# Singapore Budget 2016

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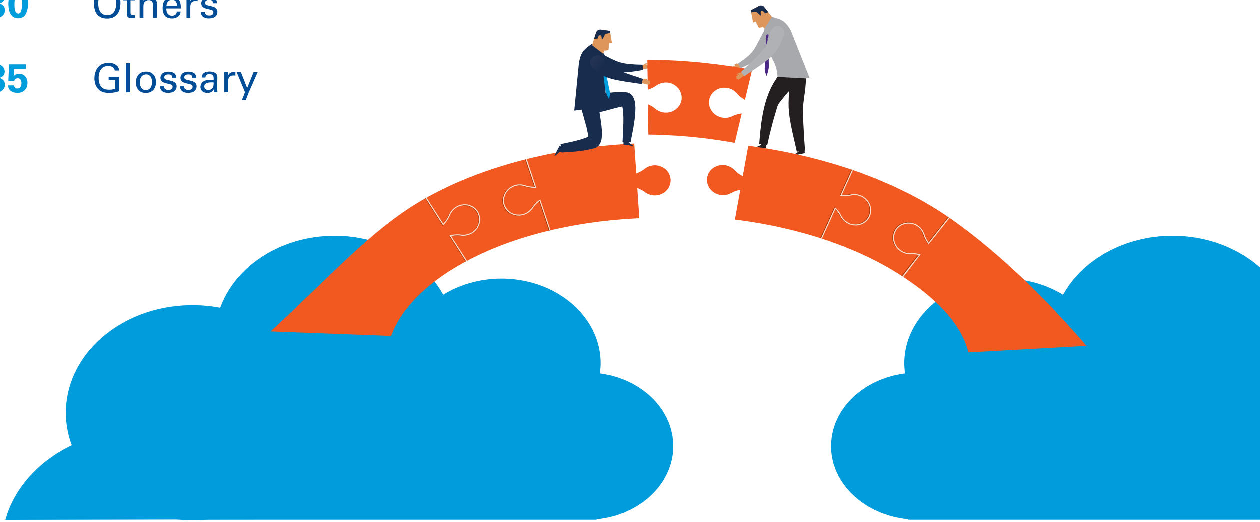


# Foreword

## Budget 2016 bears the signature of the new Finance Minister and the Government's desire to finely balance both social and business needs.

This year's Budget focuses on two broad groups — the small and medium sized enterprises (SMEs) and our people — highlighting the importance of a concerted partnership between enterprises, trade associations and chambers (TACs), government agencies, and unions. It pledges support for SMEs that are venturing into innovation and exploring foreign markets, by affording easier access to government grants and support. It also looks at adopting effective short-term measures that will help our economy to continue restructuring and growing domestically, while being equipped to also compete internationally. The focus is outside of large multinational companies, yet the approach is sector-focused, with calibrated measures that address the unique needs and challenges faced by Singapore's SMEs.

In many ways, this is a far-sighted Budget, looking at innovation outside the prism of technology and encouraging a change in the mind-set on how businesses of the future should conduct themselves in a digital world. This is also demonstrated in the way that instituting elaborate schemes has been abandoned in favour of enhancements to existing ones – making significant but small, incremental steps towards economic transformation. Whatever perceived gaps exist in the support for innovation and value creation could well be further addressed in the future recommendations of the Committee on the Future Economy. In some ways, Budget 2016 is also a confident one, reinforcing the prudence of a budget surplus for the longer-term, even as the transformation of the economy calls for new investments.

But most significantly, Budget 2016 is about the abiding vision of Singapore's economy as competitive and relevant to a globalised world, an economy that we can all take part in and contribute to.


"A finely-balanced Budget that recognises both social and business needs, it builds on our past successes in Singapore to create a brighter future. The various initiatives attend to the needs of our people, while supporting the growth ambitions of our local businesses."

# Transforming Our Economy Through Enterprise & Innovation

"It is heartening to see that the Budget adopts a more sector focused approach with calibrated measures to help the different needs and challenges faced by small-medium enterprises (SMEs)."

CHIU WU HONG
Head of Enterprise at KPMG in Singapore

# Corporate Income Tax Rebate


## Current position

- 30% with a cap of $20,000 per YA for YA 2016 and YA 2017

## New position

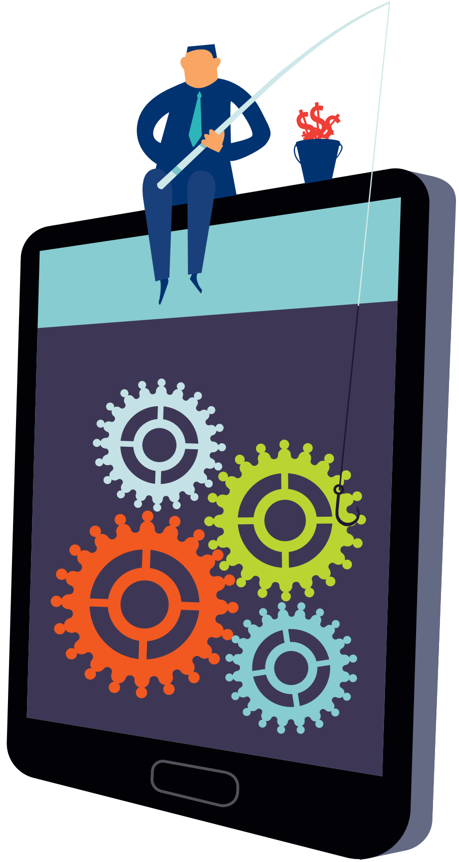
- 50% with a cap of $20,000 per YA for YA 2016 and YA 2017

“The increase in the corporate tax rebate largely benefits small-medium enterprises (SMEs) who are paying tax. Start-ups who are making losses will not be able to enjoy the benefits. In fact, the reduction in PIC cash pay-out may be a let-down for start-ups who have invested in PIC initiatives and are cash-strapped.”

ANNA LOW
Tax Partner at KPMG in Singapore

# Automation Support Package

- New scheme under SPRING comprising four components to support firms to automate, drive productivity and scale up:
  - Capability Development Grant, capped at $1 million to support automation projects up to 50% of qualifying costs
  - Investment Allowance of 100% on approved capital expenditure (net of grants) capped at $10 million per project
  - Government to increase risk share with participating financial institutions for equipment loan from 50% to 70% for qualifying projects undertaken by SMEs and cover risk share of 50% for non-SMEs
  - IE Singapore to work with SPRING to help businesses access overseas markets
- MTI will announce further details at the Committee of Supply



# Upfront Certainty of Non-Taxation of Gains on Disposal of Equity Investments

## Current position

- Under Section 13Z, gains derived from the disposal of ordinary shares during the period from 1 June 2012 to 31 May 2017 (both dates inclusive) will not be taxed if:
  - the divesting company holds a minimum shareholding of 20% in the company whose shares are being disposed; and
  - the divesting company maintains the minimum 20% shareholding for a period of at least 24 months prior to the disposal

## New position

- The exemption will be extended for a period of 5 years to 31 May 2022

“The extension of the non-taxation of gain from equity investment is most welcome in this economic environment. Companies can explore new business models to restructure their operations and streamline their investments to unlock value and achieve a higher level of operational efficiency without having to worry about any incidental tax costs.”

TAY HONG BENG
Head of Tax at KPMG in Singapore

# Mergers & Acquisitions ("M&A") Scheme


## Current position

- For qualifying M&A deals, M&A tax allowance and stamp duty relief are available for up to $20 million of consideration paid per year

## New position

- Maximum consideration will be increased from $20 million to $40 million per year
- Applicable to qualifying M&A deals made from 1 April 2016 to 31 March 2020
- IRAS will release further details by June 2016

# Double Tax Deduction ("DTD") for Internationalisation Scheme

## Current position

- Scope of qualifying activities include:-
  - Overseas business development/investment study trips/missions
  - Participation in overseas trade fairs/approved local trade fairs
- Automatic DTD is allowed up to $100,000 of qualifying expenditure incurred on or before 31 March 2016
- Approved businesses need to apply to IE Singapore to claim DTD on qualifying expenditure exceeding $100,000

## New position

- Extended to 31 March 2020
- IE Singapore will release further details by June 2016

# Enhancement to the Land Intensification Allowance ("LIA")

## Current position

- Qualifying criteria for LIA includes:-
  a) Principal activity must be a prescribed trade or business
  b) The building/structure must:-
     - meet relevant GPR benchmark; or
     - if the existing building or structure already meets or exceeds the GPR benchmark, GPR must be at least 10% more than its current GPR
  c) At least 80% of total floor area must be used by a single user for carrying out of the qualifying trade or business

## New position

**Enhancement**

- Extended to buildings used by a user or multiple users, who are related, for one or multiple qualifying trades/businesses (subject to conditions)
- Relevant GPR benchmark will be the highest of all the prescribed trades/businesses carried out in the building/structure
- Not applicable to expenditure incurred before 25 March 2016

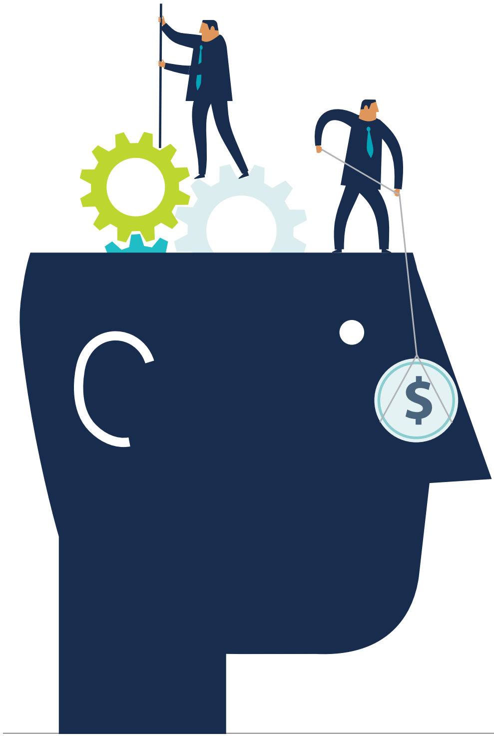
**New criteria**

- LIA applicants must be related to the qualifying user or users of the building
- The changes will take effect for:
  - LIA applications; and
  - applications for planning/ conservation permission for the construction/renovation

  made from 25 March 2016

EDB will release further details of the changes by July 2016

# Writing-Down Allowance (“WDA”) for Acquired Intellectual Property Rights (“IPRs”)



## Current position

- WDA on the acquisition cost of qualifying IPRs can be claimed over a period of five years

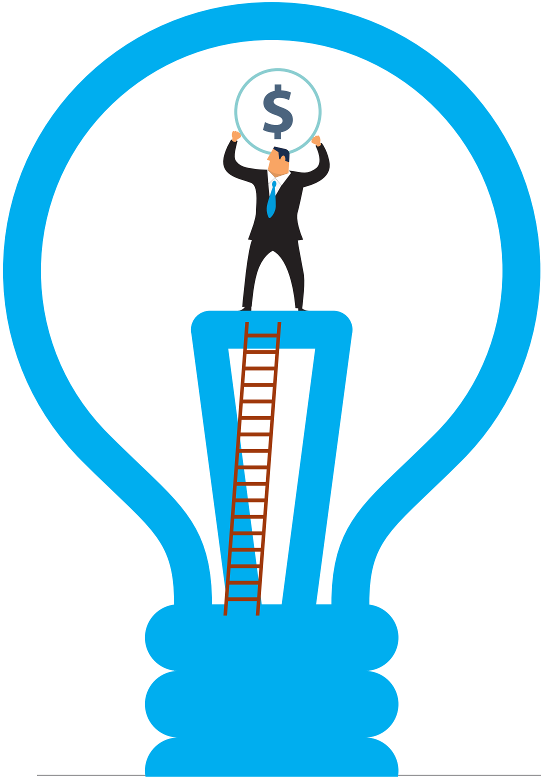
## New position

- Enhanced flexibility to claim WDAs over a period of 5, 10 or 15 years
- IRAS will release further details of the changes by 30 April 2016
- As an anti-avoidance measure, there will be specific provisions for IRAS to adjust the value of IPR to the open market value (“OMV”) in cases of acquisition and disposal. In such cases, OMV will be used for the purposes of computing WDA and balancing charge

“The flexibility to claim writing-down allowances on the acquisition cost of Intellectual Property (IPs) over a longer period will help companies to take full advantage of foreign tax credits on foreign royalty income arising out of such IPs. Previously these were often lost due to higher amount of claims squeezed over a fixed period of five years. While we do not have a “Patent Box” regime yet, tweaks like this go a long way in encouraging companies to bring IPs to Singapore as these help to minimise the tax impact.”

AJAY SANGANERIA
Partner, Pharma and Life Sciences,
KPMG in Singapore

# Productivity & Innovation Credit ("PIC") Scheme




## Current position

- Qualifying expenditure of up to $400,000 ($600,000 under PIC+) per YA can be combined from YA 2016 to YA 2018 for each qualifying activity
- Taxpayer may opt to convert the qualifying expenditure (capped at $100,000) at a cash payout rate of 60% (i.e. up to $60,000 per YA), subject to meeting the conditions

## New position

- The cash payout rate lowered from 60% to 40% for qualifying expenditure incurred from 1 August 2016
- All other conditions remain unchanged
- The PIC scheme will expire after YA 2018

"The decision to discontinue broad-based schemes like PIC in favour of targeted schemes may leave some businesses without support in their productivity and innovation efforts. The downside of targeted schemes is that they involve an application process which many smaller companies may not have the resources to undertake."

HARVEY KOENIG
Tax Partner at
KPMG in Singapore

# Finance and Treasury Centre ("FTC") Scheme

## Current position

- The FTC scheme provides for the following:
  - a 10% concessionary tax rate on income from qualifying activities and services
  - a withholding tax exemption on interest and other prescribed payments to non-residents who are approved offices or associated companies
- Funds from approved offices and associated companies must be obtained directly by the FTC in order to qualify for the concessionary tax rate
- The scheme was due to expire on 31 March 2016

## New position

- The scheme has been extended to 31 March 2021
- The concessionary tax rate has been reduced to 8%
- Funds from approved offices and associated companies may now be obtained indirectly by the FTC
- Withholding tax exemption extended to interest payments on deposits placed with the FTC by non-resident approved offices and associated companies
- EDB will release further details by June 2016

# Tax Incentive Schemes for Insurance Companies

| | Current Position | New Position |
|---|---|---|
| **Insurance Business Development ("IBD")** | 10% concessionary tax rate on qualifying income from offshore business (scheduled to lapse after 31 March 2020) | The IBD scheme will be expanded to be an umbrella scheme to include Marine Hull and Liability Insurance, Captive Insurance and Specialised Insurance Business |
| **Marine Hull and Liability Insurance** | Tax exemption or 5% concessionary tax rate on qualifying income (scheduled to lapse after 31 March 2016) | To be subsumed under IBD from 1 April 2016<br>• 10% concessionary tax rate will apply to new and renewal awards |
| **Captive Insurance** | Tax exemption on qualifying income from offshore business (scheduled to lapse after 31 March 2018) | To be subsumed under IBD from 1 April 2018<br>• 10% concessionary tax rate will apply to new and renewal awards |

# Tax Incentive Schemes for Insurance Companies

| | Current Position | New Position |
|---|---|---|
| **Specialised Insurance Business** | Tax exemption on qualifying income from offshore business (scheduled to lapse after 31 August 2016) | To be subsumed under IBD from 1 September 2016 to 31 August 2021<br>• 5% concessionary tax rate will apply to new awards from 1 September 2016 to 31 August 2019<br>• 8% concessionary tax rate will apply to new awards from 1 September 2019<br>• 10% concessionary tax rate will apply to renewal awards from 1 September 2016<br>The scope of qualifying activities will be expanded to cover both onshore and offshore businesses |

# Tax Incentive for Trustee Companies

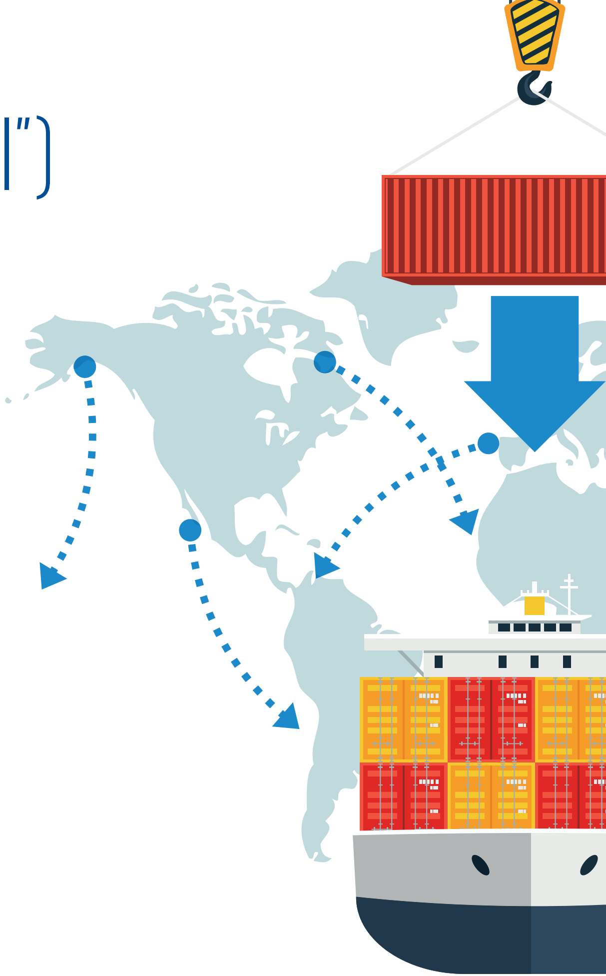
## Current position

- Approved trustee companies enjoy 10% concessionary tax rate on qualifying income derived from the provision of qualifying:-
  - Trustee and custodian services
  - Trust management or administration services
- Scheduled to lapse after 31 March 2016


## New position

- Subsumed under the FSI scheme
- Scope of qualifying activities will be expanded to align with trustee activities covered under the FSI - Standard Tier scheme
- Concessionary tax rate:
  - 12% for new incentive recipients
  - 10% for existing award holders, till expiry of their current awards (renewals to be applied under the FSI scheme)
- Effective from 1 April 2016 for new and current incentive recipients
- MAS will release further details by June 2016

# Maritime Sector Incentive ("MSI")



## Current position

- MSI-SRS, MSI-AIS and MSI-ML (Ship)

  MSI-SRS and MSI-AIS awards presently do not specifically exempt income derived from the operations of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activity relating to such exploration or exploitation

  Similarly, income qualifying for exemption under MSI-ML (Ship) does not specifically include income derived from leasing of such ships

## New position

Such income will now be exempted under the respective awards

- The enhancement will take effect from 25 March 2016
- MPA will release further details by June 2016

## Current position

- MSI-ML (Ship)

  For leasing income to be exempted under MSI-ML (Ship) the lessee must be

  - neither a Singapore tax resident nor a Singapore permanent establishment; or
  - an approved Singapore tax resident company owning or operating Singapore or foreign ships

## New position

This restriction will now be removed

- The enhancement will take effect from 25 March 2016

# Global Trader Programme (Structured Commodity Finance) ("GTP (SCF)") Scheme

## Current position

- An approved GTP (SCF) company is granted a concessionary tax rate of 5% or 10% on its income from certain qualifying activities

## New position

- The scheme will be enhanced to include the following qualifying activities:
  a) Consolidation, management and distribution of funds for designated investments;
  b) Mergers and acquisitions advisory services; and
  c) Streaming financing
- IE Singapore will release further details by June 2016
- The enhancement will take effect from 25 March 2016

# Pre-Commencement Expenses

## Current position

- Tax deduction is applicable to expenses incurred in the year a business earns its first dollar of trade receipt and up to 12 months before the first day of that year (“Section 14U expenses”)
- For businesses awarded tax incentives, there is no requirement to allocate the Section 14U expenses and the pre-commencement expenses granted deduction under Part V of ITA to the pre-incentive and incentive income

## New position

- Section 14U and pre-commencement expenses directly incurred to derive pre-incentive or incentive income will be specifically identified and set off against the relevant income
- Remaining Section 14U and pre-commencement expenses will be allocated to pre-incentive and incentive income based on income proportion (e.g. using turnover, gross profit)
- The change will take effect from 25 March 2016
- IRAS will release further details by June 2016

# Special Employment Credit ("SEC")

## Current position

- SEC provides employers an offset of wages for workers aged above 50 earning up to $4,000 a month as follows:
  - For 2015: Up to 8.5% of wages, or 11.5% of wages for workers aged 65 and above
  - For 2016: Up to 8% of wages

## New position

- SEC will be extended from 1 January 2017 to 31 December 2019
- Extended SEC will be tiered by employee age as follows:
  - 3% for workers aged 55 to 59
  - 5% for workers aged 60 to 64
  - 8% for workers aged 65 and above

# SME Working Capital Loan

- New scheme for loans of up to $300,000 per SME
- Funds to be used for daily operations or for automation and upgrading of factory and equipment
- Scheme available for 3 years
- Government will co-share 50% of default risk of such loans with participating financial institutions
- MTI will announce further details at the Committee of Supply

# Changes to Foreign Worker Levies

## Marine and Process Sectors

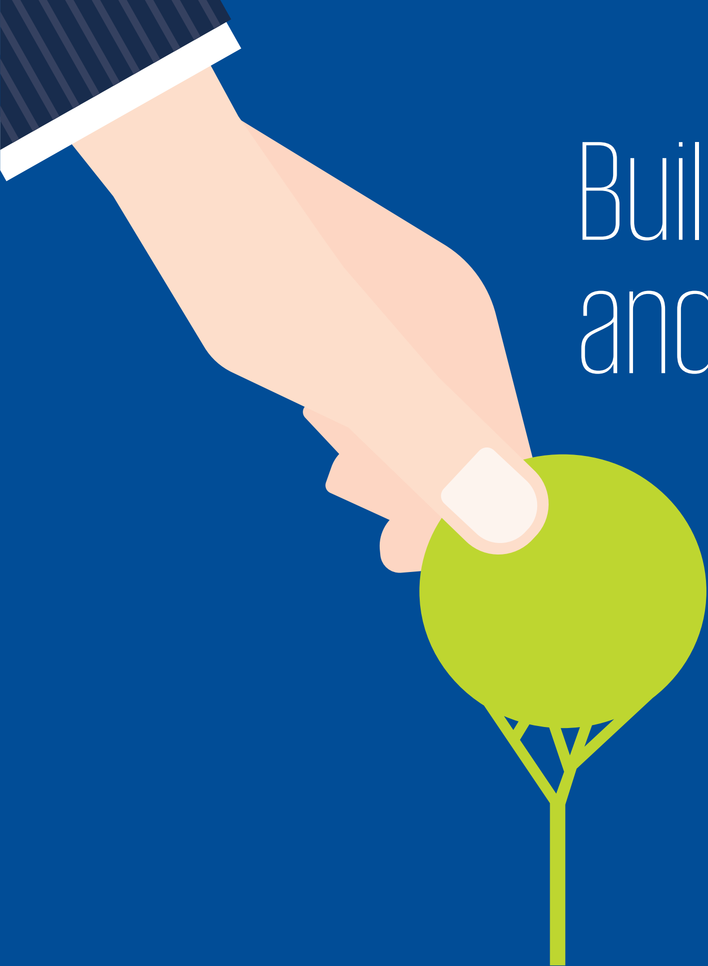
- Levy increases for Work Permit holders will be deferred for one year

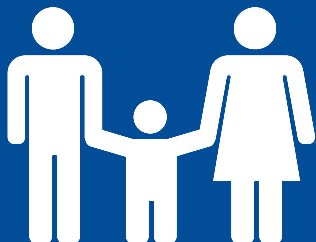
## Construction Sector

- The Man-year Entitlement ("MYE")*- waiver worker minimum experience requirement will be raised from 2 years to 3 years from 1 July 2017

*The MYE is a Work Permit allocation system for workers from non-traditional source countries and the People's Republic of China

# Building a Caring and Resilient Society





# Cap on Personal Income Tax Reliefs

- To enhance the progressivity of the personal tax system, the total amount of personal income tax reliefs that a resident individual can claim will be capped at $80,000 per YA
- The change will take effect from YA 2018

"The new cap of $80,000 on total reliefs that can be claimed may be disappointing for those who have been claiming the various reliefs, especially female high income earners with at least 2 children. Coupled with the higher top marginal rate of 22%, it appears that certain groups of individual taxpayers would be paying more taxes."

BJ OOI
Head of Global Mobility Services
at KPMG in Singapore

# Business and Institutions of Public Character ("IPC") Partnership Scheme ("BIPS")

- 250% tax deduction on wages and volunteering expenditure incurred (including secondments)
- IPCs' agreement is required and is subject to a yearly cap of $250,000 per business and $50,000 per IPC on qualifying costs
- Applicable from 1 July 2016 to 31 December 2018
- MOF and IRAS will release further details by June 2016

# Others

# Mandatory e-Filing for Corporate Tax Returns and for Application for Cash Payout under the PIC Scheme

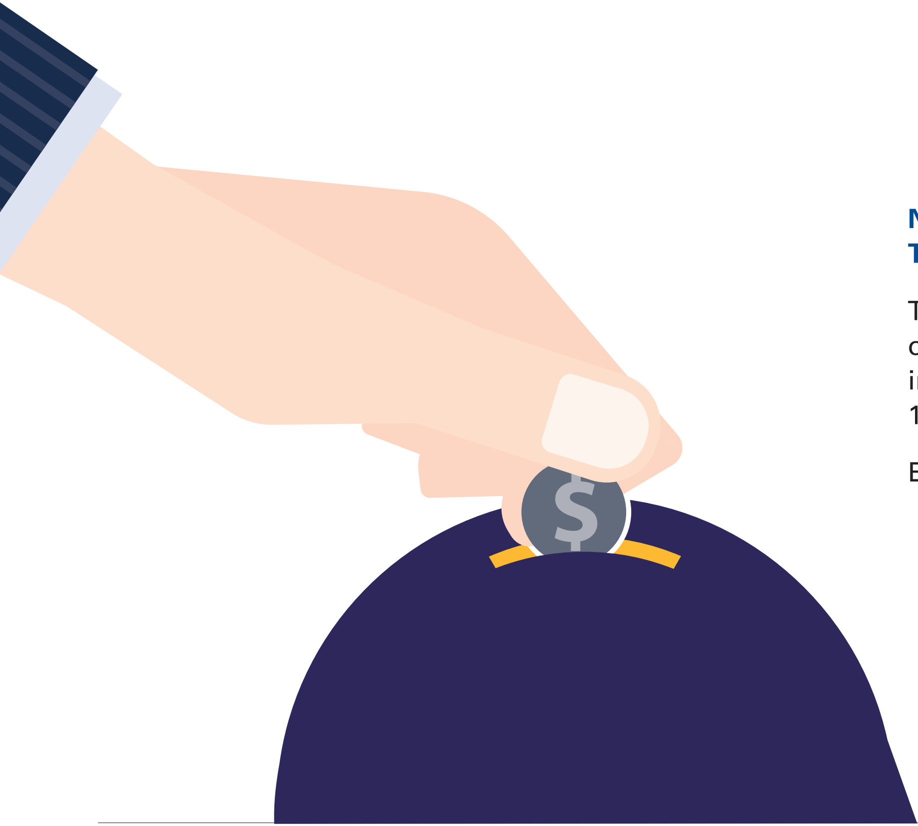
## New position

- Mandatory e-filing of corporate tax returns will be implemented in stages as follows:

| YA | Target Group |
|---|---|
| 2018 | Companies with turnover of more than $10m in YA 2017 |
| 2019 | Companies with turnover of more than $1m in YA 2018 |
| 2020 | All companies |

- Mandatory e-filing of PIC cash payout applications will be introduced with effect from 1 August 2016

# Extending Existing Schemes



## Not for Profit Organisation ("NPO") Tax Incentive

The NPO tax incentive grants tax exemption on income derived by an approved NPO. This incentive is scheduled to lapse after 14 February 2017

Extended until 31 March 2022

# Dollar for Dollar Matching for Additional Donations

- The Government will match, dollar for dollar, increases in annual donations made through Community Chest's SHARE programme for years 2016 to 2018, with year 2015 as the baseline

- 50% of the matching grant attributed to donations above year 2015, capped at $10,000 a year, will be granted to businesses participating in SHARE

- Matching grant must be utilised for approved Corporate Social Responsibility initiatives by 30 June 2021

# Phasing Out


### Tax concession for employer-provided home leave passages for expatriate employees

- An expatriate employee (i.e. non-citizen or non-permanent resident of Singapore) is only taxed on 20% of the cost of employer-provided air passages to his or her home country, limited to one passage each per year for the employee and spouse, and two passages per year for each qualifying child

Withdrawal from YA 2018

### Approved Investment Company Scheme

- Scheme was introduced to promote the investment management industry in Singapore. The scheme provides upfront certainty on the tax treatment of gains derived by approved companies from the disposal of securities

Withdrawal from YA 2018

### Tax exemption on income derived by non-residents trading in Singapore in specified commodities via consignment arrangements

- Income derived by non-residents trading in Singapore through consignees in specified commodities (i.e. rubber, copra, pepper, tin, tin-ore, gambier, sago flour and clovers) produced outside Singapore are tax exempt

Withdrawal from YA 2018

# Glossary

**CPF** – Central Provident Fund

**EDB** – Singapore Economic Development Board

**FSI** – Financial Sector Incentive

**GPR** – Gross Plot Ratio

**GST** – Goods and Services Tax

**IE Singapore** – International Enterprise Singapore

**IRAS** – Inland Revenue Authority of Singapore

**ITA** – Income Tax Act

**MAS** – Monetary Authority of Singapore

**MTI** – Ministry of Trade and Industry

**PIC** – Productivity and Innovation Credit

**R&D** – Research and Development

**SME** – Small and Medium Enterprise

**YA** – Year of Assessment

# Notes

# Notes

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