



A BUDGET FOR THE FUTURE

Singapore Budget 2018



FOREWORD

Finance Minister Heng Swee Keat has delivered a Budget which is strategic, calibrated and confident.

Coming as a surprise, was his announcement of a budget surplus of S\$9.6 billion, far exceeding the forecasted surplus of S\$1.9 billion.

As noted by the Finance Minister, while we address short term concerns, the Singapore Budget must be a strategic and integrated plan to position Singapore for the future.

One notable measure to help companies thrive includes plans to use some of this year's exceptional surplus to save ahead for future infrastructure expenditure. For example, S\$5 billion has been set aside in the Rail Infrastructure Fund to pay for the new rail lines Singapore has planned.

To encourage companies to reduce emissions in pursuit of a smart, green and liveable city, details of the previously announced carbon tax to be implemented from 2019 were also outlined.

I was also heartened to see measures to upgrade the skills of our workforce. One example is the expansion of the Tech Skills Accelerator scheme into sectors like manufacturing and professional services, where digital technologies are increasingly prevalent.

Another proposal is the piloting of a Capability Transfer Programme which supports the transfer of skills from foreign specialists to Singaporean workers.

At the same time, helping local companies cope with near-term cost pressures is not forgotten, with the extension of the Wage Credit Scheme for three more years.

A 250% tax deduction for donations made to Institutions of Public Character was also extended for another three years, to foster the spirit of giving among Singaporeans.

In totality, the combination of strategic measures announced this year strikes a balance between the need to be responsive in a rapidly changing world, while remaining fiscally prudent and socially inclusive.

It focuses on helping companies to grow, while creating an environment which continues to be attractive to inward investment.

Ong Pang Thye
Managing Partner
KPMG in Singapore

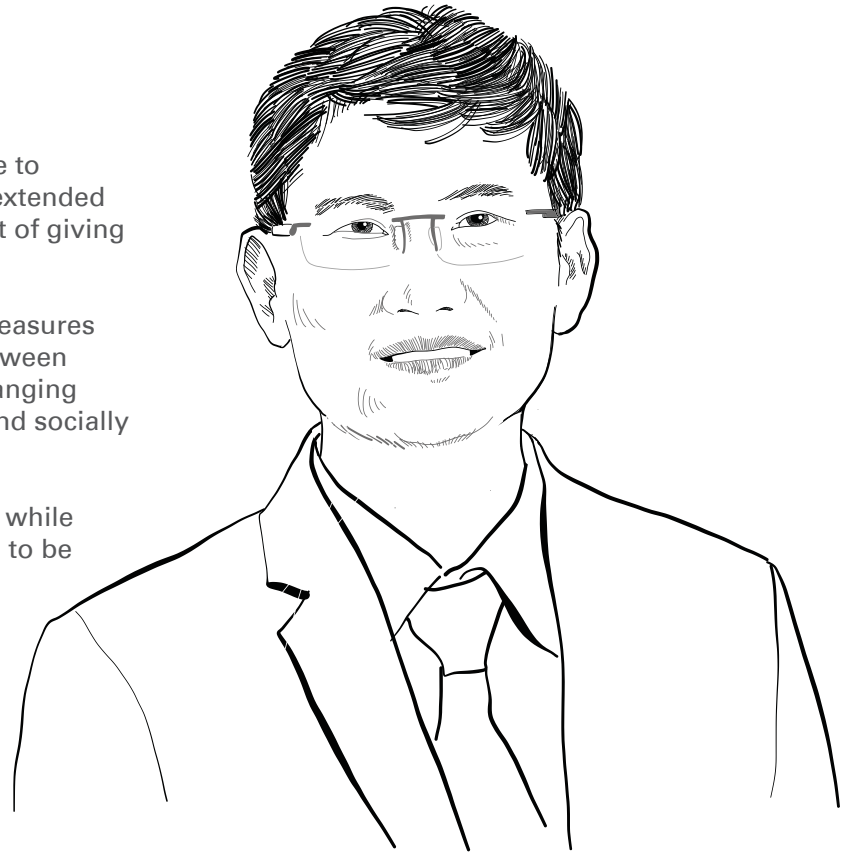


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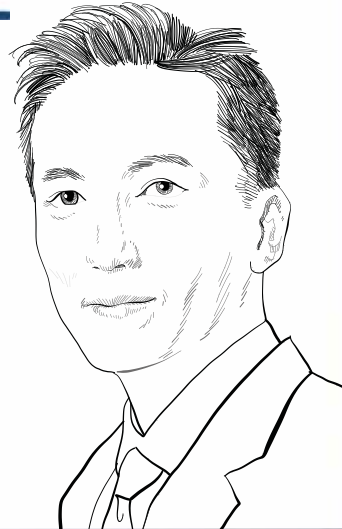
A VIBRANT AND
INNOVATIVE ECONOMY



INSIGHTS FROM THE INSIDE

“Singapore has already been preparing for the three major shifts: rise of Asia, emerging technologies, and ageing population. Budget 2018 takes a significant step forward by setting a targeted strategy for the next decade, especially for businesses to move away from cost competition and differentiate via innovation.”

Chiu Wu Hong
Head of Tax



CORPORATE INCOME TAX REBATE

It was announced in Budget 2017 that companies can enjoy a Corporate Income Tax Rebate of 20% of tax payable, capped at \$10,000 for YA 2018.



PROPOSAL

To ease business costs and support restructuring by companies, the rebate has been enhanced and extended as follows:

- 40% of tax payable, with the cap raised to \$15,000 for YA 2018
- Extended to YA 2019 at a rate of 20% of tax payable, capped at \$10,000

START-UP TAX EXEMPTION (SUTE) AND PARTIAL TAX EXEMPTION (PTE) SCHEMES

- The current SUTE and PTE schemes, which were introduced many years ago, do not directly assist taxpayers to innovate and develop capabilities.
- Qualifying start-up companies do not pay any corporate income taxes if their normal chargeable income does not exceed \$100,000 due to the automatic full tax exemption on the first \$100,000 of chargeable income under the current SUTE scheme.
- Given that it is expected that taxpayers should pay corporate income taxes if their businesses generate profits, the availability of automatic full tax exemption for a select group of taxpayers appear to lead to some form of tax inequality.
- Different rates of exemption applied to the different tiers of normal chargeable income between the current SUTE and PTE schemes may also cause confusion.

PROPOSAL

- The tax exemptions under both schemes would be restricted to the first \$200,000 of normal chargeable income.

Adjustments made to the start-up tax exemption scheme

- 75% exemption on the first \$100,000 of normal chargeable income
- 50% exemption on the next \$100,000 of normal chargeable income

\$200,000

Adjustments made to the partial tax exemption scheme

- 75% exemption on the first \$10,000 of normal chargeable income
- 50% exemption on the next \$190,000 of normal chargeable income

\$200,000

- All other conditions of the schemes remain unchanged.
- The above adjustments will take effect on or after YA 2020.



INSIGHTS FROM THE INSIDE



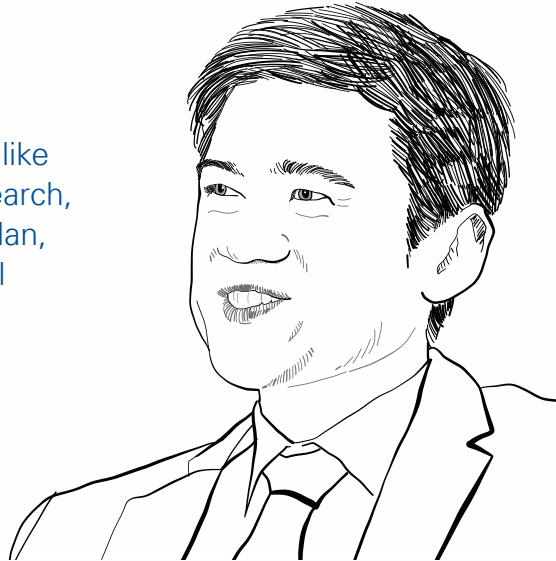
“The restricted tax exemption for SMEs and start-ups will add to their cost of business but the underlying intention is for profitable companies that may have benefited from grants/schemes should contribute back to the system. The effective tax rate remains lower than the headline corporate tax rate.”

Jonathan Ho
Head of Enterprise

INSIGHTS FROM THE INSIDE

“Enhanced R&D tax incentive & deductions for IP registration and licensing coupled with measures like the ITMs and the \$19 billion Research, Innovation and Enterprise 2020 Plan, will position Singapore as a global innovation hub.”

Harvey Koenig
Head of ASEAN
Incentive Advisory



R&D TAX DEDUCTIONS

- R&D plays a huge role in improving the productivity and economic performance of a nation. Singapore has long seen the need to become an innovation-driven economy, with the introduction of the R&D tax incentive in Budget 2008, and the Productivity and Innovation Credit (“PIC”) scheme in Budget 2010.
- For Singapore, the R&D tax incentive, which provides enhanced tax deductions for qualifying R&D expenses, is the most important tool for encouraging sustained and continuous innovation.
- The small domestic market necessitates stronger support for R&D in order for such activities to bloom.

KEEPING UP WITH CURRENT TRENDS

- Countries around the world have been enhancing their respective R&D tax incentives, while the expiry of Singapore’s PIC scheme in YA 2018 would have resulted in Singapore’s R&D tax incentive becoming less attractive. In addition, the digital economy presents both challenges and opportunities for Singapore businesses. There is an urgent need for businesses to address disruption through continuous innovation.

PROPOSAL

- To spur continuous innovation in Singapore via enhancements to the existing R&D tax incentive scheme:
 - R&D enhanced tax deductions for local R&D will be increased from the existing 150% to 250% for qualifying R&D expenditure with effect from YA 2019 up to YA 2025.
 - The 250% enhanced tax deduction translates to tax benefits of 42.5 cents for every dollar of R&D expenditure incurred by companies.
- However, the enhanced R&D tax incentive does not provide for a cash grant support for businesses, which will be crucial for smaller companies to kick start their R&D journey.
- Overseas R&D expenditure which is not included in the enhanced R&D tax incentive, may hamper companies from tapping on expertise not readily available in Singapore, or where Singapore does not have the facilities to accommodate such R&D.
- We hope the government would consider these issues.

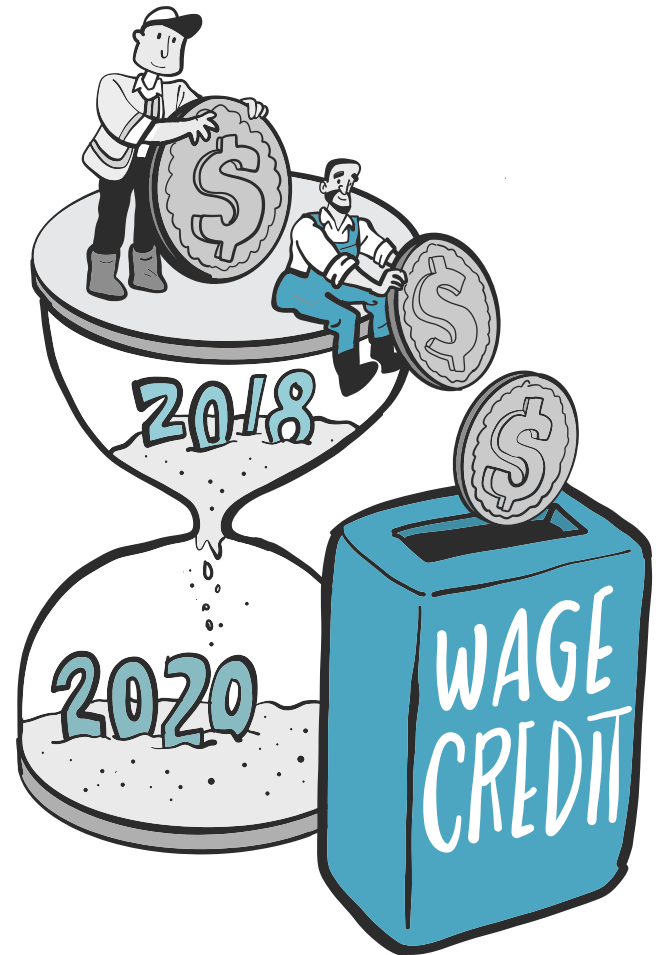
The following table compares Singapore’s R&D tax incentive with that of some other countries investing heavily to boost innovation. With the enhanced R&D tax deduction, Singapore will have one of the most competitive R&D regimes globally.

COUNTRY	TYPE OF INCENTIVE	BENEFITS* (AS A PERCENTAGE OF R&D EXPENDITURE)		CORPORATE INCOME TAX RATE
		LARGE COMPANIES	SMES	
HONG KONG	Enhanced tax deductions	Up to 49.5%	Up to 49.5%	16.5%
SINGAPORE (WITH NEW ENHANCED R&D TAX DEDUCTION SCHEME)	Enhanced tax deductions	42.5%	42.5%	17%
AUSTRALIA	Tax Credit	38.5%	43.5%	27.5% to 30%
IRELAND	Tax Credit and Enhanced tax deductions	37.5%	37.5%	12.5%
CHINA	Enhanced tax deductions	37.5%	37.5%	25%

*Benefits include tax deduction for R&D expenditure, calculated based on standard corporate tax rate of the respective countries.

WAGE CREDIT SCHEME

- 56% of respondents to KPMG's Pre Budget 2018 Poll cited that business costs remain one of the top three concerns.
- Wage costs contribute to business costs as a key component.
- While the balance between sustained wage growth and costs pressures on businesses lies in productivity growth, in the near term, cost pressures on businesses cannot be overlooked.
- Against this backdrop, some form of support on wage costs is opportune.
- The Wage Credit Scheme which provides a Government subsidy of 20% of wage increases was due to expire in 2018 (in respect of 2017 wages).

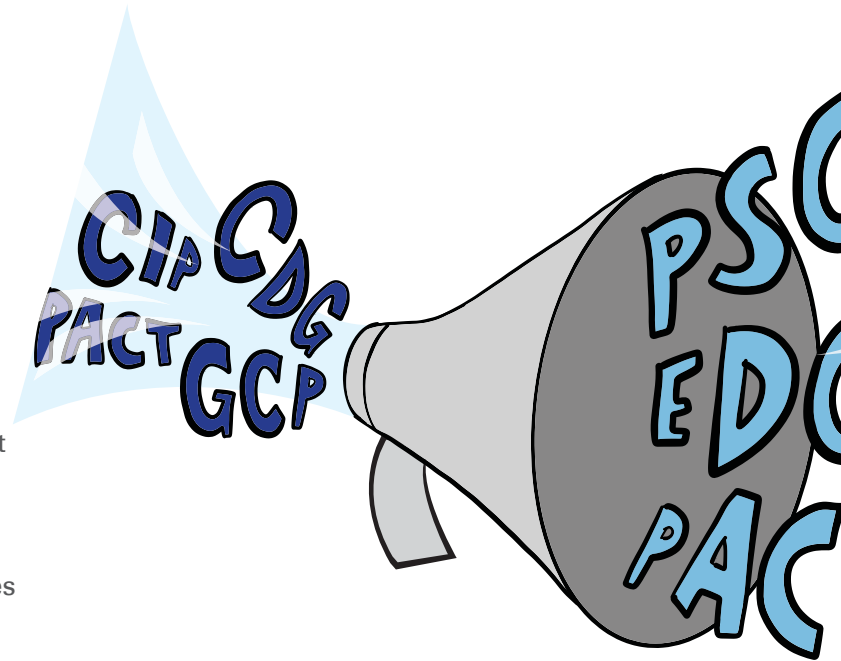


PROPOSAL

- The Wage Credit Scheme is proposed to be extended for three more years (i.e. 2018-2020).
- The Government will provide subsidies of 20%, 15% and 10% of qualifying wage increases in 2018, 2019 and 2020 respectively, subject to qualifying conditions.
- Wage increases given in 2017, 2018 and 2019 and sustained in future years will be supported.
- Qualifying wage increases of at least \$50 a month, up to a gross monthly wage level of \$4,000 will receive co-funding.
- The Wage Credit Scheme payouts will be made automatically to employers in March of each of the following year of qualifying wage increases.

STREAMLINING OF PRODUCTIVITY AND CAPABILITY DEVELOPMENT SCHEMES

- At present, there are many grant schemes administered by various government agencies to encourage local enterprises to embrace productivity, build capabilities, and forge partnerships:
 - Capability Development Grant (“CDG”)
 - SMEs Go Digital Programme
 - Global Company Partnership (“GCP”) Grant
 - Partnerships for Capability Transformation (“PACT”)
 - Collaborative Industry Projects (“CIP”)
- There have been calls to streamline the schemes to reduce confusion to businesses.



PROPOSAL

- Existing grant schemes will be streamlined to provide more holistic support. Enterprises can now seek funding support for up to 70% of qualifying costs under the following three grant schemes:

1 Productivity Solutions Grant (“PSG”)

- Support pre-scoped, off-the-shelf productivity solutions
- The previous Innovation Capability Voucher and the current SMEs Go Digital Programme have grant caps of \$5,000, which may be of limited support, especially for smaller companies looking to adopt off-the-shelf productivity solutions. It remains to be seen if these caps will be applied under the PSG
- As more businesses embrace cloud-based solutions, it is hoped the schemes should also support such solutions
- Apply through the Business Grants Portal (“BGP”) with effect from 1 April 2018

2 Enterprise Development Grant (“EDG”)

- With the merger of IE Singapore and SPRING into Enterprise Singapore (“ESG”), CDG and GCP schemes will be combined to build deep capabilities, scale up and internationalise
- From FY 2018 to FY 2019
- Apply through the BGP with effect from Q4 2018
- Administered by ESG

3 Partnerships for Capability Transformation Scheme (“PACT”)

- Support collaborations between enterprises of all sizes in areas including capability upgrading, business development, and internationalisation

- Combining EDB’s PACT and SPRING’s PACT and CIP schemes
- There seems to be a broadening of the PACT scheme as the new scheme would also be covering areas like business development and internationalisation, in addition to capability development
- Administered by EDB and ESG

- Further details of these grant schemes will be released at Ministry of Trade and Industry’s Committee of Supply

TAX DEDUCTION FOR INTELLECTUAL PROPERTY (IP) RELATED COSTS

As we advance towards a future that is increasingly driven by innovation and knowledge, the role of IP in the global economy is becoming more significant.

Companies have to embrace innovation and make the best use of new technologies as a competitive advantage.

There is a need for more firms to innovate across the entire value chain, and in-license or register their own IP.





PROPOSAL

1

Enhance tax deduction on costs for protecting IP as follows:

- Extend the existing scheme which allows for the tax deduction on such costs to YA 2025.
- Increase tax deduction from 100% to 200% for the first \$100,000 of qualifying IP registration costs incurred for each YA from YA 2019 to YA 2025.

2

Enhance tax deduction for costs on in-licensing IP as follows:

- Increase tax deduction from 100% to 200% for the first \$100,000 of qualifying in-licensing costs incurred for each YA from YA 2019 to YA 2025.
- Include payments made to publicly funded research performers or other businesses; but exclude related party licensing payments or payments for IP where any allowances were previously made.

DOUBLE TAX DEDUCTION FOR INTERNATIONALISATION (DTDi) SCHEME

The DTDi is designed to encourage Singapore SMEs to venture abroad. Since 2012, a 200% tax deduction is given on qualifying expenditure of up to \$100,000 incurred on the following four selected activities, without the need for prior approval:

1. Participation in overseas business development trips;
2. Participation in overseas trade fairs / missions;
3. Participation in local trade fairs that have been approved by International Enterprise Singapore ("IE") or Singapore Tourism Board ("STB"); and
4. Participation in overseas investment study trips / missions

IE and STB also approve claims in excess of \$100,000, on a case-by-case basis, made by businesses that require larger funding support, or on expenditure incurred on other qualifying activities.





PROPOSAL

- To further encourage Singapore SMEs to expand overseas, the expenditure cap of \$100,000 for claims that do not require prior approval will be increased to \$150,000 per YA.
- Businesses will still be able to apply to IE or STB for approval of qualifying expenses exceeding \$150,000, or expenditure incurred on other qualifying activities including, among others listed by IE, conducting overseas feasibility studies and setting up overseas trade offices.
- The increased cap will apply to qualifying expenses incurred from YA 2019 onwards, and all other conditions of the scheme will remain the same.
- Further details are expected to be released by IE and STB by April 2018.

A SMART,
GREEN AND
LIVEABLE CITY



INSIGHTS FROM THE INSIDE

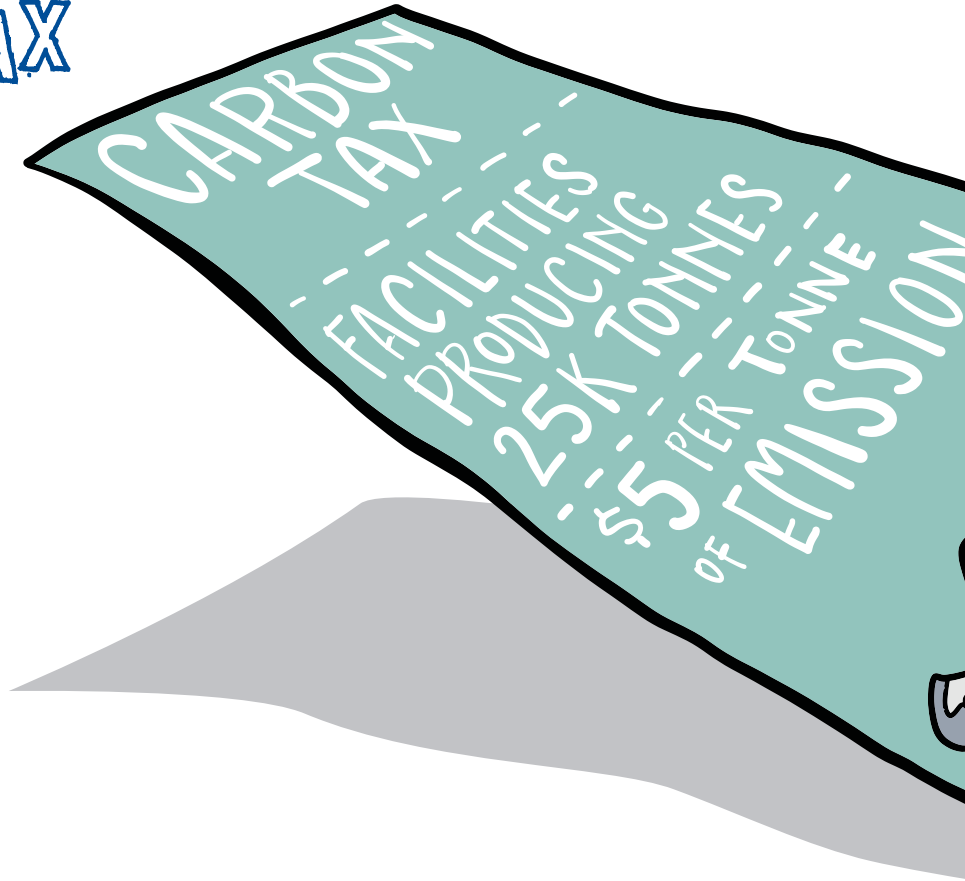
“The introduction of a new carbon tax will help diversify the source of revenue collection for Singapore, and build a more robust taxpayer base for the future. This augurs well against the backdrop of SG’s rising healthcare and social spending needs, while also helping to control greenhouse gas emissions.”

Satya Ramamurthy
Head of Infrastructure,
Government
& Healthcare



CARBON TAX

- Carbon tax was first announced in Budget 2017.
- The formalisation of the carbon tax mechanism signals a change in Singapore's business landscape, where companies need to account for additional costs arising from environmental externalities.
- The objective of the Government is to drive a change in behaviours, obtain a more energy efficient economy and encourage carbon abatement initiatives. This could kickstart the creation of a new eco-system of energy efficiency players in Singapore, thereby creating a potential hub for such companies here.



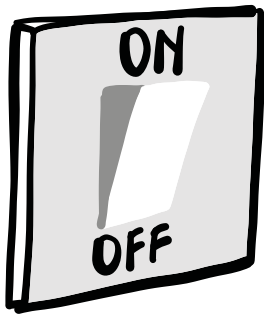


PROPOSAL

- A carbon tax will be imposed on all facilities producing 25,000 tonnes or more of greenhouse gas emissions in a year.
- The tax will be \$5 per tonne of greenhouse gas emissions from 2019 to 2023, and the rate will be reviewed by 2023.
- The intention is to reach a carbon tax rate of between \$10 and \$15 by 2030.
- \$1 billion is expected to be collected in carbon tax revenues in the first five years, and the Government is prepared to spend more than this amount to support emissions abatement projects.
- Funds have been set aside to enhance support for companies to improve energy efficiency through schemes such as the Productivity Grant (Energy Efficiency) and the Energy Efficiency Fund.
- While the headline rate of \$5 appears low as compared to some other developed countries like UK or the countries in the EU region, the cost will likely be passed on to all end-users. Businesses should identify opportunities for reducing emissions along their value chain and also leverage on government grants for energy assessments, as well as incentives for energy-efficient technology and equipment.

IMPROVING ENERGY EFFICIENCY

- Energy efficiency has been a topic discussed in many countries over the past 10 years. However, there has been no real push in Singapore for companies to improve or work towards a more energy efficient operation.
- Incentives to innovate in the energy sector have been lacking.



PROPOSAL

- The Government will set aside funds to enhance support for companies, including SMEs and power generation companies to improve energy efficiency and reduce emissions via the Productivity Grant and the Energy Efficiency Grant.
 - The improvement in energy efficiency will move Singapore towards achieving the 2030 Sustainability Blueprint targets.
- The Budget proposed embarking on Energy Grid 2.0 to develop next-generation grid architectures that can respond quickly and reliably to changes in energy demand and supply.
 - The investment in energy grid of the future will allow a more effective demand management and also accommodate intermittent supply sources such as increased solar capacity. This will be critical to reap the benefits of competition and technology effectively.
 - The next generation grid will help optimise supply to demand thereby using the capacity more effectively and ultimately reducing costs for end customers.

TOBACCO TAX

The Government wants to discourage the consumption of tobacco products in Singapore.



PROPOSAL

Excise duties across all tobacco products will be increased by 10% with immediate effect.

A CARING AND
COHESIVE SOCIETY



TAX DEDUCTION FOR DONATIONS

To encourage philanthropy in Singapore, approved donations made to Institutions of a Public Character (“IPCs”) and other qualifying recipients from 1 January 2016 to 31 December 2018 currently qualify for enhanced tax deduction of 250%.



PROPOSAL

The 250% enhanced tax deduction will be extended for another three years for all approved donations made from 1 January 2019 to 31 December 2021.

FOREIGN DOMESTIC WORKER (FDW) LEVY

\$300

- Currently, a household employing a FDW has to pay a monthly levy of \$265.
- The employer of the FDW may be eligible for a concessionary rate of \$60 per month if he / she is a Singapore citizen of at least 65 years of age.
- The concessionary rate of \$60 also applies to an employer with a Singapore citizen child / grandchild below 16 years of age (young child or grandchild scheme), elderly persons (aged person scheme), or persons with disabilities (persons with disabilities scheme).
- The employer may apply for the concession for up to two FDWs (for two eligible persons in the household).
- For tax purposes, a female taxpayer may claim Foreign Maid Levy Relief based on twice the amount of levy paid on one FDW, subject to meeting certain conditions.
- Over the last 10 years, the number of FDWs in Singapore has increased by about 40% to 240,000 in 2017.





PROPOSAL

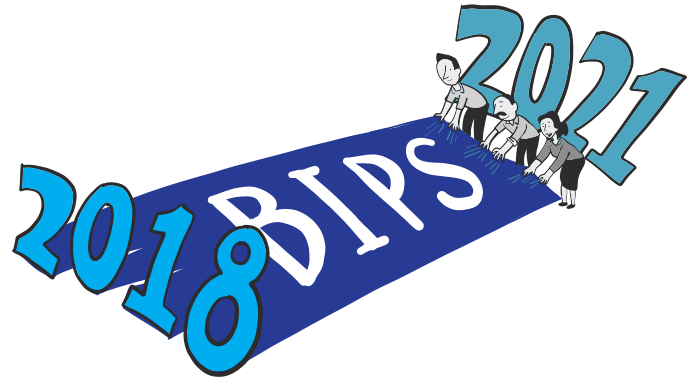
- To avoid an over-dependency on FDWs, the following changes have been proposed which will take effect from 1 April 2019:
 - The monthly levy for the first FDW who is employed without levy concession will be raised from \$265 to \$300.
 - The monthly levy for the second FDW who is employed without levy concession will be raised from \$265 to \$450.
 - The qualifying age for levy concession under the aged person scheme will be raised from 65 to 67 years. However, all households with persons aged 65 and 66, which are enjoying or have enjoyed the levy concession under the aged person scheme before 1 April 2019, will continue to pay the monthly levy rate of \$60 on and after 1 April 2019.
- Following the proposed increase of the amount of the FDW levy, the tax relief allowable for Foreign Maid Levy is expected to increase accordingly.

BUSINESS IPC PARTNERSHIP SCHEME (BIPS)

- BIPS was introduced in Budget 2016 to encourage more businesses to support employee volunteerism.
- Under BIPS, qualifying expenditure such as wages incurred by businesses for sending qualifying employees to volunteer and / or provide services to IPCs (including under secondment arrangements), will qualify for enhanced tax deduction of 250%, subject to the IPCs' agreement.
- The enhanced tax deduction is subject to a cap of \$250,000 per business and \$50,000 per IPC per YA on qualifying expenditure incurred from 1 July 2016 to 31 December 2018.

PROPOSAL

- The enhanced tax deduction under BIPS will be extended to 31 December 2021.
- Ministry of Finance and IRAS are currently reviewing the administrative processes for BIPS with a view to streamline the process and will release further details in the second half of 2018.



GST VOUCHERS

- The GST Voucher scheme was introduced in 2012 to help lower and middle-income Singaporeans with their household expenses.
- It is a permanent scheme which provides yearly benefits in the form of cash, Medisave top-up and / or U-save rebate.

PROPOSAL

- As the Government plans to increase GST sometime in the period between 2021 and 2025, enhancements will be made to the GST Voucher scheme to provide more assistance and support to the lower-income households and seniors.
- This year, the Government will make a \$2 billion top-up to the GST Voucher Fund to support the payments.
- More details will be released once the timing of the GST increase is determined.



GST RATE HIKE

A GST rate hike is proposed to raise revenue to pay largely for increasing healthcare as well as education.



PROPOSAL

- The anticipated GST rate hike announcement has been given a temporary reprieve.
- A 2% rate hike is planned to be introduced sometime between 2021 and 2025, depending on Singapore's economy, government spending and revenue from other taxes.
- Businesses have at least a three-year lead to prepare for the rate hike.
- The Government will absorb GST on publicly-subsidised education and healthcare; the permanent GST Voucher scheme will be enhanced; and an offset package will be in place to help the population adjust.

INSIGHTS FROM THE INSIDE

“It is heartening to hear that SG Budget 2018 has deferred the introduction of reverse charge and overseas vendor GST registration to 1 January 2020. This gives time for businesses that cannot claim all its input tax to be more GST-efficient and minimise the additional non-claimable input tax occurring from reverse charge.”

Lam Kok Shang
Head of Indirect Tax



GST ON IMPORTED SERVICES

Services bought from overseas vendors are not subject to GST as there is no requirement for overseas vendors to register for GST.



PROPOSAL

Business-to-Consumer (“B2C”) Imported Digital Services:
Overseas
Vendor Registration (“OVR”)

- GST on B2C imported digital services will be collected through OVR.
- Under OVR, overseas vendors and electronic marketplace operators who sell B2C digital services (e.g., apps, music and e-books) to non-GST registered persons are required to register for GST where:
 - Global turnover exceed \$1 million/ year; and
 - Sales to Singapore buyers exceed \$100,000/ year
- This is a two-level threshold, different from local businesses.
- To local buyers, this change means an additional 7% GST charge.

The above is expected to be introduced on or after 1 January 2020. IRAS will release details of the change by end-February 2018.

PROPOSAL

Business-to-Business (“B2B”) Imported Services: Reverse Charge

- GST on B2B imported services will be collected through a reverse charge mechanism.
- Under a reverse charge mechanism, a buyer self-charges GST on imported services but can also claim the GST subject to the same rules as if he had purchased from a GST-registered vendor.
- The reverse charge on B2B imported services will be limited to buyers who will not be entitled to full input GST claim. These are traditionally the banks, financial companies, mixed and residential property developers and holding companies that are unable to claim GST in full.

The above is expected to be introduced on or after 1 January 2020. IRAS will release details of the change by end-February 2018.



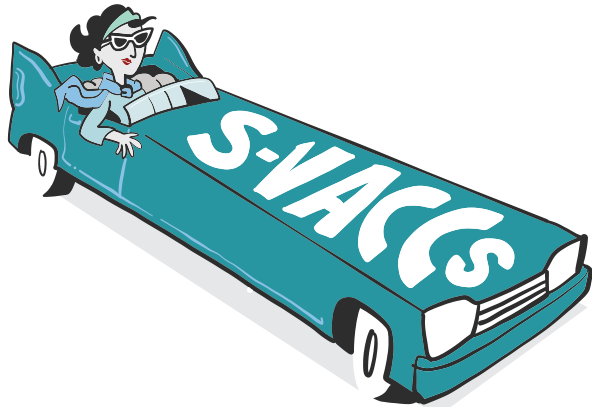
SECTOR SPECIFIC ANNOUNCEMENTS

FINANCIAL AND INSURANCE SECTORS



SINGAPORE VARIABLE CAPITAL COMPANIES (S-VACCS)

S-VACC is a new vehicle designed to support collective investment schemes and will offer asset managers a broader scope of asset classes and investment strategies.

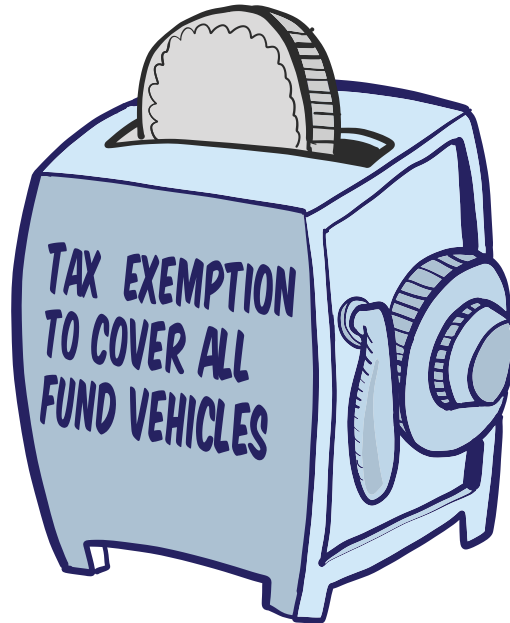


PROPOSAL

- A specific tax framework for S-VACC will be introduced to complement the S-VACC regulatory framework with the following key features:
 - An S-VACC will be treated as a company and single entity for tax purposes;
 - Tax exemption under Sections 13R and 13X of the ITA will be extended to S-VACCs;
 - 10% concessionary tax rate under the Financial Sector Incentive – Fund Management (“FSI-FM”) Scheme will be extended to approved fund managers managing incentivised S-VACC; and
 - GST remission for funds will be extended to incentivised S-VACCs
- The conditions under the existing Section 13R, Section 13X and FSI-FM remain unchanged.
- MAS will release further details of the tax framework for S-VACCs by October 2018.

ENHANCED TIER FUND SCHEME (SECTION 13X)

The tax exemption under the Enhanced-Tier Fund Scheme (Section 13X of the ITA) is currently available to companies, trusts and limited partnerships which meet certain qualifying conditions.



PROPOSAL

- The Enhanced-Tier Fund Scheme has been broadened to cover all fund vehicles constituted in all forms. The change will take effect for new awards approved on or after 20 February 2018.
- This would include Singapore's latest fund vehicle offering, the S-VACC, as well as other similar collective investment vehicles, mutual funds, etc and should help maintain Singapore's position as a premier hub for fund and fund management activities.
- The MAS will release further details by May 2018.

SINGAPORE - LISTED REAL ESTATE INVESTMENT TRUSTS EXCHANGE - TRADED FUNDS (REITs ETFs)

- Singapore has seen a few listed REITs ETFs in recent years.
- Whilst such REITs ETFs offer investors the advantage of diversification and exposure to different types of REITs, there is a disparity in the tax outcome between certain investors investing directly in Singapore-listed REITs (“S-REITs”) and certain investors investing directly in REITs ETFs.
- As S-REITs with Singapore properties are accorded tax transparency treatment, the trustee of a S-REIT is not subject to tax on certain specified income that is distributed to the investors. Instead, the specified income from the S-REITs are taxed in the hands of the investors according to their own profiles. Broadly, other than Singapore corporate investors which will be subject to tax at the prevailing corporate tax rate of 17%, other investors will either be tax exempt (e.g. individuals other than those who invest through a partnership in Singapore or from the carrying on of a trade, business or profession) or taxed at a concessionary tax rate of 10% (e.g. qualifying non-resident non-individuals) on such distributions received from the S-REITs.
- In contrast, an individual investor or a non-resident non-individual investing in a REITs ETF will have an effective tax rate of 17% (compared to 0% or 10% if the investor were to receive the distribution directly from an S-REIT). This is because REITs ETFs are currently subject to Singapore corporate tax rate of 17% on distributions made out of S-REITs’ specified income.



PROPOSAL

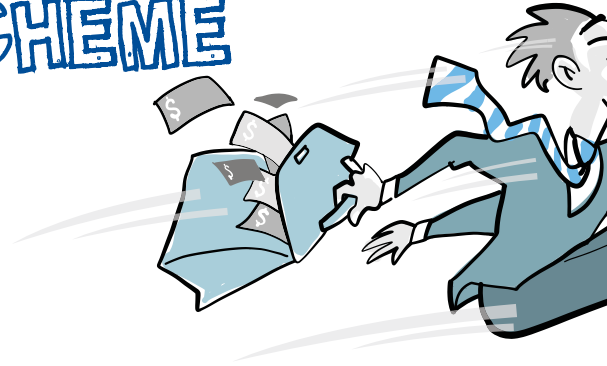
- To achieve consistent tax outcomes for investors investing in S-REITs and REITs ETFs, the following tax treatment will be accorded to REITs ETFs with effect from 1 July 2018:
 - Tax transparency treatment on the distributions received by REITs ETFs from S-REITs which are made out of the S-REITs' specified income;
 - Tax exemption on such REITs ETFs distributions received by individuals (excluding individuals who derive any distribution through a partnership in Singapore or from the carrying on of a trade, business or profession); and
 - 10% concessionary tax rate on such REITs ETFs distributions received by qualifying non-resident non-individuals (i.e. non-resident non-individual unit holder who does not have any permanent establishment in Singapore; or carries on an operation through a permanent establishment in Singapore but the funds used to acquire the units in the REITs ETFs are not obtained from such operation).
- Similar to other tax concessions for S-REITs, the tax concession for REITs ETFs will be valid until 31 March 2020 unless otherwise extended.

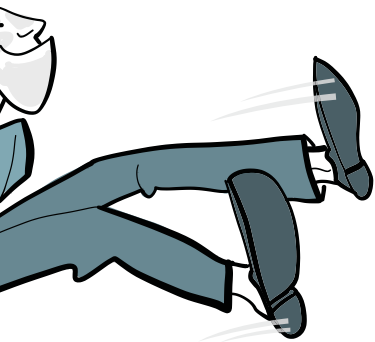


- An application for the tax transparency treatment will be required and can be made to the IRAS on or after 1 April 2018.
- It is currently unclear how the review date of 31 March 2020 will be applied and the tax treatment that may be affected by the review. For instance, it is not clear if the relevant date should be the date the REITs ETF receives the distribution from S-REIT or the date the REITs ETF makes distribution to its own investors. In addition, it is also unclear if the tax exemption on the distribution received by the REITs ETF's investors who are individuals will be affected by the review date of 31 March 2020 as there is currently no similar sunset clause for S-REITs. Further details will be released by the MAS and the IRAS by March 2018.

FINANCIAL SECTOR INCENTIVE (FSI) SCHEME

- The FSI scheme aims to enhance financial intermediation and deepen capabilities in key financial services and banking activities in Singapore.
- It currently accords concessionary tax rates of 5%, 10%, 12% and 13.5% on income from:
 - Qualifying banking and financial activities;
 - Qualifying headquarters and corporate services; and
 - Qualifying fund management and investment advisory services.
- Specifically, trading in loans and their related collaterals, excluding immovable property, is a qualifying activity that is accorded a concessionary tax rate of 13.5%.
- The scheme is scheduled to lapse after 31 December 2018.





PROPOSAL

- The FSI scheme will be extended to 31 December 2023.
- Specifically, the scope of trading in loans and their related collaterals is expanded to include collaterals that are prescribed infrastructure assets or projects.
- This change will apply to income derived on or after 1 January 2019 in respect of new and renewal awards approved on or after 1 June 2017.
- All other conditions of the scheme remain the same.
- Further details of this change will be released by MAS by May 2018.

INSURANCE BUSINESS
DEVELOPMENT - INSURANCE
BROKING BUSINESS
(IBD-IBB) AND
INSURANCE BUSINESS
DEVELOPMENT - SPECIALISED
INSURANCE BROKING BUSINESS
(IBD-SIBB) SCHEMES

- The tax incentive scheme for the insurance industry in Singapore has undergone several phases of change in recent years – most notably the introduction of the Insurance Business Development (“IBD”) scheme in 2015, further refinements in 2016, and significant changes in 2017. With these, all the insurance tax incentives in Singapore are subsumed under the IBD as an umbrella scheme.
- From 1 June 2017, the then Offshore Insurance Business Broking Business and Offshore Specialised Insurance Broking Business were subsumed under the IBD umbrella and renamed as IBD – IBB and IBD – SIBB. There were also revisions of the scope of qualifying activities for the IBD – IBB and IBD – SIBB respectively.
- Broadly, the qualifying scope for IBD – IBB would include commission and fee income from insurance broking, excluding broking of direct life insurance, fire, motor, work injury compensation, personal accident and health insurance.
- The qualifying scope for IBD – SIBB would include commission and fee income from insurance broking of qualifying specialised insurance which refers to insurance against terrorism, political, energy, aviation and aerospace, agricultural risks as well as catastrophe risks under catastrophe excess of loss reinsurance arrangements.
- Qualifying income under the IBD – IBB scheme would enjoy concessionary tax rate of 10% whereas qualifying income under the IBD – SIBB scheme would enjoy concessionary tax rate of 5%.
- The two schemes are scheduled to lapse after 31 March 2018.

PROPOSAL

- To further strengthen Singapore’s position as a leading insurance and reinsurance hub, the IBD – IBB scheme will be extended to 31 December 2023.
- The IBD – SIBB scheme will be allowed to lapse after 31 March 2018. The specialised insurance broking and advisory services which used to be under the IBD – SIBB scheme will be incentivised under the IBD – IBB scheme going forward, at the concessionary tax rate of 10%.
- The above will further streamline and simplify the IBD tax insurance scheme. Further details will be released by the MAS by May 2018.

TAX DEDUCTION FOR IMPAIRMENT AND LOSS ALLOWANCE

Under Section 14I of the ITA, banks and qualifying finance companies can claim a tax deduction:

- for impairment losses on non-credit impaired loans and debt securities made under FRS 109; and
- any additional loss allowances as required under MAS Notices 612, 811 and 1005, subject to a cap.

The tax deduction under Section 14I is scheduled to lapse:

- after YA 2019 (for banks and qualifying finance companies with December financial year end); or
- after YA 2020 (for banks and qualifying finance companies with non-December financial year end).





PROPOSAL

- To promote the overall robustness and stability of the Singapore financial system, the tax deduction under Section 14I of the ITA will be extended till:
 - YA 2024 (for banks and qualifying finance companies with December financial year end); or
 - YA 2025 (for banks and qualifying finance companies with non-December financial year end).
- All other conditions of the scheme remain the same.
- Further details of this change will be released by MAS by May 2018.

APPROVED SPECIAL PURPOSE VEHICLE (ASPV) INCENTIVE SCHEME



The ASPV scheme, administered by MAS, currently grants certain tax concessions to ASPVs engaged in asset securitisation transactions.

The concessions relate to the exemption of income tax and withholding tax on qualifying income and payments, partial recovery of GST, and remission of stamp duties on instruments relating to the transfer of assets to ASPVs for approved asset securitisation transactions.

The scheme is currently scheduled to lapse after 31 December 2018.

PROPOSAL

- To provide continuing support for the development of Singapore's structured debt market, the ASPV scheme will be extended to 31 December 2023, with the exception of the stamp duty remission.
- All other conditions of the scheme will remain the same, with MAS expected to release further details of the extension by May 2018.

QDS AND QDS+ SCHEMES

The Qualifying Debt Securities ("QDS") scheme offers the following tax concessions on qualifying income from QDS:

- 10% concessionary tax rate for qualifying companies / bodies of persons in Singapore; and
- Tax exemption for qualifying non-residents and qualifying individuals

The QDS+ scheme grants tax exemption for all investors on qualifying income derived from QDS that are:

- Debt securities (excluding Singapore Government Securities) with an original maturity of at least 10 years; and
- Islamic debt securities or *sukuk*

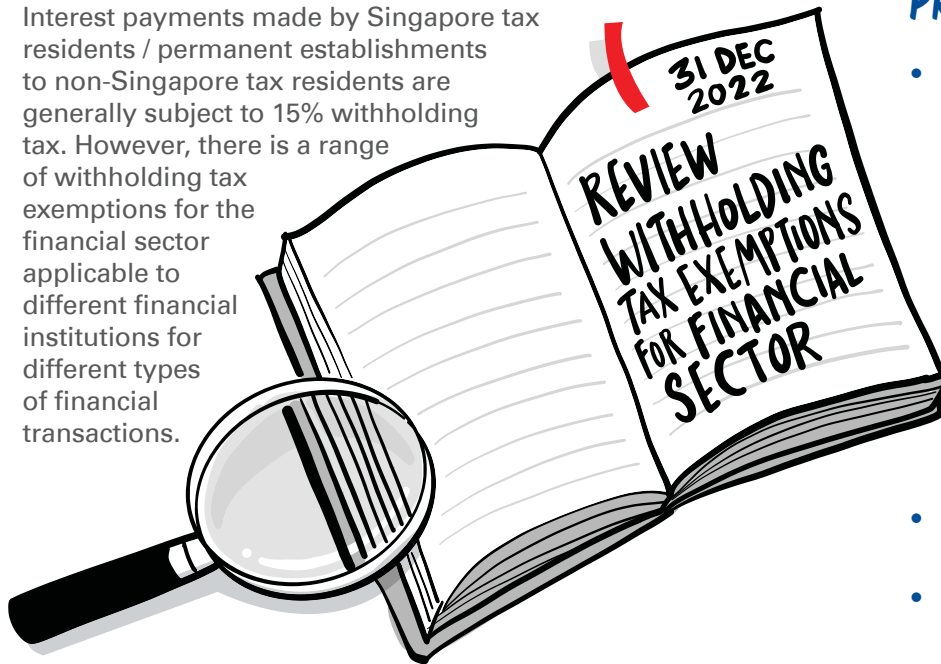
The QDS and QDS+ schemes are due to expire after 31 December 2018.

PROPOSAL

- The QDS scheme has been extended to 31 December 2023.
- The QDS+ scheme will lapse after 31 December 2018.
- Debt securities with tenure beyond 10 years and Islamic debt securities that are issued after 31 December 2018 can still enjoy the tax concessions under the QDS scheme if the conditions are satisfied.
- For debt securities with tenure beyond 10 years and Islamic debt securities that are issued on or before 31 December 2018, they will continue to enjoy the tax concessions if the conditions of the QDS+ scheme are satisfied.
- MAS will release further details by May 2018.

WITHHOLDING TAX EXEMPTIONS FOR FINANCIAL SECTOR

Interest payments made by Singapore tax residents / permanent establishments to non-Singapore tax residents are generally subject to 15% withholding tax. However, there is a range of withholding tax exemptions for the financial sector applicable to different financial institutions for different types of financial transactions.



PROPOSAL

- As part of an ongoing review to ensure the relevance and usefulness of these exemptions, it has been proposed to:
 - Set a review date of 31 December 2022 for certain payments;
 - Legislate the exemption for certain payments (and setting a review date of 31 December 2022); and
 - Withdraw the exemption for certain payments.
- Please refer to the details of the changes in the next page.
- MAS will release further details by May 2018.

EXEMPTIONS TO BE REVIEWED ON 31 DECEMBER 2022

EXEMPTIONS TO BE WITHDRAWN

Existing exemptions

- Payments made under cross currency swap transactions made by Singapore swap counterparties to issuers of Singapore dollar debt securities
- Payments made under interest rate or currency swap transactions by financial institutions
- Payments made under interest rate or currency swap transactions by MAS
- Specified payments made under securities lending or repurchase agreements by specified institutions


Exemptions to be legislated

- Interest on margin deposits paid by members of approved exchanges for transactions in futures
- Interest on margin deposits paid by members of approved exchanges for spot foreign exchange transactions (other than those involving Singapore dollar)
- Effective for payments made under agreements entered into on or after 20 February 2018

- Interest from approved Asian Dollar Bonds
- Payments made under over-the-counter financial derivative transactions by companies with FSI-Derivatives Market awards that were approved on or before 19 May 2007
- Effective for payments made under agreements entered into on or after 1 January 2019

- If the exemptions are not extended come 31 December 2022, they will cease to apply on payments liable to be made under agreements entered into on or after 1 January 2023.
- For payments liable to be made under agreements entered into on or before 31 December 2022, the exemption shall continue after 31 December 2022.

TAX EXEMPTION ON INCOME DERIVED BY PRIMARY DEALERS FROM TRADING IN SINGAPORE GOVERNMENT SECURITIES (SGS)



Primary dealers have an important role to play in the SGS market, which include providing liquidity in the SGS market, underwriting SGS issuance, providing market feedback and contributing to the development of Singapore dollar bond market and interest rate market.

Primary dealers currently enjoy tax exemption on trading income derived from trading in SGS and such tax exemption is scheduled to lapse after 31 December 2018.

PROPOSAL

- To further strengthen the primary dealer network in Singapore and to encourage trading in SGS, the tax exemption on income derived by primary dealers from trading in SGS will be extended to 31 December 2023.
- Further details will be released by the MAS by May 2018.

SHIPPING AND MARINE SECTORS

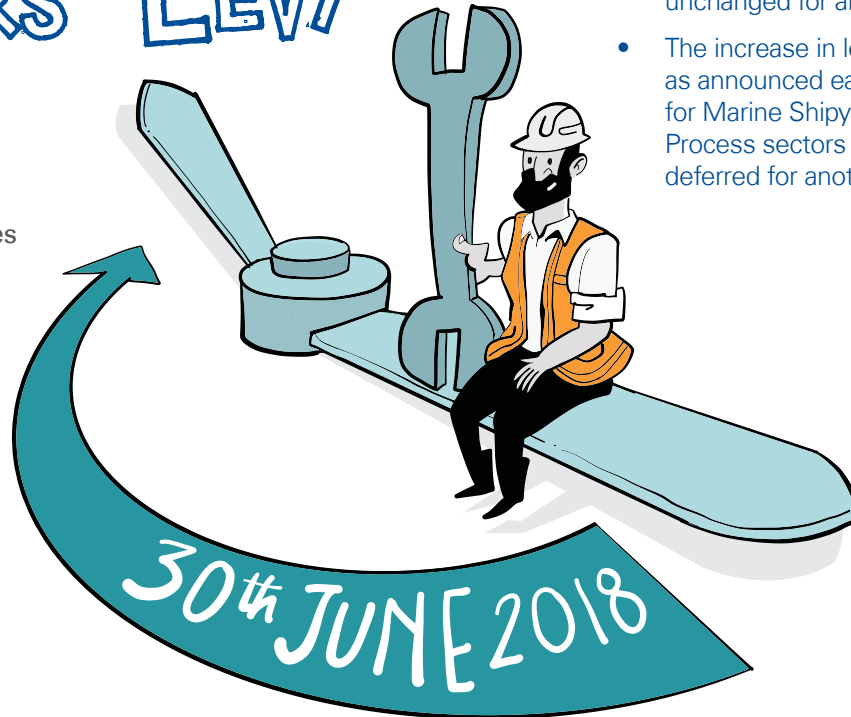


FOREIGN WORKERS' LEVY

In Budget 2017, it was announced that the increase in Foreign Workers' Levy rates for the Marine Shipyard and Process sectors would be deferred to 30 June 2018.

PROPOSAL

- Foreign Workers' Levy rates will remain unchanged for all sectors.
- The increase in levy rates as announced earlier for Marine Shipyard and Process sectors will be deferred for another year.



WITHHOLDING TAX EXEMPTION ON CONTAINER LEASE PAYMENTS

Section 13(4) of the ITA allows certain payments made to non-residents to be granted a tax exemption where the Minister is of the opinion that the payments are made for purposes which will promote or enhance the economic or technological development of Singapore.

Pursuant to Section 13(4) of the ITA, a withholding tax exemption has been allowed since 19 January 1979 on lease payments made to non-resident lessors (excluding permanent establishments in Singapore) for the use of qualifying containers for the carriage of goods by sea.





PROPOSAL

- A review date of 31 December 2022 will be introduced.
- This means that unless the scheme is extended, such payments to a non-resident lessor under any lease or agreement entered into on or after 1 January 2023 for the use of a qualifying container for the carriage of goods by sea will be subject to withholding tax.
- The proposed introduction of the above review date is in line with the Government's efforts in recent years to periodically review the relevance of its existing suite of tax incentives.

REAL ESTATE SECTOR



BUYER'S STAMP DUTY (BSD) ON RESIDENTIAL PROPERTIES

- BSD is payable on acquisition of immovable properties, based on the higher of the consideration or market value. The BSD rates are also applicable to lease-related instruments where there is a lump-sum premium payable.
- Prior to 20 February 2018, the same BSD rates are applied to both residential and non-residential properties as illustrated.

Purchase price / Market value (whichever is higher)	BSD Rates
First \$180,000	1%
Next \$180,000	2%
Exceeding \$360,000	3%

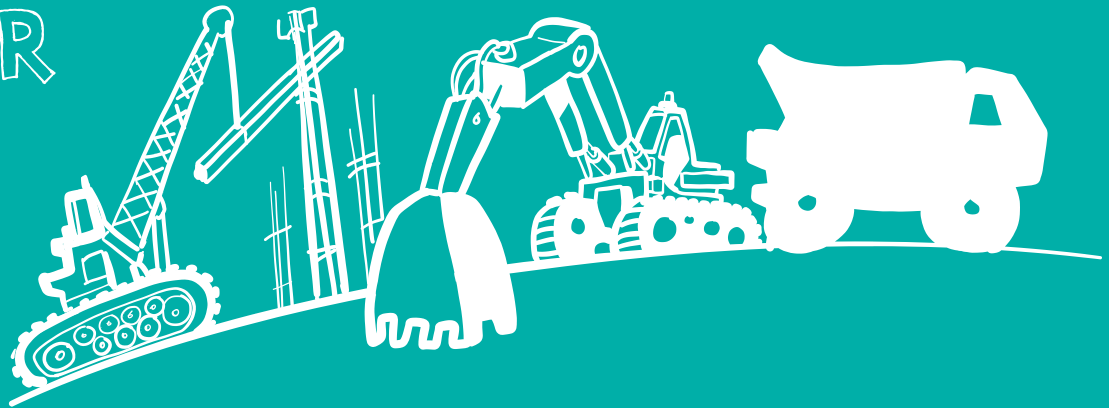
PROPOSAL

- In an effort to reflect a more progressive tax system, the top marginal rate for residential properties would be increased to 4% with effect from 20 February 2018. The BSD rates for non-residential properties remain unchanged.
- In the case of a mixed-use or mixed-zoning property (with both residential and non-residential components), the new BSD rate of up to 4% will apply to the residential component whereas the existing top marginal rate of 3% will apply to the non-residential component.
- Stamp duty remission may be available under certain circumstances (e.g. acquisition made during transition period, acquisition of residential land for non-residential development etc.)

Purchase price / Market value (whichever is higher)	Residential (New)*	Non-residential
First \$180,000	1%	1%
Next \$180,000	2%	2%
Next \$640,000	3%	3%
Exceeding \$1,000,000	4%	3%

*with effect from 20 February 2018

INFRASTRUCTURE SECTOR



INSIGHTS FROM THE INSIDE

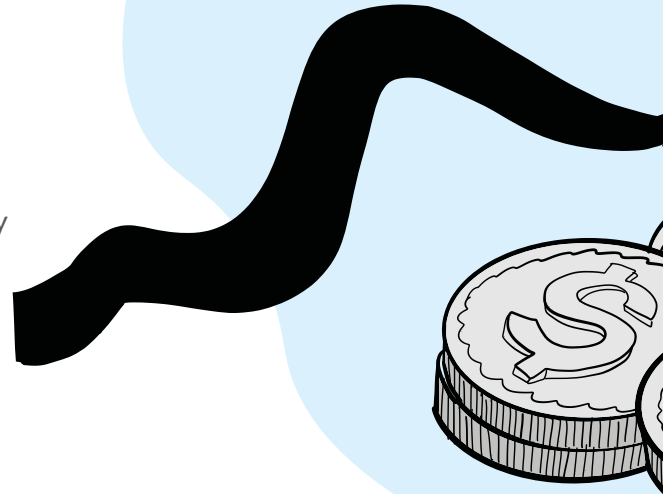
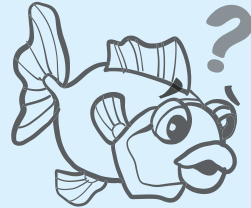


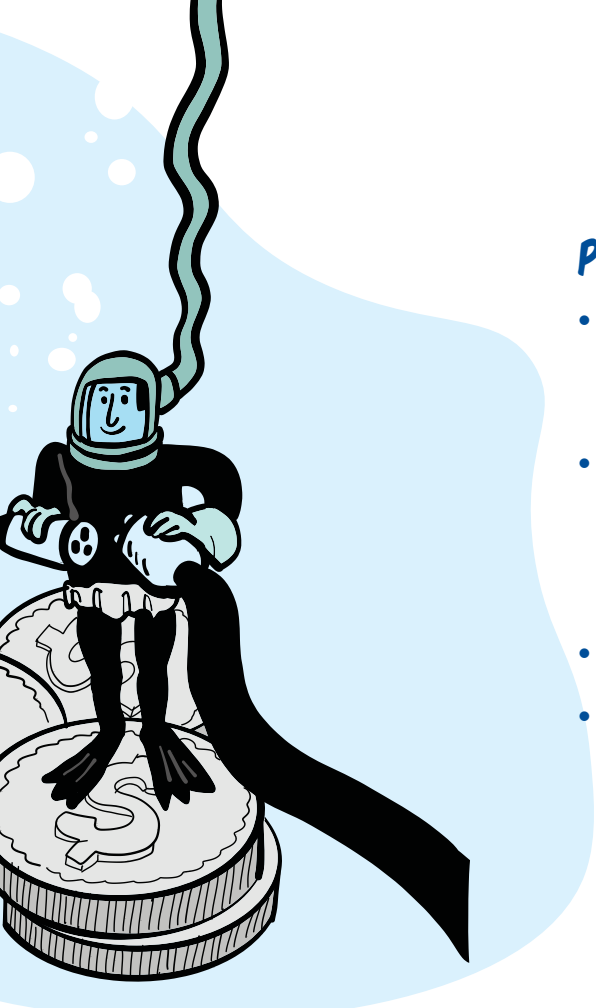
“This Budget marks an important milestone for Singapore. Not only does it take stock of the achievements of the nation made possible by the past Budgets, it also sets out longer term nation building plans for the future. It provides a good helicopter view of what the future nation will be like at the macro level while examining every need of the various components at a micro level.”

Toh Boon Ngee
Tax Partner

INVESTMENT ALLOWANCE (IA) FOR SUBMARINE CABLES

- Currently, Singapore is well connected to submarine cable systems landing in Singapore. This is integral to our digital connectivity as a leading business hub in the global economy.
- Investments in submarine cable system require substantial upfront capital expenditure. Such capital expenditure currently qualifies for capital allowances under the ITA.





PROPOSAL

- With a view to strengthen Singapore's position as a leading digital connectivity hub, it is proposed that IA be extended to capital expenditure incurred on newly constructed strategic submarine cable systems landing in Singapore.
- The conditions of IA under the Economic Expansion Incentives Act continue to apply except for the following which will be permitted:
 - The submarine cable systems can be used outside Singapore; and
 - The submarine cable systems, on which IA has been granted, can be leased out under the indefeasible rights of use arrangements.
- The IA is in addition to the capital allowances under the ITA.
- The change will take effect for capital expenditure incurred between 20 February 2018 and 31 December 2023, both dates inclusive.

ADDRESSING INFRASTRUCTURE DEMAND - INFRASTRUCTURE OFFICE

Asian infrastructure markets are booming at the moment and there is a need to connect infrastructure demand in Asia to infrastructure financing, services and expertise in the region (e.g. China Belt and Road Initiative, and Asia-Africa Growth Corridor).

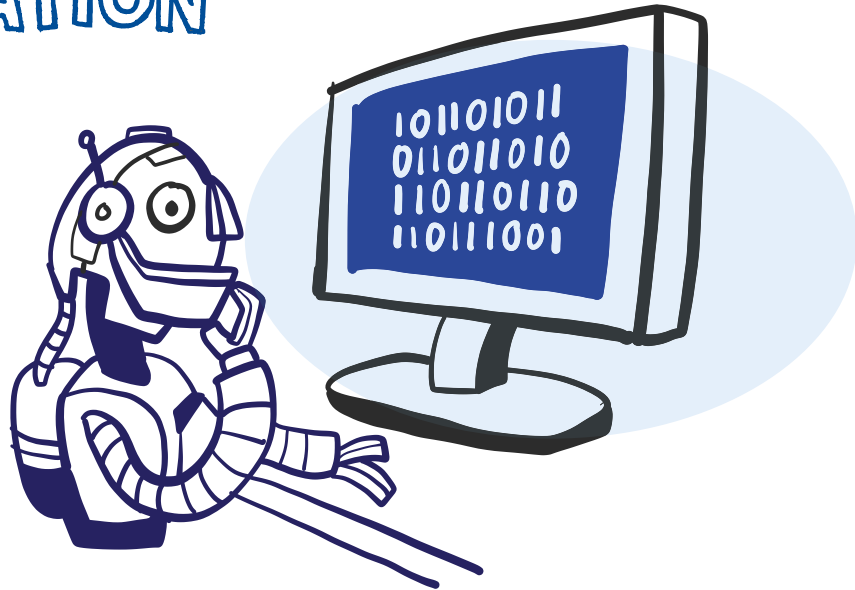


PROPOSAL

- Set up Infrastructure Office in Singapore.
 - It is a great initiative to provide a centralised platform for eco-system of infrastructure players i.e. investors, infrastructure developers and multi-lateral agencies. It will, for the first time, offer holistic solutions and help Singapore Inc capitalise on the huge regional infrastructure opportunities.
- Borrowing by statutory boards and creating vibrant capital bond markets.
 - Agencies like National Environment Agency, Land Transport Authority and Civil Aviation Authority of Singapore will fund huge infrastructure projects by way of public issuance of bonds in capital markets to equitably spread costs of heavy investments over future years.
 - This is a right step that would encourage creation of vibrant domestic bond market supported by credible statutory boards issuances for critical long term, large infrastructure projects like the Integrated Waste Management Facility, Changi T5 etc.
 - This will also lay the foundation for listing by private infrastructure projects from the region thereby strengthening Singapore's role as a regional finance hub.

ADDRESSING INFRASTRUCTURE DEMAND - DATA AND DIGITALISATION

- Singapore has been collecting data for many years and with the new digitalisation and analytics platforms evolving, it is becoming more important for us to be able to convert our data collected into useful information and analysis.
- We have to try to encourage new technology and innovation in a traditional sector like construction.



PROPOSAL

- Expand the National Robotics Programme to encourage greater use of robotics, especially in construction
 - It is very positive to see the Government encouraging the use of new technology and the emphasis of using it in a traditional sector like construction reinforces the message that new technology has to be the way forward.
- Aviation Transformation and Maritime Transformation Programmes for companies to develop and use new automation and digital technologies to improve operations in our airports and seaports
 - Using the infrastructure that we have already built in Singapore to harness the data and optimise the analytics and robotics platform to increase our existing assets' productivity and sustainability. This is an indication of the shift in the focus of the importance of not only building new infrastructure but to optimise what assets we have now, including manpower and deep knowledge skill sets.

GLOSSARY



GST

Goods and Services Tax



R&D

Research and Development



IRAS

Inland Revenue Authority of Singapore



SME

Small and Medium Enterprise



ITA

Income Tax Act



YA

Year of Assessment



MAS

Monetary Authority of Singapore

The Singapore Budget
must be a strategic and
integrated plan to position
Singapore for the future.

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