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22 January 2009

Dear Sirs

THE 2009 SINGAPORE BUDGET COMMENTARY

The much awaited 2009 Budget was delivered by the Minister for Finance on 22 January 2009, which unveiled a massive S\$20.5 billion Resilience Package undertaken by the Singapore Government in response to the economic crisis experienced globally.

The Resilient Package is targeted to preserve jobs, stimulate bank lending, enhance business cash-flow and competitiveness, help households and support charitable giving, and invest in sustainable development initiatives. On the tax front, corporate tax rate will be cut by 1% to a competitive 17%, and tax rebates have been announced in respect of personal and property taxes. A slew of tax measures and enhancements to existing financial and maritime sectors as well as capital allowance regime will help to alleviate tax burden to viable businesses, in addition to the introduction of Jobs Credit to encourage businesses to sustain jobs for Singaporeans. Corporations with international operations or other foreign-sourced income will also enjoy tax exemption for a 1-year period on the remittance of foreign-sourced income earned prior to 22 January 2009.

We are pleased to highlight in the following pages the tax and certain other changes as proposed in the 2009 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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Enc.



2009

BUDGET

COMMENTARY

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APPENDIX I Rates of Income Tax for Resident Individuals (Singapore)

A CORPORATE TAXATION

1. CORPORATE TAX RATE

Current : 18% from Year of Assessment (“YA”) 2008. Also, partial tax exemption is granted as follows on up to \$300,000 of a company’s chargeable income (“CI”) that is subject to tax at the rate of 18% from YA 2008:

- (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 : Reduction of corporate tax rate to 17% from YA 2010.

In line with the reduction in corporate tax rate to 17%, the tax rates for the following will likely be reduced to 17% also.

- (a) Withholding tax on certain payments to non-residents.

The rate of withholding tax on specified payments to non-residents (other than non-resident individuals) will likely be reduced from 18% to 17%.

Such payments include fees for the rendering of assistance or service in connection with the application or use of scientific, technical, industrial or commercial knowledge or information, and the management or assistance in the management of any trade, business or profession.

The withholding tax rate on payments to non-residents of interest and rental of movable property should remain at the 15% final withholding tax rate while the rate for payment of royalties should remain at 10% unless the rates are reduced under applicable tax treaties.

(b) Tax rate for other persons.

The proposed reduction in the corporate tax rate will likely also apply to non-resident persons (other than non-resident individuals and Hindu joint family), trustees (other than trustees of incapacitated persons) and executors and in the computation of effective company tax rate for a body of persons.

Effective : From Year of Assessment 2010.

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 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.

A company limited by guarantee is currently excluded from this scheme.

Proposed : The Minister proposed to extend the start-up exemption scheme to companies limited by guarantee, subject to the same conditions imposed on companies limited by shares.

Effective : From Year of Assessment 2010.

Commentary : This measure is intended to support the growth of companies limited by guarantee set up by social entrepreneurs.

3. EXPANSION OF SCOPE OF TAX EXEMPTION FOR FOREIGN SOURCED INCOME

Current : Foreign-sourced dividends, foreign-sourced branch profits and foreign-sourced service income that is received in Singapore by resident non-individuals and resident partners of partnerships on or after 1 June 2003 are exempted from income tax provided that the following conditions are met:

- (i) In the year the specified foreign income is received in Singapore, the headline tax rate (i.e. highest corporate tax rate) of the foreign jurisdiction must be at least 15%;
- (ii) The specified foreign income has been subject to tax in the foreign jurisdiction from which it has been received. For foreign-sourced dividend income, this includes the income tax paid by the dividend paying company on its income out of which the dividend is paid; and
- (iii) The IRAS is satisfied that the tax exemption would be beneficial to the person resident in Singapore.

Individuals (except for resident partners of partnerships) currently enjoy tax exemption on all foreign-sourced income received in Singapore on or after 1 January 2004.

Proposed : The Minister proposed a 1 year expansion of the tax exemption on remittance of foreign-sourced income by resident non-individuals and resident partners of partnerships in Singapore as follows.

- (i) The scope of tax exemption will be expanded to cover the remittance of all foreign-sourced income earned or accrued outside Singapore on or before 21 January 2009, that is remitted to Singapore during 22 January 2009 to 21 January 2010 (both dates inclusive).
- (ii) The conditions required for foreign-sourced income to be exempt from tax when remitted will be lifted during the 1-year period.

Effective : From 22 January 2009 to 21 January 2010 (both dates inclusive).

Commentary : This proposed temporary liberalisation of the tax exemption is intended to help businesses tap on financing from their overseas investment and operations to meet their business financing needs in Singapore at this time of credit tightness.

4. ENHANCEMENT OF LOSS CARRY-BACK RELIEF SCHEME

Current : Companies are allowed a 1-year carry-back of current year unutilised trade losses and capital allowances, subject to a cap of \$100,000. Unutilised trade losses and capital allowances exceeding the \$100,000 limit can still be carried forward.

The main features of the loss carry-back scheme are:

- (a) Only current year unutilised trade losses and capital allowances will be allowed to be carried back for one Year of Assessment ("YA") immediately preceding the YA in which the trade losses were incurred or the capital allowances were granted.
- (b) An aggregate amount of \$100,000 of current year unutilised trade losses and capital allowances can be carried back.
- (c) The scheme is available to all businesses, including sole proprietors and partnerships. In line with the exclusions in the loss carry-forward and group relief schemes, Section 10E companies that are in the business of making of investments are specifically excluded from the loss carry back scheme.
- (d) The existing requirements for carry-forward of unutilised trade losses and capital allowances (ie. the "substantial shareholding" test for companies and additionally for capital allowances the "same business" test) will similarly apply when these amounts are carried back.
- (e) The carry-back relief is given on due claim.

Proposed : The Minister proposed to temporarily enhance the loss carry-back relief scheme for YAs 2009 and 2010 as follows.

- (a) The aggregate amount of current year unutilised trade losses and capital allowances that can be carried back will be increased from \$100,000 to \$200,000.
- (b) Current year unutilised trade losses and capital allowances will be allowed to be carried back for up to 3 YAs immediately preceding that YA in which the trade losses were incurred or the capital allowances were granted.
- (c) The order of setoff of unutilised trade losses and capital allowances to the 3 immediate preceding YAs will be first to the 3rd YA, followed by the 2nd YA, and then the YA immediately preceding the YA in which the trade losses were incurred or the capital allowances were granted.

- (d) Provisional claims for the tax refund will be allowed to taxpayers based on estimated losses, without having to wait for the finalisation of tax assessments.

The Inland Revenue Authority of Singapore (“IRAS”) will release the administrative details shortly.

Effective : For Years of Assessment 2009 and 2010.

Commentary : The enhancement of the loss carry back scheme is intended to help businesses which are making losses in this recession with their cash-flow by obtaining a cash refund on taxes paid in previous years. As the tax loss carry-back is capped at \$200,000, the maximum potential tax refund is \$40,000 for a company in a tax loss year.

5. TAX FRAMEWORK FOR FACILITATING CORPORATE AMALGAMATIONS

Current : Amalgamation of companies was introduced under the *Companies Act* and became effective from 30 January 2006. In an amalgamation, two or more companies may amalgamate and continue as one company (continuing amalgamated company “CAC”) which may be one of the amalgamating companies or a new company.

In respect of an amalgamating company that is not the surviving CAC, it ceases to exist and all its assets and liabilities are transferred to the CAC.

Under the existing tax treatment, tax consequences are often triggered as the amalgamating companies are treated as having ceased businesses and disposed of their assets and liabilities, and the CAC having acquired or commenced a new business. For instance, plant and machinery are treated to have been sold and the amalgamating companies will have to compute balancing allowances or charges on those transfers. Bad or doubtful debts taken over by the CAC are neither deductible nor taxable in the hands of the CAC, if the CAC subsequently writes off or recovers the debt respectively. Also, any unabsorbed tax losses, wear and tear allowances, or donations of amalgamating companies may potentially be lost since the latter are treated as having ceased business.

Proposed : The Minister proposed that a new tax framework for qualifying amalgamations be introduced that will minimise the tax consequences arising from amalgamations.

This framework will apply to qualifying corporate amalgamations where, amongst other conditions, the CAC takes over all assets and liabilities of the amalgamating companies and the amalgamating companies cease to exist.

IRAS will release details of the new tax framework for public consultation in February 2009.

6. ENHANCEMENT OF TAX DEDUCTION FOR APPROVED 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).
- Proposed : Tax deduction will be enhanced from the current 200% to 250% in respect of approved donations made during 1 January 2009 to 31 December 2009. Existing rules to qualify for the enhanced tax deduction will remain the same.
- Effective : Approved donations made in year 2009.
- Commentary: The Minister commented that such measures are introduced to support enhanced community initiative. This should encourage greater charitable giving and promote philanthropy in Singapore.

7. ENHANCEMENT OF CAPITAL ALLOWANCE REGIME

- Current : Capital allowances are granted on a 3-year straight line basis for capital expenditure incurred in the provision of "plant and machinery" within the meaning of the *Income Tax Act*, for the purposes of a trade, profession or business.
- Further, the following capital expenditure incurred for the purposes of a trade, profession or business are entitled to 100% capital allowances.
- (i) Computer and automation equipment.
 - (ii) Plant and machinery where the capital expenditure on each item does not exceed \$1,000, and the aggregate claim for capital allowances on such items do not exceed \$30,000 for each YA.
- Proposed : An accelerated write-down allowance over 2 years will be granted on capital expenditure incurred during the financial years ended 2009 and 2010 that would generally qualify for a 3-year capital allowance claim.
- The claim for the accelerated capital allowance is computed as follows.
- (i) 75% of the capital expenditure for the 1st YA.
 - (ii) 25% of the capital expenditure for the 2nd YA.
- Effective : For qualifying expenditure incurred during the basis periods for the Years of Assessment 2010 and 2011.
- Commentary : The objective of this measure is to provide support to businesses which intend to invest in new plant and machinery in preparation for a recovery from the current downturn.

8. ENHANCED TAX DEDUCTION FOR RENOVATION AND REFURBISHMENT

Current : Tax deduction is available on qualifying renovation and refurbishment ("R&R") expenditure (except those expenses relating to structural works and expansion of space) incurred during the period from 16 February 2008 to 15 February 2013.

The amount incurred is granted a tax deduction over 3 years on a straight-line basis, and subject to an expenditure cap of \$150,000 for every 3 years per business entity.

Proposed : The Minister proposed to accelerate the deduction claim on qualifying R&R expenses incurred in the basis periods for the YAs 2010 and 2011 to be deductible in 1 year instead of over 3 years.

There is no change to the expenditure cap of \$150,000 for every 3 years per business entity.

Effective : For qualifying expenditure incurred during the basis periods for the Years of Assessment 2010 and 2011.

Commentary : This concession aims to bring about a reduction in the income tax payable by businesses, thereby easing the cash-flow pressures that may be faced by businesses which intend to refit their business premises during this period of downturn.

9. ACCELERATED WRITING-DOWN ALLOWANCE FOR ACQUISITION OF INTELLECTUAL PROPERTY FOR MEDIA & DIGITAL ENTERTAINMENT CONTENT

Current : For the acquisition of all genres of Intellectual Property (“IP”) rights, where the company or partnership (“the transferee”) acquires both the legal and economic ownership of the IP, an automatic 5-year Writing Down Allowance (“WDA”) will be granted for the cost incurred on such IP rights acquired till 31 October 2013.

Where only economic ownership of the IP rights is acquired, but not the legal ownership, approval has to be obtained from Economic Development Board (“EDB”) for WDA to be claimed.

Legal ownership means the legal assignment of the said IP rights to the transferee. Economic ownership means the future economic benefits attributable to the IP will accrue to the transferee.

Pursuant to Section 19B(10A) of the *Income Tax Act*, WDA will not be granted for capital expenditure incurred on or after 16 December 2008 by a transferee which acquires the IP rights from:

- (i) its related party to whom tax deduction has been previously allowed for the creation of the IP and whose proceeds from the assignment are not chargeable to tax; or
- (ii) its related party who acquired the rights directly or indirectly from a related party of the company referred to above.

Proposed : Reduction in the writing-down period for WDA from 5 years to 2 years, in respect of capital expenditure incurred by a Media and Digital Entertainment (“MDE”) company or partnership in acquiring qualifying IP rights for MDE content.

This will be granted on an approval basis by the EDB for qualifying IP rights for MDE content acquired during 22 January 2009 to 31 October 2013 (both dates inclusive).

Effective : IP for MDE acquired from 22 January 2009 to 31 October 2013.

Commentary: The above aims at encouraging MDE businesses to create and exploit their IP from Singapore to further enhance Singapore’s position as an emerging hub for firms in the interactive digital media arena.

10. EXTENSION OF TAX DEDUCTION FOR PROVISIONS MADE BY BANKS UNDER MONETARY AUTHORITY OF SINGAPORE (“MAS”) NOTICES

Current : With the adoption of Financial Reporting Standard (“FRS”) 39 for accounting purposes, banks and finance companies are required to recognise impairment losses by reducing the carrying amount of each loan or groups of similar loans which have been assessed by the banks or finance companies to be impaired. For income tax purposes, such impairment losses made by banks and finance companies will be allowed for deduction and any amount written back will be subject to tax.

Where banks and finance companies are unable to compute the collective impairment provisions due to, for instance, a lack of sufficient historical data, they are required under the relevant MAS Notices to maintain a level of collective impairment provisions which are

- (i) in the case of a bank, not less than 1% of the gross loans and receivables after deducting any individual impairment provisions made; and
- (ii) in the case of a finance company, not less than 1.5% of gross loans and receivables net of collaterals and after deducting any individual impairment provisions made.

The impairment provisions for loan losses as required under the MAS Notices are allowed for deduction (subject to the caps stipulated in the *Income Tax Act*) for a period of 5 years from the first YA that such bank or finance company is required to comply with FRS 39 for accounting purposes.

The total amount of the provisions allowable for deduction for any year of assessment shall not exceed the lowest of the following.

- (a) 25% of the qualifying profits for the basis period;
- (b) ½% of the prescribed value of the loans and investments in securities in the basis period; or
- (c) 3% of the prescribed value of the loans and investments in securities in the basis period less the total amount of all deductions previously allowed which have not been deemed to be trading receipts.

This concession was introduced in 2005 and is valid for 5 YAs.

Proposed : The Minister proposed to extend the above tax concession for a further 3 years.

Effective : Immediate

Commentary : The tax concession aims to encourage banks and finance companies to continue making adequate loan impairment provisions and bolster their financial strength to underpin continued lending in the downturn.

11. EXTENSION AND ENHANCEMENT OF WITHHOLDING TAX EXEMPTION FOR MARITIME INDUSTRY

Current : Interest payable on a loan taken out by a shipping enterprise from a lender outside Singapore in respect of any ship registered with the Singapore Registry of Ships ("SRS") on any date from 1 November 2003 to 31 December 2008 is exempt from withholding tax under the *Income Tax (Exemption of Interest and Other Payments on Economic and Technological Development Loans) Notification 2004*. This is provided that:

- (i) the purpose of the loan is to finance the acquisition of the ship; and
- (ii) the shipping enterprise has satisfied the requirements under the Block Transfer Scheme ("BTS") administered by Maritime and Port Authority of Singapore ("MPA") and such terms and conditions as MPA may impose.

Proposed : The Minister proposed to extend the withholding tax exemption under the BTS by 5 years to 31 December 2013.

In addition, with effect from 1 January 2009, the withholding tax exemption under the BTS will be extended to interest payable on a loan taken by a shipping enterprise from a lender outside Singapore to acquire 100% of the shares in a Special Purpose Vehicle owning 100% of a ship that is a new entrant to the SRS and registered with the SRS on any date from 1 January 2009 to 31 December 2013 (both dates inclusive).

Effective : Withholding tax exemption extended for 5 years to 31 December 2013.

12. ENHANCEMENT OF FUND MANAGEMENT INCENTIVES

Current : Under Section 13C of the *Income Tax Act*, specified income derived by a trustee of any "prescribed trust fund" from funds managed in Singapore by a fund manager in Singapore in respect of designated investments is exempt from tax in Singapore.

Similarly, Section 13CA of the Act provides for exemption from income tax on specified income derived by any "prescribed person" from funds managed in Singapore by a fund manager in Singapore in respect of designated investments.

Additionally, Section 13R of the Act provides for exemption of income of a company incorporated and resident in Singapore arising from funds managed by fund manager in Singapore.

The existing tax incentives for fund management generally grant tax exemption on specified income derived by qualifying funds from designated investments, and where a qualifying fund is in the form of a company or a trust, the qualifying fund must not be 100% beneficially owned by resident investors.

Where the fund vehicle is a Limited Partnership, the incentive conditions are to be applied on each partner, to determine if they qualify for the tax incentives.

Resident non-individual investors of a qualifying fund are also subject to a 30% or 50% investment limit, as the case may be, depending on the number of investors in the fund. A breach of this limit would subject resident non-individual investors to a financial penalty.

Proposed : The Minister proposed to introduce an Enhanced Tier to the existing fund management incentives for funds with a minimum fund size of S\$50 million at the point of application amongst other conditions.

Under the Enhanced Tier, there will be no restrictions imposed on the residency status of the fund vehicles as well as that of investors. The Enhanced Tier will also apply to funds that are constituted in the form of Limited Partnerships i.e. there will no longer be a need to look through to the partners' level to apply the incentive conditions. The 30% or 50% investment limit imposed on resident non-individual investors will also be lifted for funds that come under the Enhanced Tier.

Fund managers interested in the Enhanced Tier for their funds may apply to MAS for approval.

Effective : From 1 April 2009 to 31 March 2014 (both dates inclusive).

Proposed : A sunset clause will also be introduced for the Enhanced Tier as well as the existing fund management incentives at the incentive scheme level. Both incentives will expire on 31 March 2014. All funds that are on the scheme on or before 31 March 2014 will continue to enjoy the tax exemption after 31 March 2014, subject to them continuing to meet the scheme conditions.

MAS will release the details by April 2009.

13. ENHANCEMENT OF FINANCIAL SECTOR INCENTIVE (“FSI”) - HEADQUARTER SERVICES SCHEME

Current : Under Section 43Q of the *Income Tax Act* and the *Income Tax (Concessionary Rate of Tax for Financial Sector Incentive Companies) Regulations 2005*, a FSI company is granted concessionary rate of tax of 10% on qualifying income derived from providing qualifying services to any of its approved office or any approved person outside Singapore.

Currently, a company cannot be approved as an FSI company if:

- (a) it is not licensed or approved by MAS or is exempt from such licensing or approval; and
- (b) it provides treasury, investment or financial services in Singapore to any of its offices or its associated companies.

Proposed : It is proposed that the FSI-HQ scheme be enhanced as follows.

- (a) The FSI-HQ scheme will be extended to admit a company that:-
 - (i) is wholly-owned, directly or indirectly by, or wholly owns directly or indirectly, a company that is licensed or approved by the MAS or by the MAS equivalent in the company’s home country; and
 - (ii) provides treasury, investment or financial services in Singapore to any of its offices or its associated companies.
- (b) Withholding tax exemption will be granted on interest payable on qualifying loans taken up by a FSI-HQ company during the period from 22 January 2009 to 31 December 2013 to perform qualifying activities;
- (c) To subsume the Qualifying Processing Services Company (“QPC”) scheme under the FSI-HQ scheme such that income derived by a FSI-HQ company from the provision of prescribed processing services in Singapore to any financial institution or another QPC would enjoy the concessionary tax rate of 10%. Companies which are currently enjoying the concessionary tax rate of 5% under the QPC scheme will continue to do so until the end of their respective awards.
- (d) To include as a qualifying network company an approved office or person in Singapore, subject to conditions.

Further details will be released by the MAS by April 2009.

Effective : From 22 January 2009 to 31 December 2013 (both dates inclusive).

14. EXTENSION AND ENHANCEMENT OF COMMODITY DERIVATIVES TRADERS SCHEME

Current : The Commodity Derivatives Traders (“CDT”) scheme which will expire on 26 February 2009 grants a concessionary tax rate of 5% on income derived by an approved company from:

- (a) trading in over-the-counter / exchange-traded commodity derivatives or freight derivatives.
- (b) services as an intermediary in connection with transactions relating to over-the-counter / exchange-traded commodity derivatives or freight derivatives.

Proposed : The Minister proposed the following enhancements to the scheme.

- (a) The CDT scheme will be extended and subsumed under the Financial Sector Incentive-Derivatives Market (“FSI-DM”) scheme for the period from 27 February 2009 to 31 December 2013 (both dates inclusive). A new FSI-DM (CDT) award will be created;
- (b) The definition of commodity derivatives is expanded to include emission derivatives under the FSI-DM (CDT) award; and
- (c) The counter-party restrictions under the FSI-DM (CDT) award will be removed for qualifying trades carried out on exchanges*.

MAS will release the details by April 2009.

** This enhancement will also apply to qualifying trades carried out under the Global Trader Programme (“GTP”) and are entered into during the period of 27 February 2009 to 31 December 2013 (both dates inclusive).*

Effective : From 27 February 2009 to 31 December 2013.

15. ENHANCEMENT OF SPECIFIED INCOME AND DESIGNATED INVESTMENTS LISTS

Current: : The *Income Tax Act* provides for a list of specified income and a list of designated investments for the following tax incentives schemes:

- Foreign Trust Scheme;
- Tax exemption for funds managed by a Singapore fund manager on behalf of foreign investors;
- Approved Trustee Company Scheme;
- Financial Sector Incentive - Standard Tier Scheme; and
- Financial Sector Incentive – Fund Management Scheme.

Proposed : The Minister proposed to expand the list of specified income to cover:

- (a) Income realised (other than through sale) on or after 22 January 2009 from designated investments in other forms (held to maturity, redemption, or where the realisation leads to a transfer of both economic and legal ownership).
- (b) Income derived from debt securities under the Qualifying Debt Securities (“QDS”) Scheme specifically:-
 - (i) Prescribed income directly attributable to QDS issued on or after such date as may be prescribed by regulations;
 - (ii) Amount payable on any Islamic debt securities which are QDS issued on or after 22 January 2009.

The list of designated investments will also be expanded to cover the following:-

- (a) Investments in structured products
- (b) Units in business trusts
- (c) Qualifying Islamic investments involving the *Murabaha*, *Mudaraba*, *Ijara wa Igtina*, *Musharaka*, *Istisna* and *Salam* concepts
- (d) Emissions derivatives
- (e) Stocks and shares of unlisted companies (whether resident or non-resident in Singapore) denominated in any currency
- (f) Adjudicated and non-adjudicated liquidation claims

The MAS will release the details by April 2009.

Effective : From 22 January 2009.

B GOODS AND SERVICES TAX (“GST”)

1. CHANGES TO GST TREATMENT OF AIRCRAFT AND AIRCRAFT RELATED SUPPLIES

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

(a) Sale and lease of qualifying aircraft; and

(b) Sale of aircraft components exported, as well as Maintenance, Repair and Overhaul (“MRO”) works that are performed directly on aircraft

provided that the aircraft is not used for recreational or pleasure purposes.

Proposed : The Minister proposed that the scope of qualifying aircraft be expanded to include all aircraft which are wholly used or intended to be wholly used for international transportation of goods and passengers. This includes private aircraft, provided that it is wholly used or intended to be wholly used for travel outside Singapore.

Zero-rating is to be extended to cover the sale, maintenance or repair services of aircraft components or systems as long as they form part of a qualifying aircraft.

A new scheme will also be introduced to facilitate the import of aircraft components or systems for qualifying aircraft without GST.

IRAS will release details of the changes by March 2009.

Effective : From 1 April 2009.

Commentary : The above is intended to ease GST compliance for the MRO businesses and are in line with current zero-rating concessions granted for international transportation of goods or passengers.

2. SUSPENSION OF GST ON GOODS TEMPORARILY REMOVED FROM ZERO GST OR LICENSED WAREHOUSE FOR AUCTIONS AND EXHIBITIONS

Current : GST and duty is payable when goods are removed from Zero GST or Licensed warehouses ("the approved warehouses").

GST is not levied when the goods are exported from the approved warehouses to overseas markets or when they are supplied within the approved warehouses. GST is also suspended when the goods are removed from the approved warehouses by a Major Exporter Scheme ("MES") trader or approved Third Party Logistics ("3PL") company.

Proposed : The Minister has announced that GST and duty will be suspended on goods (including wine) temporarily removed from the approved warehouses for auctions and exhibitions, even if the goods are sold during the auction or exhibition, provided the goods are returned to the warehouses subsequently.

Singapore Customs will release details of the tax changes by March 2009.

Effective : From 1 April 2009.

Commentary : The above is to promote specialised storage facilities as well as auctions and exhibitions in Singapore.

3. EXEMPTION OF GST AND DUTY FOR A SPECIFIED QUANTITY OF WINE FOR APPROVED WINE EXHIBITIONS AND CONFERENCE EVENTS

Current : GST and duty are payable for wine used at wine exhibitions and conference events.

Proposed : The Minister proposed to exempt GST and duty for a specified quantity of wine for use at approved wine exhibitions and conference events.

GST relief and duty exemption will be granted on up to 3 bottles of wine per label per day for each exhibitor and the main conference organiser at approved wine exhibitions and conference events.

Singapore Customs will release details by March 2009.

Effective : From 1 April 2009.

Commentary : The above aims to promote wine trading activities and help develop the wine industry in Singapore.

4. RECOVERY OF INPUT GST FOR QUALIFYING FUNDS

Current : Currently, funds incur GST on the procurement of services from GST-registered businesses, unless the services are zero-rated.

Where funds are GST-registered, the GST incurred can be recovered if they are incurred for the purpose of making taxable supplies. Where funds are not GST-registered, the GST incurred will be irrecoverable.

Proposed : The Minister has announced to allow qualifying funds that are managed by a prescribed fund manager in Singapore to claim a substantial portion of their input GST on prescribed expenses.

The Monetary Authority of Singapore will release details of the GST remission (such as the types of qualifying funds, qualifying conditions, prescribed list of expenses and procedures to claim GST) by April 2009.

Effective : From 22 January 2009 to 31 March 2014 (both dates inclusive).

Commentary : The above is to simplify the GST rules and process for qualifying funds to claim GST, which will help promote fund management and administration services in Singapore.

C INDIVIDUAL TAXATION

1. PERSONAL TAX RATES

- Current : Residents are taxed at graduated rates from 0% to 20% (refer to attached **Appendix I**) from Year of Assessment 2007 onwards.
- Proposed : No change to the existing personal income tax rates. However, similar to the Year of Assessment 2008, an income tax rebate of 20% (subject to a maximum cap of \$2,000) will be given to all resident taxpayers for the Year of Assessment 2009.
- Commentary : The tax rebate seeks to help cushion the effects of the economic downturn by providing an immediate reduction in the individuals' tax payable for income earned in 2008.

2. FLEXIBLE INTERBANK GIRO ARRANGEMENTS

- Current : Resident taxpayers are allowed to pay their personal income taxes in interest-free monthly instalments of up to 12 months.
- Proposed : The Minister proposed to allow resident taxpayers who have lost their jobs in 2008 or lose their jobs in 2009 to pay their personal income taxes for the Year of Assessment 2009 in monthly instalments of up to 24 months.
- Commentary : The above instalment assistance aims to help tide taxpayers over the current difficult economic situation and ease their cash burden.

3. REMOVAL OF INCOME TAX ON NET ANNUAL VALUE ("NAV")

- Current : The NAV of a property is taxable if it is used by the owner or on behalf of the owner for residential purposes and not for business purposes. An annual exemption threshold of up to \$150,000 is allowed on the NAV of one owner-occupied property only. Any excess of NAV above \$150,000 is subject to income tax.
- Where an individual owns more than one residential property, only the residential property which he or she is occupying is considered for purposes of the annual exemption.
- Proposed : The Minister has announced that the income tax on NAV of all residential properties will be removed with effect from the Year of Assessment 2010.
- Effective : From Year of Assessment 2010.
- Commentary : The removal of the income tax on NAV should benefit residential property owners who occupy property with NAV exceeding \$150,000 as well as those who own more than one property which is not let out.

D OTHERS

1. JOBS CREDIT (“JC”) SCHEME

Proposed : The Minister has introduced a temporary JC Scheme to enable businesses to receive a cash grant 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, with the exception of local and foreign government organisations, will be eligible for JC.

The JC is for 1 year and will be paid to eligible employers in 4 quarterly payments, end of March 2009 being the first payment. 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.

The amount of JC an employer can receive for each of the payment depends on 2 factors as follows.

- (i) The number of employees on their CPF payroll at the start of the quarter in which the payment is made; and
- (ii) The wage cost of these employees in the previous quarter (known as the qualifying wages).

The qualifying wages will be used to calculate the 12% cash grant that the employers will receive.

Effective : The first tranche will be paid by 31 March 2009 and subsequent ones by 30 June 2009, 30 September 2009 and 31 December 2009.

Commentary : The above aims to encourage businesses to preserve jobs in the current downturn and sustain jobs for Singaporeans.

2. SKILLS PROGRAMME FOR UPGRADING AND RESILIENCE (“SPUR”)

Current : The Government launched the SPUR to step up training programmes across all levels of the workforce, including the professionals, managers, executives and technicians (“PMETs”). The SPUR provides higher course fee support for companies and individuals and absentee payrolls for companies that send their workers for training.

The number of courses covered under SPUR was recently expanded to include courses in human resource, healthcare, precision engineering and information and communications technology.

Course fees subsidies of 80% are given for PMET-level courses and 90% for rank-and-file level courses.

Proposed : The Government proposed to make enhancements to SPUR to help PMETs re-train as follows.

(i) Course fee subsidies for PMET-level courses that are eligible for SPUR will be increased to 90% (the same subsidy level as rank-and-file level course). This includes all Specialist and Advanced Diplomas offered by the Polytechnics.

(ii) Selected tertiary courses at UniSIM and the 3 publicly funded universities will be included under SPUR.

Effective : Immediate.

Commentary : The above aims to help Singaporeans upgrade their skills so that they can stay employed or seek re-employment.

3. PROPERTY TAX REBATE FOR OWNER-OCCUPIED RESIDENTIAL PROPERTIES

Current : Currently, owners of owner-occupied residential properties enjoy the following property tax rebates.

(a) Since April 1994, owner-occupied residential properties with annual values below \$10,000 have been enjoying the on-going GST rebates of \$25 to \$150 based on the annual value of their properties.

(b) As part of the 2007 GST Offset Package, owner-occupied residential properties are given additional rebates of up to \$100 or the actual property tax amount (whichever is lower) after deducting the GST rebate (as described in paragraph (a) above) in 2008 and 2009.

Owner-occupied residential properties refer to those which are eligible for the owner-occupier's concessionary tax rate of 4% per annum instead of the normal tax rate of 10%.

Proposed : The Minister proposed a further rebate of 40% on the property tax payable (after deducting the existing rebates) to be granted to owner-occupied residential properties for the calendar year 2009.

The rebate is not available to owners who sold their properties before 22 January 2009.

Effective : From 1 January 2009 to 31 December 2009.

Commentary : The above is part of the Government's efforts to ease homeowner's costs in the light of the global economic downturn.

4. PROPERTY TAX REBATE FOR COMMERCIAL AND INDUSTRIAL PROPERTIES

Current : Currently, owners of commercial and industrial properties are required to pay property tax of 10% per annum on the annual value of the property, regardless of whether the property is let-out, vacant or for own usage.

Proposed : The Minister proposed a rebate of 40% on the property tax payable to be granted to commercial and industrial properties for the calendar year 2009. The rebate is not available to owners who sold their properties before 22 January 2009.

The types of commercial and industrial properties eligible for the rebate are retail shops / shophouses, offices, factories, farms and recreational facilities (e.g. cinemas, bowling alleys).

Effective : From 1 January 2009 to 31 December 2009.

Commentary : The above is part of the Government's relief efforts to help businesses in light of the global economic downturn. The Minister also strongly urged landlords to pass on the benefits of the tax rebate to their tenants and consider further adjustments of rentals and more flexible leasing arrangements and payment terms, in light of the severe downturn in demand faced by their tenants.

5. PROPERTY TAX DEFERRAL FOR LAND APPROVED FOR DEVELOPMENT FOR BUSINESSES

Current : Currently, land owners of vacant land or land under redevelopment are required to pay property tax of 10% per annum regardless of whether the land is let-out, vacant or under development.

Land owners are required to pay property tax in advance every year, in January, for the whole year from January to December.

Proposed : The Minister announced that property tax deferral of up to 2 years will be granted to land approved for development.

For the above property tax deferral assistance measure, land approved for development will be defined as land with valid Written Permission ("WP") / Provisional Permission ("PP") from Urban Redevelopment Authority, and where the land sites are owned by companies.

Effective : From 22 January 2009 or the date of WP / PP, whichever is later.

The deferral will lapse on 21 January 2011, or upon Temporary Occupation Permit, or upon lapsing of the WP / PP (i.e. if WP / PP is not renewed), or upon transfer of the property, whichever is the earliest.

Commentary : The deferral is to help ease cashflow for commercial property developers with the intention of developing vacant land.

**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 \$2,000 cap) is granted to Singapore tax residents