Horwath First Trust

BUDGET 2010

A SPECIAL REPORT ON THE SINGAPORE BUDGET 2010 | **23 FEBRUARY 2010**

FOREWORD

Budget 2010 centered around three words: productivity, innovation and skills. This was in a way predictable given that the recent Economic Strategies Committee's recommendations for transforming Singapore's economy also centered on the same theme. However, it being the first post-2009 global economic crisis budget, businesses and individuals were naturally anticipating the continuation of measures that will help them to manage the lingering effects of one of the worst economic downturn in recent times in the form of reductions in costs and taxes. While Budget 2010 continued to be expansionary in nature, it certainly shifted gear swiftly due to the better than expected performance of the economy in 2009 and the optimistic outlook for 2010.

The fact that there are no changes to the personal and corporate tax rates may come as a disappointment to many taxpayers. However, the fact that the Government did not slash the tax rates further is a reflection of its optimistic assessment of the economic growth for 2010.

While the main focus of Budget 2009 was on helping Singaporeans to keep their jobs and viable companies to stay afloat, Budget 2010 has set the stage for the next phase in the development of Singapore's economy — that of creating, as the Finance Minister put it, an "advanced economy". The purpose behind this is to sustain a healthy economic growth and to achieve higher incomes for Singaporeans. In fact, one of the Government's key goals is to raise the income level of Singaporeans by a third in the next decade. Much of Budget 2010, in a way, spelt out the measures the Government will take, directly and indirectly, to realize this goal.

The Government's targeted measures this year was broadly classified by the Finance Minister in his Budget speech as achieving the following objectives:

1. Investing in the form of tax benefits, grants and training subsidies in an ongoing initiative to help enterprises and workers raise productivity by:

   a. deepening their skills and expertise; and
   b. creating more value through innovation.

2. Support the growth of more globally competitive Singapore companies by helping them, through a slew of tax measures, to commercialize research and development (R&D) and expand abroad.

3. Continue, through various grants and tax measures, to build a society where everyone has the best opportunity to maximize their potential and make Singapore a place where every family can achieve progress and a better quality of life.

Some of these measures are summarized below.

One of the cornerstones of this year's Budget is the introduction of a three-year Workfare Training Scheme (WTS) to help especially the older and/or low wage workers to upgrade their skills and knowledge through training so that they can utilize opportunities in the new economy. The WTS will include a structured training programme for those with very low skills, including those who may be

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unemployed. The WTS will provide employers with 90% to 95% of funding for absentee payroll and course expenses. Another significant aspect of the WTS is that it will provide cash grants, capped at S$400 per year, to workers who complete their training, to recognize their efforts in upgrading their skills. This measure, together with the phased increase in the foreign worker levy, is aimed at increasing the local talent pool so that Singapore businesses can reduce their reliance on foreign workers. This should somewhat address the uneasiness expressed by many Singaporeans over the increase in the number of foreign workers in recent years. However, the success of the WTS will ultimately depend on the willingness of workers to adopt a continuing education mindset.

The Productivity and Innovation Credit (PIC) scheme will replace two existing R&D tax incentives that were introduced in 2008 — the Research and Development Tax Allowance (RDA) and Research and Development Incentive for Start-up Enterprises (RISE) schemes. The PIC scheme will provide significant tax deductions for investments made by businesses in a broad range of activities along the innovation value chain. This is certainly a positive development as it not only enhances the value and scope of the current R&D incentives but also streamlines the incentives into one scheme. It is also interesting to note that in line with the Government's move towards reducing reliance on foreign workers, the PIC scheme allows businesses which have at least three local employees (Singapore citizens and permanent residents with central provident fund (CPF) contribution) to convert the tax deductions or allowances arising from their expenditures on the prescribed activities under the PIC scheme into a non-taxable cash grant. Under the old RISE scheme, this was not a prescribed condition for eligible companies to convert their losses that arise from tax deductions for R&D into cash.

The phasing out of the industrial building allowance (IBA) with immediate effect is certainly a landmark change especially given that the rules for claiming IBA was tweaked in 2006 to make it more pro-business. The IBA will be replaced by a new Land Intensification Allowance (LIA). The LIA will apply only to buildings or structures belonging to nine selected industry sectors such as petrochemicals, semiconductor-wafer fabrication and aerospace. With this change, it is hoped that the existing deduction scheme for expenditure incurred on renovation and refurbishment works will be extended beyond 15 February 2013 so as to benefit businesses that want to upgrade their premises but do not qualify for LIA.

The merger and acquisition (M&A) tax allowance is indeed an innovative tax incentive to encourage companies to grow through mergers and acquisitions. The fact that the allowance is pegged to 5% of the value of each acquisition makes the scheme simple and easy to administrate as companies qualifying for the allowance need not comply with a list of qualifying expenditure. It also makes the scheme neutral to the mode of mergers and acquisition. As this scheme can provide significant tax savings (maximum tax benefit of about S$850,000 for all M&A deals in a year), companies that see M&A opportunities on the wake of the 2009 economic crisis should seriously evaluate such opportunities. This strategic initiative might help in the creation of larger companies that will be able to compete internationally.

Some measures may seem insignificant but they signal the Government's intention to create a well rounded society and not one that is just focused on economics. For example, the reduction in the withholding tax rate for non-resident public entertainers to help organizers attract high quality performances shows the Government's desire to make Singapore a culturally vibrant city to live and work in.

The increase in parent relief, the waiver of the income threshold condition for handicapped dependant-related reliefs and the increase in the income threshold condition for dependant-related reliefs, show that the Government is committed to help the middle-income families who provide support for their elderly and their handicapped members. However, more could have been done. For example, the continuation of the one-off personal income tax rebate of 20% that was provided for the years of assessment 2008 and 2009 would have been welcomed by middle-income taxpayers who have been affected by the recent economic crisis.

There are also other measures on the taxpayers' wish list that have not materialized. For example, it was hoped that the temporary one-year tax amnesty on the remittance of foreign-sourced income that expired on 21 January 2010 would be extended or made permanent. That would have put Singapore on par with Hong Kong and Malaysia. Given that one of the Government's thrust this year was to help Singapore businesses internationalize, it is disappointing that the Government has not considered exempting from tax foreign-sourced income repatriated to Singapore.

This year's budget is likely to be viewed by most as being unexciting. However, given that the challenges ahead for Singapore is in improving productivity and increasing the skills of the labour force, it is likely that future budgets will introduce more targeted measures rather than popular broad-based measures. Also, major structural changes to the corporate tax system have been implemented over the years, and hence the focus going forward would likely be more of refining existing initiatives to ensure Singapore continues to grow despite the global economic challenges. It appears that "productivity" will remain a buzzword for some time to come.

In this report, we have summarized the tax changes affecting businesses and individuals. We hope you will find the summary useful.

1 BUSINESS TAX

GENERAL TAX CHANGES

Productivity and Innovation Credit

Current

Currently, businesses that incur qualifying expenditure on R&D done in Singapore can enjoy up to 150% deduction, while expenditure on training, automation equipment, design done locally, IP acquisition and patent registration can qualify for 100% deduction or allowance.

Proposed

A new broad-based tax incentive called the Productivity and Innovation Credit will be introduced. The Credit will provide significant tax deductions for investments in the six activities listed below:-

- R&D done in Singapore;
- Registration of Intellectual Property (IP);
- Acquisition of IP;
- Investments in design done in Singapore;
- Spending on equipment or software aimed at automating processes; and
- Costs of training employees so as to upgrade skills and capabilities.

The enhancement in tax benefits for the six activities under the Productivity and Innovation Credit are as follows:

(i) R&D Expenditures: 250% tax deduction for the first $300,000 of qualifying expenditure on R&D done in Singapore per Year of Assessment (YA) and 150% deduction for the balance expenditure.

With this enhancement, the Government will phase out two existing R&D tax incentives – Research and Development Tax Allowance (RDA) and Research and Development Incentive for Start-up Enterprises (RISE) schemes. No RDA will be granted on the chargeable income from YA 2011, and RISE will cease with effect from YA 2011. For taxpayers with unutilized RDA granted for YA 2009 and YA 2010, they may opt to utilise the RDA as further deductions against their incremental R&D expenses from YA2011 until YA2016. Alternatively, instead of utilizing RDA, they can elect to claim the 250% tax deduction for the first $300,000 of their qualifying R&D expenses incurred for YA2011 to YA2015.

(ii) Investments in Design: 250% tax deduction for the first $300,000 of qualifying expenditure on eligible design activities done in Singapore per YA and 100% deduction for the balance expenditure. This new tax incentive will be administered by the DesignSingapore Council.

(iii) Acquisition of IP Rights: 250% allowance for the first $300,000 of qualifying costs from acquiring IP rights incurred per YA and 100% allowance for the balance expenditure. The current conditions for the taxpayer to own the legal and economic rights of the IP will remain.

(iv) Registration of IP Rights: 250% tax deduction for the first $300,000 of qualifying costs of registering patents, trademarks, designs and plant varieties incurred per YA and 100% deduction for the balance expenditure.

(v) Investments in Automation: 250% allowance for the first $300,000 of expenditure incurred on qualifying investments in automation per YA and 100% allowance for the balance expenditure.

(vi) Training: 250% tax deduction for the first $300,000 of qualifying training expenditure for external training and WDA-certified in-house training incurred per YA and 100% allowance for balance expenditure.

The Productivity and Innovation Credit will be available for all businesses from YA2011 to YA2015.

Businesses which have at least 3 local employees (Singapore Citizens and Permanent Residents with CPF contribution) may convert the tax deductions or allowances arising from their expenditures on the six types of activities under the Productivity and Innovation Credit into a non-taxable cash grant at the rate of 7%. Specifically, they can convert up to $300,000 of such tax benefits into at most $21,000 cash per YA. IRAS will release details of the Productivity and Innovation Credit in June 2010.

Phasing out of Industrial Building Allowance

Current

Currently, businesses are allowed to claim Industrial Building Allowance (IBA) on qualifying capital expenditures on the construction or purchase of a building or structure which is to be used for a qualifying trade under section 18(1) of the Income Tax Act.

Proposed

IBA will be phased out with immediate effect. Qualifying capital expenditures incurred by businesses on or before 22 February 2010 on the construction or purchase of industrial buildings or structures will continue to qualify for IBA, subject to existing IBA rules.

With the phase-out, IBA will not be allowed on capital expenditures on the construction or purchase of industrial buildings or structures which are incurred after 22 February 2010 except in specified scenarios. These scenarios include the following:-

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

b) Construction of new industrial buildings or structures on land for which an application to bid, buy or lease the land from the Government was submitted or for which an option to purchase the land was signed with the private industrial landlord on or before 22 February 2010, and the development application to build the industrial buildings or structures on the land is submitted to the Urban Redevelopment Authority ("URA") by 31 December 2010.

c) Extension or alteration works on existing industrial buildings or structures, or conversion works on existing non-industrial buildings or structures to convert such buildings or structures to industrial buildings or structures, for which a qualified person had been engaged on or before 22 February 2010 to carry out the works and the development application for such works is submitted to the URA by 31 December 2010.

d) Renovation works (that do not require a development application) on existing industrial buildings or structures, or on existing non-industrial buildings or structures to convert them to industrial buildings or structures; and a building/renovation contractor had been engaged on or before 22 February 2010 to carry out the renovation works.

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

For scenarios (b) and (c), qualifying capital expenditures incurred up till the earlier of the date of Temporary Occupation Permit or the end of the basis period for YA 2016 will qualify for IBA, subject to existing IBA rules.

For scenario (d), qualifying capital expenditures incurred up till the earlier of the date of completion of renovation works or the end of the basis period for YA 2016 will qualify for IBA, subject to existing IBA rules.

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

New Land Intensification Allowance

A new Land Intensification Allowance (LIA) will be introduced to replace the IBA. Businesses may claim the LIA on qualifying capital expenditures incurred for the construction of a qualifying building or structure.

The qualifying criteria are:

a) The user of the building or structure belongs to one of the following nine industry sectors:-

   i) Pharmaceuticals,
   ii) Petrochemicals,
   iii) Petroleum,
   iv) Specialties,
   v) Other Chemicals,
   vi) Semiconductor-Wafer fabrication,
   vii) Aerospace,
   viii) Marine and Offshore Engineering; and
   ix) Solar Cell Manufacturing

b) The land on which the building or structure is to be built is zoned as Business 1 or Business 2 (excluding Business 1 White and Business 2 White) under the URA Master Plan.

c) The building or structure meets the Gross Plot Ratio (GPR) benchmark relevant to the industry sector of the building user. The GPR benchmark is based on that applicable at the time the business submits to URA the development application for the building or structure.

   To encourage intensification, the benchmarks for each industry sector will be set around the 75th percentile of actual GPRs for the sector. The qualifying business will be granted an initial allowance of 25% and an annual allowance of 5% on the qualifying capital expenditures. This means that qualifying expenditure can be written down over 15 years under LIA.

The Land Intensification Allowance incentive will be in place for 5 years from 1 July 2010 and will be administered by EDB. Details of the scheme will be released by JTC/ EDB by June 2010.

Enhancement of Tax Deduction on Donations

Current

Under the current treatment, all donations to Institutions of Public Character (IPCs) and other approved recipients (such as approved museums, prescribed schools, etc) qualify for double tax deduction. Tax deduction was enhanced from 200% to 250% for donations made during the period from 1 Jan 2009 to 31 Dec 2009.

Proposed

Tax deduction of 250% will be extended for another year for donations made during the period from 1 January 2010 to 31 December 2010. All existing rules to qualify for the enhanced tax deduction will remain the same.

ENHANCEMENTS AND EXTENSIONS TO EXISTING TAX INCENTIVES

Enhancements to Financial Sector Incentive (FSI)

Current

Existing Financial Institutions ("FIs") which are granted FSI Standard Tier awards are currently required to compute and deduct the Qualifying Base ("QB") from their income derived from FSI qualifying activities, in order to determine the net income to be taxed at the concessionary tax rate of 10%. The QB is to be taxed at the prevailing corporate tax rate.

Proposed

With effect from 1 January 2011, the QB will be removed and instead the concessionary tax rate under the FSI-ST award will be changed in tandem from 10% to 12% as a revenue neutral change. The list of qualifying activities will also be updated. These changes will help to simplify the rules for the FSI scheme and to lower compliance costs for FIs. MAS will be releasing details of the changes by April 2010.

Review of Existing Tax Incentives for Futures Members of Singapore Exchange ("SGX") and Members of Singapore Commodity Exchange Limited ("SICOM")

Current

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

Proposed

These 2 existing incentives would be discontinued on 31 December 2010. From 1 January 2011 onwards, these 2 tax incentives will cease and new incentive applicants which engage in qualifying transactions that were incentivised under these two tax incentives will have to apply for the Financial Sector Incentive (FSI) scheme and meet economic commitments under the FSI at the point of application.

As a transition measure, on 1 January 2011, existing futures members of SGX and members of SICOM who are incentivised under these two existing tax incentives will be allowed to transit to the Financial Sector Incentive-Standard Tier ("FSI-ST") scheme automatically if they notify MAS of their intent to transit by 31 July 2010. They will not be subject to the approval criteria for the FSI-ST award at the point of transition in January 2011. However, they will be subject to the prevailing FSI-ST renewal criteria, when they apply for renewal of their awards in December 2013, if the FSI scheme is extended.

Further details will be released by MAS by April 2010.

Removal of Approved Start-up Fund Manager Scheme

Current

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

Proposed

The Approved Start-up Fund Manager scheme will be allowed to lapse after its expiry on 17 February 2010. No fund manager will be approved under the scheme after 17 February 2010. Funds managed by fund managers approved on or before 17 February 2010 under the Approved Start-Up Fund Manager scheme will continue to be allowed the 12 month grace period from the date of set up of the fund, even if such grace period stretches beyond the expiry of the scheme on 17 February 2010.

Extension of Maritime Finance Incentive ("MFI")

Current

The MFI accords the following tax benefits:

(a) An approved MFI entity will enjoy either tax exemption or a tax concession (10% or 5%) on its qualifying leasing income;

(b) An approved manager of the MFI entity will enjoy a tax concession of 10% on its qualifying income.

The MFI will expire on 28 February 2011. Taxpayers applying for the MFI on or before 28 February 2011 will be given approval for a period of not more than 10 years.

Proposed

To further support Singapore's development as a maritime financing hub, the expiry date of the MFI will be extended from 28 February 2011 to 31 March 2016. Taxpayers applying for the MFI during the period from 1 March 2011 to 31 March 2016 (both dates inclusive) will be given approval for a period of not more than five years.

Enhancement to Section 13A of Income Tax Act and Approved International Shipping Enterprise ("AIS") scheme

Current

Ship management fees derived from rendering ship management services to related Special Purpose Vehicles

("SPV") are taxed at the prevailing corporate income tax rate.

Proposed

To be in line with the objective of developing Singapore into an International Maritime Centre ("IMC"), ship management fees derived on or after 22 February 2010 from the rendering of ship management services to related qualifying SPVs will be treated as qualifying income to be exempted from tax under Section 13A of the ITA and the AIS scheme, subject to conditions.

MPA will release the implementation details by end March 2010.

Renewal and Enhancement of Investment Allowance (IA) Scheme for Aircraft Rotables

Current

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

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

Proposed

In line with Singapore's commitment to develop the Maintenance, Repair and Overhaul industry, the IA scheme for aircraft rotables is to be renewed for another 5 years from 1 April 2010 to 31 March 2015.

The government will also enhance the IA scheme by removing the "non-swapping condition". This enhancement removes the administrative difficulties of having to track specific aircraft rotables.

Extension of and Enhancement to Listed Real Estate Investment Trusts ("REIT") Concessions

Current

(a) The following income tax, stamp duty and GST concessions for listed REITs expire in 2010:

   (i) Concessionary income tax rate of 10% for non-resident non-individual investors;

   (ii) Stamp duty remission on the transfer of a Singapore immovable property to a REIT;

   (iii) Stamp duty remission on the transfer of 100% of the issued share capital of a Singapore- incorporated company that holds immovable properties situated outside Singapore to a REIT;

   (iv) GST remission to allow REITs to claim input tax on their business expenses regardless of whether they hold the underlying assets directly or indirectly through multi-tiered structures such as special purpose vehicles or sub-trusts.

(b) Listed REITs and wholly-owned Singapore subsidiary companies of listed REITs can enjoy income tax exemption on qualifying foreign-sourced income (i.e. foreign-sourced dividend income, interest income and trust distributions) under Section 13(12) of the Income Tax Act, subject to meeting certain conditions. There is currently no sunset clause for this income tax concession.

Proposed

(a) The existing income tax, stamp duty and GST concessions for listed REITs will be renewed for the period from 18 February 2010 to 31 March 2015 (both dates inclusive).

(b) The Foreign-Sourced Income Exemption ("FSIE") income tax concession for listed REITs will be subject to a sunset clause of 31 March 2015. This means that for the FSIE to apply to listed REITs or wholly-owned Singapore subsidiary companies of listed REITs (which have been granted or will be granted the FSIE), the qualifying foreign-sourced income should be remitted on or before 31 March 2015.

(c) The current requirement for unlisted REITs to be listed within one month (from the date of completion of the agreements for sale) in order to qualify for the stamp duty remissions will be liberalized to listing within six months.

Review of Tax Concession for Offshore Insurance Business

Current

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

Proposed

In line with the government's policy to review tax incentives on a regular basis and to encourage companies to grow their presence in Singapore, the Government will introduce the following changes to the tax incentive with effect from 1 April 2010:

a) The incentive will be subject to a sunset clause of 5 years till 31 March 2015 (There will be a review mechanism to determine whether the incentive will be further extended after 31 March 2015);

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

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

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

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

Further details will be released by MAS by April 2010.

NEW TAX INCENTIVES

M&A Allowance and Stamp Duty Remission for Qualifying M&A Deals

A new Merger and Acquisition ("M&A") allowance will be introduced to encourage companies to consider M&A as a strategy for growth and internationalization.

The M&A allowance will be granted to qualifying M&As executed from 1 April 2010 to 31 March 2015 (both dates inclusive).

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

Stamp duty on the transfer of unlisted shares for qualifying M&A deals will also be remitted. This remission is capped at $200,000 of stamp duty per year.

IRAS will release details of the M&A allowance and stamp duty relief scheme by June 2010.

The full stamp duty on such transfers of unlisted shares will continue to be payable on all transfers of unlisted shares until details of the scheme including the definition of qualifying M&A deals are finalized. IRAS will refund stamp duty paid if a deal, executed on and after 1 April 2010 but before the finalization of the rules, can satisfy the finalized rules.

Incentive for Ship Brokers and Forward Freight Agreement ("FFA") Traders

Ship brokers and FFA traders are taxed at the prevailing corporate income tax rate. To grow the activities of ship broking and FFA trading in Singapore and to further promote Singapore as an International Maritime Centre ("IMC"), an incentive will be introduced to grant a company solely carrying out ship broking and/or FFA trading in Singapore a concessionary tax rate of 10%, subject to conditions. Taxpayers can apply to MPA for this incentive from 1 April 2010 to 31 March 2015 (both dates inclusive). Incentive recipients will enjoy incentive awards of five years.

MPA will release the implementation details by end March 2010.

Extension of Development and Expansion Incentive to International Legal Services

The Development and Expansion Incentive ("DEI") scheme will be extended to cover income derived from the provision of international legal services to encourage law practices to do more international legal work.

The incentive will be available to law practices registered in Singapore as a company or as a branch of a foreign company. Approved law practices will enjoy a 10% concessionary tax rate on incremental income from qualifying international legal services for 5 years. The incentive is valid from 1 April 2010 to 31 March 2015 (both dates inclusive).

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

Tax Incentive for Angel Investors

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

Under the new incentive, an approved angel investor needs to invest a minimum of $100,000 into a start-up in a YA, in order for him to enjoy a tax deduction at 50% of his investment at the end of his second year of holding of the investment. The deduction to an approved angel is capped at $500,000 of investment into qualifying start-ups per year of assessment.

The incentive is valid from 1 March 2010 to 31 March 2015 (both dates inclusive) and applies to qualifying investments in qualifying start-ups made during this period.

SPRING Singapore will release more details of the scheme by June 2010.

2 INDIVIDUAL INCOME TAX

Increase in Parent Relief

Current

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

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

For handicapped parent relief, the relief is:

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

Proposed

The quantum for all categories of parent relief will be increased to show the Government's greater recognition and acknowledgement of taxpayers who support their aged dependants. The changes are as follows:

a) Parent relief: $7,000 (increase of $2,000) if the taxpayer lives with the dependant and $4,500 (increase of $1,000) if the taxpayer does not live with the dependant. The income threshold of each dependent (i.e. parent) will increase from $2,000 to $4,000.

b) Handicapped parent relief: $11,000 (increase of $3,000) if the taxpayer lives with the handicapped dependant and $8,000 (increase of $1,500) if the taxpayer does not live with the handicapped dependant. The income threshold of each dependent (i.e. handicapped parent) will be removed.

All other existing qualifying conditions for parent relief continue to apply. The changes are effective from YA 2010.

Waiver of Income Threshold Condition for Handicapped Dependant-related Reliefs and Increase in Income Threshold Condition for All Other Dependant-related Reliefs

Current

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

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

Proposed

The income threshold of $2,000 will be increased to $4,000. For handicapped-dependant-related reliefs, the income threshold condition will be removed in recognition of the extra resources and attention needed in providing care to the disabled. Hence taxpayers will be able to claim the reliefs regardless of the income of the handicapped dependant.

The changes on the income threshold condition are effective from YA 2010, except for the CPF Cash Top-up relief for top-up to the CPF accounts of spouse or siblings (for which the changes to the income threshold will be effective from YA 2011).

Expansion of Wife Relief to Spouse Relief

Current

A $2,000 relief is granted to male resident taxpayers supporting their wives who have income not exceeding a threshold of $2,000.

Proposed

The relief will be expanded to female resident taxpayers who support their husbands. The wife relief shall henceforth be known as the spouse relief. The revised income threshold conditions will also apply for the husband before the female taxpayer may claim the spouse relief. This change is effective from YA 2010.

Increase in Course Fees Relief

Current

Course fees relief is granted to tax-resident individuals in recognition of their efforts to upgrade themselves. The maximum relief claimable is $3,500 per year of assessment.

Proposed

As a signal of Government's recognition and support for lifelong learning, the maximum allowable course fees relief will be increased from $3,500 to $5,500. This change is effective from YA 2011.

3 GOODS AND SERVICES TAX

Expansion of GST Zero-Rating for Marine Industry

Current

Currently, zero-rating of GST is allowed for:

(a) Sale and lease of a qualifying ship not used for recreational or pleasure purposes, and not a passenger harbor craft or pleasure craft licensed by the MPA;

(b) Sale of stores and merchandises to ships that are travelling to or from a destination outside Singapore (i.e. ship calls on a port outside Singapore);

(c) Transport of goods or passengers via a ship to or from a place outside Singapore (i.e. ship calls on a port outside Singapore).

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

Proposed

a) The scope of qualifying ship for zero-rating of GST will be expanded to include pleasure and recreational ships that are wholly used for international travel regardless of whether they call on a port outside Singapore. This would include private yachts that ply international waters, provided that they are not licensed for use within Singapore waters.

b) Zero-rating is extended to all goods (including stores and merchandises) supplied for use on board or installation on a qualifying ship, regardless of whether the ship calls on a port outside Singapore.

c) Zero-rating is extended to the transport of goods or passengers via a ship to or from international waters, regardless of whether the ship calls on a port outside Singapore.

d) Similar to the change in (b), zero-rating is also extended to stores supplied to and merchandises for sale on board a qualifying aircraft.

These changes will take effect from 1 July 2010 and IRAS will release more details by June 2010.

Extension of Qualifying Listed Registered Business Trusts ("RBT") Concession

Current

GST remission is granted to listed RBTs in the sectors of infrastructure, ship leasing and aircraft leasing to allow such RBTs to claim input tax on their business expenses regardless of whether they hold the underlying assets directly or indirectly through multi-tiered structures such as special purpose vehicles or sub-trusts. This GST remission expires in 2010.

Proposed

The GST remission for listed RBTs in the sectors of infrastructure, ship leasing and aircraft leasing, which expired on 17 February 2010, will be renewed for the period from 18 February 2010 to 31 March 2015 (both dates inclusive).

Deferring Import GST

Current

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

Proposed

A new scheme will be introduced to allow approved GST-registered businesses to defer import GST that is payable on their goods at the point of entry into Singapore. The import GST is deferred for at least one month and declared as a payable amount in the corresponding GST return. Approval will be accorded to GST-registered businesses that meet all qualifying conditions including good compliance records and subscription to monthly GST filing.

This scheme aims to ease the import GST cash flow for GST-registered businesses and will take effect from 1 October 2010. IRAS will release details of the scheme by March 2010.

Simplifying GST Accounting Rules

Current

Under the general time of supply rules ("General Rules"), GST is accounted at the earliest of the following events:

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

Proposed

The General Rules will be simplified to allow most businesses to account for GST at the earlier of:

- when a tax invoice is issued; or
- when payment is received.

However, there are circumstances (e.g. GST registration and deregistration), where the date on which goods are delivered/ made available or services performed will be retained as a reference point. The above changes will ease GST accounting for most businesses as they will no longer need to track the date on which goods are delivered/ made available or services are performed. These changes will take effect from 1 January 2011 and IRAS will release more details by May 2010.

4 PROPERTY TAX

Tax Rebate for Owner-occupied Residential Properties

Current

Owner-occupied residential properties are taxed at a concessionary 4% rate (instead of 10% for all other properties).

In addition, owner-occupied residential properties with Annual Values (AVs) below $10,000 can enjoy the on-going 1994 property tax rebates ranging from $25 to $150, depending on the AVs of their properties.

Proposed

For property tax payable from January 2011, the 1994 property tax rebates will be replaced by a progressive property tax schedule for owner-occupied residential properties-

i. 0% for the first $6000 of AV;
ii. 4% for the next $59,000 of AV;
iii. 6% for the balance of AV in excess of $65,000.

Non-owner-occupied residential properties and other properties will continue to be subject to 10% property tax.

5 OTHER CHANGES

Reduction in Withholding Tax Rate for Non-resident Public Entertainers

Current

A non-resident public entertainer (NRPE) is subject to tax at a withholding tax rate of 15% on his gross income derived in respect of services performed in Singapore.

Proposed

As a concession to help local organizers attract high quality performances to Singapore, the withholding tax rate of 15% will be reduced to 10% on sums payable from 22 February 2010 to 31 March 2015.

Duty-free Allowance for Additional One Litre of Wine or Beer

Current

Duty-free allowance for bottled liquor is one litre each of spirit, wine and beer.

Proposed

Travelers may purchase one additional litre of duty-free wine or beer in lieu of one litre of duty-free spirits with effect from 1 April 2010.

Singapore Customs will release the details by March 2010.

Enhanced Transport Technology Innovation Development Scheme (TIDES)

Current

TIDES was formulated in 2001 by EDB and LTA to waive Certificate of Entitlement, taxes and duties for vehicles brought into Singapore for the purpose for R&D and test-bedding.

The tenure of the waiver was for 2 years in the first instance, with an option to extend for another 2 years, subject to EDB's approval. Beyond the fourth year, buyers will have to pay appropriate taxes (based on depreciated OMV) for ordinary vehicle ownership should they decide to continue using the car; or they could choose to export their cars overseas.

Proposed

To further support the development and test-bedding of transport technologies, green vehicles brought to Singapore for the purpose of test-bedding can enjoy waiver of Additional Registration Fees, Certificate of Entitlement, and custom duties for an initial period of six years. This is up from two years under the existing TIDES scheme. In addition, the quota of vehicles under this scheme will be expanded from 300 electric vehicles up to 1,300.

Extension of Green Vehicle Rebate (GVR) to imported used green vehicles

Current

Currently, only brand new green vehicles qualify for the Green Vehicle Rebate (GVR).

Proposed

The scope of the GVR scheme will be extended to include imported used green vehicles with effect from 1 July 2010. The extension of GVR will not be applicable to imported used CNG vehicles, and vehicles which are required to be brand new at point of registration e.g. taxis.

NEA and LTA will release the details by March 2010.

Foreign Worker Levies

Foreign worker levies will be increased over the next 3 years to provide incentives for businesses to restructure and upgrade their operations so as to depend less on foreign workers. As a start, foreign worker levy rates will be raised by between $10 and $30 for most Work Permit holders on 1 July 2010. Further adjustments in levy rates and tiers will be made in 2011 and 2012.

In addition, two levy tiers will be introduced for S Pass workers. The rates for the first and second tiers will be $100 and $120 in July 2010. This is an increase from a single rate of $50 currently. Further adjustments will be made in phases until the rates reach $150 and $250 by July 2012.

National Productivity Fund

The Government will create a S$2 billion National Productivity Fund to provide funding to enterprises in all sectors, with special emphasis initially on sectors where there is potential for larger gains in productivity. The Fund will also help to develop centres of expertise for a range of industries that will provide a knowledge base for enterprises to tap on to develop productivity solutions.

The National Productivity and Continuing Education Council will establish the priorities and program of the Fund. This Council will be chaired by DPM Teo Chee Hean and include members from the Government, business community and the labour movement.

The Government will put an initial amount of $1 billion into the Fund in 2010 which is expected to be sufficient to support initiatives over the next five years.

Workfare Training Scheme

A three-year Workfare Training Scheme (WTS) will be introduced to complement the Workfare Income Supplement (WIS) scheme. WIS is an initiative to encourage older low-wage earners to remain in the workforce.

The WTS will subsidize 90% to 95% of absentee payroll and course fee expenses for employers, when they send their low-wage workers for training. In addition, it will provide cash grants, capped at $400 per year, to WIS recipients who complete their training.

The WTS will also aim to introduce a structured training program for those with very low skills, including those who are unemployed.

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