SINGAPORE

2009 SINGAPORE BUDGET

The 2009 Singapore Budget was announced on 22 January 2009. As expected, the rate of Goods and Services Tax remained untouched at 7%. However, against expectations (but welcome news), the corporate tax rate was lowered for year of assessment 2010 (income earned in 2009) to 17% from an already competitive 18%. With this, Singapore has narrowed the gap with its regional competitor, Hong Kong, which has a headline tax rate of 16.5%. Coupled with the availability of tax incentives and a wide network of tax treaties and free trade agreements, Singapore is in a comfortable position to rebound quickly from the current economic downturn.

It would have been good however, if the corporate income tax rate reduction had been aligned with a reduction in tax incentive rates. The regional headquarters incentive, for instance, which accords a 15% concessionary tax rate on qualifying income, will no longer be an attractive incentive proposition as it only provides a two percentage-point reduction from the new headline tax rate.

Personal tax rates remained unchanged, with a “one-off” rebate of 20 percent that is capped at S$2,000, as last year. This is seen by many as disappointing, as the tradition, and thus expectation, has been for the top marginal rate of personal tax (currently 20%) to chase down to the corporate rate of 17%.

A summary of other tax changes proposed in the Singapore Budget is provided below.

Accelerated writing-down allowance for the acquisition of intellectual property rights for media and digital entertainment content

To encourage the growth of the media and digital entertainment (MDE) industry players, the writing-down period for claiming writing-down allowance in respect of capital expenditure incurred by a company or partnership for acquiring qualifying intellectual property (IP) rights for MDE content will be reduced from five years to two, subject to obtaining approval from the Economic Development Board. This benefit is available for qualifying IP rights for MDE content acquired between 22 January 2009 and 31 October 2013.

Enhancement to foreign-sourced income exemption scheme

A one-year moratorium to allow all foreign-sourced income to be repatriated tax-free was proposed in the Budget. The current scope of the foreign-sourced income exemption scheme, which is limited to foreign-sourced dividends, branch profits and service income, will thus be expanded to include other foreign-sourced income such as interest income, royalties and rentals. The “subjected to tax” and 15% headline tax qualifying conditions are also lifted during this period. The enhancement to the current scheme covers remittances of all foreign-sourced income earned or accrued outside Singapore prior to 22 January 2009, if the taxpayer remits that income to Singapore by 21 January 2010.

The Inland Revenue Authority of Singapore (IRAS) has since released details of the expanded scope in its circular dated 20 February 2009. Questions on when income is considered sourced in Singapore, earned or accrued outside Singapore prior to 22 January 2009 and remitted during the one-year moratorium period were clarified and explained in the circular. Details to be submitted and relevant supporting documents to be maintained were also provided in the circular.

New tax framework for qualifying amalgamations

A new framework for amalgamations, which aims at providing greater clarity and minimising tax consequences arising from an amalgamation was announced in the Budget. Even though the IRAS have not finalised the details of the framework yet, a proposed tax framework for corporate amalgamations, released by the IRAS on 20 February 2009 for public feedback, indicates that the new framework will give effect to qualifying amalgamations as if there has been no cessation of the existing businesses of the amalgamating companies. This means that the amalgamated company will be treated as having "stepped into the shoes" of the amalgamating companies and will continue with the business seamlessly. The amalgamated company will bear all the risks and enjoy all the benefits that existed prior to the merger that are transferred in.

Financial services

Enhanced Tier scheme for fund management incentives

A new Enhanced Tier to the existing fund management incentives was introduced in the Budget. The Enhanced Tier scheme will be effective from 1 April 2009 to 31 March 2014, although once a fund has been granted the new status, the relevant benefits will apply for the life of the fund.

The new scheme will entitle funds to additional concessions like the removal of restrictions on residency status of the fund and its investors, and extending the fund management incentives to funds formed as a limited partnership. More details of the Enhanced Tier status are to be released by the Monetary Authority of Singapore (MAS).

The specified income and designated investments list

The "specified income" and "designated investments" list for fund management incentives was expanded with effect from 22 January 2009. The expansion of the list should help Singapore leverage on the growth in the areas covered including environment related products and Islamic investment products in Asia.

Financial Sector Incentive – Headquarters (FSI-HQ) Services incentive

The Finance Minister has proposed to expand the scheme to include a company that is wholly-owned by, or which wholly owns, another company that is regulated by the MAS or its home country financial supervisory authority, and which provides treasury, investment or financial services in Singapore to its related parties.

In addition, a FSI-HQ company will enjoy a withholding tax exemption for interest on qualifying loans that is paid to non-resident qualifying persons. Local network companies, subject to their meeting of the prescribed conditions, can also be approved as qualifying network companies.

The Qualifying Processing Services Company (QPC) incentive, which provided for a 5% tax on income derived from the provision of high value-added processing services, has been folded under the FSI-HQ incentive for which a 10% (rather than 5%) tax rate is prescribed. Effectively, the QPC incentive, which lapsed on 26 February 2009, is renewed as part of the FSI-HQ incentive.

The above enhancements will apply from 22 January 2009 to 31 December 2013. More details of the enhancement are expected by April 2009.

Commodity Derivatives Traders incentive

The Commodity Derivatives Traders (CDT) scheme, which expired on 26 February 2009, has been folded into a new sub-category within the FSI — Derivatives Market (FSI-DM) scheme, and extended to 31 December 2013. As part of this change, the definition of commodity derivatives will be expanded to include emission derivatives. In addition, the counterparty requirement that CDTs have to observe for income from exchange-traded commodity derivatives to be taxed at 5% has been removed.

Tax deduction on loss provisions

As part of the package to promote bank lending in the current difficult economic climate, the tax deduction for loss provisions made pursuant to MAS Notice 612 for banks, as well as other equivalent MAS notices for finance companies and merchant banks, will be extended for a further three years of assessment.

Enhancing the tax depreciation regime

Loss carry-back relief

The following are enhancements to the carry-back relief scheme:

1. Allowing carry back to three years of assessment (from the current year of assessment) immediately preceding the year of assessment in which the capital allowances were granted or the trade losses were incurred.
2. The losses carried back are to be set off firstly against the third year of assessment, followed by the second year of assessment and then the year of assessment immediately preceding the year of assessment in which the capital allowances were granted or the trade losses were incurred.
3. Increasing the limit of aggregate qualifying deductions carried back from S$100,000 to S$200,000.

In addition, the IRAS will allow provisional claims for the tax refund to be based on estimated losses (instead of waiting for the finalisation of the chargeable income and tax assessments).

Accelerated tax depreciation

Businesses which invest in plant and machinery will be allowed accelerated capital allowances on capital expenditure incurred on plant and machinery in the basis periods for the years of assessment 2010 and 2011. The entire cost of the newly acquired assets can be claimed over two years with 75% of the costs claimed in the first year. Currently, capital allowances are claimed over three years on a straight-line basis.

Tax deductions for renovation and refurbishment expenses

The special allowance for fixtures, fittings and installations proposed in last year's Budget is further enhanced this year. To encourage businesses to refit their business premises in 2009 and 2010, they will be allowed to deduct expenses incurred in these two years for this purpose in one year instead of over three years. The cap of S$150,000 for every three years though remains.

Goods and services tax

Though there was no cut in the goods and services tax (GST) rate which stays at 7%, there were a few initiatives on GST proposed in the Budget. They are:

1. **Recovery of input GST on expenses for qualifying local funds** — qualifying funds that are managed by a prescribed fund manager in Singapore will be allowed to recover a "substantial portion" of the GST incurred on prescribed expenses between 22 January 2009 and 31 March 2014.
2. **Zero-rating for the aerospace industry** — with effect from 1 April 2009, the scope of aircraft qualifying for zero-rating will be expanded to include all aircrafts, including private aircrafts, which are wholly used or intended to be wholly used for international transportation of passengers or goods. Zero-rating is also extended to the sale, maintenance or repair services of aircraft components or systems. Further details will be released by the IRAS.
3. **Suspension of GST and duty on goods temporarily removed from zero-GST or licenced warehouses for auctions and exhibitions** — with effect from 1 April 2009, GST and duty will be suspended on goods (including wine) that are temporarily removed from a zero-GST or licenced warehouse for auctions or exhibitions. Further details are to be released by Singapore Customs.
4. **Exemption of duty and GST for wines used at wine exhibitions and conference events** — with effect from 1 April 2009, a specified quantity of wine for use at approved wine exhibitions and conference events will be exempted from duty and GST. However, the duty and GST exemption is restricted to 3 bottles of wine per label per day for each exhibitor and the main conference organiser at approved wine exhibitions and conference events.

Other changes

Other changes proposed in the Budget include:

1. **Enhancements to maritime sector** — changes proposed for the maritime sector include the Singapore Government taking a significant share of the risk for trade financing under the Special Risk-Sharing Initiatives Scheme, extension of withholding tax exemption under the Block Transfer Scheme for another five years, reduction in Singapore port charges and increased funding to the Maritime Cluster Fund.
2. **Job credit scheme** — a temporary one-year scheme where employers will be given a cash grant to reduce their costs of employing Singaporean workers. The grant is calculated based on 12% of the first S$2,500 of the wages of each Singaporean employee who is on the Central Provident Fund payroll and will be given in four quarterly payments.
3. **Enhancing start-up tax exemption scheme** — the start-up exemption scheme of up to S$200,000 currently only allowed to newly-incorporated companies will be extended to companies limited by guarantee with effect from year of assessment 2010.
4. **Tax deduction on donations** — tax deductions for donations to Institutions of a Public Character and other approved recipients made between 1 January 2009 and 31 December 2009 will be increased from 200% to 250%.
5. **Other changes relating to personal tax** — these include the removal of income tax on the net annual value of a property used by the owner or on behalf of the owner for residential purposes and not for business purposes from the year of assessment 2010 and flexible GIRO arrangements for individuals who have lost their jobs in 2008 or 2009. GIRO is an arrangement under which payment is automatically deducted from the taxpayer's bank account once the individual signs up for the arrangement.
6. **Property tax changes** — for calendar year 2009, property tax rebate of 40% will be granted for commercial and industrial properties and owner-occupied residential properties. Assessment rate for hotel rooms will remain at the current 20%. In addition, property tax deferral of up to two years will be granted to land approved for development.
7. In addition, there were a number of changes proposed for transport sector and enhancements to the government loan schemes.