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# SINGAPORE BUDGET HIGHLIGHTS 2 0 0 9

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## **RSM** Chio Lim LLP

8 Wilkie Road, #03-08, Wilkie Edge, Singapore 228095  
Tel (65) 6533 7600 Fax (65) 6594 7811  
info@rsmchiolim.com.sg www.RSMChioLim.com.sg

*Business Advisors to Growing Businesses*

**Executive Summary**

The Minister for Finance has announced a \$20.5 billion Resilience Package for FY 2009 as Singapore faces its worst-ever recession. The Package aims to save jobs in the recession, and to help viable companies stay afloat. It also introduces new measures that will prepare Singapore for recovery, and enhance Singapore's capabilities and competitiveness for the long term.

The key proposed measures include:

**Keeping Jobs**

- ◆ Jobs Credit – employers receive 12% cash grant on the first \$2,500 of each month's wages for each employee on their CPF payroll
- ◆ Enhancements to Skills Programme for Upgrading and Resilience (SPURS) – increase in course fee subsidies for PMET (professionals, managers, executives and technicians) level courses
- ◆ Workfare Income Supplement Special Payment – special payment given to low-income workers and relaxation of work eligibility criteria

**Stimulating Bank Lending**

- ◆ New Bridging Loan Programme – improves companies' access to working capital
- ◆ Trade Finance Schemes – enable mid-sized and large exporters to obtain loans and trade insurance
- ◆ Enhancements to existing credit measures that include increasing the Government's risk-sharing for loans under the Local Enterprise Finance Scheme and Micro Loan Programme

**Easing Business Cash Flow**

- ◆ 40% property tax rebate for industrial and commercial properties for 2009
- ◆ 15% rental rebates by JTC, HDB and SLA
- ◆ Carry-Back Relief System enhanced to increase the cap on tax losses that can be claimed against taxable income of preceding three Years of Assessment (YA)
- ◆ Foreign-sourced Income Exemption Scheme expanded to cover all foreign-sourced income

**Reducing Tax to Encourage Investments**

- ◆ Corporate income tax rate reduced from 18% to 17% with effect from YA 2010
- ◆ Accelerated capital allowances for plant and machinery acquired in YAs 2010 and 2011
- ◆ 1-year writing-down of renovation and refurbishment expenses
- ◆ Accelerated writing-down allowances for acquisition of intellectual property rights for media and digital entertainment content

**Supporting Families**

- ◆ Personal income tax rebate of 20% (capped at \$2,000) for tax residents for YA 2009
- ◆ Doubling of GST credits and Senior Citizens' Bonus
- ◆ Additional months of service and conservancy rebates
- ◆ 40% property tax rebate for owner-occupied residential properties for 2009
- ◆ Increased tax deduction and additional grant for Government Funded Voluntary Welfare Organisations

The Resilience Package demonstrates the Government's continual commitment to help Singapore companies and workers by introducing new measures to sustain jobs, stimulate bank lending, ease business cash flows, and provide direct assistance to households.

If you require clarifications and / or advice, please contact your usual business advisors at RSM Chio Lim LLP.

Happy Reading!

**Paul Lee**  
Managing Partner  
23<sup>rd</sup> January 2009

**KEY FEATURES**

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## INCOME TAX CHANGES FOR BUSINESSES

### Corporate Income Tax Rate

#### Current

- The current corporate tax rate is 18% [with effect from the Year of Assessment (YA) 2008]. Under the Singapore corporate tax structure, there is a partial tax exemption for normal chargeable income<sup>1</sup> of up to \$300,000 as follows:
  - 75% exemption of up to the first \$10,000 of normal chargeable income; and
  - 50% exemption of up to the next \$290,000 of normal chargeable income.

#### Changes

- The corporate tax rate will be reduced to 17% with effect from YA 2010. The partial tax exemption remains as before.

#### Technical / Business Considerations

- With the above change, the corporate tax structure with effect from YA 2010 would be as follows:

<u>Amount of normal chargeable income</u>	<u>Effective Tax Rate</u>
First \$10,000	4.25%
Next \$290,000	8.50%
In excess of \$300,000	17.00%

- Singapore's low effective tax rates stem from the partial tax exemption which is especially beneficial for companies with lower turnover. For a small and medium sized company having a normal chargeable income of \$500,000, the effective tax rate after the partial tax exemption is 11.8%, putting Singapore clearly ahead of its regional rival, Hong Kong (with a corporate tax rate of 16.5%), and also lower than Ireland (with a corporate tax rate of 12.5%), which has the lowest corporate tax rate of any developed country.
- In line with the reduction in the corporate tax rate, the following tax rates which are pegged to the corporate tax rate will also be correspondingly reduced to 17% with effect from YA 2010:
  - withholding tax rate on certain payments (e.g. management fees, technical assistance and service fees) to non-resident persons (other than individuals and Hindu joint families);
  - tax rate for every other person not resident in Singapore, trustee (other than trustee of incapacitated person) and executor.

### Enhancement of Carry-Back Relief System

- With effect from YA 2006, companies may elect to carry-back their current year unutilised capital allowances and unutilised trade losses ("qualifying deductions") subject to conditions. To help businesses with their cash flow during the recession, the carry-back relief system is temporarily enhanced for YAs 2009 and 2010. A comparison of the current and revised features is set out in the table below:

	<b>Current</b>	<b>YAs 2009 and 2010</b>
Aggregate amount of qualifying deductions for each YA that can be carried-back	\$100,000	\$200,000
Number of years qualifying deductions can be carried-back	1 immediate preceding YA	3 immediate preceding YAs
Order of set-off	NA	Qualifying deductions will first be set-off against taxable profits in the 3 <sup>rd</sup> YA, followed by the 2 <sup>nd</sup> YA and then the YA immediately preceding the YA in which capital allowances were granted or trade losses were incurred.

<sup>1</sup> Normal chargeable income refers to income to be taxed at the prevailing corporate tax rate.

	Current	YAs 2009 and 2010
Who can qualify?	All businesses, including sole proprietorships and partnerships.	Same as before
Other conditions to be satisfied	<p><u>Same business test</u> Businesses are required to carry on the same business for the carry-back of unutilised capital allowances.</p> <p><u>Substantial shareholding test</u> Companies have to satisfy the substantial shareholding test (i.e. there must be no more than 50% change in the shareholders and their shareholdings on the relevant dates) to qualify for the scheme.</p>	Same as before
Timing of refund	Upon finalisation of assessment	Provisional claims for tax refunds based on the estimated losses will be allowed

- The Inland Revenue Authority of Singapore (IRAS) will release the administrative details shortly.

#### **Technical / Business Considerations**

- The increase in the quantum of qualifying deductions to be carried-back and the number of years such qualifying deductions can be carried back are good news for businesses which are expecting losses during this recession. Loss-making businesses will be able to get cash refund for taxes they paid in good times.
- It remains unclear how and when companies should inform IRAS of their estimated losses to be carried-back provisionally to claim tax refunds. It could likely be at the time of submission of estimated chargeable income. Further, it is uncertain if there are penalties for providing an incorrect estimation of the losses to be carried back.

#### **Expansion of Scope of Foreign-Sourced Income Exemption**

##### **Current**

- Tax exemption is granted on all foreign-sourced income received in Singapore by tax resident individuals on or after 1 January 2004 except where the foreign-sourced income is received in Singapore through a partnership in Singapore.
- Tax exemption is also granted on foreign-sourced dividend income, foreign-sourced branch profits and foreign-sourced service income received in Singapore by resident non-individuals on or after 1 June 2003 or received by tax resident individuals through a partnership in Singapore on or after 1 June 2004 provided:
  - ♦ income has been subjected to tax in the foreign jurisdiction;
  - ♦ headline tax rate of the foreign jurisdiction at the time of remittance is at least 15%; and
  - ♦ the exemption is beneficial to the resident person.

##### **Changes**

- Resident non-individuals and resident partners of partnerships in Singapore will be exempted from tax on all their foreign-sourced income, including foreign-sourced interest income, rental income, etc, earned/accrued outside Singapore on or before 21 January 2009, provided the income is remitted into Singapore during 22 January 2009 to 21 January 2010 (both dates inclusive).
- Current conditions to be satisfied in order to qualify for the tax exemption upon remittance in Singapore will be temporarily lifted.
- IRAS will release further details by April 2009.

**Technical / Business Considerations**

- The extension of scope of tax exemption to cover all types of foreign-sourced income is a welcome move, as it would boost inflow of funds and encourage repatriation of foreign income back to Singapore.
- Businesses would also cheer the temporary suspension of current conditions to qualify for tax exemption. Although it is a short-term measure, businesses would be able to draw upon the additional resources speedily as and when they require additional financing to fund their business operations.
- It remains to be seen if there are other requirements (e.g. tracking of details) that would be imposed by IRAS.

**Enhancement of Existing Capital Allowances Regime**

**Current**

- Any person carrying on a trade, business or profession who incurs qualifying capital expenditure on plant and machinery is eligible to claim 3-year accelerated capital allowances.

**Changes**

- Qualifying capital expenditure incurred on plant and machinery during the basis periods for YAs 2010 and 2011 for purposes of a trade, business or profession will be allowed an accelerated 2-year write-off instead of 3 years: 75% write-off for the first YA and the remaining 25% for the next YA.

**Technical / Business Considerations**

- This change may help to reduce the income tax payable by businesses, thereby easing their cash flows.
- Businesses who intend to make new investments in plant and machinery to prepare for the recovery may consider crystallising their plans from now until the end of their next financial period in order to enjoy the benefit offered by this tax change.

**Accelerated Writing-Down Allowances (WDA) for Acquisition of Intellectual Property (IP) Rights for Media and Digital Entertainment (MDE) Content**

**Current**

- 5 years accelerated WDA are granted to a company or partnership that incurs capital expenditure in acquiring IP rights provided:
  - ♦ the legal and economic ownership of the IP rights is acquired; or
  - ♦ the economic ownership of the IP rights is acquired with approval from the Economic Development Board (EDB) for WDA in the event that legal ownership is not available.

**Changes**

- Subject to certain conditions, the writing-down period for WDA would be reduced from 5 years to 2 years in respect of capital expenditure incurred by a MDE company or partnership acquiring qualifying IP rights for MDE content.
- The accelerated WDA would be granted on an approval basis by EDB, even though both economic and legal ownership of the IP rights for MDE content are acquired.
- These changes apply for qualifying IP rights for MDE content acquired during 22 January 2009 to 31 October 2013 (both dates inclusive).

**Technical / Business Considerations**

- This is a welcome change and in line with the Government's objective in promoting Singapore as an IP hub. To facilitate the process of claiming the WDA, it would be good if the claimant is allowed to claim the WDA automatically as the process in getting approval from EDB could increase administrative costs for the claimant.
- Clarification is needed on the conditions to be satisfied in order to qualify for the WDA.

**Enhancement of Tax Deduction for Capital Expenditure incurred on Renovation and Refurbishment (R&R) Works****Current**

- Tax deduction for qualifying R&R expenses (except those expenses relating to structural works and expansion of space) incurred during the period from 16 February 2008 to 15 February 2013 is claimable over 3 years on a straight-line basis, subject to a capping of \$150,000 every 3 years.

**Changes**

- Tax deduction claim for qualifying R&R expenses incurred during the basis periods for the YAs 2010 and 2011 can now be made in 1 year instead of 3 years.

**Technical / Business Considerations**

- With this tax change, businesses that need to refit their business premises will now be discouraged to defer the refit beyond the current and next financial years.

**Enhancement of Start-Up Exemption Scheme****Current**

- A newly start-up company (other than companies limited by guarantee) that satisfies all of the following criteria are eligible to claim full tax exemption on its first \$100,000 normal chargeable income for the first 3 YAs of incorporation:
  - ♦ it is incorporated in Singapore;
  - ♦ it is a Singapore tax resident in the relevant YA; and
  - ♦ throughout the basis period relating to the YA of claim, its total share capital is beneficially held directly by no more than 20 shareholders, all of whom are individuals or at least one is an individual holding at least 10% of the total number of issued ordinary shares of the company.

**Changes**

- With effect from YA 2010, this scheme will be extended to companies limited by guarantee, subject to the same conditions as imposed on companies limited by shares.

**Technical / Business Considerations**

- The extension of the start-up exemption would encourage the growth of social enterprises.

**Enhancement of Tax Deduction on Donations****Current**

- All donations (apart from those with commercial benefits in return) to Institutions of Public Character and other approved recipients (such as approved museums, prescribed schools, etc.) qualify for double tax deduction.

**Changes**

- Tax deduction for these donations made during 1 January 2009 to 31 December 2009 will be increased from the current 200% to 250%.

**Technical / Business Considerations**

- Given the current economic and credit crisis, the enhancement on tax deduction on approved donations will promote greater charitable giving.

## Tax Framework for Facilitating Corporate Amalgamations

### Current

- Under the Companies Act, when companies amalgamate, the amalgamated company takes over all assets and liabilities of the amalgamating companies and the amalgamating companies cease to exist. Under the existing tax treatment, the amalgamating companies and the amalgamated company are treated as separate entities. Consequently, the amalgamating companies are treated as having ceased business and disposed of their assets and liabilities, and the amalgamated company having acquired or commenced a new business. Some of the tax consequences that may be triggered are:
  - ♦ the need to make balancing adjustments on assets for which capital allowances are claimed;
  - ♦ the inability to claim for deduction for bad debts by the amalgamated company when the debts taken over subsequently becomes irrecoverable;
  - ♦ the forfeiture of unutilized capital allowances / losses / donations of the amalgamating companies that have ceased to exist.

### Changes

- A new tax framework for qualifying corporate amalgamations will be introduced.
- Qualifying corporate amalgamations are those where, amongst other conditions, the amalgamated company takes over all assets and liabilities of the amalgamating companies and the amalgamating companies cease to exist.
- IRAS will release details of the new tax framework for public consultation in February 2009.

### Technical / Business Issues

- As the new tax framework will apply only to qualifying corporate amalgamations, all other forms of mergers not falling within the scope of qualifying corporate amalgamation will still be subject to the current rules and treatment.
- When details of the new tax framework is put up for public consultation in February 2009, we believe the following aspects will be covered:
  - ♦ what are the other conditions to be satisfied to be a qualifying corporate amalgamation, e.g. must the amalgamating companies and amalgamated company be tax residents of Singapore;
  - ♦ whether the amalgamated company is allowed to continue to claim capital allowances on the assets taken over without the need to make balancing adjustments;
  - ♦ whether the amalgamated company will be allowed to claim deduction for bad debts when the debts taken over subsequently becomes irrecoverable;
  - ♦ whether the unabsorbed capital allowances / losses / donations of the amalgamating companies will be automatically transferred to the amalgamated company without the need to satisfy shareholding test and business continuity test;
  - ♦ whether any existing tax incentives enjoyed by the amalgamating companies will be automatically transferred to the amalgamated company.

## Extension and Enhancement of Withholding Tax Exemption for Maritime Industry

### Current

- Block Transfer Scheme (BTS) provides for withholding tax exemption on interest payable on an offshore loan taken by a shipping enterprise to finance the purchase of a Singapore-flagged ship.
- The BTS scheme applies to ships registered with the Singapore Registry of Ships (SRS) from 1 November 2003 to 31 December 2008 (both dates inclusive).

### Changes

- The withholding tax exemption under the BTS scheme has been further extended for 5 years to 31 December 2013.
- Withholding tax exemption can be granted, subject to terms and conditions, on interest payable on an offshore loan taken by a shipping enterprise to acquire a ship that is a new entrant to SRS and registered with the SRS from 1 January 2009 to 31 December 2013 (both dates inclusive).
- This exemption has also been extended to interest payable on an offshore loan taken to finance the acquisition of 100% of the shares in a Special Purpose Company that owns 100% of a ship, which is a new entrant to the SRS and registered with the SRS from 1 January 2009 to 31 December 2013 (both dates inclusive).

**Technical / Business Considerations**

- The proposed extension of the BTS scheme will continue to enhance the attractiveness of flagging of foreign flagged ships as a fleet under the Singapore flag and promote the growing shipping industry in Singapore.
- The extension of the withholding tax exemption extension is a welcome move as it provides shipowners / investors wider availability of offshore sources of funds. In addition, in cases where shipowners are bearing the withholding taxes, the withholding tax exemption will help lower their business costs.

**Enhancement of Fund Management Incentives**

**Current**

- Under existing fund management tax incentives, tax exemption is generally granted on specified income derived by qualifying funds from designated investments. Qualifying funds can be in the form of companies, trusts or individuals.
- Where a qualifying fund is in the form of a company or a trust, the qualifying fund must not be 100% beneficially owned by resident investors.
- Resident non-individual investors of a qualifying fund are subject to a 30% or 50% investment limit, as the case may be, depending on the number of investors in the fund. A breach of this limit would subject resident non-individual investors to a financial penalty.
- Where the fund vehicle is a limited partnership, the incentive conditions are to be applied on each partner, to determine if they qualify for the tax incentives.

**Changes**

New Enhanced Tier

- Existing fund management incentive schemes under Sections 13C, 13CA and 13R of the Singapore Income Tax Act (SITA) will be enhanced by the introduction of an Enhanced Tier.
- The Enhanced Tier will apply to the existing fund management incentives for funds with a minimum fund size of \$50 million at the point of application, amongst other conditions.
- There will be no restrictions imposed on the residency status of the fund vehicles and investors.
- The Enhanced Tier will also apply to funds that are constituted in the form of limited partnerships, i.e. there will no longer be a need to look through to the partners' level to apply the incentive conditions.
- The 30% or 50% investment limit imposed on resident non-individual investors will also be lifted for funds which qualify under the new Enhanced Tier.
- The Enhanced Tier will take effect from 1 April 2009 to 31 March 2014 (both dates inclusive).
- Fund managers interested in the Enhanced Tier for their funds may apply to the Monetary Authority of Singapore (MAS) for approval.

Sunset Clause

- A sunset clause will also be introduced for the Enhanced Tier as well as the existing fund management incentives at the incentive scheme level. Both incentives will expire on 31 March 2014.
- All funds that are on the scheme on or before 31 March 2014 will continue to enjoy the tax exemption after 31 March 2014, subject to them continuing to meet the scheme conditions.
- MAS will release details on the new Enhanced Tier by April 2009.

**Technical / Business Considerations**

- The proposed enhancement is consistent with the Government's continuous effort to encourage further growth of the fund management industry and strengthen Singapore's position as a leading financial centre.
- The recognition of funds set up in the form of limited partnerships will allow offshore fund managers to operate from Singapore without the need to restructure their funds.
- The liberalisation of the fund management schemes will benefit Singapore-based fund managers by allowing them to tap on a wider pool of potential investors.
- The sunset clause will allow the administering agency, MAS, to evaluate the effectiveness of the Schemes towards the end of the incentive period.

## Enhancement of Financial Sector Incentive-Headquarter Services (FSI-HQ) Scheme

### Current

- The existing FSI-HQ scheme under Section 43Q of the SITA and the Income Tax (Concessionary Rate of Tax for FSI Companies) Regulations 2005 (FSI Regulations) grants a 10% concessionary tax rate to a FSI-HQ company on qualifying income derived from providing qualifying services to qualifying network companies.
- Under the current FSI-HQ scheme, a company cannot be approved as an FSI company if:
  - ♦ It is not licensed or approved by MAS or is exempt from such licensing or approval; and
  - ♦ It provides treasury, investment or financial services in Singapore for any of its offices or its associated companies.
- The tax concession under the FSI-HQ scheme does not extend to income from qualifying services to Local Network Companies (LNC).
- Separately, Section 43R of the SITA and the Income Tax (Concessionary Rate of Tax for Provision of Processing Services to Financial Institutions) Regulations 2005 provides for tax incentive scheme for provision of high value-added processing services (Qualifying Processing Services Company (QPC) scheme).
  - ♦ The QPC scheme grants a 5% concessionary tax rate on income derived from providing prescribed processing services in Singapore to any financial institution or another QPC. This scheme will expire on 27 February 2009.

### Changes

- The Minister has proposed the following enhancements:
  - ♦ The FSI-HQ scheme will be extended to admit a company that is:
    - (i) wholly-owned, directly or indirectly by, or wholly owns directly or indirectly, a company that is licensed or approved by MAS or by the financial supervisory authority in its home country; and
    - (ii) provides treasury, investment or financial services in Singapore for any of its offices or its associated companies.
  - ♦ Withholding tax exemption will be granted on interest payments made by a FSI-HQ company to “qualifying” non-Singapore resident persons on “qualifying” loans entered into during the period from 22 January 2009 to 31 December 2013 (both dates inclusive) to perform “qualifying” activities.
  - ♦ An LNC can be approved as a qualifying network company of a FSI-HQ company, subject to certain conditions.
  - ♦ The activities incentivised under the QPC scheme will be subsumed under the FSI-HQ scheme and income from providing prescribed processing services in Singapore to any financial institution or another QPC will be taxed at a concessionary rate of 10%. There will be no other changes to the scope of the QPC scheme. Companies that have been awarded the QPC status prior to 27 February 2009 will continue to enjoy the concessionary rate of 5% until the expiry of their respective awards.
- The enhancement of the FSI-HQ scheme will be effective for the period of 22 January 2009 to 31 December 2013 (both dates inclusive).
- MAS will release the details by April 2009.

### Technical / Business Considerations

- To extend the FSI-HQ scheme to the provision of services in Singapore, the definitions of “approved office” and “approved person” under the current FSI Regulations would have to be amended.
- Together with the reduction in the corporate tax rate for normal chargeable income to 17% in YA 2010, the proposed enhancement to FSI-HQ would boost Singapore’s attractiveness as a regional holding and headquarters location for MNCs and financial institutions.
- The enhancements would also provide leads for MNCs and foreign financial institutions to consolidate its regional and global operations to be managed and controlled from Singapore.

## Enhancements of Specified Income and Designated Investments Lists

### Current

- At present, there is a list of specified income and a list of designated investments used under the following financial sector tax incentive schemes:
  - ♦ Foreign trust scheme;
  - ♦ Fund management incentives;
  - ♦ Approved Trustee Company (ATC) scheme;
  - ♦ Financial Sector Incentive (FSI) – Standard Tier scheme;
  - ♦ Financial Sector Incentive (FSI) – Fund Management scheme.

**Changes**

- The specified income list will be extended to cover the following :
  - ♦ Income realised (other than through sale) on or after 22 January 2009 from designated investments in other forms (held to maturity, redemption or where the realisation leads to a transfer of both economic and legal ownership).
  - ♦ Income derived from debt securities under the Qualifying Debt Securities (QDS) scheme, specifically :
    - (i) Prescribed income directly attributable to QDS issued on or after such date, as may be prescribed by regulations.
    - (ii) Amount payable on any Islamic debt securities, which are QDS issued on or after 22 January 2009.
- The designated investments list will be expanded to cover the following :
  - ♦ Investments in structured products
  - ♦ Units in business trusts
  - ♦ Qualifying Islamic investments involving the *Murabaha*, *Mudaraba*, *Ijara wa Igtina*, *Musharaka*, *Istisna* and *Salam* concepts
  - ♦ Emissions derivatives
  - ♦ Stocks and shares of unlisted companies (whether resident or non-resident in Singapore) denominated in any currency
  - ♦ Adjudicated and non-adjudicated liquidation claims
- Both lists will be enhanced with effect from 22 January 2009.
- Details will be released by MAS by April 2009.

**Technical / Business Considerations**

- The designated investment list will be expanded to include Islamic investment products and emission derivatives – the two financial products that have grown dramatically in number and popularity in recent times.

**Extension and Enhancement of Commodity Derivatives Traders Scheme (CDT)**

**Current**

- Concessionary tax rate of 5% is granted on income derived by an approved company from:
  - ♦ qualifying trades in commodity derivatives carried out over-the-counter (OTC) and on exchanges;
  - ♦ services as an intermediary for transactions relating to commodity derivatives; and
  - ♦ forward freight agreements.
- Only transactions that are carried out with specified counter-parties would be considered as qualifying trades.
- CDT scheme will expire on 26 February 2009.

**Changes**

- The qualifying period of CDT scheme will be extended and subsumed under the Financial Sector Incentive-Derivatives Market (FSI-DM) scheme for the period from 27 February 2009 to 31 December 2013 (both dates inclusive). A new FSI-DM (CDT) will replace the old CDT scheme.
- Expansion of definition of commodity derivatives to include emission derivatives under the new FSI-DM (CDT) for trades during the period from 27 February 2009 to 31 December 2013 (both dates inclusive).
- The counter-parties restrictions under the new FSI-DM (CDT) will be removed for qualifying trades carried out on exchanges for the period from 27 February 2009 to 31 December 2013 (both dates inclusive). This enhancement will also apply to qualifying trades carried out under Global Trader Programme (GTP), which are entered into from 27 February 2009 to 31 December 2013 (both dates inclusive).
- MAS will announce further details by April 2009.

**Technical / Business Considerations**

- The extension of the tax incentive period is part of the Government's continuing efforts in reinforcing Singapore's position as The Premier Hub for international commodities trading, thereby creating a more vibrant derivatives trading market in Singapore.
- Riding on the enthusiasm in promoting a clean and green world, the expansion of definition of commodity trading to include "emission trading" is timely, given that trading in emission credits is expected to rise substantially in the coming years. As the emerging trading sector, inclusion of emission trading is an optimistic step that will further entrench Singapore as the preferred hub for international commodities trading.

- The lifting of counter-parties restrictions will benefit approved companies by reducing their compliance costs. This could also lead to increased counterparty qualifying trades carried out on Exchanges.

## INCOME TAX CHANGES FOR INDIVIDUALS

### Tax Rates and Rebate

#### Current

- Tax resident individuals are subject to tax on their income accrued in or derived from Singapore based on progressive tax rates ranging from 0% to 20%.
- Tax resident individuals are allowed to pay their personal income tax by 12 monthly GIRO instalments.

#### Changes

- No change in personal income tax rates, but an income tax rebate of 20% will be given to all tax resident individuals for YA 2009, capped at \$2,000.
- The 20% tax rebate is calculated based on the tax payable after double taxation relief and other credits but before Parenthood Tax Rebate.
- Tax resident individuals who have lost their jobs in 2008 or 2009 may call IRAS to arrange for 24 months GIRO instalments to pay their personal income tax for YA 2009.

#### Technical / Individual Considerations

- The granting of personal income tax rebate provides immediate reduction in tax resident individuals' tax payable for last year's income. The cap is put in place to target the rebate at those below the top income brackets.
- The maximum tax rebate of \$2,000 is applicable to a chargeable income level of \$120,715, as shown below.

Chargeable income	\$	\$
		<u>120,715</u>
Tax on first \$80,000	4,300.00	
Tax on next \$40,715 @ 14%	<u>5,700.10</u>	
Tax Payable		10,000.10
Less: 20% Tax Rebate (restricted)		<u>(2,000.00)</u>
Net Tax Payable		<u>8,000.10</u>

- The 24-month instalment plan will help to ease the cash burden for tax resident individuals who have lost their jobs.
- With the reduction in the corporate tax rate to 17% with effect from YA 2010, the gap between the 20% top marginal personal income tax rate and the corporate tax rate is widened to 3%.

## Removal of Income Tax on Net Annual Value (NAV)

#### Current

- An annual exemption of up to \$150,000 is allowed on the NAV of one property that is occupied by the owner. Any excess of NAV above \$150,000 is taxable. The exemption does not apply in the case of another person occupying the property on the owner's behalf for residential purposes. If the property is occupied by joint owners, NAV is not taxable if it is below \$150,000, whereas all joint owners will be taxed on their share of NAV that is in excess of \$150,000 if the NAV exceeds \$150,000.

#### Changes

- The income tax on NAV of all residential properties will be removed with effect from YA 2010.

#### Technical / Individual Considerations

- Taxpayers who own and occupy more than one property for residential purposes or have properties that are occupied rent-free by others on their behalf, as well as those owning residential properties with NAV exceeding \$150,000, will definitely welcome this tax change.

**GOODS AND SERVICES TAX****Recovery of Input GST for Qualifying Funds****Current**

- GST incurred by funds is not recoverable unless the funds are registered for GST.
- The fact that funds receive mainly dividend or interest income makes it difficult for them to register for GST.

**Changes**

- Funds need not be GST registered in order to claim the GST incurred.
- Qualifying funds that are managed by prescribed fund managers in Singapore can now recover substantial amount of GST incurred on prescribed expenses by way of remission.
- The qualifying period for the remission is from 22 January 2009 to 31 March 2014 (both dates inclusive).
- MAS will provide more details by April 2009.

**Technical / Business Considerations**

- The list of qualifying funds, prescribed funds manager and prescribed expenses should be comprehensive enough to ensure that Singapore funds are placed on an equal footing with overseas funds.

**Zero-rating for Aerospace Industry****Current**

- Sale and lease of aircraft cannot be zero-rated if the aircraft is used for recreational or pleasure purposes.
- Sale of aircraft components or systems can only be zero-rated if they are exported.
- Repair, maintenance and overhaul works performed cannot be zero-rated if the aircraft is used for recreational or pleasure purposes.

**Changes**

- The definition of 'qualifying aircraft' has been widened to include all aircraft (including private aircraft) that are wholly used or intended to be wholly used for international transportation of passengers or goods.
- Zero-rating has been extended to cover the sale, maintenance and repair services of aircraft components or systems as long as they form part of a qualifying aircraft.
- A new GST relief scheme will be introduced for the importation of aircraft components or systems into Singapore.
- The changes will be effective from 1 April 2009.
- IRAS will provide more details by March 2009.

**Technical / Business Considerations**

- Repair or maintenance of aircraft components or systems that are not reinstalled or returned to the aircraft immediately may now qualify for zero-rating. Although the rules have been relaxed to extend the zero-rating treatment, there may be a practical problem for service providers to track and determine if the components maintained as stocks after repair or maintenance are meant to be reinstalled or returned to a qualifying aircraft. It is interesting to note how IRAS guidelines can address this situation. IRAS should also provide guidance on how businesses can prove the intention for the use of the aircraft.
- Sale of aircraft components or systems between the intermediaries appears to also qualify for zero-rating even if the goods are delivered locally.
- More players in the aerospace industry will benefit from the changes but businesses may need to take note of the new documentation requirements.
- It will be interesting to see how the new scheme will differ from the existing Major Exporter Scheme which has the same effect of suspending payment of import GST.

**Suspension of GST and Duty on Goods Temporarily Removed from Zero GST or Licensed Warehouse for Auctions and Exhibitions**

**Current**

- Payment of GST and duty is required when goods are removed from Zero GST or licensed warehouses.

**Changes**

- Payment of GST and duty will be suspended on the temporary removal of goods from Zero GST or licensed warehouse for auction and exhibition purposes.
- GST will not be chargeable on the sale of goods during the auction or exhibition.
- The above will apply only if the goods are returned to the warehouses after the auction or exhibition.
- The changes will be effective from 1 April 2009.
- Singapore Customs (SC) will provide more details by March 2009.

**Technical / Business Considerations**

- The new changes will ease the cash flow of auctioneers and exhibitors as they do not need to pay GST upon removal of goods from Zero-GST or licensed warehouses.
- It may pose a practical problem for auctioneers and exhibitors to track the origin of the goods in order to apply the correct GST treatment.

**Exemption of Duty and GST on Wine for Approved Wine Exhibitions and Conference Events**

**Current**

- No special concession for the importation of wines to be used at wine exhibitions and conference events.

**Changes**

- With effect from 1 April 2009, duty exemption and GST relief will be granted on up to 3 bottles of wine per label per day for each exhibitor and the main conference organiser at approved wine exhibitions and conference events.
- SC will provide more details by March 2009.

**Technical / Business Considerations**

- The proposed changes will help to reduce the cost of importing wine into Singapore for exhibitions and conferences. Hence, the new measure will promote wine trading activities and develop the wine industry in Singapore.

**OTHER CHANGES**

Details of other changes are summarised below:

**(a) Jobs Credit**

- Employers will receive 12% cash grant on the first \$2,500 of each month's wages for each employee on their CPF payroll for one year in 4 instalments (i.e. March, June, September and December 2009).
- The Jobs Credit is automatically granted to eligible employers and computed based on CPF contribution data.

**(b) Property Tax**

- A property tax rebate of 40% will be given for commercial and industrial properties for 2009. Owner-occupied residential properties will also be given a 40% rebate after deducting the existing Property Tax Rebate of up to \$100 and the GST rebate (if applicable).
- Property tax deferral of up to two years will be granted to land approved for development with effect from 22 January 2009, or from the date of Written Permission / Provisional Permission from URA, or the date of tax liability of the new owner, whichever is the latest.
- Property tax on hotel rooms will remain at 20% for 2009 instead of the rate previously proposed of 25%.

**(c) Motor Vehicle Taxes / Rebates**

- A 30% road tax rebate will be granted for goods vehicles (including goods-cum-passenger vehicles), buses and taxis for one year with effect from 1 July 2009.
- Special (diesel) tax for un-hired taxis will be waived for one year with effect from 1 March 2009.
- Rebate on the Additional Registration Fee (ARF) under the Green Vehicle Rebate (GVR) scheme will be extended for another two years till 31 December 2011 as follows:
  - o For hybrid, electric and Compressed Natural Gas (CNG) passenger vehicles: 40% of the Open Market Value (OMV) of the vehicle at registration
  - o For hybrid, electric and CNG buses and commercial vehicles: 5% of OMV at registration.
- The special tax exemption for CNG vehicles, currently given till 31 December 2009, will be extended for another two years till 31 December 2011 and will be withdrawn permanently thereafter.
- With effect from January 2012, a CNG unit duty will be introduced at \$0.20 per kg and the special tax on CNG cars. CNG cars will also not be included in the GVR scheme with effect from 2012. Accordingly, the rebate on ARF under the GVR scheme will not be applicable. Industrial usage of CNG (e.g. power generation) would be granted duty exemption.

- End -