



PRIVATE & CONFIDENTIAL

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

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Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com

Dear Sirs

Income Tax : Year of Assessment 2015
Basis Period: Financial Year Ended December 31, 2014

We would like to take this opportunity to advise you of the following as we enter in the year 2015:

SINGAPORE INCOME TAX

1. **Annual Income Tax Return (Form C)**

The 2015 Annual Income Tax Return (Form C) will be issued by the Inland Revenue Authority of Singapore (“IRAS”) shortly. Please forward the relevant Forms to us as soon as you receive them so that we can ensure their timely submission to the IRAS.

All items on the Form C and the relevant Appendices must be completed. For the Year of Assessment 2015, the filing deadline is November 30, 2015. In this respect, the duly completed Year of Assessment 2015 Form C must be filed by November 30, 2015, **failing which penalties are likely to be imposed**. Please note that the IRAS has indicated that no extension will be granted beyond the abovementioned filing deadline.

The various Sections of the Form C and their completion status are set out below:

| <u>Section of Form C</u> | <u>To be completed</u> |
|--|------------------------|
| Main body (5 pages) | By all companies |
| Appendices to Form C | |
| - Additional Information on Income & Deductions | By all companies |
| - Schedule of Foreign Dividends, Interest Received and Tax Deducted | Where applicable |

To enable us to prepare the Form C and assist the company in meeting the filing deadline, it is important that all details requested in Appendix II (Tax Schedules - see point 6, Page 5) are furnished to us as soon as possible and, in any event, not later than April 30, 2015.

Eligible companies with annual revenue of S\$1 million or below will be able to file their tax return using a simplified tax form, known as Form C-S. With Form C-S, eligible companies will only need to furnish essential tax and financial information and are not required to submit their financial accounts and tax computations. However, the financial accounts and tax computations are to be retained and submitted upon IRAS's request. The deadline for paper-filing of the Year of Assessment 2015 Form C-S is **November 30, 2015**, while the deadline for e-filing of the Form C-S is extended till December 15, 2015.

2. Estimated Chargeable Income

It is provided under the Income Tax Act ("ITA") that any person (including a company) is required to furnish an estimate of its chargeable income ("ECI") within three months from the end of its financial year.

However, companies with **turnover not exceeding S\$1 million** and with **Nil ECI** will not be required to file ECI.

When declaring their ECI, companies are also required to declare the amount of their revenue in the ECI Form, and to submit the ECI Form using their Unique Entity Number ("UEN"). Please provide us with an estimate of your revenue and chargeable income, and your UEN, by completing the enclosed Statement A and returning it to us before **January 19, 2015** in order to enjoy the maximum number of instalments.

Please be advised that the estimate should be computed in good faith and be reasonably accurate, otherwise the IRAS may make their own estimate which may be excessive. In addition, the IRAS may request for reasons for any material difference in the estimated tax and actual tax.

Companies that qualify for group relief under the loss transfer system may factor in the effect of group relief in the computation of their ECI. The quantum of group relief may be based on the provisional tax computations of both the claimant company and the transferor company at the time of submission of ECI. However, the Form GR-A and Form GR-B are not required to be submitted at this stage.

Please advise us as to whether you wish to file your ECI electronically for the Year of Assessment 2015. Please note that the number of instalments allowed for e-filing is twice the number of instalments allowed for paper-filing. In order for us to e-file the ECI on your behalf, we will have to be duly authorised by you via the IRAS “E-Services Authorisation System” (EASY). This system can be accessed via the IRAS website: www.iras.gov.sg

If you have not already authorised us via EASY, please proceed to authorise us to access IRAS e-services on your behalf by following the steps below:

Steps to authorise Deloitte & Touche LLP via EASY to access IRAS e-services:

- 1) Log-in to EASY with the company’s access code (please request for a new code if the company does not have one or if the access code previously issued by IRAS has expired)
- 2) Select the item “To authorise Third Party to act for my tax matters”
- 3) Enter the UEN for Deloitte & Touche LLP: T08LL0721A
- 4) Enter the effective year of assessment of authorisation: E.g. Year of Assessment 2015

Please inform us once you have completed the authorisation process. Please note that the authorisation for the company’s previous tax agent must be revoked before the authorisation of a new tax agent can be added.

3. Group Relief System

Under the group relief system, a company (known as “transferor company”) belonging to a group may transfer its current year unabsorbed capital allowances, current year unabsorbed tax losses and current year unabsorbed donations (collectively referred to as “qualifying deductions”) to another company (known as “claimant company”) belonging to the same group for deduction against the assessable income of the claimant company.

The availability of group relief is subject to the following:

- a) The group relief is available to companies belonging to the same group of companies, and the transferor company and the claimant company must have the same accounting year;
- b) The group relief is confined to the specified qualifying deductions; and
- c) The group relief is subject to rules governing the order of transfer of qualifying deductions and the restriction on the quantum to be transferred.

For the purposes of the group relief system, a group must consist of a Singapore incorporated holding company and its Singapore incorporated group members, with at least 75% effective beneficial ownership. Any holdings by or through non-Singapore incorporated companies (such as foreign company, individual, association, etc) will be disregarded.

Companies that wish to transfer or claim qualifying deductions to or from members of the same group under the group relief system are required to make an application by submitting the Form GR-A (for the transferor company) or Form GR-B (for the claimant company), together with their annual tax returns to the Comptroller of Income Tax. Such an application is final and irrevocable. Failure to furnish the relevant application form at the time of submission of the annual tax returns for any year of assessment will disqualify the company for group relief for that year of assessment.

We would be pleased to discuss with you on the specific situation of your group of companies and advise you whether or not your group of companies is eligible for group relief.

4. Carry-Back Relief System

Under the carry-back relief system, a company is able to carry-back its current year unabsorbed losses and capital allowances of up to S\$100,000 for set-off against its assessable income of the immediate preceding year of assessment. Unabsorbed donations do not qualify for carry-back relief.

Companies that wish to claim carry-back relief are required to satisfy the following conditions:

a) Unabsorbed losses

For the carry-back of the current-year unabsorbed losses, the shareholders of the company on the first day (i.e. January 1) of the year in which the losses were incurred must be substantially the same as the shareholders of the company on the last day (i.e. December 31) of the relevant preceding year of assessment.

b) Unabsorbed capital allowances

For the carry-back of current-year unabsorbed capital allowances, the company must carry on the same business in the basis period for the current year of assessment and the relevant preceding year of assessment. In addition, the shareholders of the company on the first day (i.e. January 1) of the year in which the capital allowances arose must be substantially the same as the shareholders of the company on the last day (i.e. December 31) of the relevant preceding year of assessment.

“Substantially the same” has the same meaning as that for the carry-forward of unabsorbed losses, capital allowances and donations. That is, 50% or more of the total number of issued shares of the company must be held by or on behalf of the same shareholders at the relevant dates.

Where there is a substantial change in the shareholders, and the change is not for the purpose of deriving any tax benefit or obtaining any tax advantage, the Minister has a discretion to exempt the company from the shareholding test. Upon an exemption, the company can only deduct the current year unabsorbed losses and capital allowances against the profits from the same business in respect of which the losses or capital allowances were incurred.

Companies that wish to elect for carry-back relief must make the election no later than the time of lodgement of their income tax return for the current year of assessment by furnishing a prescribed form to the Comptroller of Income Tax. Such an election is irrevocable.

Please contact us should you require our assistance on this matter.

5. Payment of Tax by Instalments - Appendix I

The number of instalments allowed to e-filers of ECI ranges from a minimum of six instalments to a maximum of ten instalments. The number of instalments allowed to paper-filers of ECI ranges from a minimum of three instalments to a maximum of five instalments. Appendix I gives further details in relation to the payment of tax by instalments.

From 1 April 2013, all companies would need to join GIRO to enjoy instalment payment for their estimated corporate taxes.

For companies that have been paying their taxes for the last 12 months (from 1 April 2012 through 31 March 2013) via non-GIRO instalment plan, they can continue with the plan till the plan ends in 2015. This is to ensure a smooth transition to instalments by GIRO. All new instalment plans issued from 1 January 2015 are to be settled via GIRO only.

Please indicate whether instalment arrangement is required and the mode of instalment payment by completing Statement A.

6. Tax Schedules - Appendix II

In order to prepare the company's income tax computation, we would require the particulars listed in Appendix II. Please make these particulars available to us if they have not already been provided to us either directly or in the course of our statutory audit.

7. Employer's Returns - Form IR 8A, Appendix 8A, Appendix 8B and Form IR 8S

Every employer is required to complete the Form IR 8A, Appendices 8A and 8B and Form IR 8S (where applicable) for their employees.

Please do not hesitate to call us should you require assistance with the filing of these returns. Meanwhile, arrangements should be made to collate the necessary information to enable accurate and prompt completion of these returns. These returns are due for submission by employees together with their annual tax returns (Form B) by April 15, 2015. A penalty is normally imposed for late submissions.

However, employers who have 14 or more employees for the entire year ended December 31, 2014 or who have received the "Notice to File Employment Income of Employees Electronically" must submit their employees' income information to IRAS electronically by March 1, 2015 under the Auto-Inclusion Scheme ("AIS"). The employment income information will then be shown on the employees' electronic tax return and automatically included in their income tax assessments.

8. Dividend Payments and One-Tier System

Please note that all companies tax resident in Singapore are now on the one-tier system for the purpose of paying dividends.

Accordingly, all dividends payable by companies tax resident in Singapore would be regarded as tax exempt (one-tier) dividends and would be exempt from tax in the hands of shareholders.

9. Payments to Non-Resident Individuals/Companies

Please ensure that requirements for withholding tax have been complied with when certain payments are liable to be made to non-residents e.g., Singapore sourced interest, royalties, technical assistance fees, and management fees; directors' fees; trading gains from real property transactions; individual professional fees; public entertainer fees; etc.

For all payments liable to be made to a non-resident on or after July 1, 2012, the payer is required to file and pay the withholding tax by the 15th of the second month following the date of payment to the non-resident.

Please contact us should you require our assistance on this matter.

10. Arm's Length Transactions

Transfer pricing legislation was introduced on December 14, 2009 and provides the IRAS with legal authority to make adjustments if transactions between related parties are not carried out on an arm's length basis.

The IRAS has also published a circular titled "Transfer Pricing Guidelines (2nd Edition)" on January 6, 2015 to provide guidance on, amongst others, the application of the arm's length principle when transacting with related parties and the maintenance of transfer pricing documentation.

Please ensure that all related party transactions are at arm's length. Please contact us should you require our assistance in this area.

11. Productivity and Innovation Credit (“PIC”) scheme

The PIC scheme is a broad-based tax incentive and provides more support for businesses to invest in productivity and innovation.

a) Enhanced deduction/allowance

Under the PIC scheme, enhanced deduction/allowance is available for a period of 8 years from the Year of Assessment 2011 to Year of Assessment 2018 on the first S\$400,000 of qualifying expenditure incurred per year of assessment in addition to deduction and/ or allowance currently allowable. The total current and enhanced deduction /allowance will be at 400% of the first S\$400,000 of qualifying expenditures incurred in each of the following six activities:-

- i. acquisition or leasing of PIC Information Technology (“IT”) and Automation Equipment;
- ii. acquisition or in-licensing of intellectual property rights (“IPRs”);
- iii. registration of IPRs (i.e. patents, trademarks, designs and plant varieties);
- iv. research and development activities;
- v. training of employees; and
- vi. investment in approved design projects primarily done in Singapore.

Other than design expenditure, no prior approval is required for the other 5 categories of expenditure to qualify for enhanced deduction/allowance. Businesses may claim enhanced deduction/allowance on qualifying expenditure incurred in their income tax return for the relevant qualifying Years of Assessment.

In addition, the PIC+ scheme was introduced in Budget 2014 to provide support to SMEs who are making more substantive investments to transform their businesses.

Under the PIC+ scheme, from Year of Assessment 2015 to Year of Assessment 2018, qualifying SMEs¹ that invest in the six qualifying activities under the PIC scheme can enjoy 400% tax deductions/allowances on an additional \$200,000 in expenditure for each qualifying activity per year of assessment. This brings the expenditure cap for qualifying SMEs from \$400,000 to \$600,000 per qualifying activity per year of assessment.

¹ Businesses eligible for the PIC+ scheme are sole-proprietorships, partnerships and companies carrying on a trade or business and whose (a) revenue is not more than \$100 million or (b) employment size is not more than 200 employees. This criterion will be applied at the group level if the business is part of a group

The enhanced deduction / allowance under the PIC and PIC+ scheme is subject to an expenditure cap:-

- Years of Assessment 2013 to 2015 – a combined expenditure cap of S\$1,200,000 (S\$1,400,000 under PIC+) applies for each category of activity.
- Years of Assessment 2016 to 2018 – a combined expenditure cap of S\$1,200,000 (S\$1,800,000 under PIC+) applies for each category of activity.

The enhanced deduction / allowance will be granted net of any government grant and subsidy. Expenditure incurred in excess of the expenditure cap would continue to qualify for normal tax deduction or allowance.

b) PIC Cash Payout

For Years of Assessment 2013 to 2018, eligible businesses which have at least 3 local employees (i.e. Singapore citizens or Singapore permanent residents with Central Provident Fund contributions) have the option to convert up to S\$100,000 (subject to a minimum of S\$400) of expenditure on all six qualifying activities into non-taxable cash grant for each qualifying year of assessment at the conversion rate of 60% (i.e. cash payout of up to S\$60,000 per year of assessment). Businesses that wish to convert their qualifying expenditure into cash may make the claim to the IRAS any time after the end of each financial quarter but not later than the income tax filing due date for that relevant qualifying year of assessment. An online PIC Cash Payout Application Form would need to be completed and submitted to the IRAS for this purpose.

Once a qualifying expenditure is converted into cash, the same amount shall no longer be available for tax deduction or allowance.

Please note that enhanced allowance/deduction claimed or cash payout received would be clawed back under certain circumstances, including the disposal of the relevant automation equipment or IPR (“a claw-back event”).

If the cash payout option has been elected and a claw-back event occurs, the company is required to submit a Disposal of Qualifying Assets Form to the IRAS **within 30 days** from the date of the claw-back event. The cash payout is required to be repaid to IRAS **within 30 days** from the receipt of “Cash Payout Recovery” notice issued by IRAS. Penalties may be imposed if the notification requirement and repayment of cash payout are not made on time.

Please contact us should you require our assistance on this matter.

c) PIC Bonus

To encourage small businesses to undertake meaningful productivity investments, businesses that invest a minimum of S\$5,000 per year of assessment in qualifying activities under the PIC scheme will receive a dollar-for-dollar matching cash bonus subject to an overall cap of S\$15,000 for all 3 Years of Assessment combined (i.e. Years of Assessment 2013 to 2015). The cash bonus will be paid over and above the existing PIC benefits mentioned above.

To qualify for the PIC Bonus, businesses must have active business operations in Singapore and must have contributed Central Provident Fund on the payroll of at least 3 local employees (i.e. Singapore citizens or Singapore permanent residents with Central Provident Fund contributions).

Businesses can either file claims for PIC Bonus with the PIC Cash Payout Application Form up to 4 times a year; or once a year with the filing of Form C. Please note that the PIC Bonus is taxable.

d) Application for Approval of Automation Equipment for PIC

Companies which invest in specialised equipment to automate their work processes and enhance productivity (e.g. reduced man hours, more output, etc.) may make an application to have such equipment approved for PIC on a case-by-case basis if the equipment is not included in the PIC IT and Automation Equipment list. The Finance Minister has also mentioned that if the equipment to be approved is a basic tool, it should at least increase the productivity as compared to the existing equipment or the equipment has not been used in the business before.

The application should be submitted at least two months before the filing due date. For the Year of Assessment 2015, the application has to be submitted latest by September 30, 2015. Pending the outcome of the application, the claim for PIC should not be made in the cash payout application form or tax return.

Please contact us if you are unsure whether your specialised equipment qualifies for PIC or if you require our assistance in making such applications.

12. Deduction on Renovation and Refurbishment (“R&R”) expenditure

Capital expenditure incurred on certain R&R works carried out on business premises which do not qualify for capital allowances, industrial building allowances or land intensification allowances may be granted a special deduction under Section 14Q of the ITA.

The amount of R&R costs that qualify for tax deduction is subject to an expenditure cap of \$300,000 for every relevant three-year period. Any unabsorbed R&R deduction would also be available for transfer to related companies under the Group Relief system.

13. Enhanced Capital Allowance Claim for Low Value Assets

Low value assets (costing no more than S\$5,000) may be written down in one year for capital allowance purposes. The aggregate capital allowance claim to write these assets down in one year is S\$30,000 for any year of assessment.

14. Integrated Investment Allowance (“IIA”) scheme

Under the IIA scheme, businesses may claim additional allowance on fixed capital expenditure incurred on or after February 17, 2012 for productive equipment placed overseas on approved projects. The IIA scheme is administered by the Economic Development Board (“EDB”) and will last for 5 years.

15. Foreign Tax Credit Pooling System (“FTC Pooling System”)

FTC Pooling System took effect from the Year of Assessment 2012. Under this system, foreign tax credit is computed on a pooled basis, the amount of foreign tax credit to be granted will be based on the lower of the pooled foreign taxes paid on the foreign sourced income and the pooled Singapore tax payable on the same foreign sourced income.

A Singapore tax resident company has the option to elect for the FTC Pooling System for selected foreign-sourced income on a yearly basis. The current source-by-source and country-by-country basis for computing the amount of foreign tax credit on the foreign income will continue to apply where the Singapore tax resident company does not elect for FTC Pooling System or where the foreign-sourced income does not qualify for FTC Pooling System.

To qualify for the FTC pooling system, the foreign income must meet all the following conditions:

- i) Income tax must have been paid on the income in the foreign jurisdiction from which the income is derived;
- ii) The headline tax rate of the foreign jurisdiction from which the income is derived is at least 15% at the time the foreign-sourced income is received in Singapore; and
- iii) Singapore tax is payable on the foreign-sourced income and the taxpayer is entitled to claim a foreign tax credit under Sections 50, 50A or 50B of the Singapore Income Tax Act on that foreign sourced income.

Please contact us should you require our assistance on this matter.

16. Merger and Acquisition (“M&A”) allowance for Qualifying M&A Deals

The M&A allowance will be granted to qualifying M&A deals executed from April 1, 2010 to March 31, 2015 (both dates inclusive), at 5% of the acquisition value. The allowances are capped at S\$5 million for all qualifying deals executed per year of assessment.

The allowance will be written down equally over five years and cannot be deferred.

The following conditions must be met to remain eligible for M&A allowance for each year of assessment during the 5-year write down period:-

- i) The acquiring company, throughout the basis period relating to the year of assessment in which the deduction is claimed,-

- a. Remains incorporated and tax resident in Singapore. Where the acquiring company belongs to a corporate group, its ultimate holding company must remain incorporated and tax resident in Singapore;
 - b. Must continue to carry out a trade or business in Singapore; and
 - c. Has in its employment at least 3 local employees, excluding company directors, (i.e. Singapore citizens or Singapore permanent residents where the employer and employee make CPF contributions); and
- ii) The acquiring subsidiary (where applicable), throughout the basis period relating to the year of assessment in which the deduction is claimed,-
- a. Does not carry on any trade or business in Singapore or elsewhere; and
 - b. Remains directly and wholly-owned by the acquiring company.

Under the M&A scheme, double tax deduction will also be granted on transaction costs incurred on qualifying share acquisitions which is completed during the period from February 17, 2012 to March 31, 2015, subject to an expenditure cap of S\$100,000 per year of assessment. The deduction of the transaction costs will be allowed in the year of assessment in which M&A allowance, in respect of the qualifying share acquisition, is claimed.

The unabsorbed M&A allowance and the unabsorbed deduction of transaction costs are not available for transfer under the group relief system and are also not available for carry back to offset the acquiring company's assessable income for preceding year(s). However, the unabsorbed M&A allowance and unabsorbed deduction of transaction costs may be carried forward to offset the acquiring company's future income subject to the shareholding test.

Please contact us should you require our assistance on this matter.

17. Tax Treatment of Gains on Share Disposals

With effect from June 1, 2012, gains derived by a company from the disposal of ordinary shareholdings in another company is not taxable if the divesting company maintains a minimum shareholding of 20% for a minimum period of 24 months prior to the disposal of shares.

For share disposals that do not meet the above guidelines, the tax treatment of the gains/losses arising from share disposals will continue to be determined based on a consideration of the facts and circumstances of each case.

18. Year End Tax Planning

Tax savings may be maximised by organising the company's affairs so as to ensure that all possible deductions, allowances and reliefs are available for claiming in the current fiscal year. Appendix III is enclosed to enable you to consider some of these aspects. We would be pleased to discuss these matters with you should you require further details.

Your early response will be appreciated. Please do not hesitate to contact us should you require any clarification or advice.

Yours faithfully

Deloitte & Touche LLP

Encl.