



FOR CLIENTS' INFORMATION ONLY

22 February 2010

Dear Sirs

THE 2010 SINGAPORE BUDGET COMMENTARY

The Minister for Finance unveiled a \$5.5 billion budget with a key focus to increasing productivity and raising Singapore to become an advanced economy.

Singapore has emerged from the global financial crisis in 2009 better than expected. Hence, the focus in 2010 is to boost productivity by 2 to 3 per cent a year over the next decade. This will spur on Singapore to maintain its economic growth of 3 to 5 per cent a year. The spending for this year's budget is for long term growth and health of the economy. Industries and companies will be given help to upgrade through tax benefits and grants to help to innovate and raise productivity, and invest in R&D and automation.

We are pleased to highlight in the following pages the tax and certain other changes as proposed in the 2010 Budget. It should be noted that the views expressed in this commentary are based on our interpretation of the Finance Minister's Budget Speech. Until the proposals are enacted, we cannot be definitive about the proposed changes.

Please do not hesitate to contact us should you require any assistance.

Yours faithfully

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2010
BUDGET
COMMENTARY

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A CORPORATE TAXATION

1. CORPORATE TAX RATE

Current : 18% for the Years of Assessment 2008 and 2009 and 17% from the Year of Assessment ("YA") 2010. Also, partial tax exemption is granted as follows on up to \$300,000 of a company's chargeable income ("CI"):

- (i) 75% of up to the first \$10,000 CI; and
- (ii) 50% of up to the next \$290,000 CI.

The partial tax exemption does not apply to the following:

- (i) CI of a company that is subject to tax at a concessionary tax rate;
- (ii) Income earned by a non-resident company that is subject to a final withholding tax. Such income earned by a non-resident company, which includes interest and royalties, are taxed at the rates of 15% and 10% respectively or the reduced rate provided in a tax treaty; and
- (iii) All dividends received from Singapore companies. With effect from 1 January 2008, all dividends paid by Singapore companies are already exempt from tax in the hands of shareholders.

Proposed : No change to the corporate tax rate of 17% and partial tax exemption on the first \$300,000 of a company's chargeable income.

2. ENHANCEMENT OF START-UP EXEMPTION SCHEME

Current : Full tax exemption on the first \$100,000 of CI and 50% tax exemption of up to the next \$200,000 CI for qualifying new companies including companies limited by guarantee for the first 3 consecutive YA upon incorporation.

A qualifying new company must fulfil the following conditions:

- (a) It is incorporated in Singapore;
- (b) It is a tax resident of Singapore; and
- (c) It has total share capital which is beneficially held directly by no more than 20 shareholders
 - (i) all of whom are individuals; or
 - (ii) at least one of whom is an individual holding at least 10% of the total number of issued ordinary shares of the company throughout the basis period relating to the YA of claim.

Proposed : No change to the start-up exemption scheme.

3. PHASE OUT OF INDUSTRIAL BUILDING ALLOWANCE

- Current : Industrial building allowances (“IBA”) comprising initial allowances and annual allowances are granted to a person who incurs capital expenditure on the construction or purchase of an industrial building or structure for use in a qualifying trade.
- Proposed : IBA will be phased out with immediate effect.

However, businesses that incurred the capital expenditures on the construction or purchase of industrial buildings or structures on or before 22 February 2010 will continue to qualify for the IBA, subject to current IBA rules.

With the phase-out, 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 in specified scenarios. These scenarios include the following:-

- (a) Purchase of industrial buildings or structures where the option to purchase was signed on or before 22 February 2010.
- (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.
- (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.
- (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.

For scenario (a), the purchase prices incurred will qualify for IBA, subject to current IBA rules.

For scenarios (b) and (c), qualifying capital expenditures incurred up till the earlier of the date of Temporary Occupation Permit or the end of the basis period for YA2016 will qualify for IBA, subject to current IBA rules.

For scenario (d), qualifying capital expenditures incurred up till the earlier of the date of completion of renovation works or the end of the basis period for YA2016 will qualify for IBA, subject to current IBA rules.

IRAS will release details of the phasing out of IBA in April 2010.

Effective : From 22 February 2010

Commentary : The IBA was introduced in 1940s to encourage industrialisation. It has met its objectives but is no longer considered adequate or relevant since it does not distinguish between efficient and inefficient uses of industrial land.

With the phase out of the IBA, the Minister has proposed to introduce a more targeted scheme, known as the "Land Intensification Allowance", that will support enhanced land productivity among industrial users.

4. LAND INTENSIFICATION ALLOWANCE INCENTIVE

Proposed : With the phasing out of the IBA, the Minister proposed to introduce the new Land Intensification Allowance ("LIA") as a more targeted approach to promote efficient use of land and more higher value activities.

The new scheme will apply to nine sectors identified to have large land take. The LIA will comprise an initial allowance of 25% (one off) and an annual allowance of 5% on the qualifying capital expenditures and will be granted to a person who incurs capital expenditure on 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:-
 - (i) Pharmaceuticals
 - (ii) Petrochemicals
 - (iii) Petroleum
 - (iv) Specialties
 - (v) Other Chemicals
 - (vi) Semiconductor-Wafer fabrication
 - (vii) Aerospace
 - (viii) Marine and Offshore Engineering
 - (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 LIA incentive will be in place for 5 years and will be administered by EDB.

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

Effective : From 1 July 2010 to 30 June 2015

Commentary : Unlike the IBA, the new LIA scheme appears to be granted on the construction of qualifying building or structure but not on the purchase of such building or structure.

5. EXTENSION OF AND ENHANCEMENT TO LISTED REAL ESTATE INVESTMENT TRUSTS (“REITs”) CONCESSIONS

Current : Generally, REITs refer to unit trusts established for the purpose of owning and investing in real estate, whether directly or indirectly (ie. through ownership of companies whose primary objective is to hold real properties). S-REITs refer to REITs whose units are listed on the SGX.

The current concessionary withholding tax rate of 10% on distributions made by an S-REIT to a non-resident non-individual unit holder expired on 17 February 2010.

Proposed : The concessionary withholding tax rate of 10% will be renewed for the period 18 February 2010 to 31 March 2015 (both dates inclusive).

Commentary : The non-resident non-individual unit holder must continue to satisfy the following conditions:

- (a) It does not have a permanent establishment (“PE”) in Singapore; or
- (b) It carries on operation in Singapore through a PE in Singapore but the funds used by that person to acquire units in the S-REIT are not obtained from that operation in Singapore.

- Current : S-REITs and wholly-owned Singapore subsidiary companies of S-REITs can enjoy tax exemption under Section 13(12) of the *Income Tax Act* (“Act”) on qualifying foreign income –
- (a) foreign sourced dividend income which does not qualify for tax exemption under Section 13(8) of the Act;
 - (b) foreign sourced interest, and
 - (c) distributions by a non-resident trustee of a trust paid out of income derived from ownership of foreign properties, property related or other permitted activities.

IRAS has issued a circular on 31 May 2006 (and subsequent revisions) that lists the qualifying conditions to be met for the foreign sourced income exemption (“FSIE”).

There is currently no sunset clause for the FSIE.

- Proposed : The FSIE for S-REITs will be subject to a sunset clause of 31 March 2015.

- Commentary : This means that for the FSIE to apply to S-REITs or wholly-owned Singapore subsidiary companies of S-REITs (which have been granted or will be granted the FSIE), the qualifying foreign income should be remitted on or before 31 March 2015.

6. PRODUCTIVITY AND INNOVATION CREDIT

- Current : Companies that conduct their Research and Development (“R&D”) activities in Singapore as well as outsource them to an R&D organisation in Singapore will qualify for tax deduction at 150% of the R&D expenses incurred. Such R&D can be done in new areas unrelated to the companies’ current activities and will qualify for the 150% tax deduction.

For expenses incurred on R&D outsourced to an R&D organisation outside Singapore, they will continue to be granted 100% deduction provided the R&D done is related to the trade or business of the taxpayer.

The enhanced tax deduction for R&D expenses took effect from the Year of Assessment 2009 to 2013.

- Proposed : The Minister introduced a new broad-based tax incentive called the Productivity and Innovation Credit (“the Credit”). This will be available to investments in a range of six activities along the innovation chain.

The Credit will be available to all businesses for 5 years on qualifying expenditure incurred during the basis periods for Years of Assessment 2011 to 2015 in any of the activities. They can deduct 250% of their eligible expenditures on each of these activities from their taxable income, with a cap of \$300,000 expenditure per activity per YA.

The enhancement in tax benefits for each of the six activities are summarised in the table as follows:

Qualifying activities	Brief description of qualifying expenditures under the Credit	Total deductions/ allowances under the Credit (as a % of qualifying expenditure)	
		First \$300,000 of qualifying expenditure	Balance qualifying expenditure
R&D Expenditures in Singapore	Costs incurred in Singapore on staff costs and consumables for qualifying R&D activities under Section 14DA (e.g. creating a novel product). [See Note 1]	250% tax deduction	150% tax deduction
Registration of Intellectual Property Rights ("IPRs")	Costs paid to register patents, trademarks, designs and plant variety.	250% tax deduction	100% tax deduction
Acquisition of IPRs	Qualifying costs incurred to acquire any IPRs for use in a trade or business (exclude Economic Development Board approved IPRs and IPRs relating to media and digital entertainment contents). The current conditions for the taxpayer to own the legal and economic rights of the IP will remain.	250% allowance	100% allowance
Investments in Automation	Costs incurred to acquire prescribed automation equipment (e.g. laser printer, modem)	250% allowance	100% allowance
Training Employees	Qualifying expenditure on external training and WDA-certified in-house training for employees	250% tax deduction	100% tax deduction
Investments in Design done in Singapore	Qualifying expenditure on eligible activities in Singapore to create new products and industrial designs. More details will be released by Design Singapore Council by May 2010.	250% tax deduction	100% tax deduction

Note 1 :

With this enhancement, the existing R&D tax incentives, namely R&D Tax Allowance (RDA) and R&D Incentive for Start-up Enterprises (RISE) schemes, will be consolidated and phased out from the Year of Assessment 2011.

Taxpayers with unutilised RDA granted for YA 2009 and YA 2010 may opt to utilise the RDA as further deductions against their incremental R&D expenses from YA 2011 until YA 2016. Alternatively, they can elect to claim the 250% tax deduction for the first \$300,000 of their qualifying R&D expenses incurred for YA 2011 to YA 2015.

Effective : For qualifying expenditure incurred in the basis periods for Years of Assessment 2011 to 2015.

Proposed : Businesses will be allowed the option to convert up to \$300,000 (but not less than \$1,500) of their Productivity and Innovation Credit at a rate of 7% into a non-taxable cash grant of up to \$21,000 each year. This will help small but growing companies that have low taxable income initially, but want to grow by investing in technology or upgrading their operations.

Businesses that have:

(a) incurred qualifying expenditure and are entitled to the Credit during the basis period; and

(b) at least 3 local employees (Singapore citizens or PRs with CPF contributions)

will be eligible for the cash grant after the end of the basis period.

Effective : From Year of Assessment 2011 to 2013, and will be reviewed after three years.

Commentary : The Credit is introduced to signal the Government's commitment to support innovation and improvement in productivity in the overall economy, with additional support targeted at small and growing businesses.

The measures aim to encourage businesses to grow R&D spending, acquire and protect intellectual property, create new product and industrial designs for the local and international markets, invest in equipment and software that will automate their processes and encourage employers to train employees to upgrade their skills.

7. MERGER AND ACQUISITION (“M&A”) ALLOWANCE AND STAMP DUTY REMISSION

Proposed : The Minister has proposed a new M&A allowance which will be granted to qualifying M&A deals executed from 1 April 2010 to 31 March 2015.

The quantum of the allowance is 5% of the value of the acquisition, subject to a cap of \$5 million of allowance granted for all qualifying deals executed per year of assessment. The allowance will be written down equally over 5 years.

Further, a remission of stamp duty on the transfer of unlisted shares for qualifying M&A deals is also proposed. (Transfer of listed shares is already not subject to any stamp duty.) This remission is capped at \$200,000 of stamp duty per year. However, the full stamp duty on such transfers of unlisted shares will continue to be payable on all transfer of unlisted shares until details of the scheme including the definition of qualifying M&A deals are finalised.

Effective : For qualifying M&A deals from 1 April 2010 to 31 March 2015 (both dated inclusive).

Commentary: Following the introduction of the new tax framework for corporate amalgamation last year, the Minister has introduced further support for business restructuring. This is to encourage continuous flow of start-ups and new entrants into the economy, so that businesses can expand through either organic growth or mergers and acquisitions.

8. TAX DEDUCTION FOR ANGEL INVESTORS

Proposed : The Minister proposed a new incentive to encourage eligible individuals who are able and willing to invest in start-ups and help them grow (e.g. through their management expertise, business networks etc). This new incentive will be administered by SPRING Singapore.

Under the new incentive, an approved angel investor who commits a minimum of \$100,000 equity investment into a start-up in a Year of Assessment (“YA”) can enjoy a tax deduction at 50% of his investment at the end of his second year of holding of the investment. The deduction to an approved angel is capped at \$500,000 of investment into qualifying start-ups per YA.

SPRING will announce the details of the incentive by June 2010.

Effective : For qualifying investments made from 1 March 2010 to 31 March 2015 (both dates inclusive).

Commentary : This proposed incentive is intended to encourage angel investment through incentivising private individuals with appropriate investment and business expertise to provide financing to start-ups.

9. ENHANCEMENT OF DEVELOPMENT AND EXPANSION INCENTIVE

Current : The Development Expansion Incentive (“DEI”) scheme was introduced in 1996 to assist companies move towards higher value-added business activities. Eligible projects under the DEI must generate significant economic benefits for Singapore.

Under the DEI, income from qualifying activities above a pre-determined base will be taxed at a concessionary rate of not less than 5 percent within a set period.

Proposed : The Minister proposed to extend the DEI scheme to cover income derived from the provision of international legal services to encourage law practices to do more international legal work. DEI will be available to law practices registered in Singapore as a company or as a branch of a foreign company.

Approved law practices will enjoy a 10% concessionary tax rate on incremental income from qualifying international legal services for 5 years.

The Ministry of Law and EDB will release details of the new incentive in March 2010.

Effective : From 1 April 2010 to 31 March 2015 (both dates inclusive)

Commentary : The objective of this measure is to enhance Singapore’s position as an arbitration hub.

10. ENHANCEMENTS TO FINANCIAL SECTOR INCENTIVE (“FSI”)

Current : Financial Institutions (“FIs”) which are granted FSI Standard Tier awards are currently required to compute and deduct the Qualifying Base (“QB”) from their income derived from FSI qualifying activities, in order to determine the net income to be taxed at the 10% concessionary tax rate. The QB is taxed at the prevailing (17%) corporate tax rate. The QB is a proxy for income from certain activities that were previously subject to the prevailing corporate tax rate before the removal of the counter-party and/or currency restrictions under FSI.

Proposed : The Minister has proposed that the QB will be removed and instead the concessionary tax rate under the FSI-ST award will be changed from 10% to 12% as a revenue neutral change. The list of qualifying activities will also be updated.

MAS will release further details by April 2010.

Effective : With effect from 1 January 2011.

Commentary : The proposed change is to mitigate the significant compliance and administrative costs incurred by FIs to compute the QB.

11. STREAMLINE TAX INCENTIVES FOR FUTURES MEMBERS OF SINGAPORE EXCHANGE (“SGX”) AND MEMBERS OF SINGAPORE COMMODITY EXCHANGE LIMITED (“SICOM”)

Current : The futures members of SGX and members of SICOM are granted a 10% concessionary tax rate on their income derived from qualifying transactions under Section 43D and 43K of the Income Tax Act.

Proposed : The Minister has proposed to discontinue these 2 incentives on 31 December 2010. From 1 January 2011 onwards, these 2 tax incentives will cease and new incentive applicants which engage in qualifying transactions that were incentivised under these 2 incentives will have to apply for the Financial Sector Incentive (FSI) scheme and meet the economic commitments under the FSI at the point of application.

Existing futures members of SGX and members of SICOM who are currently incentivised under the two existing tax incentives will be allowed to transit to FSI-Standard Tier (FSI-ST) scheme automatically if they notify MAS of their intent to transit by 31 July 2010. They will not be subject to the approval criteria for the FSI-ST award at the point of transition in January 2011. 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 scheme is extended.

MAS will release further details will by April 2010.

Effective : With effect from 1 January 2011 onwards.

Commentary : The aim is to streamline the existing tax incentive schemes for better incentive administration by MAS.

12. REMOVAL OF APPROVED START-UP FUND MANAGER SCHEME

Current : The Approved Start-up Fund Manager scheme was introduced in 2005 to allow funds managed in Singapore by an approved start-up fund manager to be granted a 12 month grace period from date of set up of fund to meet the requisite residency conditions on the fund's investors under the fund management tax incentives. This is meant to provide approved start-up fund managers with certainty of tax exemption of the fund managed by them while they build up their track record and source for mandates.

Proposed : The Minister has proposed that the Approved Start-up Fund Manager scheme will be allowed to lapse after its expiry on 17 February 2010. No fund manager will be approved under the scheme after 17 February 2010.

However, funds managed by fund manager approved on or before 17 February 2010 under the Approved Start-up Fund Manager scheme will continue to be allowed the 12 month grace period from the date of set up of the fund, even if such grace period stretches beyond the expiry of the scheme on 17 February 2010.

Effective : With effect from 17 February 2010.

Commentary: The removal of this incentive scheme for start-up fund manager is as a result of the liberalisation of the residency conditions under the fund management incentives in 2007, and it is now less difficult for funds to qualify for tax exemption under the existing fund management tax incentives.

13. EXTENSION OF MARITIME FINANCE INCENTIVE (“MFI”)

- Current : The MFI accords the following tax benefits:
- (i) An approved MFI entity will enjoy either tax exemption or a 10% or 15% tax concession on its qualifying leasing income;
 - (ii) An approved manager of the MFI entity will enjoy a 10% tax concession on its qualifying income.
- The MFI will expire on 28 February 2011. Taxpayers applying for the MFI on or before 28 February 2011 will be given approval for a period of not more than 10 years.
- Proposed : The Minister proposed to extend the MFI for a further period from 28 February 2011 to 31 March 2016. Taxpayers applying for the MFI during the period from 1 March 2011 to 31 March 2016 (both dates inclusive) will be given approval for a period of not more than 5 years.
- Effective : Extended from 28 February 2011 to 31 March 2016.
- Commentary : This is to further support Singapore’s development as a maritime financing hub.

14. NEW TAX INCENTIVE FOR SHIP BROKERS AND FORWARD FREIGHT AGREEMENT (“FFA”) TRADERS

- Current : Ship brokers and FFA traders are taxed at the prevailing (17%) corporate income tax rate.
- Proposed : The Minister proposed to grant a company solely carrying out ship broking and / or FFA trading in Singapore a 10% concessionary tax rate, subject to conditions. Interested taxpayers can apply to Maritime and Port Authority of Singapore (MPA) for this incentive. Incentive recipients will enjoy the incentive award for 5 years.
- MPA will release the implementation details by end of March 2010.
- Effective : From 1 April 2010 to 31 March 2015 (both dates inclusive).
- Commentary : The aim is to grow ship broking and FFA trading in Singapore to further promote Singapore as an International Maritime Centre.

15. INCLUSION OF SHIP MANAGEMENT FEES UNDER SECTION 13A OF INCOME TAX ACT AND APPROVED INTERNATIONAL SHIPPING ENTERPRISE (“ASI”) SCHEME

Current : Ship management fees derived from rendering ship management services to related Special Purpose Vehicles (SPVs) are taxed at the prevailing (17%) corporate income tax rate.

Proposed : The Minister proposed that ship management fee derived from rendering ship management services to related qualifying SPVs will be treated as qualifying income to be exempt from tax under Section 13A of the Income Tax Act and the AIS scheme, subject to conditions.

MPA will release the implementation details by end March 2010.

Effective : For ship management fees derived from 22 February 2010.

Commentary : This is in line with the objective to develop Singapore into an International Maritime Centre.

16. REVIEW OF TAX CONCESSION FOR OFFSHORE INSURANCE BUSINESS

Current : Approved general, life and composite insurers enjoy a 10% concessionary tax rate on qualifying income derived from offshore insurance business conducted from Singapore. There is no sunset clause for the scheme and incentive recipients are incentivised indefinitely.

Proposed : The Minister proposed to introduce the following changes to the tax incentive:

(i) The incentive will be subject to a sunset clause of 5 years till 31 March 2015;

(ii) The incentive will be awarded to an approved recipient for a period of 10 years; and

(iii) New headcount requirement will be imposed for incentive recipients (except for captive insurers).

New applicants will be required to meet the headcount criterion at the point of application for the tax incentive from 1 April 2010.

Existing incentive recipients will be given a transition period of 3 years from 1 April 2010 to 31 March 2013 to meet the necessary headcount requirement in order to continue to qualify for the incentive after 31 March 2013 for the remaining tenure of their awards.

MAS will release further details by April 2010.

Effective : With effect from 1 April 2010 to 31 March 2015.

17. RENEWAL AND ENHANCEMENT OF INVESTMENT ALLOWANCE SCHEME FOR AIRCRAFT ROTABLES

Current : The Investment Allowance ("IA") scheme for aircraft rotables was introduced on 10 September 2004 and the amount of IA granted under the scheme is 50% of the qualifying costs of aircraft rotables (on top of normal capital allowance). The IA scheme is for a period of 5 years and has expired on 9 September 2009.

Under the IA scheme, there was a "non-swapping condition" that required the approved aircraft maintenance, repair and overhaul (MRO) companies to recover the swapped rotatable part from their clients, (i.e. with the same part number and serial number), by the end of the service contract with the clients.

Proposed : The Minister proposed to renew the IA scheme for aircraft rotables for another 5 years from 1 April 2010 to 31 March 2015.

Further, the Minister proposed to liberalise the rules for claiming the allowance by removing the "non-swapping condition". This enhancement removes the administrative difficulties of having to track specific aircraft rotables.

Economic Development Board will release the details by March 2010

Effective : The IA Scheme is extended for another 5 years from 1 April 2010 to 31 March 2010 (both dates inclusive).

Commentary : This proposed renewal and enhancement of the IA scheme for aircraft rotables is in line with Singapore's commitment to develop the Maintenance, Repair and Overhaul industry.

B GOODS AND SERVICES TAX (“GST”)

1. EXPANDING GST ZERO-RATING FOR MARINE INDUSTRY

Current : Currently, zero-rating of GST is allowed for the following supplies:

- (a) Sale and lease of a qualifying ship that is not used for recreational or pleasure purposes, and is not a passenger harbour craft or pleasure craft licensed by the Maritime and Port Authority of Singapore (“MPA”);
- (b) Sale of stores and merchandise to ships that are travelling to or from a destination outside Singapore (i.e. ship that calls on a port outside Singapore); and
- (c) Transport of goods or passengers via a ship to or from a place outside Singapore (i.e. ship calls on a port outside Singapore).

Sale of goods for use or installation on ships can only be zero-rated if there is sufficient documentary evidence to prove that such goods will be exported.

Proposed : The Minister proposed to expand the scope of GST zero-rating for the marine industry as follows:

- (a) The scope of qualifying ship for GST zero-rating will be expanded to include pleasure and recreational ships that are wholly used for international travel regardless of whether they call on a port outside Singapore.

This would include private yachts that ply international waters, provided that they are not licensed for use within Singapore waters.

- (b) The scope of GST zero-rating will be extended to all goods (including stores and merchandises) supplied for use on board or installation on a qualifying ship, regardless of whether the ship calls on a port outside Singapore;
- (c) The scope of GST zero-rating will be extended to the transport of goods or passengers via a ship to or from international waters, regardless of whether the ship calls on a port outside Singapore; and
- (d) Similar to the change in paragraph (b), the scope of GST zero-rating is also extended to stores supplied to and merchandises for sale on board a qualifying aircraft.

IRAS will release more details by June 2010.

Effective : From 1 July 2010.

Commentary : The above changes will ease GST compliance for businesses supporting the marine industry and reflect the international character of supplies relating to ships.

2. EXTENSION OF QUALIFYING LISTED REGISTERED BUSINESS TRUSTS (“RBT”) CONCESSION

Current : Listed RBTs in infrastructure business, ship leasing and aircraft leasing are allowed to recover GST on business expenses incurred, irrespective of whether they hold the underlying assets directly or indirectly through multi-tiered structures such as special purpose vehicles or sub-trusts.

This GST remission expired on 17 February 2010.

Proposed : The Minister has proposed to renew the GST remission for listed RBTs in the sectors of infrastructure, ship leasing and aircraft leasing for the period 18 February 2010 to 31 March 2015 (both dates inclusive).

3. EXTENSION OF GST CONCESSION FOR S-REIT

Current : S-REITS are allowed to claim input tax on their business expenses regardless of whether they hold the underlying assets directly or indirectly through multi-tiered structures such as special purpose vehicles or sub-trusts. The concession expired on 17 February 2010.

Proposed : The GST concession will be renewed for the period 18 February 2010 to 31 March 2015 (both dates inclusive).

4. DEFERRING IMPORT GST

Current : Currently, import GST is payable on all goods brought into Singapore at the point of entry, unless import GST relief has been granted or the goods are imported under import GST suspension schemes such as the Major Exporter Scheme.

Proposed : The Minister announced that a new scheme will be introduced to allow approved GST-registered businesses to defer import GST that is payable on their goods at the point of entry into Singapore.

The import GST is deferred for at least one month and declared as a payable amount in the corresponding GST return.

Approval will be accorded to GST-registered businesses that meet all qualifying conditions including good compliance records and subscription to monthly GST filing.

IRAS will release details of the scheme by March 2010.

Effective : From 1 October 2010.

Commentary : The above scheme aims to ease the import GST cashflow for GST-registered businesses.

5. SIMPLIFYING GST ACCOUNTING RULES

Current : Currently, under the general time of supply rules, GST is accounted at the earliest of the following events:

- (a) when tax invoice is issued;
- (b) when payment is received; or
- (c) when goods are delivered / made available or services performed

Proposed : The Minister proposed that the general time of supply rules be simplified to allow most businesses to account for GST at the earlier of:

- (a) when tax invoice is issued; or
- (b) when payment is received

The proposed change is subject to some exceptions, such as in cases involving application for GST registration and deregistration, where the date on which goods are delivered / made available or services performed will be retained as a reference point.

IRAS will release more details by May 2010.

Effective : From 1 January 2011.

Commentary : The above changes will ease GST accounting for most businesses as they will no longer need to track the date on which goods are delivered / made available or services are performed.

B INDIVIDUAL TAXATION

1. PERSONAL TAX RATES

Current : Residents are taxed at graduated rates from 0% to 20% (refer to attached **Appendix I**) from the Year of Assessment (“YA”) 2007 onwards.

A one-off personal income tax rebate of 20% (subject to a maximum cap of \$2,000) is given to all resident taxpayers for the YA 2009.

Proposed : No change to the existing personal income tax rates. The one-off personal income tax rebate granted for the YA 2009 will not be granted for the YA 2010.

Commentary : As Singapore’s personal income tax regime remains as one of the most competitive in the world, no changes will be made on personal income tax rates this year.

2. ENHANCEMENT OF DEPENDENT RELIEFS

Current : The income of the dependent cannot exceed \$2,000 in the preceding year if a tax resident individual wishes to claim the following dependent-related reliefs:

- Handicapped Sibling Relief
- Wife / Handicapped Spouse Relief
- Parent / Handicapped Parent Relief
- Qualifying Child / Handicapped Child Relief
- Working Mother’s Child Relief
- CPF Cash Top-up Relief for top-up to the CPF account of spouse or siblings

Proposed : The income threshold for dependent-related reliefs will be increased from \$2,000 to \$4,000. For handicapped dependent-related reliefs, the income threshold condition will be removed.

Effective : From YA 2010 (except for the CPF Cash Top-up Relief for top-up to the CPF account of spouse or siblings for which the changes to the income threshold will be effective from YA 2011).

Commentary : The above aims to recognise the individuals’ efforts in supporting family members who are genuinely dependent, while giving these dependents the flexibility to do some incidental work.

In addition, the income threshold condition for handicapped dependent-related reliefs will be removed to give recognition of the extra resources and attention needed in taking care of the disabled. Therefore, individuals will be able to claim the reliefs regardless of the income of the handicapped dependent.

3. INCREASE IN PARENT RELIEF

Current : A resident individual may claim Parent Relief if he supported his or his spouse's parents, grandparents or great grandparents in the previous year. The tax relief granted is:

- \$5,000 if the taxpayer lives with the dependent
- \$3,500 if the taxpayer does not live with the dependent

For handicapped dependent, the tax relief is:

- \$8,000 if the taxpayer lives with the handicapped dependent
- \$6,500 if the taxpayer does not live with the handicapped dependent

Proposed : The quantum for all categories of Parent Relief will be increased as follows:

- \$7,000 (increase of \$2,000) if the taxpayer lives with the dependent
- \$4,500 (increase of \$1,000) if the taxpayer does not live with the dependent

For handicapped dependent, the tax relief is:

- \$11,000 (increase of \$3,000) if the taxpayer lives with the handicapped dependent
- \$8,000 (increase of \$1,500) if the taxpayer does not live with the handicapped dependent

Effective : From YA 2010.

Commentary : The above aims to give greater recognition and acknowledgement to individuals who support their aged dependents.

4. EXPANSION OF WIFE RELIEF TO SPOUSE RELIEF

Current : A \$2,000 Wife Relief is granted to male resident taxpayers supporting their wives who do not have income exceeding a threshold of \$2,000 per year.

Proposed : The Wife Relief will be renamed as Spouse Relief. With this change, both male and female resident taxpayers will be able to claim Spouse Relief of \$2,000 if their wife or husband does not have annual income exceeding \$4,000.

Effective : From YA 2010.

Commentary : The above aims to help families where the wife is the breadwinner, for instance where the husband has retired.

5. INCREASE IN COURSE FEES RELIEF

- Current** : A resident individual is allowed a deduction of up to \$3,500 if he had attended any course of study, seminar or conference for the purpose of gaining an approved academic or professional qualification or had attended such other approved course, seminar or conference which need not be necessarily related to his current trade, business, profession, vocation or employment. The relief can be claimed in the year which the expense was incurred or within 2 YA from the YA relating to the year in which he completed the courses.
- Proposed** : The maximum allowable course fees relief will be increased from \$3,500 to \$5,000.
- Effective** : From YA 2011
- Commentary** : The above aims to recognise the individuals' effort to upgrade themselves and as a signal of the Government's support for lifelong learning.

6. REDUCE WITHHOLDING TAX RATE FOR NON-RESIDENT PUBLIC ENTERTAINERS ("NRPE")

- Current** : A NRPE is subject to tax at a withholding tax rate of 15% on his gross income derived in respect of services performed in Singapore. NRPEs generally include the following.
- A stage, radio or television artiste (e.g. singer, dancer, actor);
 - A musician;
 - An athlete (include all types of sportsmen / women e.g. runners, swimmers, jockeys, golfers, tennis players, racing drivers); or
 - An individual exercising any profession, vocation or employment of similar nature to the above in Singapore for less than 183 days in a calendar year.
- Proposed** : The withholding tax rate will be reduced from 15% to 10% for sums payable to NRPEs from 22 February 2010 to 31 March 2015.
- Effective** : From 22 February 2010 to 31 March 2015.
- Commentary** : The above aims to help local organisers to attract high quality performances to Singapore.

D OTHERS

1. JOBS CREDIT (“JC”) SCHEME

Current : The JC Scheme was introduced in the 2009 Singapore Budget to encourage employers to preserve jobs to help Singaporeans stay employed. Businesses that have made CPF contributions for their Singaporean and Singapore Permanent Resident employees will be eligible for the JC.

The JC was for 1 year and paid to eligible employers in 4 quarterly payments in March 2009, June 2009, September 2009 and December 2009. Under the scheme, employers will receive cash grants of up to 12% on the first \$2,500 of the monthly wages for each employee on their CPF payroll.

Extended : In October 2009, the Government announced that the JC scheme will be extended for half a year with another 2 payments at stepped-down rates in March 2010 and June 2010 as follows:

JC Payment	JC Amount	Payment Date	Qualifying Period of Wages	Deadline for CPF Contributions
1 st extended payment	6% of wages	31 March 2010	October to December 2009, for employees on January 2010 payroll	17 February 2010
2 nd extended payment	3% of wages	30 June 2010	January to March 2010, for employees on April 2010 payroll	14 May 2010

2. PROPERTY TAX REBATE FOR OWNER-OCCUPIED RESIDENTIAL PROPERTIES

Current : Currently, owners of owner-occupied residential properties pay property tax at the concessionary tax rate of 4% on the annual value ("AV") of the properties while owners of non owner-occupied residential properties and other properties are taxed at 10% of the AV.

Since April 1994, owner-occupied residential properties with AV below \$10,000 have been enjoying the on-going property tax rebates of \$25 to \$150 based on the AV of their properties.

Proposed : The Minister proposed that for property tax payable from January 2011, the 1994 property tax rebates will be replaced by a progressive property tax schedule for owner-occupied residential properties. The progressive property tax rates are as follows:

- (i) 0% for the first \$6,000 of AV;
- (ii) 4% for the next \$59,000 of AV; and
- (iii) 6% for the balance of AV in excess of \$65,000.

The owners of non owner-occupied residential properties and other properties will continue to be taxed at 10% of AV.

The new progressive property tax rates will be available to individual owners or a married couple who owns and lives in the residential property and can be granted to only one residential property at any one time. A residential property owned by a company, association or a body of persons does not qualify for the concession even if its staff lives in the residential property.

Effective : From January 2011 onwards.

3. ENHANCEMENT OF TAX DEDUCTION ON DONATIONS

Current : Double tax deduction is granted for all donations made to Institutions of a Public Character ("IPCs") and other approved recipients (such as approved museums, prescribed schools, etc).

Tax deduction was enhanced from 200% to 250% in respect of approved donations made during 1 January 2009 to 31 December 2009.

Proposed : The Minister proposed to extend the enhanced tax deduction of 250% for another year for approved donations made during 1 January 2010 to 31 December 2010. Existing rules to qualify for the enhanced tax deduction will remain the same.

Effective : Approved donations made from 1 January 2010 to 31 December 2010.

Commentary: The above is to encourage greater charitable giving in Singapore as the economy recovers.

4. EXTENSION OF STAMP DUTY CONCESSION FOR S-REIT

- Current : The current stamp duty remission on the transfer of a Singapore immoveable property to a S-REIT expired on 17 February 2010.
- Proposed : The stamp duty remission will be renewed for the period 18 February 2010 to 31 March 2015 (both dates inclusive).
- Current : The current stamp duty remission on the transfer of 100% of the issued share capital of a Singapore incorporated company that holds immovable properties situated outside Singapore to a S-REIT similarly expired on 17 February 2010.
- Proposed : The stamp duty remission will similarly be renewed for the period 18 February 2010 to 31 March 2015 (both dates inclusive).

**RATES OF INCOME TAX
FOR RESIDENT INDIVIDUALS (SINGAPORE)**

	Chargeable Income S\$	← Year of Assessment →			
		2006		2007 onwards	
		Tax Rate %	Tax S\$	Tax Rate %	Tax S\$
On the first	20,000	0	0	0	0
On the next	10,000	3.75	375	3.50	350
On the first	30,000		375		350
On the next	10,000	5.75	575	5.50	550
On the first	40,000		950		900
On the next	40,000	8.75	3,500	8.50	3,400
On the first	80,000		4,450		4,300
On the next	80,000	14.50	11,600	14.00	11,200
On the first	160,000		16,050		15,500
On the next	160,000	18.00	28,800	17.00	27,200
On the first	320,000		44,850		42,700
Excess over	320,000	21.00		20.00	

Note: For the Years of Assessment 2008 and 2009, a tax rebate of 20% (subject to a maximum cap of \$2,000) is granted to Singapore tax residents.