KPMG

Singapore Budget 2017

Moving Forward Together

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Contents

Foreword

Many of the assumptions that would have gone into planning for the future have been disrupted this past year. As noted by the Finance Minister Mr Heng Swee Keat in his Budget speech, we are in a time of change.

What is unprecedented, is that there was no herald to this change. It is a stark reminder of how quick and unpredictable change has become in the world today. This period of change drives the theme of the entire 2017 Budget - Moving Forward Together. It lays out in a way that best befits this time of change - a strategy, rather than a plan.

Not prescribing, it instead enacts policies to help Singapore stay agile and adaptive, especially as our external environment changes rapidly.

As technology brings forth the convergence of industries and new business models disrupt traditional businesses, leveraging the benefits brought on by digitalisation and increased connectivity can promote innovation.

Beyond measures promoting innovation capability building to ensure our people have the right skills, there are also proposals to encourage our local enterprises to digitalise so as to improve their operations.

Besides business related measures, building an inclusive and caring society by introducing more household support measures have also been announced.

Totalling an expected $850 million, it will include GST vouchers, education bursaries and more service and conservancy charge rebates, and also provides more support to the disadvantaged.

The Budget is far-sighted. It encourages greater innovation through initiatives such as the Global Innovation Alliance, Innovators Academy and Innovation Launchpad. It also pushes local enterprises to change their mind-set and embrace the need to digitalise, as evident in the new SMEs Go Digital programme.

Overall, Budget 2017 strikes a balance between the need to be responsive in a rapidly changing world while remaining fiscally prudent.

Besides developing future-ready skills and infrastructure, it also fosters a caring, inclusive society and a quality living environment, while managing a fiscally sustainable system.

Ong Pang Thye

Managing Partner, KPMG in Singapore

Budget 2017 at a glance

General

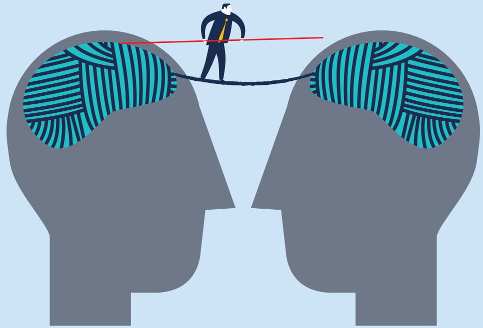
Corporate income tax rebate
- YA 2017: 50% of tax payable, cap raised from $20,000 to $25,000
- YA 2018: 20% of tax payable, cap of $10,000

IP ("IP") Development Incentive ("IDI")
- IDI to be introduced to encourage exploitation of IP arising from R&D activities. Changes to take effect from 1 July 2017

Finance and Treasury Centre ("FTC") Scheme
- Qualifying counterparties for certain transactions to be streamlined for new or renewal incentive awards approved from 21 February 2017

Global Trader Programme ("GTP") enhancements
- Concessionary tax rate will apply to qualifying transactions with any counterparty instead of qualifying counterparties
- Exclusion of physical trading income from certain transactions will no longer apply. Changes to take effect from 21 February 2017

Safe harbour rule for payments under Cost Sharing Agreements ("CSA") for R&D projects
- Taxpayers may opt to claim tax deductions under Section 14D for 75% of payments made under CSA for R&D projects without the need to provide the breakdown of expenditure claimed for CSA payments made from 21 February 2017



Enterprise

Additional Special Employment Credit ("ASEC")

- ASEC is extended to 31 December 2019 to provide for additional wage offsets in line with the raise in re-employment age from 65 to 67. Changes to take effect from 1 July 2017

SME Go-Digital Programme

- A new programme introduced to support and help SMEs build digital capabilities

International Partnership Fund

- A new scheme for the Singapore Government to co-invest alongside Singapore-based firms in opportunities for scale-up and internationalisation

Internationalisation Finance Scheme ("IFS")

- Enhancements to the IFS to bridge gaps in financial markets for project finance in the region

Foreign Worker Levy

- Deferral of Foreign Worker Levy increases for Marine and Process Sectors by 1 year to 30 June 2018

Budget 2017 at a glance

Extension / Expiry / Withdrawal of Incentives / Schemes

Extension of incentive / schemes

- Withholding tax exemption for structured products offered by financial institutions extended to 31 March 2021
- Aircraft leasing scheme / automatic withholding tax exemption on funds drawn down to acquire aircraft and aircraft engines extended to 31 December 2022, with single concessionary rate of 8% for new or renewal awards approved after 1 April 2017.
- Tax incentives for Project and Infrastructure Finance extended to 31 December 2022, except for remission of stamp duty scheme which will lapse after 31 March 2017
- Withholding tax exemption on payments for international telecommunications submarine cable capacity under an Indefeasible Rights of Use agreement extended to 31 December 2023
- Integrated Investment Allowance Scheme extended to 31 December 2022

Expiry / Withdrawal of incentive / schemes

Withdrawal

- Tax Deduction for Computer Donation scheme – after 20 February 2017
- Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology scheme – after 31 December 2017
- GST Tourist Refund Scheme withdrawn for tourists departing by international cruise – purchases made from 1 July 2017

Expiry

- Accelerated Writing-Down Allowances for Acquisition of Intellectual Property Rights for Media and Digital Entertainment – after 31 December 2017
- International Arbitration Tax Incentive – after 30 June 2017
- Approved Building Project scheme – after 31 March 2017

Individuals / Others

Personal income tax rebate

- YA 2017: 20% of tax payable, cap at $500 per taxpayer

Carbon tax

- Implementation of a new carbon tax of between $10 to $20 per tonne of greenhouse gas emissions from 2019

Restructuring of diesel tax

- Diesel duty on automotive diesel, industrial diesel and diesel component in biodiesel to be imposed at $0.10 per litre with effect from 20 February 2017
- Diesel to be removed from Industrial Exemption Factory Scheme from 20 February 2017
- Three years of road tax and cash rebates will be provided for commercial diesel vehicles and school buses

Water conservation tax

- Water Conservation Tax to be imposed on NEWater, at 10% of the NEWater tariff from 1 July 2017.
- Water Conservation Tax imposed on potable water to be increased in two phases

An Innovative and Connected Economy

Corporate income tax rebate

CURRENT POSITION

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

NEW POSITION

- Cap will be raised to $25,000 for YA 2017 with the rebate rate unchanged at 50%
- Extended to YA 2018 at a reduced rate of 20% with a cap of $10,000

> The Government's decision to increase corporate tax rebate to $25,000 will certainly be welcomed by corporates in Singapore. However, this may not sufficiently help businesses, as many are still grappling with rising business costs on all fronts.

Alan Lau

Tax Partner

Withholding tax exemption on payments for structured products

CURRENT POSITION

- Withholding tax exemption is allowed on payments made to non-resident non-individuals for structured products offered by financial institutions for contracts which:
  - take effect;
  - are renewed; or
  - extended

  during the qualifying period from 1 January 2007 to 31 March 2017, subject to conditions

NEW POSITION

- The qualifying period will be extended till 31 March 2021
- All other conditions of this scheme remain the same

Project and Infrastructure Finance

CURRENT POSITION

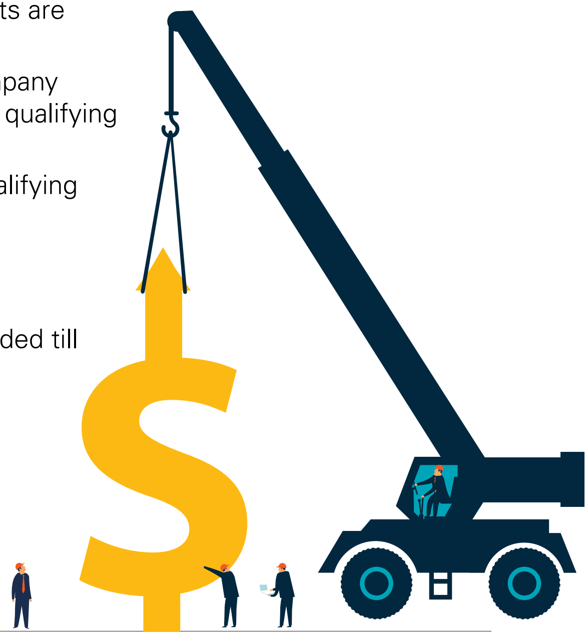
- Interest and other qualifying income from Qualifying Project Debt Securities issued for prescribed infrastructure projects are exempt from tax
- Foreign-sourced interest and dividend income derived by SGX-listed companies / business trusts originating from qualifying offshore infrastructure projects are exempt from tax
- Qualifying income derived by a trustee-manager / fund management company from managing qualifying SGX-listed business trusts / funds in relation to qualifying infrastructure projects is eligible for a concessionary tax rate of 10%
- Remission of stamp duty payable on instrument of transfer relating to qualifying infrastructure projects

NEW POSITION

- These incentives which are due to expire on 31 March 2017 will be extended till 31 December 2022
- All other conditions of the schemes remain the same
- MAS will release further details of the extension by May 2017

PHASING OUT

- Remission of stamp duty will be phased out with effect from 1 April 2017



Intellectual Property ("IP") Development Incentive ("IDI")

CURRENT POSITION

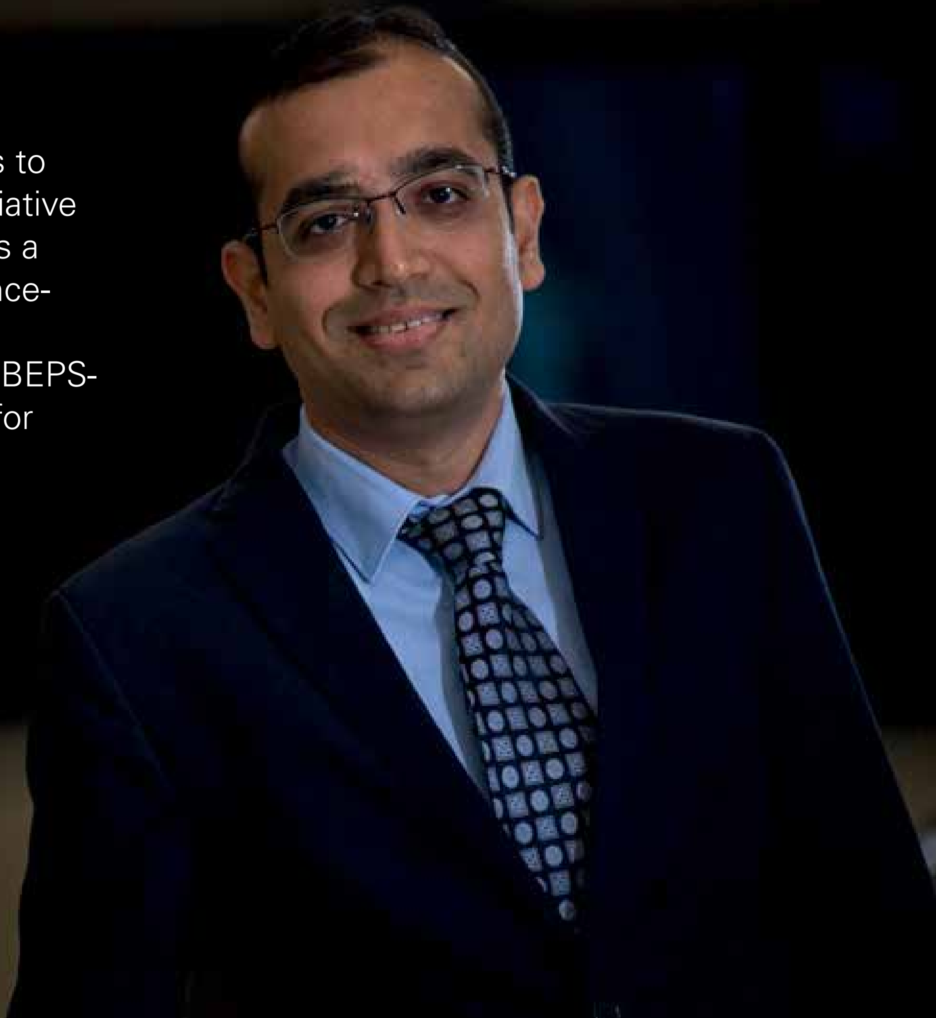
- IP income arising from qualifying activities is subject to tax at concessionary tax rates under the Pioneer-Services/ Headquarters Incentive
- Such incentives are subject to negotiation and approval of the EDB and based on the specific business plan of the business applying for the incentive

NEW POSITION

- IDI to be introduced to encourage exploitation of IP arising from R&D activities
- IDI will take effect from 1 July 2017 and be subject to negotiation and approval by the EDB
- The scheme will follow the modified nexus approach as proposed under Base Erosion and Profit Shifting Action Plan 5
- Such income will be removed from the scope of Pioneer-Services/ Headquarters Incentive for new incentive awards starting 1 July 2017
- Existing incentive recipients will continue to enjoy their existing incentive award till 30 June 2021
- EDB will release further details of the change by May 2017 including qualifying criteria

> The Budget recommendations to support the OECD's BEPS initiative adds credence to Singapore as a jurisdiction which promotes substance-based tax structures. Singapore will definitely stand out as a low tax yet BEPS-compliant market to MNCs looking for jurisdictions in which to invest.

Ajay Sanganeria
Tax Partner



Safe harbour rule for Cost Sharing Agreements ("CSA") for R&D projects

CURRENT POSITION

- When claiming payments made under CSA for R&D projects under Section 14D of the ITA, taxpayers are required to provide breakdown of the expenditure incurred to demonstrate that certain categories of expenditure disallowed under Section 15 have been excluded
- The above payments can be claimed as enhanced deductions under Section 14DA

NEW POSITION

- Taxpayers may opt to claim tax deductions under Section 14D for 75% of payments made under CSA for R&D projects without the need to provide the breakdown of expenditure claimed
- The change will apply to CSA payments made from 21 February 2017
- If taxpayers elect for this option, taxpayers may have to forgo claiming enhanced deductions under Section 14DA
- IRAS will release further details of the change by May 2017

"The measures to strengthen the innovation capability of SMEs is a good start. However, many SMEs are just embarking on their innovation journey and will need even more help along the way to navigate issues, such as working with innovation partners, protecting their intellectual property, and commercialising their ideas. SMEs should look to schemes such as the Capability Development Grant and R&D tax incentives to fund their innovation projects."

Harvey Koenig
Tax Partner

Finance and Treasury Centre ("FTC") Scheme

CURRENT POSITION

- The FTC scheme provides for concessionary tax rate of 8% on income derived by an approved FTC from:
  - Qualifying services provided to approved network of companies; and
  - Qualifying activities carried out on its own account with funds obtained from qualifying sources

NEW POSITION

- Qualifying counterparties for certain transactions will be streamlined to ease compliance burden
- The changes will apply to new or renewal incentive awards approved from 21 February 2017
- EDB will release further details by May 2017

Global Trader Programme ("GTP")

CURRENT POSITION

- Qualifying income derived by approved global trading companies from qualifying transactions with qualifying counterparties are taxed at a concessionary tax rate of 5% or 10% as approved by the IE Singapore
- Physical trading income arising from the following are excluded from the purview of the GTP incentive:
  - commodity purchased for consumption in Singapore or supply of fuel to aircraft or vessels within Singapore
  - storage or any activity in Singapore which adds value by physical alteration, addition or improvement

NEW POSITION

- Concessionary tax rate to apply to qualifying transactions with any counterparty instead of qualifying counterparties
- The exclusions for physical trading income mentioned under the current position will no longer apply
- The above changes will apply to qualifying income from 21 February 2017
- Substantive requirements to be increased for new or renewal of GTP incentive award approved from 21 February 2017
- IE Singapore will release further details of the changes by May 2017

Withholding tax exemption on payments under Indefeasible Rights of Use ("IRU") agreement

CURRENT POSITION

- Withholding tax is exempted on payments made to non-residents for the use of international telecommunications submarine cable capacity under an IRU agreement (scheduled to lapse after 27 February 2018)

NEW POSITION

- The withholding tax exemption will be extended to 31 December 2023

Aircraft Leasing Scheme ("ALS")

CURRENT POSITION

- Approved aircraft and aircraft engine lessors enjoy a concessionary tax rate of 5% or 10% on qualifying income under the ALS
- Qualifying income includes the provision of finance to airline companies
- Automatic withholding tax exemption on funds drawn down to acquire aircraft and aircraft engines
- The ALS and automatic withholding tax exemption were scheduled to expire on 31 March 2017

NEW POSITION

- The ALS has been extended till 31 December 2022
- The concessionary tax rate will be revised to a single rate of 8% which will apply to new or renewed incentives approved after 1 April 2017
- Qualifying income will include the provision of finance to any lessee with effect from 21 February 2017
- Automatic withholding tax exemption on funds drawn down to acquire aircraft and aircraft engines has been extended to 31 December 2022
- EDB will release further details in May 2017

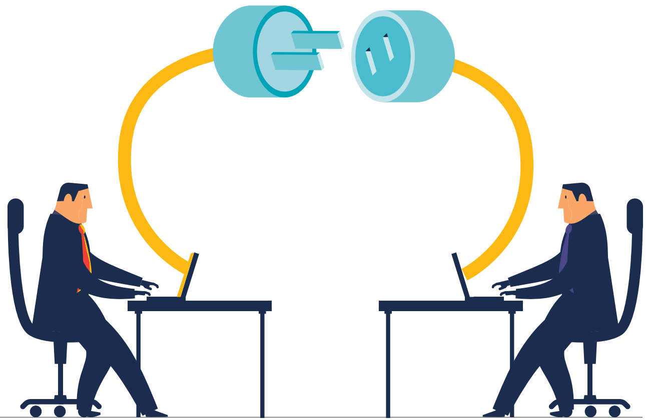
Integrated Investment Allowance ("IIA") Scheme

CURRENT POSITION

- The IIA provides an additional allowance (on top of the normal capital allowance) for fixed capital expenditure incurred on qualifying productive equipment placed outside Singapore for approved projects
- Approval for IIA can only be granted up to 28 February 2017

NEW POSITION

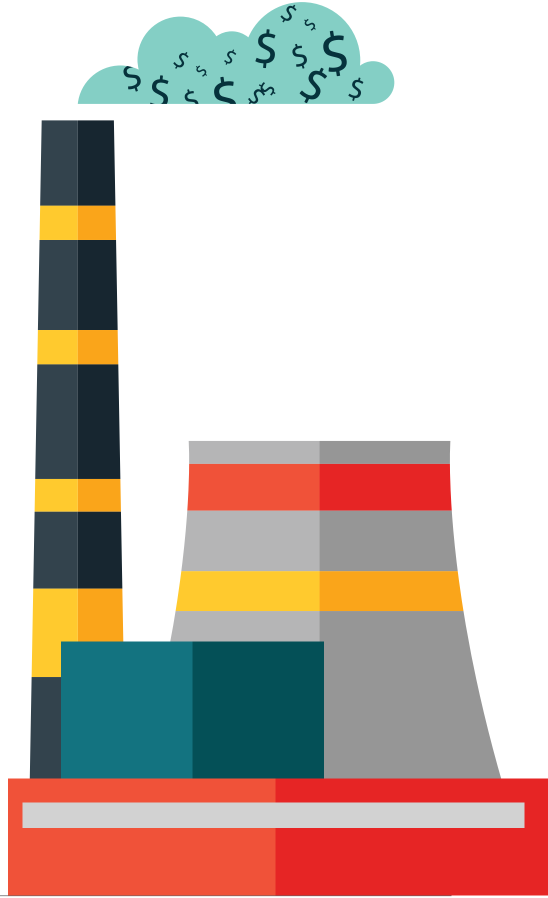
- The scheme has been extended to 31 December 2022
- Qualifying productive equipment may now be used by the overseas company primarily (rather than solely) to manufacture products for the qualifying Singapore company
- This liberalisation will only apply to expenditure on qualifying productive equipment for projects approved from 21 February 2017



A Quality Living Environment

Carbon Tax

- The Government intends to implement a carbon tax on the emission of greenhouse gases and will consult widely with various stakeholders
- The aim is to implement the carbon tax from 2019
- The tax will generally be applied upstream, for example, on power stations and other large direct emitters, rather than electricity users
- The tax rate currently being looked at is between $10 to $20 per tonne of greenhouse gas emissions
- The price level and exact implementation schedule will be decided after consultations



Diesel Tax

CURRENT POSITION

- A lump sum Special Tax on diesel cars and taxis is levied in lieu of volumetric diesel duty

NEW POSITION

- With effect from 20 February 2017, the diesel duty on automotive diesel, industrial diesel and diesel component in biodiesel is $0.10 per litre
- The previous lump sum annual Special Tax will be permanently reduced for diesel cars and taxis by $100 and $850 respectively

Water Conservation Tax

CURRENT POSITION

- No Water Conservation Tax is imposed on NEWater.
- Water Conservation Tax is imposed on potable water as follows:
  - Domestic potable water: 30% of water tariff for usage up to $40m^3$ and 45% for usage above $40m^3$
  - Non-domestic potable water: 30% of water tariff
  - Shipping Customers: 30% of water tariff

NEW POSITION

- From 1 July 2017, Water Conservation Tax will be imposed on NEWater, at 10% of the NEWater tariff
- There will be an increase in the Water Conservation Tax on potable water as follows:-

From 1 July 2017

- Domestic potable water: 35% of water tariff for usage up to $40m^3$ and 50% for usage above $40m^3$
- Non-domestic potable water: 35% of water tariff
- Shipping Customers: 35% of water tariff

From 1 July 2018

- Domestic potable water: 50% of water tariff for usage up to $40m^3$ and 65% for usage above $40m^3$
- Non-domestic potable water: 50% of water tariff
- Shipping Customers: 50% of water tariff

Offset measures for commercial diesel vehicles

- To ease the transition to the re-introduction of diesel duty, three years of road tax rebates will be provided for commercial diesel vehicles:
  - 1 August 2017 – 31 July 2018: 100% Road Tax Rebate
  - 1 August 2018 – 31 July 2019: 75% Road Tax Rebate
  - 1 August 2019 – 31 July 2020: 25% Road Tax Rebate

- In addition to the three-year Road Tax Rebate, diesel school buses will be given yearly cash rebates to ease the impact of diesel duty on school bus fees:
  - 1 August 2017 – 31 July 2018: $1,400
  - 1 August 2018 – 31 July 2019: $700
  - 1 August 2019 – 31 July 2020: $350

- In addition to the three-year Road Tax Rebate, eligible diesel private hire buses and diesel excursion buses that ferry school children will be given yearly cash rebates to ease the impact of diesel duty on school bus fees:
  - 1 August 2017 – 31 July 2018: up to $1,500
  - 1 August 2018 – 31 July 2019: up to $800
  - 1 August 2019 – 31 July 2020: up to $450

To be eligible for the cash rebates, these buses must have a school bus contract, and ferry children continuously for at least six months. The cash rebates will be pro-rated based on the number of days these buses have ferried school children in the respective time period.

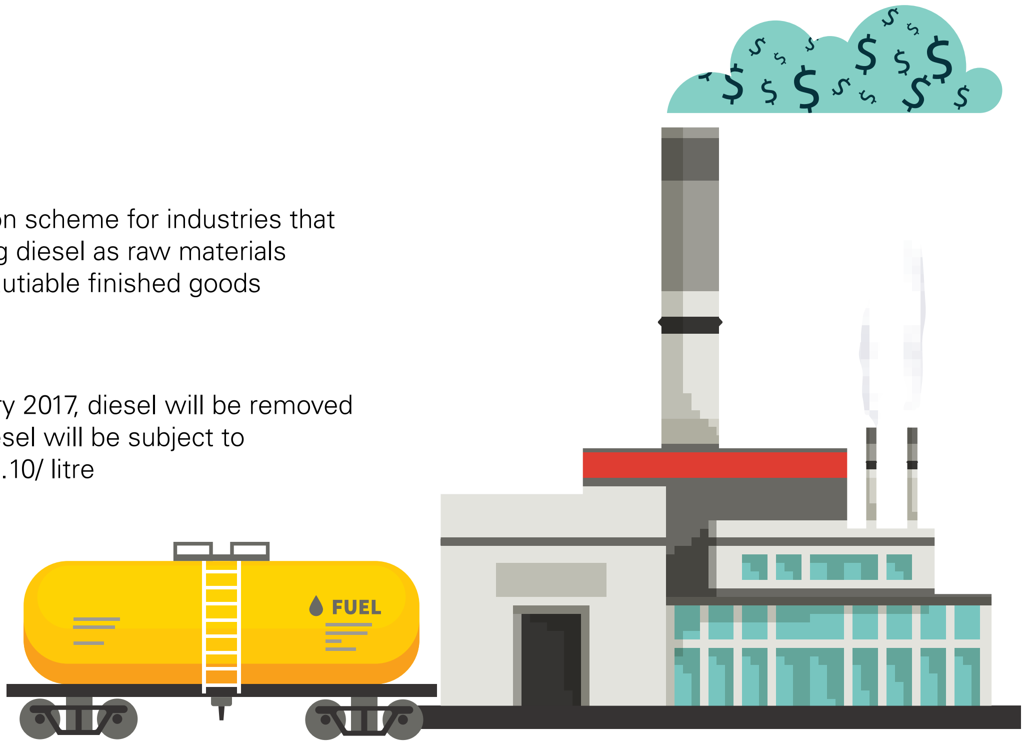
Industrial Exemption Factory Scheme ("IEFS")

CURRENT POSITION

- The IEFS is a duty exemption scheme for industries that use dutiable goods including diesel as raw materials solely to manufacture non-dutiable finished goods

NEW POSITION

- With effect from 20 February 2017, diesel will be removed from the IEFS. Industrial diesel will be subject to volumetric diesel duty of $0.10/ litre



Strengthening Capabilities in our Enterprises

SME Go-Digital Programme

- This programme will comprise three components to support and help SMEs build digital capabilities:
  - Sectoral Industry Digital Plans whereby SMEs will get step-by-step advice on technologies to use at each stage of their growth
  - In-person help at:
    (1) SME Centres for advice on off-the-shelf technology solutions or connect to Info-communications and Technology ("ICT") vendors and consultants, and
    (2) a new SME Technology Hub for specialist advice
  - Advice and funding support for SMEs to pilot emerging ICT solutions
- Further details will be announced at the Committee of Supply

> "The Go Digital Programme is a welcome move for SMEs. The creative employment of technology will be pivotal for Singapore to retain its competitiveness. SMEs can use these incentives to harness the digital space, which will in turn spur value creation and support Singapore's position as a global hub."

Larry Sim
Tax Partner

International Partnership Fund

- New scheme to support Singapore-based firms to scale up and internationalise
- The Government will set aside up to $600 million for the International Partnership Fund which will co-invest alongside Singapore-based firms in opportunities for scale-up and internationalisation, with a focus on Asian markets
- Such joint investment will allow Singapore-based firms to partner other promising Asian companies to extend product lines, brands or value chains, or to gain access to markets, channels and technologies
- Qualifying Singapore-based firms should be headquartered in Singapore with annual revenues of no higher than $800 million

"The International Partnership Fund will help Singapore-based companies to expand globally. While they venture overseas and raise the "made by Singapore" flag, it is also crucial to keep them anchored in Singapore."

Chiu Wu Hong

Head of Tax

Internationalisation Finance Scheme ("IFS")

CURRENT POSITION

- IE Singapore's IFS is designed to facilitate companies' access to financing for their overseas ventures through the co-sharing of default risks between IE Singapore and Participating Financial Institutions

NEW POSITION

- To bridge gaps in financial markets for project finance in the region, the Government will enhance the IFS
- The enhancements will be aimed at catalysing:
  - private cross-border project financing to smaller Singapore-based infrastructure developers, by co-sharing the default risk of lower quantum non-recourse loans
  - financing for projects undertaken by larger firms in higher-risk developing markets, by providing a share of the needed sovereign risk insurance coverage
- The MTI will provide more details at the Committee of Supply

Others

Personal Income Tax Rebate

- A personal income tax rebate of 20% of tax payable, capped at $500, will be granted to all resident individual taxpayers for YA 2017
- The tax rebate will give households a reduction in their tax bills for this year

“KPMG’s Change Readiness Index 2015 placed Singapore at number one on Enterprise and Government Capability, but also showed room for improvement in the People and Civil Society pillar. It is therefore heartening to see the recent budget providing impetus for the community to take greater initiative in building a better future for Singaporeans.”

Satya Ramamurthy

Partner and Head of Infrastructure,
Government & Healthcare

Additional Special Employment Credit ("ASEC")

CURRENT POSITION

- The ASEC was introduced to provide additional wage offsets of up to 3% to employers hiring Singaporean employees earning up to $4,000 a month, who are older than the re-employment age of 65

NEW POSITION

- With effect from 1 July 2017, the re-employment age will be raised from 65 years to 67 years
- In line with this change in re-employment age, the ASEC is extended to 31 December 2019 to provide for additional wage offsets for employers hiring:
  - Workers above re-employment age; and
  - Workers who are above 65 years old as of 1 July 2017 and are not covered by the new re-employment age

Foreign Workers Levy

CURRENT POSITION

- Marine and Process Sectors
  - Levy increases will be implemented in 2017 (as announced in Budget 2016)
- Construction Sector
  - Levy rates for Basic tier R2 workers is currently at $650

NEW POSITION

- Marine and Process Sectors
  - Levy increases will be deferred for one more year from 1 July 2017 to 30 June 2018
- Construction Sector
  - Levy rates for Basic tier R2 workers will be raised to $700 from 1 July 2017 to 30 June 2019 (as first announced in Budget 2015)

Phasing Out of Existing Schemes

Tax deduction for Computer Donation Scheme

- The 250% tax deduction, which was granted on donation of computers (including computer software and peripherals) by any company to an Institution of Public Character or prescribed educational, research or other institution in Singapore, is withdrawn since the objective of the scheme has been achieved

  Withdrawn after 20 February 2017

Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology ("ADA-EEET") Scheme

- Under this scheme, the capital expenditure on qualifying energy efficient or energy-saving equipment can be written off or depreciated in one year
- To streamline the various incentives that promote energy efficiency that have been introduced over the years, the ADA-EEET scheme will be withdrawn by the end of the year

  Withdrawn after 31 December 2017

Accelerated Writing-Down Allowances ("WDA") for Acquisition of Intellectual Property Rights ("IPRs") for Media and Digital Entertainment ("MDE")

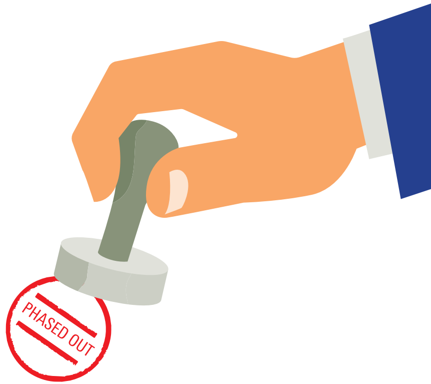
- The scheme which allowed an approved MDE company / partnership to claim WDA over a period of two years for capital expenditure incurred in respect of IPRs pertaining to MDE content acquired for use in its business, will lapse upon its expiry as it is no longer relevant
- MDE companies / partnerships may elect to claim WDA over a writing-down period of 5/10/15 years on the capital expenditure incurred to acquire the qualifying IPRs under Section 19B of the ITA

Withdrawn after 31 December 2017

International Arbitration Tax Incentive ("IArb")

- The 50% tax exemption on qualifying income under IArb was introduced to encourage the provision of international arbitration services and attract overseas law practices to set up international arbitration services in Singapore. As Singapore has grown as an international arbitration hub, this incentive is scheduled to lapse upon expiry
- The Government will continue to develop and strengthen Singapore's arbitration landscape in other ways

Withdrawn after 30 June 2017



Approved Building Project ("ABP") Scheme

- Under this scheme, a 3-year property tax exemption for land under development had been given for large-scale industrial projects which would generate substantial economic spinoffs. The scheme will lapse on 31 March 2017
- Increasingly, the Government has emphasised that property tax is a tax on property ownership, and is not dependant on its beneficial use or occupation. With this emphasis, the property tax refund for vacant buildings was abolished on 1 January 2014. This lapsing of the ABP scheme is but another step in the same direction

Withdrawn after 31 March 2017

GST Tourist Refund Scheme ("TRS") for tourists departing by international cruise

- Due to very low transaction volume of tourist refunds at the designated cruise terminals, the GST TRS will be withdrawn for tourists departing by international cruise
- Purchases made from 1 July 2017 will not enjoy the GST TRS. Tourists have a two month period i.e. till 31 August 2017 to claim refunds on purchases made before 1 July 2017, post which the electronic TRS facilities will be removed from the designated cruise terminals
- IRAS will release further details of the change by April 2017

Withdrawn for purchases made from 1 July 2017 by tourists departing by international cruise

“I’m not surprised that the residential property cooling measures, especially the ABSD, have not been lifted. Given the existing economic conditions, with generally lower interest rates and relative affordability of the residential properties, the Government is wary of creating an unimaginable demand spike from both foreign and local investors.”

Tay Hong Beng
Head of Real Estate

Glossary

CPF – Central Provident Fund

EDB – Singapore Economic Development Board

GST – Goods and Services Tax

IE Singapore – International Enterprise Singapore

IRAS – Inland Revenue Authority of Singapore

ITA – Income Tax Act

LTA – Land Transport Authority

MAS – Monetary Authority of Singapore

MTI – Ministry of Trade and Industry

R&D – Research and Development

SME – Small and Medium Enterprise

YA – Year of Assessment

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