

# TAX BULLETIN

## 2011 Budget Statement

### CORPORATE TAX CHANGES

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### GOODS AND SERVICES TAX

**W**ith the financial crisis behind us, in 2010 the Singapore economy grew at a record 14.5 percent surprising many, including the Government. However, the general sentiment amongst businesses, especially the SMEs was that the costs of doing business in Singapore were spiralling upwards and it was becoming difficult to do business in Singapore.

The Budget 2011 was announced keeping in mind the rising business costs on one hand and the general elections which were likely to be held soon. The main thrust of this year's Budget was to make it an inclusive Budget and give more to the Singaporeans. This was achieved, although not directly but through a slew of tax and non tax measures which did not put cash directly into the pocket but through a set of welfare measures.

Given the inflationary trend and pressure on prices, it was unlikely that this year's Budget was likely to be expansionary. The Budget aims to increase the real income of Singaporeans and lays down the foundation for increasing productivity so that Singapore becomes a first rate developed country.

Budget 2011 did not have significant tax changes or incentives, but introduced welfare measures and packages to support low income and middle income families as well as the elderly. Although, the reduction in personal tax rates and the tax rebates are welcome, the Budget did disappoint by not having any specific incentives for foreign businesses to make Singapore a location of choice.

The thrust of this inclusive Budget is to lay the foundation for improving and enhancing productivity so that the real incomes of Singaporeans can grow by 30 percent over the next decade and help achieve the next transformation as a nation.

### BUDGET HIGHLIGHTS

- ▶ Tax rebate for corporates and individuals.
- ▶ Rationalisation of Personal Tax Rates.
- ▶ Employer CPF contribution restored to 16 percent.
- ▶ Enhancement to Productivity and Innovation Credit.
- ▶ Foreign Tax Pooling System Introduced.



*"Inclusive budget which focuses on improving productivity and paves the way for future growth."*

# CORPORATE TAX CHANGES

## ONE-OFF CORPORATE INCOME TAX REBATE

- A corporate income tax rebate of 20% will be granted for Year of Assessment (YA) 2011, capped at S\$10,000. SMEs are eligible to receive a cash grant of 5% of the Company's revenue for YA 2011 to be capped at S\$5,000 or the 20% tax rebate, whichever is higher. This will be assessed automatically by the IRAS.

## ENHANCEMENT OF PRODUCTIVITY AND INNOVATION CREDIT (PIC)

- Quantum of tax deduction or allowance is increased from 250% to 400%.
- Qualifying expenses incurred on each of the six qualifying activities enhanced to S\$400,000 from S\$300,000.
- PIC benefits extended to R&D activities carried out overseas.
- A combined cap of S\$800,000 and S\$1,200,000 of expenditure for each activity is allowed for YAs 2011 to 2012 and YAs 2013 to 2015 respectively.
- Cash payout will be based on 30% of the first S\$100,000 of qualifying expenditure, capped at S\$30,000.
- Effective immediately from YAs 2011 to 2015.
- Further details will be released by IRAS by end June 2011.

## MERGER OF TAX DEDUCTION SCHEMES

- Sections 14B and 14K tax deduction schemes to be merged since objective of both sections is the same ie to assist businesses internationalise and expand overseas.
- Merged scheme is subject to a sunset clause till 31 March 2016.
- These changes will apply to applications submitted and approved on or before 1 April 2011.
- Further details will be released by IE Singapore by end March 2011.

## ENHANCEMENT OF CLAIM FOR PRE-COMMENCEMENT EXPENSES

- 100 percent deduction of pre-commencement expenses incurred in the accounting year immediately preceding the accounting year in which the companies earn the first dollar of trade receipt.
- Effective from YA 2012.
- Details will be released by IRAS by end June 2011.

## FOREIGN TAX CREDIT POOLING SYSTEM

- Foreign tax credit mechanism simplified.
- Foreign tax credits to be 'pooled' on an aggregate basis rather than considered on a source by source basis.
- Pooling of foreign tax credit allowed only if foreign sourced income is taxable in Singapore.
- Credit will be based on the lower of the pooled foreign taxes paid and the pooled Singapore tax payable on such foreign income, provided:
  - Foreign taxes are paid in the jurisdiction from which income is remitted;
  - Headline tax rate in that jurisdiction is at least 15%; and
  - Singapore tax is payable on the foreign income and is eligible for a tax credit.
- Effective from YA 2012.

## EXTENSION OF TAX DEDUCTIONS FOR EMPLOYEE EQUITY-BASED REMUNERATION (EEBR) SCHEMES

- Deduction for the cost of acquisition of shares of parent company by Special Purpose Vehicle (SPV) under the EEBR scheme to be permitted.
- Deduction to be restricted to the lower of amount paid by the company to the SPV or the cost incurred by SPV to acquire the parent company's shares.
- No deduction to be allowed in respect of purchase of newly issued shares
- Effective from YA 2012.

## LIBERALISATION OF THE WITHHOLDING TAX EXEMPTION REGIME FOR BANKS

- Withholding tax exemption for Banks and approved entities enhanced
- Withholding tax exemption to cover interest and other qualifying payments made to all non-resident persons (excluding permanent establishments) if the payments are made for the purpose of their trade or business with effect from 1 April 2011.
- Sunset clause on the enhanced scope of withholding tax exemption introduced.
- MAS will release details by end March 2011.

## EXTENSION OF CAPTIVE INSURANCE TAX INCENTIVE SCHEME

- Incentive to be extended to 31 March 2018.
- MAS will release details by end of April 2011.

# CORPORATE TAX CHANGES

## EXTENSION OF MARINE HULL AND LIABILITY INSURANCE INCENTIVE SCHEME

- Introduction of sunset clause to 31 March 2016.
- MAS will release details by end of April 2011.

## EXTENSION AND ENHANCEMENT OF SPECIALISED INSURANCE TAX INCENTIVE SCHEME

- Incentive to be extended to 31 March 2016.
- Extension of incentive to include agriculture insurance.
- MAS will release details by end of April 2011.

## EXTENSION OF TAX INCENTIVE SCHEMES FOR PROJECT FINANCE

- Incentive to be extended till 31 March 2017 with the exception of the FSI-PF.
- MAS will release details by end April 2011.

## ENHANCEMENT TO THE TAX INCENTIVE SCHEME FOR TRUSTEE COMPANY

- Introduction of sunset clause to 31 March 2016.
- Extension of the list of qualifying activities to include provision of trustee and custodian services in respect of the issue of units to foreign Collective Investment Schemes and foreign Business Trusts with effect from 1 April 2011.
- MAS will release details by end April 2011.

## RENEWAL OF TAX EXEMPTION SCHEME FOR INCOME DERIVED FROM STRUCTURED PRODUCTS

- Incentive to be extended to 31 March 2017.

## WITHDRAWAL OF WITHHOLDING TAX EXEMPTION SCHEME FOR FINANCIAL GUARANTY INSURERS

- Discontinuation of the existing tax exemption scheme on 19 February 2011.

## STREAMLINING OF MARITIME SECTOR UNDER MARITIME SECTOR INCENTIVE ("MSI")

- Three broad categories under the MSI:-

### *International Shipping Operations*

- Automatic withholding tax exemption on foreign loans for purchase or construction of ships (both Singapore and foreign flagship);

- Introduction of new award with similar tax benefits as the current Approved International Shipping Enterprise scheme.

### *Maritime (Ship or Container) Leasing*

- Automatic withholding tax exemption on foreign loans for purchase or construction of ships (both Singapore and foreign flagship).

### *Supporting Shipping Services*

- 10% concessionary tax rate on incremental qualifying income for 5 years.

- With effect from 1 June 2011.
- Sunset clause for all the categories is 31 May 2016.
- Details will be released by Maritime and Port Authority of Singapore by end May 2011.

## ENHANCEMENT OF GLOBAL TRADER PROGRAMME ("GTP") FOR TRADING SECTOR

- Existing list of qualifying derivative instruments expanded to include all derivative instruments.
- With effect from YA 2012.
- Introduction of sunset clause to 31 March 2021.
- Award tenure of up to 5 years.
- Details will be released by IE Singapore by end April 2011.

## ENHANCEMENT OF THE FINANCE AND TREASURY CENTRE INCENTIVE

- Revenue ratio used to determine the inclusion of the local network companies will exclude related party transactions.
- Introduction of sunset clause to 31 March 2016.



# PERSONAL TAX

- A one-off income tax rebate of 20%, capped at S\$2,000 will be granted to all resident individual taxpayers for YA 2011.
- Introduction of a more progressive new tax rate structure for resident individual taxpayers. Tax rates for certain income slabs changed. These changes will take effect from YA 2012.

CHARGEABLE INCOME	TAX PAYABLE UNDER NEW SCHEDULE	TAX SAVINGS
\$40,000	\$550	39% (\$350)
\$60,000	\$1,950	25% (\$650)
\$120,000	\$7,950	20% (\$1,950)
\$160,000	\$13,950	10% (\$1,550)
\$240,000	\$27,950	4% (\$1,150)
More than \$330,000	More than \$44,350	Less than 0.8% (\$350)

\* Chargeable income = Income after tax reliefs

- Enhanced tax deductions (250%) allowed for approved donations will be further extended from 1 January 2011 to 31 December 2015.
- Alimony and maintenance payments received under Court Order or Deed of Separation will be exempted from tax. Further, spouse relief and handicapped spouse relief will no longer be granted to taxpayers for maintaining their former spouses. These changes are effective from YA 2012.

# GOODS AND SERVICES TAX

- Supplies without documentary evidence to approved marine customers for their use on commercial ships for international travel to be 'zero rated'.
- Repair and maintenance services for ship parts delivered to shipyards in Singapore or Approved Marine Customers to qualify for zero rating.
- Measures introduced to ease GST compliances for qualifying ships which are in Singapore for temporary period time.
- Upfront GST relief granted on all clinical trial materials imported into Singapore.
- The Approved Contract Manufacturer and Trader ("ACMT") Scheme extended to qualifying biomedical contract manufacturers.

- Further enhancements to the ACMT scheme made such that it can be enjoyed by all industries approved under ACMT.
- Specialised storage and other value added services supplied to overseas persons in respect of high value goods such as art and antiques which for export to qualify for zero rating, subject to conditions.
- These changes are effective from 1 October 2011 and Singapore Customs will publish circulars by 1 September 2011.

# OTHER MISCELLANEOUS CHANGES

- All radio and television licence fees will be permanently removed from 1 January 2011.
- Relief from stamp duty for a company converting into a limited liability partnership on or after 19 February 2011, subject to conditions.
- Stamp duty remission in excess of S\$50 extended to cover aborted lease contracts or agreements on or after 19 February 2011, subject to conditions.
- Nominal/fixed stamp duties of S\$2-S\$10 will be removed on certain documents executed on or after 19 February 2011.
- Rebates on the additional registration fee for green vehicles extended till 31 December 2012.
- Foreign worker levy to increase by an average of S\$60 for the manufacturing sector, \$180 for the services sector and \$200 for the construction sector by July 2013. The levy rates for S-Pass holders will be increased to S\$300-S\$450 by July 2013.
- Employer's CPF contribution rate will go up by 0.5% to 16%. The CPF salary ceiling will also be increased from S\$4,500 to S\$5,500 per month.
- Tax deductions will be given to eligible companies making voluntary contribution of up to S\$1,500 to Self Employed Persons ("SEP") Medisave accounts from 1 January 2011, subject to conditions. Such contributions will be tax exempt for SEP.

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