Strategic Transformation The Way Forward

Singapore Budget 2018

At a glance: Singapore Budget 2018

Overview

- Estimated FY 2018 overall budget deficit of ***$0.6 billion*** (0.1% of GDP)
- ***$80 billion*** expected expenditure (8.3% higher than in FY 2017)

Enhance and extend CIT rebate

- ***40%*** of tax payable, capped at ***$15,000*** for YA 2018; and ***20%*** of tax payable, capped at ***$10,000*** for YA 2019

GST

- Introduce GST on imported services for certain businesses with effect from 1 January 2020
- Overseas vendors which made significant supplies of digital services have to register for GST with effect from 1 January 2020
- GST to go up to ***9%***, sometime between 2021 to 2025

Enterprise Development Grant (EDG)

- Funding support for building capabilities and internationalisation
- Launching in Q4 2018

Carbon tax

- Impose on facilities producing ***25,000*** tonnes or more of greenhouse gas emissions a year
- ***$5*** per tonne of greenhouse gas emissions from 2019 to 2023
- First payment in 2020 based on emissions in 2019
- U-Save rebates will offset the impact to households

Wage Credit Scheme (WCS)

- Extend the WCS for three more years
- Provide ***20%*** co-funding for 2018, ***15%*** for 2019 and ***10%*** for 2020

Stamp Duty

- Top marginal Buyer's Stamp Duty rate increased to ***4%***, and applied on the value of residential properties above ***$1 million***

Productivity Solutions Grant

- Funding support of up to ***70%*** for adoption of pre-scoped, off-the-shelf technologies

Excise Duty

- 10% increase in tobacco excise duty effective from 19 February 2018

Enhanced tax deductions for the use and development of innovation

- From YA 2019 to YA 2025
- IP licensing payments to unrelated parties: increase to ***200%,*** capped at ***$100,000***
- IP registration fees: increase to ***200%***, capped at ***$100,000***
- Qualifying expenses incurred on local R&D activities: increase to ***250%***

Infrastructure Office

- Brings together local and international firms from across the value chain
- Enables infrastructure players to better tap on opportunities

SG Bonus

- All adult Singaporeans will receive one-off bonus of ***up to $300***

Budget 2018 – Setting the wheels in motion

Budget 2018 is about building the future of Singapore from a position of strength. Riding on the upturn of the global economy, Singapore's Gross Domestic Product (GDP) expanded by 3.6% in 2017. Productivity growth was at its highest since 2010, and the country achieved a strong fiscal footing. That being said, with the three major shifts in the next decade (the shift in economic weight to Asia, disruption from technologies and ageing), Singapore has to anticipate the challenges ahead.

Just as the past Budgets have laid the foundation for today's success, Finance Minister Heng Swee Keat has, through Budget 2018, set the wheels in motion to prepare Singapore for challenges of the next decade and beyond. In the lead up to Budget 2018, the Government had emphasised the expected increase in spending needs, such as on healthcare, infrastructure and security, and the need to have sustainable revenue streams to fund these expenditures. Most of the tax changes announced were forewarned in earlier Budget statements or through various speeches by Government leaders. As such, the introduction of Goods and Services Tax (GST) on imported services from 1 January 2020 and a carbon tax from 2020 did not come as a surprise. The much talked about possible GST rate hike, however, did not materialise. Instead, the Finance Minister gave ample advance notice that the rate will be increased to 9%, sometime between 2021 and 2025, depending on the state of the economy, along with appropriate offset measures to provide help to the needy. Such a strategy seems appropriate to prepare both businesses and the person on the street for something that seems needed.

One other surprise is the new top marginal buyer's stamp duty rate of 4%, applicable on the value of residential properties that exceed $1 million. This change is another step taken to improve the progressivity of Singapore's tax system. It is also consistent with the tweaks to the property tax and personal income tax regimes made in recent years, where the more wealthy are expected to bear a higher incidence of taxes.

In the long run, sustainable sources of revenues can only come from having a growing and robust economy. Recognising this, a major prong of Budget 2018 is devoted to building a vibrant and innovative economy, centred on promoting innovation, building capabilities and forging partnerships locally and abroad, as enablers for the initiatives under the Industry Transformation Maps (ITMs). To help firms innovate, the Finance Minister has, among other things, streamlined existing grants for adoption of

off-the-shelf technologies into the Productivity Solutions Grant, as well as introduced enhanced tax deductions for licensing payments and qualifying research and development (R&D)expenses. These tax measures are particularly timely, given the intense competition for R&D investments globally and also with the lapse of the Productivity and Innovation Credit (PIC) scheme. Together with other programmes to harness efforts for greater adoption of automation and robotics, build digital capabilities through Tech Skills Accelerator, and tap on the potential for development in the region through the establishment of an Infrastructure Office, these measures should help position Singapore as a regional and global business hub as it transforms into a knowledge intensive society with an IT enabled workforce.

The Finance Minister has tuned the help given to smaller younger companies. While adjustments were made to the Start-Up Tax Exemption and the Partial Tax Exemption schemes to reduce the amount of income excluded from tax, the Finance Minister has also enhanced the corporate income tax rebate for the year of assessment (YA) 2018 and extended it to the YA 2019, to help mitigate some of the impact. What is noteworthy is the help extended to those making a profit.

It is very much a reflection of the maturity of Singapore's tax regime that we have not seen many major tax incentives being introduced in the recent past. It is not any different this year. A number of tax concessions which remain relevant to the financial sector have been renewed and rationalised, and the Singapore-listed Real Estate Investment Trust (S-REIT) industry received a boost with tax transparency being extended to Exchange-Traded Funds (ETFs) investing in S-REITs. That being said, the asset management industry should welcome the introduction of a tax framework for Singapore Variable Capital Companies (S-VACCs), under which existing fund management tax concessions will be extended to S-VACCs, along with confirmation that an S-VACC will be treated as a single entity for taxation and need only file one tax return. The launch of this new fund structure should further strengthen Singapore's position as a hub for fund management and domiciliation.

When all is said and done though, one does not grow an economy for the sake of it; economic growth is merely a means to an end – that of providing people with a better quality of life. A key thrust in the Budget is thus on building a caring and cohesive society, and for that, the Minister announced various initiatives to support education, look after the ageing, as well as measures to support families. As he himself noted, the Budget is a strategic and integrated plan to position Singapore for the future. It is laudable that he is taking advantage of the economic upturn to plan for the future, so as to strengthen Singapore's economic infrastructure and social capital.

Yours sincerely,

Yeoh Oon Jin
Executive Chairman
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Reactions to the Budget

In sharing the longer term view to raise the carbon tax from $5 per tonne of emission to $10–$15 per tonne emission, the Government is sending a strong message to gas emitters to convert to energy efficient alternatives to reduce their carbon footprint. Not surprisingly, there will be funding to support the companies to make this change and increases in U-Save to help households defray the new tax which will be passed on to them as consumers.

– Elaine Ng, Transport & Logistics Leader, PwC Singapore

Raising the GST rate to 9 per cent still puts us below the regional average of 10.5 per cent and the OECD average rate of 19 per cent which suggests that the Government is keeping its options open on whether the rate can increase further depending on our spending needs.

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

Laudable tax measures to encourage Singapore's IP ecosystem. Enhanced tax deduction for Research & Development in Singapore, IP registration and licence payments should enable our SMEs to invest more on innovation and embrace greater use of technology to be efficient and effective.

– Abhijit Ghosh, Corporate Tax Partner, PwC Singapore

All is not lost with the end of the PIC scheme, SMEs can now tap on the Productivity Solution Grant (PSG) which subsidises up to 70% of approved costs for the purchase and use of new productivity and innovative solutions.

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

One could say the overall winner this year is the Singapore economy. As a whole as we move from 2017 to 2018 GDP grew 3.6% last year versus 2.4% from the year before and this is expected to continue.

– Richard Skinner, Strategy Partner, PwC Singapore

Riding on the back of unexpected higher growth and productivity outcomes, the Government's budget is expansive yet targeted to transform the economy through encouraging technology and innovation. This capitalises on Asia's expanding economic influence and Singapore position as a key business hub.

– Peter Le Huray, Global Tax Markets Leader, PwC

Heartening to hear about the introduction of premium subsidies for middle and lower incomes to meet the financial demands for ensuring ElderShield remains an effective avenue for care delivery.

– Dr. Zubin Daruwalla, Director (Healthcare), PwC South East Asian Consulting

GST changes

GST rate hike

All eyes were on whether there would be an announcement of a GST rate hike in this Budget. Our GST rate has remained at 7% for almost a decade and there has been wide anticipation of an impending rate hike. While there is no immediate increase in the GST rate, the Finance Minister announced that the GST rate will increase by 2 percentage points to 9% any time between 2021 and 2025, subject to spending requirements and other considerations.

This is the first time that a future GST rate increase has been announced during a Budget and is a change in approach compared to the last rate change, when the new rate kicked in just months after the announcement in Budget 2007. We welcome this approach as it firstly quells speculation and also allows businesses and individuals to prepare for the change.

Need to raise tax

There is never a good time to raise taxes or talk about raising taxes. Yet, one has to acknowledge that Singapore's need to spend on healthcare, education and infrastructure has grown significantly over the last decade. The Finance Minister also referred to new areas of spending such as security to tackle terrorist threats.

In particular, the Finance Minister indicated that recurring expenditure such as healthcare, should be borne by each generation of Singaporeans. Healthcare spending has doubled since the start of this decade, to an estimated $10.2 billion in financial year (FY) 2018 and is expected to overtake education spending within the next decade.

Singapore's tax collections would therefore need to continue to keep up with our social spending if we are to achieve a balanced Budget. The Finance Minister shared that it has been due to careful and prudent planning (including the raising of the GST rate in 2007) that we currently have sufficient resources to meet our spending needs until 2020. Hence, the planned increase in the GST rate between 2021 and 2025 is necessary to fund the increased social spending for the next decade. The increase of 2 percentage points will provide Singapore with revenue of close to 0.7% GDP per year.

With the new rate of 9%, Singapore will still be amongst countries with relatively low GST/Value-Added Tax (VAT) rates.

Impact on businesses

The change in GST rate will mean that businesses will need to invest resources to update their systems and deal with transitional issues such as pricing and contracts. Given that the earliest time of rate hike is in 2021, this should provide sufficient time for businesses to deal with the changes.

In addition, most businesses that are registered for GST are not expected to face a negative cost impact from a higher GST rate as they are able to recover the GST on their business purchases. However, a higher GST rate means a higher cost of getting it wrong if the business makes errors in its GST returns.

Sectors that will be affected by the eventual rate hike include financial services and real estate. This is because businesses such as the banks, insurance companies and residential property developers are not able to fully or partially claim the GST on their business purchases. Coupled with the introduction of the reverse charge in 2020, which requires GST to be paid on imported services, such businesses would expect to see an increase in irrecoverable GST costs incurred on their business expenses. Smaller businesses that are not registered for GST will be similarly affected. What will be of concern is the potential cascading impact when costs are passed on by businesses to consumers, pushing up the cost of living.

Impact on consumers

A higher GST rate would mean that the man on the street will have to pay more for his purchases.

The Government acknowledges that the rate increase means that the lower income households will be most affected. Particularly in Singapore where a broad and simple GST regime means that basic necessities such as food and transportation (with the exception of housing), which are exempt from GST or zero-rated in certain jurisdictions, are also subject to GST in Singapore.

To cushion this impact on the lower income households, the Government has assured that it will continue with measures such as:

- Absorb GST on publicly-subsidised education and healthcare
- Enhance the permanent GST Voucher scheme so as to provide more help to lower income households and seniors
- Introduce a (new) GST offset package

Taxing the digital economy

In last year's Budget, the Finance Minister referred to our growing e-commerce market and said that the Government would be studying how Singapore can apply GST to the digital economy. Following the announcement, the Inland Revenue Authority of Singapore (IRAS) contacted businesses and industry groups which would likely be affected by the change to seek feedback on the proposed rules. Hence, the announcement that the Government will be introducing new rules to tax the digital economy comes as no surprise. This will come into effect on 1 January 2020 and further details will be released by the end of February 2018.

Following this announcement, Singapore joins our neighbouring countries such as South Korea, Japan, New Zealand, Taiwan and Australia which have introduced similar rules in the recent past.

Current GST rules in Singapore do not impose tax on purchases from overseas vendors by local consumers, which means lost tax revenue for the Government. For example, no GST is paid on digital services such as online subscriptions or purchases of music and e-books from an overseas vendor. As for goods, there is a *de-minimis* rule for postal imports of goods valued below $400, which does not subject low value imports to GST.

There are two parts to the proposed mechanism to tax the digital economy, which are aligned to Organisation for Economic Co-operation and Development (OECD) recommendations:

- For business-to-consumer (B2C) transactions, an overseas vendor registration will be introduced for the overseas vendor to register for GST in Singapore and to charge and collect GST on digital sales to Singapore consumers.

- Business-to-business (B2B) services that are procured by certain sectors would be subject to the reverse charge. The reverse charge has long been in our GST legislation but was never invoked until now.

Overseas vendor registration

The proposed rules will affect digital services provided by overseas vendors; while the rules to tax low value imports will continue to be studied. In this respect, while there are a number of other jurisdictions which have introduced rules to tax digital services from overseas vendors, there have not been many jurisdictions, if any, that have introduced an effective collection mechanism to tax low value imports. We expect the Government is taking a wait-and-see approach and to learn from the experiences of other countries before broadening the new rules to tax low value imports.

Under the new regime, overseas vendors will be required to register for GST if their global turnover is more than $1 million annually and their online sales to Singapore exceed $100,000. The $1 million turnover threshold is not surprising as it is aligned with the compulsory GST registration threshold in Singapore. What is surprising is the threshold for the GST registration under the proposed overseas vendor registration regime, which is much lower at $100,000 for sales to Singapore consumers. We can only guess that the intention is to cast a wider net to subject more of the online businesses to Singapore GST.

If there is a question of how the Government would be able to enforce the registration for overseas vendors, we must bear in mind that the tax authorities have arrangements that would enable the jurisdictions to exchange information on overseas vendors that are registered in the local territories.

What is certain about the new rules is that it will provide a new and sustainable source of tax revenue which can only rise as quickly as the growth in the digital economy.

Reverse charge

The reverse charge is a common feature of GST/VAT regimes, but when GST was introduced in 1994, the Government decided not to effect the reverse charge provision as it was determined that operational and compliance costs may outweigh the tax benefits. It was also at a time when cross-border services were relatively insignificant in volume and value. With the increase in cross-border transactions in the digital economy, the reverse charge mechanism is necessary to ensure Singapore GST is collected on imported B2B services.

The majority of the businesses that will be affected by the introduction of the reverse charge would be those in the financial services and real estate sectors, where most if not all of such businesses are not able to fully recover their input GST. Charities or voluntary welfare organisations that are GST-registered and receive donations or grants, as well as businesses not registered for GST, will also be affected.

Operationally, affected businesses would need to identify and track payments to overseas service providers (including related parties) and assess the GST treatment and impact. System changes would be required to capture the additional reporting requirements and payment of GST to the IRAS.

Budget 2018 presents a watershed year for GST changes, albeit with a deferred start date.

Corporate income tax rebate

To support businesses coping with rising costs and to help them maintain their competitiveness even in a time of improved economic outlook, two changes were announced by the Finance Minister:

- an enhancement to increase the corporate income tax rebate for YA 2018 to 40% of tax payable (from the previously announced 20%), capped at $15,000, and
- an extension of the corporate income tax rebate of 20% of tax payable, capped at $10,000 for YA 2019.

Partial Tax Exemption and Start-Up Tax Exemption

The partial and start-up tax exemptions were introduced in the 2000s, initially to help businesses weather the economic downturn in those years. In this year's Budget, the Finance Minister proposed that the partial tax exemption be applied to the first $200,000 of chargeable income, down from $300,000 previously. For companies enjoying the start-up tax exemption, they will have 75% of their first $100,000 of chargeable income exempt from tax as opposed to a full exemption previously. 50% of the next $100,000 of chargeable income will be exempt from tax, rather than $200,000 previously. All changes will take effect from YA 2020.

Partial Tax Exemption (Income taxable at normal rate)

YA 2010 to 2019			YA 2020 onwards		
Chargeable income	*Exempt from tax*	*Exempt income*	*Chargeable income*	*Exempt from tax*	*Exempt income*
First $10,000	75%	$7,500	First $10,000	75%	$7,500
Next $290,000	50%	$145,000	Next $190,000	50%	$95,000
Total		$152,500	Total		$102,500

Start-Up Tax Exemption (Income taxable at normal rate)

YA 2010 to 2019			YA 2020 onwards		
Chargeable income	*Exempt from tax*	*Exempt income*	*Chargeable income*	*Exempt from tax*	*Exempt income*
First $100,000	100%	$100,000	First $100,000	75%	$75,000
Next $200,000	50%	$100,000	Next $100,000	50%	$50,000
Total		$200,000	Total		$125,000

According to the IRAS, only 38% of all companies assessed in YA 2016 were in a tax paying position[1]. Companies with chargeable income above $200,000 made up only about 8% of all companies assessed in YA 2016. As such, the percentage of companies that are affected by this change should not be high as the tax exemptions are not maximised.

These changes collectively will translate into higher effective tax rates, especially for small and medium-sized enterprises (SMEs), which are the main beneficiaries of these broad-based exemption schemes, although the increase will be mitigated by the enhancement to the corporate income tax rebate for YAs 2018 and 2019.

[1] *Tax Statistics, IRAS website https://www.iras.gov.sg/irashome/Publications/Statistics-and-Papers/Tax-Statistics/#NewBookmark (accessed on 20 February 2018)*

Enhanced tax deductions to promote innovation

Enhanced tax deduction for R&D

Businesses currently enjoy 150% tax deduction for qualifying expenditure incurred on qualifying R&D activities up to YA 2025 under Section 14DA(1) of the Income Tax Act. Although there is no cap applicable for this provision, the further 50% deduction is only applicable for staff costs and consumables incurred for qualifying R&D activities conducted in Singapore.

In order to maintain an attractive fiscal regime for R&D activities in Singapore, particularly with the lapse of the enhanced deductions under the PIC scheme in YA 2018, the Government has increased the further deduction from 50% to 150% for staff costs and consumables incurred on qualifying R&D activities conducted in Singapore from YA 2019 to YA 2025.

> *The increased tax deduction signals the Government's continued support for businesses to carry out their R&D projects in Singapore.*

Through the enactment of R&D tax incentives and grant programmes, governments in various jurisdictions, similar to Singapore, have sought to encourage businesses to invest further in research. Such research incentives come in the form of tax credits, super deductions, or even cash grants. For example, the Hong Kong Government announced in the last quarter of 2017 that companies can claim enhanced R&D deductions of 300% on qualifying R&D expenditure on the first HK$2 million (approximately $335,500), with a further 200% tax deduction available for the remaining expenditure.

R&D conducted overseas

With the expiry of the PIC scheme, qualifying R&D activities conducted overseas would not qualify for enhanced deductions.

Relevance of Section 14E further deduction

With this enhancement, the further deduction for approved R&D projects provided for in Section 14E of the Income Tax Act may lose its lustre. There appears to be minimal benefit to be derived by seeking approval for a 200% deduction when the proposed enhancement already grants a 250% deduction, unless the enhanced deduction is sought under section 14E for expenses other than staff costs and consumables and taxpayer is seeking upfront approval of the project to be undertaken.

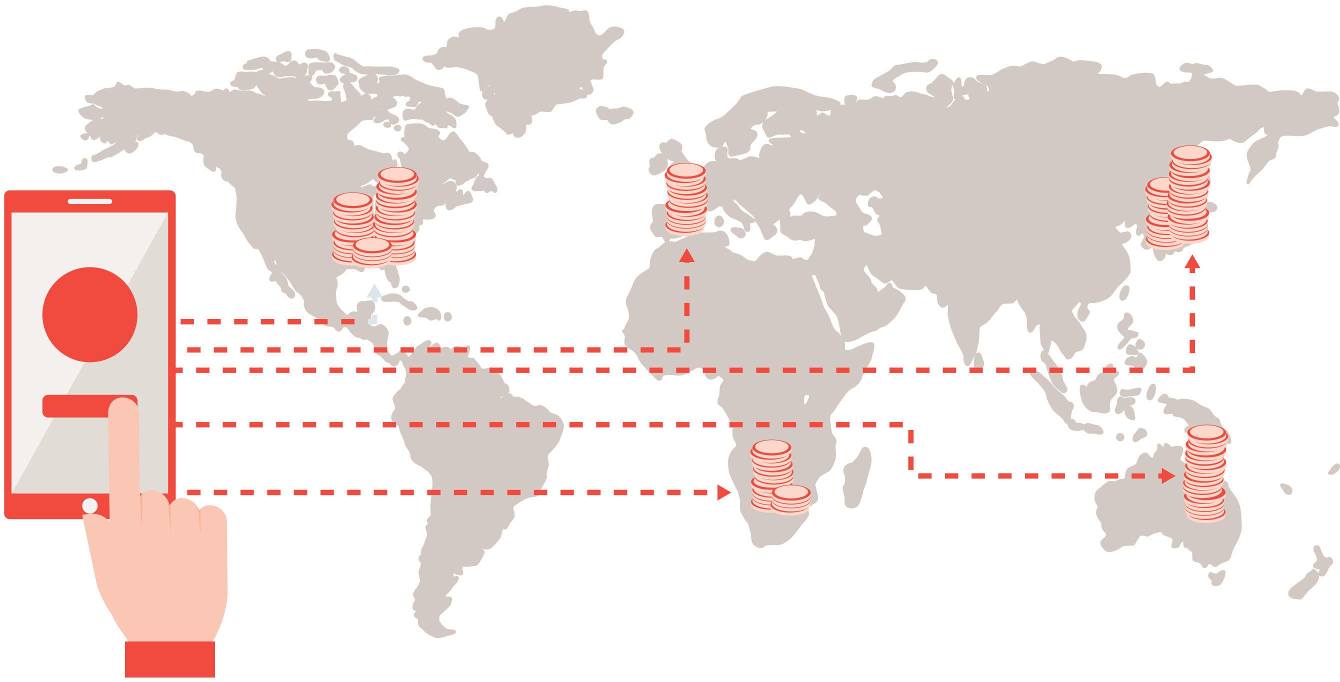
Enhanced tax deduction for IP licensing

Under the now-lapsed PIC scheme, businesses could claim a 400% tax deduction for the first $400,000 spent on licensing qualifying Intellectual Property (IP) rights each year.

To support businesses to "buy and use new solutions", between YAs 2019 and 2025, businesses may claim a double deduction for the first $100,000 of qualifying IP licensing payments made each year to third parties. The deduction can be claimed as a general business expenditure under Section 14 of the Income Tax Act, or as R&D expenditure under Section 14D assuming the project is a qualifying R&D project.

> *Qualifying IP licensing cost refers to expenditure incurred on the licensing of qualifying IP (patents, copyrights (excluding rights to use software), registered designs, geographical indications, lay-out designs of integrated circuit, trade secrets or information that has commercial value, and plant varieties), including payments made to publicly funded research performers or third party businesses. However, it excludes legal fees, expenditure incurred in relation to the transfer of ownership of the rights, and any amount that is offset by grants or subsidies from the Government or a statutory board.*
>
> *The double deduction is not given for the licensing of IP such as trademarks, brand names, customer lists and for information on certain work processes. It is also not available for rights for which IP writing-down allowances (under Section 19B of the Income Tax Act) was previously allowed.*

With an annual cap of $100,000, the measure appears targeted at SMEs.



Enhanced tax deduction for IP registration costs

IP registration was another qualifying activity under the PIC scheme – the first $400,000 spent on IP rights registration was eligible for a 400% tax deduction – that has since lapsed.

With the expiry of the PIC scheme, businesses are only entitled to claim a 100% tax deduction for qualifying IP registration costs though the provision is scheduled to lapse after YA 2020.

To encourage businesses, especially SMEs, to further develop, register and protect their own IP, the deduction scheme has been extended till YA 2025. Further, it has been enhanced from YA 2019 such that the first $100,000 of IP registration fees incurred each year can qualify for double tax deduction. Qualifying costs in excess of $100,000 continue to be eligible for 100% tax deduction.

Other tax changes

Double Tax Deduction for Internationalisation

The expenditure cap for claims without prior approval from IE Singapore or the Singapore Tourism Board (STB) will be raised to $150,000 per YA. Businesses can continue to apply to IE Singapore or STB for qualifying expenses exceeding $150,000, or for expenses incurred on other qualifying activities.

Investment allowance for submarine cable systems landing in Singapore

Singapore has been actively seeking ways to tap into the economic activities resulting from the exponential growth in global internet traffic. A key strategy is to encourage the location of data centres in Singapore and submarine cables are a key component in the infrastructure. To enhance our attractiveness to technology and telecommunications service providers, the investment allowance scheme will be extended to cover qualifying capital expenditure on newly constructed strategic submarine cable systems landing in Singapore. While the Finance Minister did not specify the percentage of tax allowance in the Budget announcement, up to 100% additional allowance can be approved under the law.

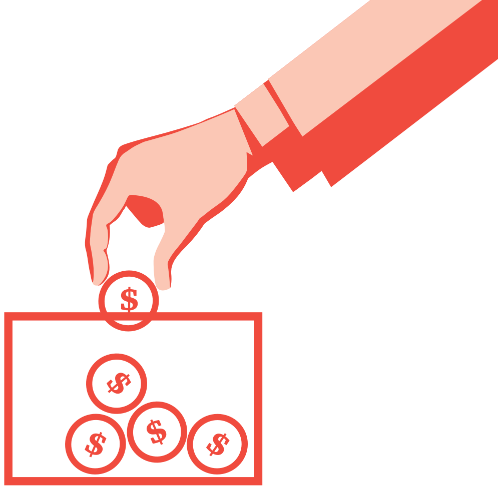
It should be noted that even where the submarine cable system is used outside Singapore or leased out under the indefeasible rights of use arrangements, the investment allowance is still available.

Withholding tax exemption for container leases

The withholding tax exemption for qualifying container leases was first introduced in 1979 to encourage the growth of the maritime industry.

A review date of 31 December 2022 will be introduced whereby the withholding tax exemption on payments to a non-resident lessor for the lease of a qualifying container for the carriage of goods by sea will lapse, unless extended.

With the impending adoption of the new accounting standard for leases for accounting periods starting 1 January 2019, it is anticipated that this withholding tax exemption will have to be reviewed anyway as the new leasing standard will have significant impact across various sectors of the maritime industry.



Donations

The 250% tax deduction on qualifying donations made to Institutions of a Public Character (IPCs) and qualifying expenditure under the Business and IPC Partnership Scheme will be extended to 31 December 2021.

Asset and wealth management

Singapore's asset and wealth management (AWM) sector continued to see a growth in total assets under management (AUM) by Singapore-based asset managers. The AUM as at end 2016 grew by 7% to hit the $2.7 trillion mark as compared to 2015.

To ensure that the country remains at the forefront as the AWM hub of choice in Asia, Singapore has continuously sought to address the needs of the sector and to deepen the AWM ecosystem. We have seen some hits and misses in this Budget for the sector.

Singapore Variable Capital Company

Last year, the Monetary Authority of Singapore (MAS) issued a consultation paper on the S-VACC framework, which created a buzz in the industry. Tax considerations were, however, not discussed in that paper. Many industry players have since given feedback on their 'wish lists' for the tax features of S-VACC. The long awaited good news on the tax treatment for S-VACCs are finally released in this Budget.

The tax exemption schemes under sections 13R and 13X of the Income Tax Act and the GST remission for funds approved under these schemes will be extended to S-VACCs. Under these schemes, S-VACCs can achieve tax neutrality provided that they derive only "specified income" from "designated investments". Fund managers approved under the Financial Sector Incentive – Fund Management (FSI-FM) Scheme will also enjoy a 10% concessionary tax rate on income derived from managing S-VACCs approved under the 13R/13X Schemes. S-VACCs will therefore be positioned on a level playing field vis-à-vis the current investment funds approved under the 13R/13X Schemes.

Conditions under the existing schemes continue to apply to S-VACCs. One of the conditions under the 13X Scheme is that the applicant fund needs to have a minimum fund size of $50 million at the point of application. Certain types of investment funds are allowed to meet the fund size condition on committed capital basis. One of the key feature of S-VACCs is that it can be set up as a standalone fund or as an umbrella structure with multiple sub-funds and share-classes. From a tax administration standpoint, only one set of tax returns needs to be filed with the IRAS by each S-VACC whether it is standalone or an umbrella structure. Since the Budget clarified that an S-VACC will be treated as a company and a single entity for tax purposes, it should follow that the $50 million condition applies at S-VACC level regardless of the number of sub-funds within the S-VACC.

On the other hand, funds such as newly set-up S-VACCs and venture capital (VC) funds may face practical difficulties in meeting the $50 million fund size, given the smaller ticket size they may have from their investors. In addition, for new retail funds, they may also have practical difficulties in meeting the requirements under the 13R Scheme. Such funds are typically sold to investors through third-party distributors and the fund managers may not have information on the profile of the investors to confirm that the 13R scheme conditions can be met. We hope that in time to come, the 13X conditions for S-VACCs can be tailored to more substance-based conditions to facilitate the uptake of the S-VACC.

The current 13R/13X Schemes also provide for withholding tax exemption on interest-related payments made by approved 13R/13X funds, subject to conditions. The Budget was silent on whether this withholding tax exemption would similarly be extended to S-VACCs. We hope this will be clarified when the MAS releases further detail by October 2018. This could otherwise limit the use of S-VACCs by funds whose strategy involves leverage.

On balance, S-VACCs are expected to give Singapore and bring about an attractive edge as it seeks to become a preferred centre for domiciling and managing investment funds. We also expect that this will generate positive spin-off to the entire financial services ecosystem in Singapore.

Enhancement to 13X Scheme

The 13R Scheme applies only to funds set up in the form of companies, while the 13X Scheme (which is the enhanced scheme) applies to funds that are set up as companies, trusts and limited partnerships (certain exceptions apply). Many funds today are still set up offshore due to investors' familiarity and preference. These funds may be set up in structures/legal forms according to foreign law , and are not restricted to companies, trusts and limited partnerships. Common foreign structures used for funds include Luxembourg *fonds commun de placement*.

It has been announced that the 13X Scheme will be available to all fund vehicles constituted in all forms, provided the qualifying conditions are met. This applies to new awards approved on or after 20 February 2018. We believe that this enhancement should provide more flexibility to Singapore-based fund managers in choosing the suitable legal form for the investment funds they manage. Further details of the change will be released by May 2018.

We also hope that the same enhancement can be introduced to the 13R and 13CA Schemes (which provide for tax exemption largely for investment income of foreign companies, trusts and individuals) to cater to investment funds that cannot meet the 13X qualifying conditions such as minimum fund size.

Venture capital

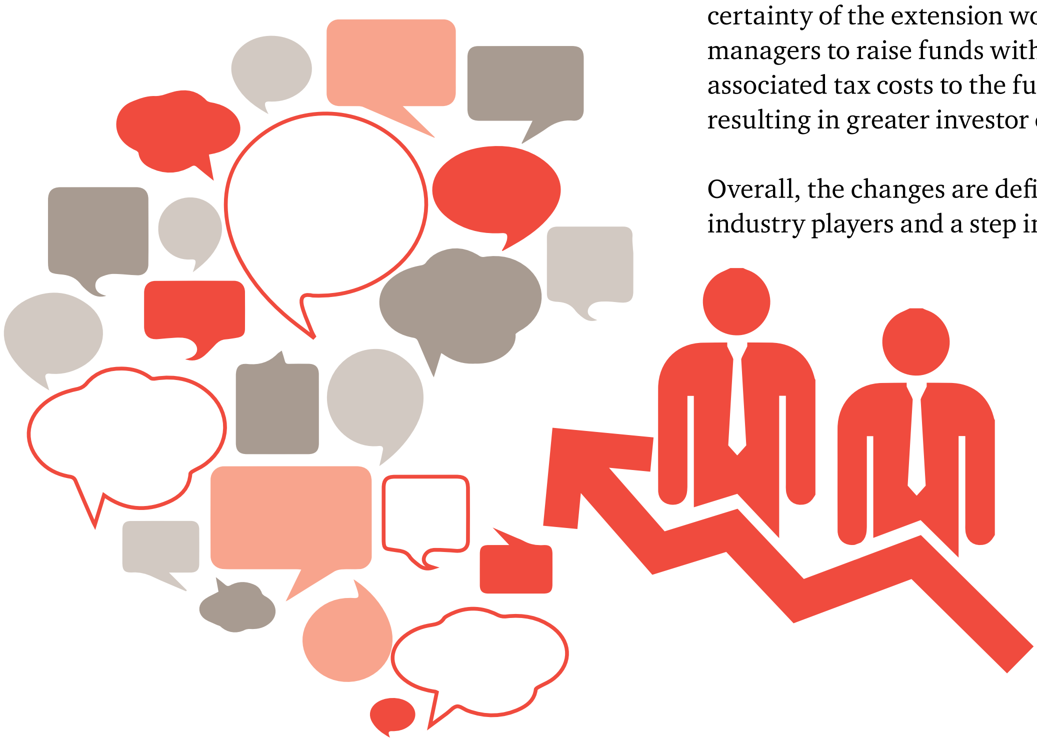
As expected, this Budget continues to focus on technology and digital transformation. The Finance Minister touched on "making innovation pervasive in our economy". VC players and investors could act as key catalysts to this as they provide a source of funding for technology start-ups. Singapore has seen a 32% growth in the AUM for VC managers in 2016 as compared to 2015. There has also been a record value of VC investments in Singapore involving three mega deals being Grab, Lazada and SEA.

To address the booming VC space in Asia, on 20 October 2017, the MAS introduced the simplified regulatory regime for VC managers which has been well-received. In just over three months, we have seen eight VC managers approved under this regime. We hope Singapore will continue to support the VC players in a more holistic manner by tailoring the tax regime to VC funds. For example, the minimum fund size condition for 13X for VC funds and FSI-FM for VC fund managers could be lowered.

Extension of sunset clause

The sunset clause for application for the 13R and 13X Schemes is currently set at 31 March 2019. It would be a boost to the asset management industry if the Government could announce the extension of the above incentives ahead of next year's Budget. The lead time between a Budget announcement of such an extension and the expiry date is just a tad too short. This gives little room for fund managers to react and plan. Upfront certainty of the extension would have allowed fund managers to raise funds with greater visibility of the associated tax costs to the fund structure, thereby resulting in greater investor confidence.

Overall, the changes are definitely welcomed by the industry players and a step in the right direction.



Financial sector

Financial Sector Incentive scheme

The Financial Sector Incentive (FSI) scheme, which is a scheme that accords concessionary tax rates on income from qualifying banking and financial activities, headquarters and corporate services, fund management and investment advisory services, was due to expire at the end of 2018. It is therefore timely that the Finance Minister has announced the extension of the FSI scheme to 31 December 2023. The extension should help maintain Singapore's competitiveness as a financial hub and attract new entrants to Singapore, as well as encourage existing financial institutions to expand their operations here.

In last year's Budget, the tax incentives for project and infrastructure finance were extended to 31 December 2022. Building on that momentum and with a view to participating in the expanding Asian infrastructure market, the FSI scheme will be enhanced to include trading in loan collaterals that are prescribed infrastructure assets or projects. This enhancement, which is in line with Singapore's goal to be a full service Asia infrastructure hub as noted in the Financial Services ITM, will no doubt be welcomed by industry players. However, the change will apply to income derived on or after 1 January 2019 for new and renewal awards approved on or after 1 June 2017, which means that FSI award holders whose incentive was granted under the previous FSI scheme (which offers a 12% concessionary tax rate for standard- tier activities) will not benefit from this enhancement.

The MAS will release further details by May 2018.

Tax deduction for impairment losses on non-credit impaired loans and debt securities

Banks, merchant banks and finance companies in Singapore are required by the MAS to recognise adequate impairment losses against the carrying amount of loans and investments in their books taking into account the requirements under Financial Reporting Standard (FRS) 39. With FRS 109 coming into effect for financial years beginning on or after 1 January 2018, impairment losses will be recognised for both credit-impaired and non-credit impaired financial instruments.

While the former is deductible under general tax principles as an incurred loss, the latter is not deductible but for the concessionary treatment accorded under Section 14I of the Income Tax Act (which provides tax relief for general provisions, subject to certain caps). It is thus a positive move that tax deduction under Section 14I of the Income Tax Act has been extended for banks and qualifying companies which would otherwise not be able to claim impairment losses for non-credit impaired financial instruments as well as additional allowances made under regulatory rules. The availability of the Section 14I deduction is extended to YA 2024 (for December financial year end) or 2025 (for non-December financial year end).

Rationalise withholding tax exemptions for the financial sector

Interest payments made to non-residents are generally subject to withholding tax. In the case of the financial sector, a broad range of exemptions apply. The Finance Minister has announced the rationalisation of the various withholding tax exemptions currently available for the financial sector, with a review date of 31 December 2022 set for the following withholding tax exemptions:

- Payments made under cross-currency swap transactions made by Singapore swap counterparties to issuers of Singapore dollar debt securities

- Payments made under interest rate or currency swap transactions by financial institutions or the MAS

- Specified payments made under securities lending and repurchase agreements by specified institution

The Government will also legislate the withholding tax exemptions for interest on margin deposits paid by members of approved exchanges for (a) transactions in futures, and (b) non-Singapore dollar spot foreign exchange transactions, both in relation to agreements made on or after 20 February 2018. Likewise, these exemptions will have a review date of 31 December 2022.

The withholding tax exemptions will be withdrawn for the following payments under agreements made from 1 January 2019:

- Interest from approved Asian Dollar bonds

- Payments made under over-the-counter (OTC) financial derivatives by companies with Financial Sector Incentive-Debt Market (FSI-DM) awards approved on or before 19 May 2007

Not all financial derivatives payments to non-residents necessarily attract withholding tax. Further, given there is a broad-based withholding tax exemption (including OTC financial derivative payments) applicable to banks, finance companies and certain approved entities, the impending withdrawals should have minimal impact.

That being said, it remains vital to ensure that withholding tax exemptions for interest and related payments be available after 31 December 2022 in order for Singapore to remain competitive with other financial centres e.g. Hong Kong or London where there is no withholding tax on such payments.

The MAS will release further details by May 2018.

Qualifying debt securities

The qualifying debt securities (QDS) scheme, which accords withholding tax exemption on interest and related payments made to non-residents or a concessionary tax rate for Singapore-based corporate bond holders, has been instrumental in the development of a debt capital market in Singapore. The scheme, which is due to lapse after 31 December 2018, will be extended till 31 December 2023, consistent with the Financial Services ITM initiative for Singapore to be a leading centre for Asia fixed income instruments. The QDS+ incentive scheme will, however, be allowed to lapse after 31 December 2018.

Very broadly, the QDS+ scheme currently grants tax exemption for all investors on qualifying income derived from QDS that are debt securities (excluding Singapore Government Securities) with an original maturity of at least 10 years. With the expected lapse in the QDS+ scheme, debt securities with tenure beyond 10 years that are issued after 31 December 2018 can enjoy tax concessions under the QDS scheme if the conditions of the QDS scheme are satisfied. Debt securities with tenure beyond 10 years that are issued on or before 31 December 2018 can continue to enjoy the tax concessions under the QDS+ scheme if the conditions of the scheme are met.

The MAS will release further details by May 2018.

Tax exemption scheme on income derived by primary dealers from trading in Singapore Government Securities

With the extension of the QDS scheme to 31 December 2023 and to strengthen Singapore's primary dealer network, the tax exemption on income derived by primary dealers from trading in Singapore Government Securities will also be extended till 31 December 2023.

Approved Special Purpose Vehicles

In line with the extension of the incentives to encourage development of the bond market, the tax incentive for Approved Special Purpose Vehicles (ASPVs) engaged in securitisation transactions has similarly been extended to 31 December 2023. However, only the income tax exemption, withholding tax exemption and GST recovery benefits will be extended. The stamp duty remission that is currently included as part of the incentive package will be allowed to lapse after 31 December 2018. The withdrawal of the stamp duty benefit (which pertains to Singapore assets) is consistent with that observed for other incentive schemes in recent years, including for listed REITs and listed entities holding infrastructure projects/assets. Given the growth of the Singapore financial sector has mostly been from the offshore markets, the removal of this stamp duty benefit is not expected to impede the securitisation activities here. Furthermore, the type of assets/risks to be transferred to ASPVs may not necessarily attract Singapore stamp duty. The MAS will release further details by May 2018.

To encourage more widespread use of the ASPV, it is hoped that in the near future, the scheme can be enhanced such that its concessionary tax treatment will automatically apply once the prescribed conditions are met, similar to the QDS incentive. This will put us on a better footing compared to other securitisation domiciles such as Ireland.

Real Estate Investment Trust Exchange-Traded Funds

For various reasons, investing in real estate investment trust exchange traded funds (REIT ETFs) may be a more attractive route for investors who wish to gain exposure to S-REITs than directly owning units in the S-REITs. While providing a similar economic payoff profile as holding units in individual S-REITs, REIT ETFs also provide investors with risk diversification, and the ability to be passive investors without having to research and manage their own S-REITs portfolio, nor worry about not meeting the minimum investment sizes or rights issues of an S-REIT which could otherwise result in dilution of their interest in the S-REITs.

However, under the current tax treatment of a REIT ETF, these investors will suffer a tax leakage compared to a direct investment made in S-REITs.

Under current law, distributions made out of specified income by an S-REIT to individuals (who do not derive the distribution through a partnership in Singapore or from the carrying on of a trade) are exempt from Singapore tax. Such distributions when made to qualifying non-resident non-individuals (e.g. non-resident corporate investors with no permanent establishment in Singapore) are subject to a final withholding tax of 10%.

However, where a Singapore-based REIT ETF invests in an S-REIT, distributions made out of specified income to it would be subject to withholding tax, currently at 17%. The REIT ETF is in turn subject to Singapore tax on the distributions (net of deductible expenses) at the prevailing corporate income tax rate of 17%, which may result in the investors being taxed at a higher effective tax rate than they had invested in the S-REIT directly. In addition, although the REIT ETF can claim tax deducted at source on the withholding tax, this nonetheless presents a cashflow issue.

From a (after-tax) yield perspective, it is therefore more advantageous for individuals and non-resident corporate investors to invest directly in S-REITs as opposed to investing in S-REITs through a REIT ETF.

It is proposed that a tax transparency treatment be accorded to distributions received by REIT ETFs from S-REITs. We expect the conditions for granting tax transparency to S-REIT (e.g. the requirement to distribute at least 90% of its taxable income) be similarly applied to REIT ETFs. With tax transparency, the tax treatment of S-REIT distributions (received through the REIT ETF) in the hands of unitholders would depend on their profile, which is as follows:

- Individual unitholders who derive any distribution through a partnership in Singapore or from the carrying on of a trade, business or profession – tax at the individual's tax rate

- Other individual unitholders – tax exempt

- Other qualifying unitholders (e.g. Singapore resident corporates) – tax at their respective tax rates unless otherwise exempt

- Qualifying non-resident non-individual unitholders (e.g. non-resident corporate investors) – 10%

- Other non-resident non-individual unitholders – prevailing corporate income tax rate, currently 17%.

This concession for REIT ETFs will take effect on or after 1 July 2018, with a review date of 31 March 2020, which is the same as that for other tax concessions for S-REITs. Application for the tax transparency treatment can be submitted to IRAS on or after 1 April 2018.

The MAS and IRAS will release further details of the change by March 2018.

The proposed change brings more alignment to the tax treatment of investments in S-REITs and should be welcomed by the industry. From a tax perspective, investors should not be placed at a disadvantage if they wish to invest through fund vehicles that are managed by fund managers as opposed to making these S-REIT investments directly. The change should increase investor's returns, and it is hoped that this would encourage more REIT ETF listings in Singapore.

- For individual investors (who do not derive distributions through a partnership in Singapore or from the carrying on of a trade, business or profession), the sunset clause of 31 March 2020 introduces uncertainty as to how the distributions they receive through the REIT ETF will be taxed if the concession is not renewed or grandfathered. There is no such uncertainty if they invest in the S-REIT directly as there is no equivalent sunset clause.

- However, it is unclear how the sunset clause of 31 March 2020 will operate if the concession is revoked. There would be inconsistency in the tax position of individual unitholders (who do not derive distributions through a partnership in Singapore or from the carrying on of a trade, business or profession) in a REIT ETF should their tax treatment be tied to a sunset clause, as there is currently no equivalent sunset provision for individuals holding units in S-REITs.

- It remains to be seen whether the effective date of the tax concession applies to S-REITs' distribution income that has been accrued by REIT ETFs before 1 July 2018; or if it applies to distributions that have been paid to the REIT ETFs on or after 1 July 2018.

We hope that more clarity on the above would be provided in March 2018.

While we applaud the proposed change for REIT ETF, it would have benefited the Singapore fund industry more if the same treatment is accorded to the following:

- Any collective investment schemes that invest in S-REITs

- Singapore funds that are managed by Singapore-based fund managers which are approved under the available fund incentive schemes (e.g. Singapore Resident Fund scheme, Enhanced-tier Fund scheme).

With the increase of mass affluent and high net worth individuals in the region (more so than ever), more individual investors are setting up family offices or investing through fund structures managed by fund managers, as opposed to making investments in their personal capacity. Without extending the tax transparency treatment to REIT-focused funds and Singapore funds, it is disadvantageous for individuals to invest in S-REITs through fund structures set up by Singapore fund managers/Singapore family offices since there is tax leakage. We therefore hope to see a similar change in tax treatment for the fund management/family office industry in the near future to achieve parity in tax treatment between investing directly in S-REIT and via Singapore funds.

Insurance

The Finance Minister announced an extension of the Insurance Business Development – Insurance Broking Business (IBD-IBB) scheme till 31 December 2023. The Specialised Insurance Broking Business (SIBB) will be allowed to lapse after 31 March 2018. With the lapse of the scheme, specialised insurance broking and advisory services will be incentivised under the IBD-IBB scheme, at the concessionary tax rate of 10%.

The insurance industry in Singapore has seen numerous tax incentive changes in the past year. Given that insurance is a global and mobile business, a key question we might ask is this: how do these changes shape up against the challenges faced by insurers in a global marketplace? More importantly, amidst increasingly competitive global conditions, a more pressing concern is how these tax laws and changes will see our insurers through the challenges of tomorrow.

Insurance tax incentives

What may have been more significant for the insurance industry is the refinement of the IBD scheme in 2017 made to the scope of qualifying underwriting and investment income. Following years of industry feedback, the MAS expanded the scope of qualifying income to include onshore income from underwriting, investment and broking activities where applicable for the approved insurers. These changes were balanced by specific exclusions for specified classes of insurance income derived in respect of onshore and offshore fire, motor, work injury compensation, personal accident and health insurance businesses.

The new IBD scheme may, on first instance, appear to be a generous expansion of scope to incentivise qualifying income from insurers' onshore business, instead of just the offshore business. However, the most recent industry data available shows that the excluded lines of businesses (i.e. fire, motor, work injury compensation, personal accident and health) account for approximately 71%[2] and 86%[3] of the total gross premiums of the Singapore Insurance Fund and the Offshore Insurance Fund business respectively, thus reducing much of the scope of the incentive.

Given the above, we recommend a review of the excluded scope of qualifying income in view of the significance they represent to insurers' domestic business. The exclusion of these lines of businesses also make the execution of incentive claims cumbersome, as they warrant detailed tracking, identification and apportionment of income by insurers. This creates difficulties for insurers seeking to enjoy the expanded benefits under the IBD incentives.

The IBD incentives generally offers a tax rate of 10% over the last 30 years. In comparison to regional counterparts, Singapore's incentivised tax rates under the IBD scheme are still uncompetitive. Considerably our biggest competitor, Hong Kong offers an 8.25% tax rate (being half of its corporate tax rate of 16.5%) on offshore reinsurance business, further complemented by its offshore income exemption where profits sourced from outside Hong Kong are not taxable. Malaysia also poses serious competition, with a 5% tax rate on offshore insurance and inward reinsurance business.

With these in mind, Singapore should consider reducing the IBD incentive tax rate. This could be pegged to a proportion of the corporate tax rate, to ensure that the incentive rate is continually adjusted in line with the corporate tax rate.

[2] *71% is calculated based on the General Insurance Business Gross Premiums of Singapore Insurance Fund business by line, which is published under the Insurance Statistics 2016 on the MAS website.*

[3] *86% is calculated based on the General Insurance Business Gross Premiums of Offshore Insurance Fund business by line, which is published under the Insurance Statistics 2016 on the MAS website.*

Shaping Up in a Competitive Market

Leaving aside incentives, the MAS should be commended for its vision to make Singapore a global capital for Asia risk transfer. At the end of 2017, the MAS announced its strategy to develop Singapore's alternate risk transfer market through insurance-linked securities (ILS) and public-private partnerships.

ILS, such as catastrophe bonds, enable insurers and reinsurers to transfer some of their risks to the capital markets. To spur the development of Singapore's ILS market, the MAS will fund the upfront costs incurred in issuing catastrophe bonds. The grant will run from 1 January 2018, and will be applicable to ILS bonds covering all forms of risks beyond just natural catastrophe risks.

To tap the opportunities with China's One Belt One Road (OBOR) projects, a Singapore-based infrastructure consortium has been formed with China Re Singapore. The consortium is envisaged to provide top-up capacity and specialised insurance coverage and risk management services for OBOR projects in the Asia-Pacific region excluding China. Bringing together Singapore-based insurers, reinsurers and brokers, the consortium will start with two lines of business – construction as well as project cargo and liability. The ultimate aim is to be a one-stop solution for both property and casualty insurance, as well as other speciality insurance.

As the region around Singapore continues to grow, especially with China's OBOR strategy, the insurance industry can support the growth and development by creating relevant risk management solutions that can pave the way for broader range of corporate and investors to participate in this growth.

World of Tomorrow – Digitisation: Are Insurers Ready?

With increasing modernisation of processes, we see insurers taking growing interest and tremendous moves in the space of technology and digitisation, seeking to improve both the efficiency and effectiveness of processes and enhance the customer experience. This could be in the areas of simplifying reporting procedures, data analytics required for the pricing strategies or enhancing the client experience.

The introduction of International Financial Reporting Standards (IFRS) 17 for the accounting of insurance contracts is also anticipated to create significant cost and disruption to the existing processes of insurers. While insurers are still working to develop full visibility on IFRS 17 implementation come 2021, the one thing for certain is that a significant amount of preparation and change will be required by insurers to their reporting methods and systems to allow for IFRS 17 reporting, which would take place over the next few years.

Digitisation involves hefty costs, and this is not aided by the expired PIC scheme. An enhanced deduction/allowance for digitisation cost in relation to regulatory implementation such as IFRS 17 would be a welcomed initiative. This is to ensure Singapore remains the leading insurance financial centre that addresses the upcoming digital upsurge.

Carbon Tax

2018 has been designated as the Year of Climate Action. As a party to the Paris climate agreement and to make Singapore a more liveable and sustainable city, the Government will take actions to address climate change as a matter of priority. An essential pillar of the Government's actions will be to introduce a carbon tax. This should not come as a surprise as the plan to impose carbon tax was already announced during last year's Budget.

Snapshot

- 2019 to 2023: the carbon tax will be imposed at \$5 per tonne of carbon dioxide-equivalent (tCO_2e) of emissions (first payment will be in 2020, based on emissions in 2019)
- The carbon tax rate will be reviewed by 2023 with the expectation that it will rise to \$10 – \$15 per tCO_2e of emissions by 2030
- Applicable to all sectors without exemption to achieve a transparent carbon price across the economy and efficient administration of the new carbon tax system
- Applicable on facilities producing 25,000 tCO_2e or more of emissions in a year. This means carbon tax will be levied on major emitters, which account for about 80% of Singapore's emissions.
- No carbon tax on petrol, diesel and compressed natural gas (CNG), as these products are already subject to excise duties.
- Carbon tax will take the form of a fixed-price credits-based (FPCB) mechanism. This means taxable facilities will have to pay the tax by purchasing and surrendering the number of carbon credits corresponding to their emissions. In other words, taxable facilities have to buy credits issued by the National Environment Agency (NEA) at \$5 per tCO_2e of emissions in order to produce.

The carbon tax rate of \$5 per tCO_2e of emissions is quite low compared to other countries which introduced carbon tax rates generally ranging from \$10 to \$20 per tCO_2e of emissions. That said, this is without factoring in exemptions that are available in other countries which could reduce the effective carbon prices.

With an initial low carbon tax rate, the Government hopes to manage industry players' concerns about cost competitiveness. In the meantime, the Government can evaluate the impact of carbon tax on emissions vis-a-vis the impact on companies' cost competitiveness to allow it to adjust the carbon tax rate to an appropriate level to achieve Singapore's emission targets while maintaining competitiveness.

Given that the power and electricity suppliers are likely to look to pass the costs of the tax on to consumers, it is expected that the impact of carbon tax will be on exports where the increased costs will render the Singapore exporter less competitive.

If the power and electricity suppliers do pass on carbon tax costs to domestic wholesalers and retailers, each household's monthly total electricity and gas expenses will increase. To provide some relief, the Government will offer eligible Housing Development Board (HDB) households additional U-Save rebate of \$20 per year, from 2019 to 2021.

To support companies, including SMEs and power generation companies, funds will be set aside through schemes like the Productivity Grant (Energy Efficiency) and the Energy Efficiency Fund to support projects that achieve significant emissions reductions. It is expected that the respective government agencies (e.g. the Economic Development Board, Energy Market Authority, etc) will evaluate projects vigorously. We hope that this does not mean a burdensome application and approval process that is disproportionate to the benefits of the support to be given.

Productivity Grant (Energy Efficiency)

The Productivity Grant (Energy Efficiency), or PG(EE), encourages owners and operators of new and existing industrial facilities to invest in energy efficient equipment or technologies. Qualifying costs include manpower, consultancy, equipment and materials costs.

Energy Efficiency Fund

The Energy Efficiency Fund (E2F) supports companies to undertake (i) Energy assessments; (ii) Energy efficient design of new facilities; and (iii) Energy efficiency investments. Qualifying costs include manpower, consultancy, equipment and materials costs, and other logistical overheads.

The Ministry of Trade and Industry (MTI) and Ministry of the Environment and Water Resources (MEWR) will share more details of the schemes at a later date.

Singapore has sought to simplify the operation of carbon tax which should help to manage compliance costs.

However, as the Government has carved out petrol, diesel and compressed natural gas (CNG), complex calculations may be required by the producing companies. It remains to be seen whether a carbon tax of \$5 per tCO_2e of emissions would be sufficient to spur a series of developments in the sustainable energy and clean technology space.

Stamp Duty

Buyer's Stamp Duty

Before 20 February 2018, effectively, Buyer's Stamp Duty (BSD) rate of 3% was payable on the acquisition of real property, residential or otherwise.

From 20 February 2018, the top marginal BSD rate for acquiring residential property is raised from 3% to 4% and applies to the value of the residential property that exceeds $1 million. BSD for non-residential properties remain the same.

The old and new BSD rates are as follows:

BSD rates	Tiers on or before 19 February 2018	Tiers on or after 20 February 2018	
	All properties	Residential properties (Revised)	Non-residential properties (No Change)
1%	First $180,000	First $180,000	First $180,000
2%	Next $180,000	Next $180,000	Next $180,000
3%	Amount exceeding $360,000	Next $640,000 (Revised)	Amount exceeding $360,000
4% (New)	Not applicable	Amount exceeding $1,000,000 (New)	Not applicable

Source: *Press Release issued on 19 February 2018 by the Ministry of Finance entitled "Buyer's Stamp Duty (BSD) Rate to be Raised, on the Value of Residential Property in Excess of $1 Million".*

Transitional provision applies for cases where an Option to Purchase (OTP) has been granted to potential buyers on or before 19 February 2018. For such cases, the previous BSD rate applies if the OTP is exercised within three weeks of the Budget 2018 announcement (i.e. on or before 12 March 2018) or the OTP validity period, whichever is the earlier.

The increase in the top marginal BSD rate specifically for transactions involving residential properties should be viewed as a part of the Government's initiative towards a more progressive tax system rather than a property cooling measure. That said, this could have an impact on small investors looking to buy residential properties for rental income, especially when rental yield has already been on the decline in recent years.

Additional Conveyance Duty

The increase in the top marginal rate of the BSD will have an impact on Additional Conveyance Duty (ACD), which applies to a qualifying acquisition or disposal of equity interest in a property-holding entity that owns primarily residential properties in Singapore. Introduced in March 2017, ACD is intended to align the stamp duty rate between a direct acquisition and disposal of residential property and an indirect acquisition or disposal of residential property via an interest in a relevant property holding entity.

Before 20 February 2018, the ACD rate for buyers was effectively 18%, comprising (effectively) 3% BSD and Additional Buyer's Stamp Duty of 15%. With the increase in the top BSD rate for residential properties, ACD for buyers will correspondingly increase to 19%.

Foreign Worker Levy

Planned Foreign Worker Levy increases in the Marine Shipyard and Process sectors will be deferred for another year.

Personal front

Delivered in the context of a $9.6 billion surplus, Budget 2018 brought mainly good news for most Singaporeans:

- There will be no changes to the personal income tax rates. Our highest marginal income tax rate of 22% remains competitive across the region, and globally; and

- There will be no new wealth or capital gains taxes (however these were specifically mentioned, so perhaps we should continue to 'watch this space').

Even aside from the introduction of GST on imported services from 2020 and the increase in the GST rate from 7% to 9% (latest by 2025), there may be further concerns around the rising cost of living for some:

- The concessionary Foreign Domestic Worker Levy will remain at $60 per month, however for those who do not qualify, the regular monthly Levy will increase from $265 per month to $300 (or to $450 for second/ subsequent helpers). This will take effect from April 2019;

- Introduction of the carbon tax in 2019 is expected to increase the cost of electricity and gas by around 1% for the average household; and

- Excise duties will increase by 10% across all tobacco products.

The impact of these changes on lower-income households should be lessened by targeted measures such as:

- Awarding additional GST Vouchers and U-Save Vouchers;

- The Service and Conservancy Charges rebate will be extended for another year;

- Proximity Housing Grants will help Singaporeans buy resale HDBs close to their parents; and

- A one-time SG Bonus "hongbao" of up to $300 for every Singaporean aged over 21.

Singaporeans will also benefit from:

- The household income eligibility criteria for Edusave Merit Bursaries, and amounts, will be revised to increase support for students from lower income families;

- The existing Work Trial scheme will be upgraded to Career Trial, to help jobseekers access new careers;

- The Tech Skills Accelerator programmes will be scaled-up to improve employability in the information and communications technology sector;

- The Wage Credit Scheme, which co-funds wage increases for Singaporean employees up to a gross monthly wage of $4,000, will be extended until 2020; and

- The 250% income tax relief for qualifying charitable donations will be extended until 31 December 2021.

Overall, Budget 2018 should be considered positive for Singaporeans, whilst preparing for a sustainable future.

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Key Tax Highlights

Goods and Services Tax

- Introduce reverse charge on services imported by GST-exempt entities and non-GST registered entities with effect from 1 January 2020.
- Overseas vendors providing digital services have to register for GST with effect from 1 January 2020 if their global turnover is more than $1million annually and their online sales to Singapore consumers exceed $100,000.
- Increase GST rate from 7% to 9% sometime between 2021 and 2025.

Corporate tax

- Enhance corporate tax rebate for Year of Assessment (YA) 2018 to 40% of tax payable, capped at $15,000. The rebate will be extended to YA 2019 at 20% of tax payable, capped at $10,000.
- Adjust Partial Tax Exemption and Start-up Tax Exemption schemes.
- Grant 250% tax deduction for qualifying expenditure on qualifying research and development (R&D) projects performed in Singapore.
- Grant 200% tax deductions for the first $100,000 of qualifying IP registration costs and qualifying IP licensing costs.
- Increase expenditure cap for claims not requiring prior approval from IE Singapore or Singapore Tourism Board to $150,000 per YA under the Double Tax Deduction for Internationalisation scheme.
- Extend the Business and Institutions of Public Characters Partnership Scheme and the 250% tax deduction for qualifying donations to 31 December 2021.
- Extend the Investment Allowance scheme to include qualifying investments in submarine cable systems landing in Singapore.
- Enhance initiatives to strengthen the competitiveness of the financial sector, including:
  - Extend the Section 13X Enhanced-Tier Fund scheme to all forms of fund vehicles.
  - Introduce a tax framework for Singapore Variable Capital Companies.
  - Extend the tax transparency treatment currently given to Singapore-listed Real Estate Investment Trusts to Singapore-listed Real Estate Investment Trusts Exchange-Traded Funds.
  - Extend tax incentive schemes to 31 December 2023: QDS, Approved Special Purpose Vehicle for asset securitisation, Financial Sector Incentive, Insurance Business Development-Insurance Broking Business and tax exemption for primary dealers trading in Singapore Government Securities.
  - Extend the Section 14I tax deduction for banks and qualifying finance companies to YA 2024 or YA 2025 depending on the entity's financial year end.
  - Rationalise withholding tax exemptions for the financial sector.

Other changes

- Increase the top marginal Buyer's Stamp Duty rate to 4%, applicable on the value of residential properties exceeding $1 million.
- Introduce carbon tax of $5 per tonne of greenhouse gas emissions from 2019 to 2023.

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Proposals to enhance Singapore's economy

Budget Commentary 2018