

SINGAPORE BUDGET COMMENTARY

February 2010



Executive Summary

The Budget 2010 was announced against the twin backdrop of the Singapore economy recovering from the global crisis and the recommendations of the Economic Strategies Committee Report of building capabilities and making the best use of resources with the aim of achieving sustained and inclusive growth and to make Singapore a distinctive global city.

The Finance Minister has used the financial resources and tax incentives aimed at achieving higher productivity growth and higher skills. Tax incentives for enhanced expenditure in Research and Development were widely anticipated and the Finance Minister met the expectations by introducing the Productivity and Innovation tax credit. The one off tax allowance for expenses incurred in mergers and acquisitions is indeed welcome.

The Budget disappointed by not extending the Foreign Sourced Income Exemption which was introduced in Budget 2009. The objective of introducing the Exemption in the Budget 2009 was to facilitate remittances into Singapore during a period of recession. Singapore is just emerging from the recession and therefore it would have been good to see the exemption extended another year.

Though the Finance Minister did not align the corporate and the personal tax rates, the expansion of “wife relief” and the re-designation of it as “spouse relief” is welcome.

The Economic Strategies Committee Report recommended that it was imperative Singapore become a distinctive global city. Towards that end, although the reduction of the withholding tax from 15 percent to 10 percent for non-resident public entertainers is welcome, the Finance Minister could have introduced greater incentives to boost the entertainment industry or given additional allowances to companies in the hospitality sector.

KEY CHANGES

▶ CORPORATE TAX CHANGES

- Productivity and Innovation credit
- M&A Allowance and Stamp Duty Remission
- Land Intensification Allowance (LIA) Incentive
- Review of Tax Concession for Offshore Insurance Business
- Extension of Maritime Finance Incentive (MFI)

▶ PERSONAL TAX

- Tax Incentive for Angel Investors
- Expansion to Spouse Relief in place of Wife Relief
- Increase in Parent Relief and Course Fee Relief

▶ GOODS AND SERVICES TAX (GST)

- Import GST Deferment Scheme (IGDS)
- GST Zero-Rating for the Maritime Industry

▶ PROPERTY TAX

- Progressive property tax system

▶ OTHER MISCELLEANOUS CHANGES

- Reduction in withholding tax rate for non-resident public entertainers
- Extension of Tax Deduction on Donations

Overall, the Budget 2010 is aimed at laying the foundation of moving Singapore forward for the next decade so that it could achieve higher productivity levels by boosting skills, raising income levels of Singaporeans, facilitating Singapore companies to deepen capabilities to seize opportunities and in making Singapore a distinctive global city.

Corporate Tax Changes

Productivity and Innovation Credit (PIC)

To encourage businesses, especially the Small and Medium Enterprises (SMEs) to invest in upgrading their operations to gain competitiveness and to promote innovation and productivity, the Government will be introducing a new tax incentive, the PIC. The PIC is a broad-based tax incentive which will provide significant tax deductions, for investments in a range of 6 activities along the innovation value chain. The 6 activities are as follows:

- (i) R & D done in Singapore;
- (ii) Registration of Intellectual Property (IP);
- (iii) Acquisition of IP;
- (iv) Investments in design done in Singapore;
- (v) Spending on equipment or software aimed at automating processes; and
- (vi) Costs of training employees.

Currently, businesses that incur qualifying expenditure on R&D done in Singapore can enjoy up to 150% deduction, while expenditure on training, automation equipment, design done locally, IP acquisition and patent registration can qualify for 100% deduction or allowance.

For R&D expenditures, besides the 150% tax deduction mentioned above, there also are two R&D tax incentives introduced from Year of Assessment (YA) 2009, namely, the R & D Tax Allowance (RDA) and R&D Incentive for Start-up Enterprise (RISE). Under the RDA, companies will be granted RDA amounting to 50% of the first S\$300,000 of chargeable income from YA 2009 to YA 2013. This allowance can be used to offset chargeable income in subsequent YsA if companies incur incremental R&D expenditure. Under the RISE, loss-making start-ups that expend at least S\$150,000 a year on qualifying R&D activities in Singapore can convert their tax losses into a cash grant of up to S\$20,250 a year in their first three YsA of incorporation.

Under this new proposed PIC, the proposed enhanced deductions are as follows:

(i) R & D Expenditures:

250% tax deduction for the first S\$300,000 of qualifying expenditure on R&D done in Singapore per YA; 150% deduction for the balance expenditure. With this enhancement, the Government will phase out the two existing R&D tax incentives, namely the RDA and the RISE. No RDA will be granted from YA 2011. For taxpayers with unutilized RDA granted for YA 2009 and YA 2010, they may opt to utilize the RDA as further deductions against their incremental R&D

expenses from YA 2011 until YA 2016. Alternatively, instead of utilizing RDA, they can elect to claim the 250% tax deduction for the first S\$300,000 of their qualifying R&D expenses incurred for YA 2011 to YA 2015. As for the RISE scheme, it will cease from YA 2011.

(ii) Investments in Design

250% tax deduction for the first S\$300,000 of qualifying expenditure on eligible design activities done in Singapore per YA; 100% deduction for balance expenditure. This new tax incentive will be administered by DesignSingapore Council. More details will be released by DesignSingapore Council by May 2010.

(iii) Acquisition of IP Rights:

250% allowance for the first S\$300,000 of qualifying costs from acquiring IP rights incurred per YA; 100% allowance for balance expenditure. The current conditions for the taxpayer to own the legal and economic rights of the IP will remain.

The tax allowance for IP acquisition under the PIC shall cover acquisition of patent, copyright, trademark, registered design, geographical indication, lay-out design of integrated circuits, trade secret or information that has commercial value, and plant varieties.

(iv) Registration of IP Rights:

250% tax deduction for the first S\$300,000 of qualifying costs of registering patents, trademarks, designs and plant varieties incurred per YA; 100% deduction for balance expenditure.

(v) Investments in Automation:

250% allowance for the first S\$300,000 of expenditure incurred on qualifying investments in automation per YA; 100% allowance for balance expenditure. Qualifying investments in automation will be based on the current list of automation equipment in the Income Tax (Automation Equipment) Rules 2004. The list will be updated and expanded to include a wider range of equipment and software for automating processes.

(vi) Training:

250% tax deduction for the first S\$300,000 of qualifying training expenditure for external training and Workforce Development Agency (WDA)-certified in-house training incurred per YA; 100% allowance for balance expenditure.

Businesses which have at least 3 local employees (Singapore Citizens and Permanent resident (PRs) with CPF contribution) may convert the tax deductions or allowances arising from their expenditures on the 6 types of activities under the PIC into a non-taxable cash grant. Specifically, they can convert

up to S\$300,000 of such tax benefits into a non-taxable cash grant at the rate of 7% per assessment year, giving a maximum of S\$21,000 in cashbacks per year. This cash component of the scheme will be reviewed after 3 years.

The PIC will be available for all businesses from YA 2011 to YA 2015.

The Government has been recently calling for increased productivity to further grow our economy. This incentive will strongly encourage businesses, especially the SMEs to re-engineer their work processes, re-design jobs to create more value, create innovative products and services since this incentive effectively funds up to about one-quarter of their qualifying investments for the first S\$300,000.

Details will be released by IRAS in June 2010.

Merger and Acquisition (M&A) Allowance And Stamp Duty Remission

To facilitate M&A, the Government has introduced in 2009 a new corporate amalgamation tax framework where the tax benefits of the amalgamating companies can be transferred to the amalgamated entity. To further encourage M&A as a strategy for growth and internationalization, the Government will be introducing a new Merger and Acquisition allowance.

Currently, the cost of acquiring a company would be regarded as a capital expenses and are not tax deductible. In addition, interest expense incurred to acquire shares in a company is set off against dividend which is tax exempt and hence the deduction will not reduce the company's overall tax costs.

Under the proposed M&A allowance, an allowance will be granted to qualifying M&As based on 5% of the value of the acquisition, subject to a cap of S\$5 million of allowance granted for all qualifying deals executed per YA. The allowance will be written down equally over 5 years.

In addition, stamp duty (payable at a rate of 0.2% on the purchase price or net asset value, whichever is higher) on the transfer of unlisted shares for qualifying M&A deals will also be remitted. This remission is capped at S\$200,000 of stamp duty per year.

The M&A allowance and the stamp duty remission will be available for qualifying M&As executed from 1 April 2010 to 31 March 2015 (both dates inclusive).

Details of the M&A allowance and stamp duty relief scheme will be released by IRAS by June 2010. The full stamp duty on

such transfers of unlisted shares will continue to be payable on all transfers of unlisted shares until details of the scheme including the definition of qualifying M&A deals are finalized. IRAS will refund stamp duty paid if a deal, executed on and after 1 April 2010 but before the finalization of the rules, can satisfy the finalized rules.

Pending details on the definitions of a qualifying M&A and the value of the acquisition, the above move will help company that transacts in qualifying deals up to a maximum of S\$100 million per year to benefit from a maximum tax saving of S\$170,000 based on the corporate tax rate of 17%. This is a significant tax saving and SMEs may tap on this new incentive to grow through M&A and acquire the relevant scale to compete internationally.

Phasing out of Industrial Building Allowance (IBA)

IBA was introduced in 1940s to encourage industrialization. Currently, businesses are allowed to claim IBA on qualifying capital expenditures on the construction or purchase of a building or structure which is to be used for a qualifying trade under section 18(1) of the Income Tax Act. Under the IBA regime, an initial allowance of 25% and an annual allowance of 3% may be claimed on qualifying capital expenditure.

The Government has decided to phase out the IBA with immediate effect from 22 February 2010. Qualifying capital expenditures incurred by businesses on or before 22 February 2010 on the construction or purchase of industrial buildings or structures will continue to qualify for IBA, subject to existing IBA rules. Existing IBA claimants can continue to claim the remaining IBA on qualifying buildings until the allowances are written down.

With the phasing out of IBA, IBA will not be allowed on capital expenditures on the construction or purchase of industrial buildings or structures which are incurred after 22 February 2010 except for the following specified scenarios:-

- a) Purchase of industrial buildings or structures where the option to purchase was signed on or before 22 February 2010, in which case the purchase price will qualify for IBA, subject to existing IBA rules.
- b) Construction of new industrial buildings or structures on land for which an application to bid, buy or lease the land from the Government was submitted or for which an option to purchase the land was signed with the private industrial landlord on or before 22 February 2010, and the development application to build the industrial buildings or structures on the land is submitted to the Urban

Redevelopment Authority (URA) by 31 December 2010.

Qualifying capital expenditures incurred up till the earlier of the date of Temporary Occupation Permit or the end of the basis period for YA 2016 will qualify for IBA, subject to existing IBA rules.

- c) Extension or alteration works on existing industrial buildings or structures, or conversion works on existing non-industrial buildings or structures to convert the buildings or structures to industrial buildings or structures, for which a qualified person had been engaged on or before 22 February 2010 to carry out the works and the development application for such works is submitted to the URA by 31 December 2010. Qualifying capital expenditures incurred up till the earlier of the date of Temporary Occupation Permit or the end of the basis period for YA 2016 will qualify for IBA, subject to existing IBA rules.
- d) Renovation works (that do not require a development application) on existing industrial buildings or structures, or on existing non-industrial buildings or structures to convert them to industrial buildings or structures; and a building/renovation contractor had been engaged on or before 22 February 2010 to carry out the renovation works. Qualifying capital expenditures incurred up till the earlier of the date of completion of renovation works or the end of the basis period for YA 2016 will qualify for IBA, subject to existing IBA rules.

Details will be released by IRAS in April 2010.

The immediate phasing out of IBA will hit businesses especially those in the manufacturing industries. These businesses may wish to consider leasing the building instead of constructing or purchasing it since the cost of acquisition and construction of the building will no longer qualify for any allowance but leasing charges are generally tax deductible expenses.

Land Intensification Allowance (LIA) Incentive

To promote the intensification of industrial land use, towards more land-efficient and higher value-added activities, the Government has proposed granting the LIA Incentive. This is a more targeted scheme which will support enhanced land productivity among industrial land users. This scheme will replace the current IBA scheme.

Businesses may claim the LIA on qualifying capital expenditures incurred for the construction of a qualifying building or structure.

The qualifying criteria are:

- a) The user of the building or structure belongs to one of the following nine industry sectors which are identified to have large land take:-
- (i) Pharmaceuticals,
 - (ii) Petrochemicals,
 - (iii) Petroleum,
 - (iv) Specialties,
 - (v) Other Chemicals,
 - (vi) Semiconductor-Wafer fabrication,
 - (vii) Aerospace,
 - (viii) Marine and Offshore Engineering; and
 - (ix) Solar Cell Manufacturing
- b) The land on which the building or structure is to be built is zoned as Business 1 or Business 2 (excluding Business 1 White and Business 2 White) under the URA Master Plan.
- c) The building or structure meets the Gross Plot Ratio (GPR) benchmark relevant to the industry sector of the building user. The GPR benchmark is based on that applicable at the time the business submits to URA the development application for the building or structure. To encourage intensification, the benchmarks for each industry sector will be set around the 75th percentile of actual GPRs for the sector.

The qualifying business will be granted an initial allowance of 25% and an annual allowance of 5% on the qualifying capital expenditures. This means that qualifying expenditure can be written down over 15 years under LIA. The LIA incentive will be in place for 5 years and will be administered by EDB. The commencement date of the incentive is 1 July 2010.

Details of the scheme will be released by JTC/ EDB by June 2010.

The phasing out of IBA and the introduction of LIA has shifted the criteria for capital expenditure claims from qualifying use of the industrial building or structure to that of the industrial sector that it falls. LIA is more industry-focused and this incentive is consistent with the Government's move in promoting certain higher value-added activities. As this incentive represents a radical tax reform from the traditional IBA claims, it remains to be seen whether some of the existing IBA rules (such as balancing adjustment etc) will still be applicable under LIA.

Enhancements to Financial Sector Incentive (FSI)

Currently, a FSI-ST (Standard Tier) company enjoys a concessionary tax rate of 10% on income derived from qualifying financial activities. The qualifying financial activities are lending and related activities, debt capital market, equity capital market, fund management

and operational headquarter activities that are critical to the development of the Singapore financial sector.

When the Government announced the FSI Scheme in the 2002 Budget, the concept of a Qualifying Base (QB) was introduced. The QB calculation is based on the past income streams from the qualifying activities which is complex and requires an external auditor's verification. The QB is to be taxed at the prevailing corporate tax rate and was introduced to neutralize any unintended tax benefit.

In order to further simplify the rules of the FSI scheme and to lower the compliance costs, the Finance Minister has proposed to remove the QB calculation and instead to increase the concessionary rate of tax from 10% to 12% to maintain revenue neutrality. The list of qualifying activities will also be updated.

Although the removal of the QB calculation will be welcomed by the financial services industry, it may not be equitable to those financial institutions which are currently enjoying zero or low QB as they would be subject to higher concessionary tax rate of 12% on and after 1 January 2011. The increase in the tax rate is less attractive than other tax incentives which generally offer a concessionary tax rate of 10%.

It is hoped that the tax rate of 12% will be reduced and the scope of qualifying activities to be expanded to include existing and new activities in order to make the FSI-ST award to be more attractive compare to other tax incentives.

Details will be released by MAS by April 2010.

Review of Existing Tax Incentives for Futures Members of Singapore Exchange (SGX) and Members of Singapore Commodity Exchange Limited (SICOM)

Currently, futures members of the Singapore Exchange Limited (SGX) and members of the Singapore Commodity Exchange Limited (SICOM) deriving qualifying profits such as dealing profits, fees and commissions are granted a concessionary tax rate of 10% on their qualifying income under Sections 43D and 43K of the ITA respectively.

For better administration, Sections 43D and 43K of the ITA would be discontinued on 31 December 2010. With effect from 1 January 2011, a new applicant that engages in relevant transactions and intend to enjoy the concessionary tax rate will have to apply for the FSI-ST scheme and meet the conditions required.

As a transition measure for existing companies currently

benefit from these activities to transit into the FSI-ST scheme automatically, they will need to inform the MAS by 31 July 2010 of their intention to do so. They were not therefore subject to the approval criteria for the FSI-ST award at the point of transition. However, they will be subject to the prevailing FSI-ST renewal criteria when they apply for renewal of their awards in December 2013, if the FSI-ST scheme is extended.

Currently, Sections 43D and 43K of the ITA do not require companies to apply to the MAS to enjoy a tax incentive on the virtue that they are future members of SGX and SICOM. However, under the FSI-ST scheme, approval process is required to put them in line with other financial institutions operating in Singapore. The qualifying income will be subject to a higher concessionary tax rate of 12% compare to 10% under Sections 43D and 43K.

Details will be released by MAS by April 2010.

Extension to and Enhancement of Listed Real Estate Investment Trusts (REIT) Concession

The following income tax, stamp duty and GST concessions granted to listed REITs expired on 17 February 2010 will be renewed effective from 18 February 2010 to 31 March 2015:

Income Tax

- 10% concessionary tax rate on distributions of taxable income to non resident and non-individual investors;

Stamp duty

- Waiver of stamp duty on transfer of a Singapore immovable property to a Singapore listed REIT;
- Waiver of stamp duty on transfer of 100% of the issued share capital of a Singapore incorporated company that holds immovable properties situated outside Singapore to a Singapore listed REIT.

Unlisted REITs will also qualify for the stamp duty remissions if they are listed within 6 months instead 1 month from the date of completion of the sale and purchase agreement under the liberalized treatment.

Foreign Sourced Income Exemption (FSIE)

Qualifying foreign-sourced income derived by listed REITs and/or their wholly owned Singapore subsidiary companies can enjoy tax exemption under Section 13(12) of the ITA subject to fulfilling certain conditions.

There is previously no time limitation on the remittance.

However, it will now be subject to the 31 March 2015 sunset clause with effect from 18 February 2010. This means that the qualifying income should be remitted on or before 31 March 2015 for it to remain tax exempt.

The extension of the concessions was much anticipated and would be a positive signal of the Government's support in the development of the REIT sector in Singapore. However, the 31 March 2015 sunset clause may cause disadvantageous to REITs with existing foreign property holdings to dilute the returns if the income is remitted after 31 March 2015.

Removal of Approved Start-up Fund Manager Scheme

The Approved start-up fund manager scheme was introduced in 2005 to encourage start-up fund managers to locate in Singapore.

Under the scheme, fund managers would be allowed a grace period of 12 months from the date of set up of the fund to fulfill the residency conditions where at least 80% of the fund was owned by persons who are not Singapore citizen and not resident in Singapore (known as 80:20 rule). This is because most start-up fund managers would take a substantial stake in the funds that they manage during the start-up period.

However, with the recent liberalization of the fund management tax incentive schemes, the approved start-up fund manager scheme is no longer considered necessary. The scheme will be allowed to lapse after its expiry on 17 February 2010. The removal of the scheme is not expected to have an adverse impact on the fund management industry.

Review of Tax Concession for Offshore Insurance Business

Currently, an approved insurer can enjoy a reduced tax rate of 10% on income derived from the offshore insurance business or from the insuring and reinsuring of offshore risks. There are no specific qualifying conditions such as headcount requirement for the scheme and this incentive scheme has no expiry date.

The Government will introduce the following changes to the tax incentive with effect from 1 April 2010:

- The incentive will be subject to a sunset clause of 5 years and thereafter, the Government will review whether to extend the incentive;
- The incentive period will be 10 years, no longer indefinite;
- Except for captive insurers, other insurers will be required to meet the new headcount requirements.

New applicants will be required to meet the headcount

criterion at the point of application from 1 April 2010. However, a transition period of 3 years from 1 April 2010 to 31 March 2013 will be allowed for existing incentive recipients subject to the above condition.

Details will be released by MAS by April 2010.

Extension of Maritime Finance Incentive (MFI)

In an effort to continue to promote Singapore as a maritime financing hub, the Government has decided to extend the concessionary tax treatment incentives from 28 February 2011 to 31 March 2016. The concessionary tax treatment incentives are as follows:

- An approved MFI entity will enjoy either tax exemption or a tax concession (10% or 5%) on its qualifying leasing income;
- An approved manager of the MFI entity will enjoy a tax concession of 10% on its qualifying income.

However, for applications made during the period from 1 March 2011 to 31 March 2016 (both dates inclusive), the incentive period granted would not be more than 5 years.

Incentive for Ship Brokers and Forward Freight Agreement (FFA) Traders

Currently, ship brokers and FFA traders are taxed at the prevailing corporate income tax rate. As the Government is committed to ensure continuous healthy growth in the area of ship broking and FFA trading activities in Singapore and to further promote Singapore as an International Maritime Centre (IMC), it has proposed to tax qualifying companies at a concessionary tax rate of 10% for a period of 5 years.

To qualify for the incentive, one must apply to MPA from 1 April 2010 to 31 March 2015 (both dates inclusive).

Details will be released by MPA by end of March 2010.

Expansion on Tax Exemption of Ship Management Fees

To further boost the Singapore shipping industry, the Government has expanded the scope of tax exemption under Section 13A of the ITA and Approved International Shipping Enterprise to ship management fees derived from rendering ship management services to related Special Purpose Vehicles (SPVs).

The qualifying income of the ship management fees must be derived on or after 22 February 2010 from the rendering of ship management services to related qualifying SPVs.

Details will be released by MPA by end of March 2010.

Renewal and Enhancement of Investment Allowance (IA) Scheme for Aircraft Rotables

The IA scheme for aircraft rotables used by the aerospace maintenance, repair and overhaul (MRO) industry in Singapore was introduced for a period of 5 years and expired on 9 September 2009. Under the scheme, a company may deduct a 50% of its qualifying costs incurred on the air rotables from its taxable income, on top of the capital allowance enjoyed by the company if it is already allowed under the ITA. However, in order to qualify for the scheme, the company is required to adhere to the “non-swapping condition” (i.e. to recover from their clients the swapped rotatable part, with the same part number and serial number, by the end of the service contracts) which resulted in tedious tracking.

To continue with the enhancement of the Singapore’s value proposition for the aerospace maintenance, repair and overhaul industry, and to strengthen our role as an aerospace hub, the IA scheme for aircraft rotables will be renewed from 1 April 2010 to 31 March 2015. Further, the “non-swapping condition” will also be removed to reflect the Government’s commitment to constantly monitor the effectiveness of our tax incentives regime, and to keep it relevant and competitive as business models change.

Details of the scheme will be released by EDB by March 2010.

Personal Tax

Tax Incentive for Angel Investors

Tax deduction is allowed for eligible angel investors of private individuals on capital invested in qualifying start-ups. The incentive was introduced with the aim of boosting private individuals’ participation with appropriate investment and business expertise and to provide financing to start-ups. It is hoped that this would serve as an impetus to encourage more investors to add value to start-ups. It will be administered by SPRING Singapore.

To qualify for the above incentive, the following must be complied with:-

- A minimum of S\$100,000 must be invested in qualifying start-up in a YA in order for an eligible angel investor to qualify to enjoy the 50% tax deduction of investment at the end of his second year of holding of the investment.
- The tax deduction is capped at S\$500,000 of equity investments in qualifying start-up per Year of Assessment.
- The qualifying investments in qualifying start-ups must

be made during the effective period from 1 March 2010 to 31 March 2015.

More details to be released by SPRING Singapore by June 2010.

Expansion to Spouse Relief in place of Wife Relief

The Government has noted that it is fairly common these days to find wives as the sole breadwinners of the families. Hence, the spouse relief was introduced to replace the wife relief with effect from YA 2010. As such, working wives are now also allowed to claim for husband who does not have income exceeding S\$4,000. This measure supports the Government’s stance on equality of sexes and to break away from the traditional mind set that only male taxpayers are the sole wage earners for the families.

Increase in Parent Relief

In view of the declining birth rate and in recognition of families with fewer children supporting their elderly and their handicapped members, the Government proposed the following revision to the parent reliefs with effect from YA 2010:

- Relief increased from S\$5,000 to S\$7,000 if dependent stays with taxpayer.
- Relief increased from S\$8,000 to S\$11,000 if dependent is a handicapped and stays with taxpayer.
- Relief increased from S\$3,500 to S\$4,500 if dependent does not stay with taxpayer.
- Relief increased from S\$6,500 to S\$8,000 if dependent is a handicapped and does not stay with taxpayer.

All other existing conditions continue to apply in order to qualify for the relief except:

- the income threshold of dependent has increased from S\$2,000 to S\$4,000 and
- the income threshold is removed in the case for handicapped dependent.

Changes to Threshold Income Requirements for Dependents Reliefs

This is a welcome enhancement to those who are supporting their family members who are their children, parents, grandparents and great-grandparents.

With effect from YA 2010, the changes are as follows:

Income threshold increase from S\$2000 to S\$4000 for the following dependent reliefs:	Removal of income threshold requirement for the following dependent reliefs:
Wife Relief	Handicapped Child Relief
Parent Relief	Handicapped Spouse Relief
Qualifying Child Relief	Handicapped Parent Relief
Working Mother's Child Relief	Handicapped Sibling Relief

In the case of the CPF Cash Top-up Relief for top-up to CPF account of spouse or siblings, the increase of the income threshold from S\$2,000 to S\$4,000 will take effect from YA 2011 instead.

Increase in Course Fee Relief

In an effort to encourage lifelong learning for individuals to continuously upgrade themselves, the Government proposed to increase the course fee relief from S\$3,500 to S\$5,500 with effect from YA 2011.

Goods and Services Tax (GST)

Time of Supply Rule

The current time of supply rule for GST reporting and accounting is based on the earliest of the following events:

- when a tax invoice is issued;
- payment is received from customer; or
- services are performed or goods delivered/made available.

This rule requires businesses to keep track of the date when services are performed and goods are delivered or made available to a customer for reporting and accounting of GST. For goods leased to a foreign customer, the transaction is to be reported as a zero-rated supply based on the market value of the goods as at the date of export.

From 1 January 2011, this rule will be changed and GST is accountable only when a tax invoice is issued or payment from a customer is received. This change will streamline the GST reporting procedures and ease the administrative burden on businesses. The cut-off date based on the new rule can easily be tracked and captured for reporting in the GST Return. For export of goods, businesses no longer need to rely on information provided by their forwarders on the date the goods were exported as the reporting will be based on the date the supplier issues a tax invoice. However, with the abolition of the 14-day rule, the opportunity to defer accounting GST for high value sales to the next quarter will no longer be available.

Details will be released by IRAS by May 2010.

Import GST Deferral Scheme (IGDS)

Since 1994, businesses which import goods faced a cash-flow burden as GST is payable to Singapore Customs before the goods can be imported. A GST registered business would then file a claim with the Comptroller for a refund. Businesses which do not substantially export their goods would not qualify for the Major Exporter Scheme where GST is suspended for the importation of goods.

Under the IGDS to be implemented from 1 October 2010, GST is no longer payable to Singapore Customs when goods are imported. Instead, the GST payable is to be reported as output tax accountable to the Comptroller of GST in the GST Return. This scheme will have significant cash flow benefits for businesses especially for goods imported on a consignment basis. Freight forwarders and courier companies will also benefit as many currently pay the GST to Singapore Customs and subsequently claim a disbursement from customers. However, this scheme will only be available to those who are filing their GST returns on a monthly cycle. Businesses that rely on imported goods for sale in the local market and are on the quarterly GST filing cycle will still have to pay GST upfront to Singapore Customs.

Details will be released by IRAS by March 2010.

GST Zero-Rating for the Marine Industry

Currently, zero-rating only applies to the following:

- the sale and lease of ships which are not used or adapted for recreation or pleasure purposes.
- sale of stores or merchandise to ships with a specific destination outside Singapore.
- transport of goods or passengers via a ship to a specific destination outside Singapore.

This treatment is inconsistent with that accorded to the aircraft industry. From 1 July 2010, the definition of a ship under the GST Act will be revised to include ships designed for recreational or pleasure purposes as long as they are used to ply international waters. The main determining factor will be whether the ship is sailing into international waters. Hence, tickets sold to passengers traveling on a "cruise to nowhere" can be zero-rated, including the supply of any goods delivered on board the ship which are meant for sale to passengers. Supplies of goods, including food and stores on board a ship including an oil rig anchored in international waters would also qualify for zero-rating. This will apply without the need to obtain the standard export documents will significantly ease the GST reporting and administrative burden for the marine industry.

Details will be released by IRAS by June 2010.

Extension of GST Concession for REITs and Qualifying Registered Business Trusts (RBTs) Listed in Singapore

This concession was granted in 2008 allowed REITs and RBTs to claim GST incurred on business expenses even though they are not GST registered. A qualifying RBT is one which is involved in the infrastructure business, leasing or aircraft or ships. This

concession which expired on 17 February 2010 is extended up to 31 March 2015.

The move is to further encourage the growth of REITS and RBTs. This is also in line with promoting the aircraft and shipping industries. The fact that they are not required to comply with the GST law and register with the Comptroller of GST in order to claim the GST incurred is an incentive not accorded to other sectors.

Duty-Free Allowance for Additional One Litre of Wine or Beer in lieu of One Litre of Spirits

In last year's budget, two initiatives were introduced to promote the wine industry in Singapore. The temporary suspension of GST and customs duty was specifically targeted for the auctions and exhibitions industry. There were expectations that these initiatives will be further expanded to promote the wine industry at the retail level. The option of choosing an additional litre of duty free beer has left wine connoisseurs wondering whether there is a shift in policy to promote tiger beer in the year of the tiger.

Property Tax

Currently, owner-occupied residential properties are taxed at a concessionary property tax rate of 4% per annum together with the on-going 1994 property tax rebates (based on the annual value of their properties) ranging from S\$25 to S\$150 per annum.

In order to ease household expenses for the lower-income and middle income households, the Government has replaced the 1994 property tax rebates with the following progressive property tax system from January 2011 onwards:-

Annual value (AV) of owner-occupied property	Property tax rate
First S\$6,000	0%
Next S\$59,000	4%
AV balance in excess of S\$65,000	6%

Meanwhile, the property tax assessment rate for non-owner-occupied residential properties and other properties will remain at 10%.

Other Miscellaneous Changes

Reduction in Withholding Tax Rate for Non-Resident Public Entertainers

To encourage local organizers to bring in more internationally-rated acts and performances, the withholding tax rate of 15% will be reduced to 10% for gross payments made to a non-resident public entertainer in respect of services performed in Singapore from 22 February 2010 to 31 March 2015.

Public entertainers include stage, radio or television artistes, musicians and athletes or individuals exercising any profession, vocation or employment of a similar nature.

Gross income refers to both monetary and non-monetary payments including all fees, allowances and any benefits-in-kind provided (e.g. per diem allowances, airfare, food and accommodation).

Extension of Tax Deduction on Donations

To further encourage the spirit of philanthropy in individuals

and corporations as the economy recovers, the Government has decided to continue the enhanced tax deduction of 250% on all donations made to Institutions of a Public Character and other approved beneficiaries between 1 January 2010 and 31 December 2010 (both dates inclusive). All existing rules to qualify for the enhanced tax deduction will remain the same.

Extension of Development and Expansion Incentive (DEI) to International Legal Services

The DEI was introduced earlier to encourage companies which engage in high value-added activities to operate in Singapore and continue to invest in high technology projects and the major upgrading of equipment and operations. Under this incentive, income from qualifying activities will be taxed at a concessionary rate of not less than 10%. For a company awarded this incentive, the initial period of the incentive will not exceed 10 years. Extensions of the incentive after the initial period may be granted. Each extension will not exceed a period of 5 years and the total period for this incentive will not exceed 20 years.

Currently, approved law practices are allowed a 50% tax exemption on their incremental qualifying income from international arbitration cases with hearings in Singapore, from 1 July 2007 to 30 June 2012 under the International Arbitration Tax Incentive.

To further promote Singapore as a choice location for the conduct of international arbitration, the DEI will be extending to Singapore law practices (whether as a company or a branch) deriving income from the provision of international legal services. Approved law firms would enjoy a concessionary tax rate of 10% on incremental income from qualifying international arbitration activities, from 1 April 2010 to 31 March 2015.

Details of the scheme will be released by Ministry of Law and EDB in March 2010.

Renewal and Enhancement of Investment Allowance (IA) Scheme for Aircraft Rotables

The IA scheme for aircraft rotables used by the aerospace maintenance, repair and overhaul (MRO) industry in Singapore was introduced for a period of 5 years and expired on 9 September 2009. Under the scheme, a company may deduct a 50% of its qualifying costs incurred on the air rotables from its taxable income, on top of the capital allowance enjoyed by the company if it is already allowed under the ITA. However, in order to qualify for the scheme, the company is required to adhere to the "non-swapping condition" (i.e. to recover from their clients the swapped rotatable part, with the same part number and serial number, by the end of the service contracts) which resulted in tedious tracking.

To continue with the enhancement of the Singapore's value proposition for the aerospace maintenance, repair and overhaul industry, and to strengthen our role as an aerospace hub, the IA scheme for aircraft rotables will be renewed from 1 April 2010 to 31 March 2015. Further, the "non-swapping condition" will also be removed to reflect the Government's commitment to constantly monitor the effectiveness of our tax incentives regime, and to keep it relevant and competitive as business models change.

Details of the scheme will be released by EDB by March 2010.

Enhanced Transport Technology Innovation and Development Scheme (TIDES)

The Government is supportive of initiatives that enhance the environment. Transport, being one of the key users of energy and contributor to CO₂ and PM emission, has an important part to play in protecting the environment. To encourage the development of environmentally friendly vehicle technologies, automotive companies can register vehicles used for R&D activities under the Transport Technology Innovation and Development Scheme (TIDES). Under this scheme, the requirements to secure the Certificate of Entitlement and payment of vehicle registration taxes and custom duties on vehicles brought into Singapore for the purposes of R&D and test bedding activities are waived for two years with an option to extend for another two years.

To support the development of transport technologies, the 2 years waiver will be increased to 6 years waiver. In addition,

the vehicle quota under TIDES will be expanded from 300 electric vehicles to 1,300.

Extension of Green Vehicle Rebate

To encourage the use of green vehicles, green vehicle rebates were first introduced in 2001 for the registration and use of electric and hybrid cars and CNG vehicles. These rebates aim to narrow the cost differential between green vehicles and conventional vehicles. It serves to encourage motorists to consider buying green vehicles, as they are less pollutive than conventional petrol and diesel driven vehicles.

With effect from 1 July 2010, imported used green vehicles (except for imported used CNG vehicles or vehicles that are required to be brand new at point of registration, such as taxis) will also be eligible for the Green Vehicle Rebate.

Details of the scheme will be released by NEA and LTA by March 2010.

HIGHLIGHTS OF CERTAIN TAX CHANGES AND DEVELOPMENTS

Tax Framework for Corporate Amalgamations	<p>Currently, for income tax purposes, amalgamating companies are treated as having ceased businesses and disposed of their assets and liabilities and the amalgamated company having acquired or commenced a new business. This could give rise to tax implications.</p> <p>To minimize the tax consequences arising from amalgamations, IRAS has issued on 20 January 2010 a new Circular "Tax Framework for Corporate Amalgamations" and a legislative provision, Section 34C of the Income Tax Act.</p> <p>Under this new tax framework for "qualifying amalgamations", the amalgamated company would continue to carry on the business of the amalgamating company as if there is no cessation of the existing business of the amalgamating company. Hence, the tax treatment of provisions, trading stocks, capital allowances etc, transferred to the amalgamated company is ascertained on the basis that the business of the amalgamating company has not ceased but continue in the amalgamated company.</p> <p>Qualifying amalgamation is defined as one where the notice of amalgamation under Section 215F of the Companies Act or the certificate of approval under Section 14A of the Banking Act is issued on or after 22 January 2010.</p> <p>Corporate tax Some of the tax treatments under the new tax framework are as follows:</p> <ul style="list-style-type: none"> -Assets will generally be acquired by the amalgamated company at the historical cost of the assets for the amalgamating company (the amalgamated company may elect to take over any trading stock at fair value instead). -There will be no balancing charge or balancing allowance on the transfer of fixed assets from the amalgamating companies to the amalgamated company. The amalgamated company would continue to claim capital allowances based on the tax written down value transferred from the amalgamated company. -The amalgamated company may claim a deduction for bad debts arising from the business of an amalgamating company. -An amalgamating company which ceases to exist after amalgamation may transfer any unutilized capital allowances, losses and donations to an amalgamated company provided that the amalgamated company continues to carry on the same business and the shareholding test is satisfied. Application may be made to the Comptroller for the waiver of shareholding test. 	Effective from 22 January 2010
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	<p>The amalgamated company is required to make an election in writing to the Comptroller to apply for the new tax framework:</p> <p>(1) where the amalgamation has occurred on or after 22 January 2009 but before the issuance of the Circular, within 90 days from the date of the issuance of the Circular;</p> <p>(2) where the amalgamation occurs on or after the date of issuance of the Circular, within 90 days from the date of the qualifying amalgamation.</p> <p>This election, once made is irrevocable.</p>	
	<p>GST Apart from the corporate tax treatment, there will also be special GST rules under the new tax framework as follows:</p> <ul style="list-style-type: none"> -The amalgamation will automatically qualify as a transfer of a going concern except in the case where the amalgamated company is or will be a member of a GST group. -Where the amalgamated company is already GST-registered prior to the amalgamation, its GST registration number will be retained after the amalgamation has taken place. -Where the amalgamated company is already part of a GST group prior to the amalgamation, it will have to review its eligibility for group registration after the amalgamation. -All GST liabilities, obligations and entitlements (including GST returns, payments, penalties and refunds) due to the amalgamating company will be automatically transferred and assumed by the amalgamated company on the date of amalgamation. 	Effective from 22 January 2010
	<p>Stamp duty Stamp duty relief is available if the qualifying amalgamation satisfies the Stamp Duties (Reconstruction or Amalgamation of Companies) Rules.</p>	
Transfer Pricing Guidelines for Related Party Loans and Related Party Services	<p>IRAS published the Transfer Pricing Guidelines for Related Party Loans and Related Party Services on 23 February 2009 to provide further guidance and clarification on the application of the arm's length principle to related party loans and services.</p> <p>Related Party Loans The guidelines require that an entity that makes a loan to a related entity should charge the related entity for the use of the funds at a rate that reflects the arm's length rate of interest i.e. the rate of interest that the lender would charge to provide funds to an independent borrower.</p> <p>The guidelines further clarify that the practice of companies to extend / receive interest-free loans or at rates which are not supported by transfer pricing analysis do not conform with the arm's length principle.</p> <p>In the case of a related interest-free domestic loan, IRAS would continue the practice of interest adjustment. However, IRAS would require all cross-border loan arrangements to reflect arm's length conditions with effect from January 1, 2011.</p> <p>Related Party Services Related party (or intra-group) services are defined as activities (such as administrative, technical, financial, commercial, management, coordination and control functions) that are performed for one or more related parties within a group of companies / businesses.</p> <p>The guidelines require that for determining the fee for such related party services, the service provider may charge as per the direct method (i.e. identifying the specify work done and the cost expended to render such service) or the indirect method (i.e. using an allocation key to apportion expenses for the services provided).</p> <p>Based on industry norms, IRAS is prepared to accept the 5% mark-up adopted for certain routine support activities as a reasonable arm's length charge for such services, provided that these routine support activities that the service provider offers to its related party are not also provided to an unrelated party.</p> <p>Please note that IRAS can disallow or disregard transactions that appear to have been made to avoid taxes. Consequently, a company in Singapore should be prepared to certify that transaction have been conducted at arm's length and for bona fide commercial reasons.</p>	Effective from 1 January 2011

Enhanced Carry-Back Relief System	<p>IRAS issued a circular on 30 January 2009 to provide clarification on the application of the Enhanced Carry Back Relief (ECBR) for YA 2009 & 2010. The enhancements for these 2 YAs are as follows:</p> <ol style="list-style-type: none"> 1. the maximum amount of qualifying deductions that may be carried back from each YA will be increased from S\$100,000 to S\$200,000; and 2. the maximum number of YsA to which the qualifying deductions may be carried back will be increased from 1 YA to 3 YsA. <p>The carry-back shall be made in the following order:</p> <ol style="list-style-type: none"> (a) Firstly, to the third YA immediately preceding the YA of loss; (b) Secondly, where there are qualifying deductions remaining after (a), the balance will be carried back to the second YA immediately preceding the YA of loss; and (c) Finally, where there are qualifying deductions remaining after (b) above, the balance will be carried back to the immediately preceding the YA of loss. <p>In any YA of set-off, where there are more than 1 YA of loss, the qualifying deductions of the earliest/earlier YA of loss shall be deducted against the assessable income of that YA of set-off. For example, where the YA of set-off is YA 2007, the qualifying deductions in respect of YAs 2008, 2009 and 2010 shall be deducted against the assessable income of YA 2007 in that order.</p> <p>Similar to the Carry back Relief (CBR), the ECBR is given on due claim and is available to any persons carrying on a trade, business, profession or vocation, including individuals who are sole-proprietors or partners of a partnership. All other conditions in relation to the CBR system, including the shareholding test (for companies) and business continuity test as provided in Section 37E and IRAS' circular on "Carry-back Relief System" remain unchanged for YsA 2009 and 2010.</p> <p>Given that the ECBR was introduced to alleviate the cash flow of businesses during the current economic crisis as expeditiously as possible, a taxpayer may elect for ECBR based on an estimate of the qualifying deductions for YsA 2009 and 2010 in order to obtain the tax refund soon. Eventually, the finalized accounts and tax computations must still be submitted to support the ECBR claims.</p> <p>Kindly note that once the new election form is submitted, the Comptroller will not accept any revision to the estimated qualifying deduction until the actual filing of the income tax return to show the actual qualifying deductions in his tax computation. In this case, the taxpayers are not required to submit another new election form.</p> <p>However, if the taxpayer has not submitted the new election form before filing his income tax return, he is then required to submit the new election form at the time of filing of the income tax return if he wishes to carry back the qualifying deductions.</p> <p>In the case of individuals, the election form must be submitted no later than 30 days from the date of service of the notice of assessment for the YA of loss on him or his spouse, whichever is the later.</p>	Applicable to YA 2009 and YA 2010
Withholding Tax on Management and Technical Services	New section introduced in the ITA exempting withholding tax on payments made to non-residents for management and technical services performed outside Singapore.	Effective from December 2009

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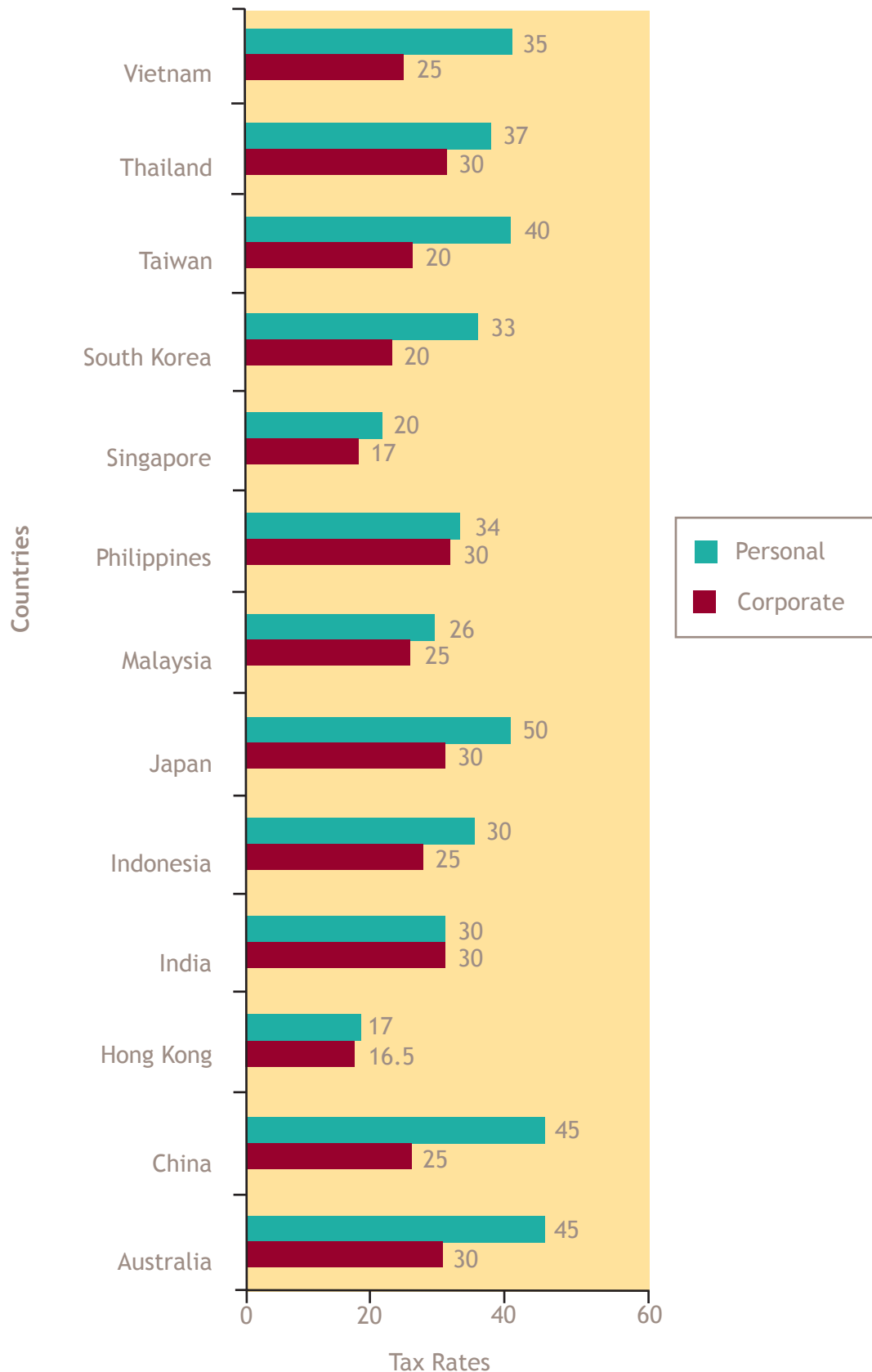
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APPENDIX 1

COMPARISON OF CORPORATE TAX RATES AND TOP MARGINAL PERSONAL TAX RATES IN SELECTED COUNTRIES

For Year of Assessment 2010 - based on income earned in the year 2009



APPENDIX 2

PERSONAL INCOME TAX RATES FOR TAX RESIDENTS

For Year of Assessment 2010 - based on income earned in the year 2009

	Chargeable Income \$	Rates	Gross Tax Payable \$
On the first	20,000	0	0
On the next	10,000	3.5%	350
On the first	30,000	5.5%	350
On the next	10,000		550
On the first	40,000	8.5%	900
On the next	40,000		3,400
On the first	80,000	14%	4,300
On the next	80,000		11,200
On the first	160,000	17%	15,500
On the next	160,000		27,200
On the first	320,000	20%	42,700
Above	320,000		varies

APPENDIX 3

PERSONAL RELIEFS / REBATES FOR TAX RESIDENTS FOR YA 2010

1. Earned Income Relief	Normal	Handicapped
Below 55 years old	\$1,000	\$2,000
55 - 59 years old	\$3,000	\$5,000
60 years and above	\$4,000	\$6,000
2. Spouse and handicapped Spouse Relief		
Spouse Relief	\$2,000	
Handicapped Spouse Relief		\$3,500
3. Child Relief		
Qualifying Child Relief (QCR)		
1st, 2nd, 3rd, 4th child and beyond	\$4,000 each	
Handicapped Child Relief (HCR)		\$5,500
Working Mother Child Relief (WMCR)		
Birth Order	Amount of Relief	
1st child	15% of earned income	
2nd child	20% of earned income	
3rd child	25% of earned income	
4th child	25% of earned income	
5th child and beyond	25% of earned income	
Maximum per child (WMCR + QCR/HCR)	\$50,000	
Maximum total WMCR (capped)	100% of mother's earned income	
4. Parenthood Tax Rebate (PTR)		
1st child	\$5,000	
2nd child	\$10,000	
3rd child	\$20,000	
4th child	\$20,000	
5th child	\$20,000	
5. Dependent Relief		
Normal Parent Relief	\$4,500 (not staying with taxpayer)	
	\$7,000 (staying with taxpayer)	
Handicapped Parent Relief	\$8,000 (not staying with taxpayer)	
	\$11,000 (staying with taxpayer)	
Grandparent Caregiver Relief (GCR)	\$3,000	
Handicapped Brothers or Sisters Relief	\$3,500 each	
6. Provident Fund and Life Insurance Relief		
Compulsory CPF	Full statutory amount	
subject to monthly cap of \$4,500 and annual cap of \$76,500 for the year 2009 - YA 2010		
Voluntary CPF	34.5% of trade income	
subject to annual cap of \$26,393 for the year 2009 - YA 2010		

APPENDIX 3

PERSONAL RELIEFS / REBATES FOR TAX RESIDENTS FOR YA 2010 *(continue)*

Life Insurance Premiums	
Where compulsory CPF contribution is less than \$5,000, taxpayer may claim qualifying life insurance premiums on his or his wife's life as deduction, however, the total deduction (i.e. CPF contributions and life insurance premium together) is subject to a maximum of \$5,000.	
CPF cash top-ups for self/parents/grandparents/non-working spouse/siblings/by employer	Maximum \$7,000
Voluntary cash contribution specifically directed to Medisave Account (MA)	Capped at \$26,393 less mandatory contribution Prevailing medisave ceiling (\$33,500) less the balance in MA
7. Course Fees Relief	Maximum \$3,500
8. Foreign Maid Levy Relief	Relief
	Twice levy paid for 1 maid only (Maximum of \$6,360 - YA 2010)
9. NS Men Relief	
Active NS man	\$3,000
Inactive NS man	\$1,500
Wife of NS man	\$750
Each parent of NS man	\$750
NS key command and staff appointment holders	\$2,000*
*This relief will be given in addition to the basis NS man relief and applies from YA 2007	
10. Supplementary Retirement Scheme (SRS)	
The relief allowed is the actual SRS contribution made by you and your employer in 2009	
Singapore citizens and permanent residents	15% of contributions
Foreigners	35% of contributions
Similar to CPF, SRS contributions are subject to capping rules: i.e. annual cap of \$76,500 for the year 2009 - YA 2010; maximum relief of \$11,475 / \$26,775	