset change needed to drive #freetrade, new skills, etc in order for #CFE plan to succeed - #PwC Richard Skinner

PwC Singapore @PwC_Singapore

#Bilateral relation w foreign countries provide local biz platform to new mkts and int'l experience & expertise #CFE - #PwC's Abhijit Ghosh

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#CFE fostering cross-industry synergies shows recognition of increasing convergence across the econ + value of partnership -@GregUnsworth_

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Building #SG's strong #digital cap. imp. to find new solns to solve #healthcare problems & streamline delivery of care-PwC's David McKeering

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Incorporating #AI & #Robotics into holistic #digital workforce an imp. opp. 4 SG incr. productivity & profitability outcomes -Pierre Legrand



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Key Tax Highlights



Corporate Tax

- 50% corporate income tax rebate capped at \$25,000 for Year of Assessment (YA) 2017. Tax rebate extended to YA 2018, at a reduced rate of 20% of tax payable and subject to a cap of \$10,000.
- New Intellectual Property Development Incentive scheme introduced.
- Tax deduction for research and development cost sharing agreements payments liberalised.
- Simplification of the following tax incentives:
 - Global Trader Programme.
 - Finance and Treasury Centre scheme.
- The Aircraft Leasing Scheme will be extended and enhanced.
- Initiatives to help strengthen the competitiveness of the financial sector:
 - Withholding tax exemption on payments made to non-resident non-individuals for structured products offered by financial institutions is extended.
 - Certain incentives under the Project and Infrastructure Finance incentive package are extended.
- Incentives schemes extended are:
 - The withholding tax exemption on payments for international telecommunications submarine cable capacity under an Indefeasible Rights of Use agreement.
 - The Integrated Investment Allowance scheme.
- Incentives or deductions that are withdrawn or allowed to lapse:
 - 250% tax deduction for donation of computers.
 - Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology scheme.
 - Accelerated writing-down allowances for acquisition of intellectual property rights for media and digital entertainment content.
 - The International Arbitration Tax incentive.



Personal Tax

- Personal income tax rebate of 20% of tax payable and capped at \$500 for YA 2017.

Other changes

- Increase in water prices, fees and imposition of a 10% Water Conservation Tax on the NEWater tariff.
- Proposed carbon tax from 2019.
- A volume-based diesel tax will replace lump-sum tax on diesel cars.
- The Approved Building Project scheme allowed to lapse.



*Proposals to enhance
Singapore's economy*



*Budget Commentary
2017*

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