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Annex

The Deloitte Singapore Budget 2015 Wish List

Singapore on the international stage

1.1 Treaty network

While Singapore's tax treaty network is recognised as one of the most business-friendly globally, more can be done to pursue new tax treaties and re-negotiate old ones concluded many years ago on more competitive terms. For instance, the time elapsed since Taiwan's treaty was contracted in 1981 and Indonesia's in 1991 warrants a re-fresh to keep up with changing times. Additionally, Hong Kong has recently (in the last few years) begun to contract tax treaties, of which some are significantly more advantageous than Singapore's (e.g. with Indonesia and Japan). In particular, it's noted that some of Singapore's older treaties (e.g. with Australia and Taiwan) do not include any preferential tax treatment for technical service fees, while other treaties (e.g. with Indonesia) do not include any exemption or reduced rates for capital gains, which may be a disadvantage for Singapore investors looking to expand into these countries and ultimately affect Singapore's competitiveness as an international hub.

1.2 Base Erosion and Profit Shifting (BEPS)

On BEPS, Singapore should continue to pay close attention to developments at the OECD level and continue to assess where the economy is most at risk from potential BEPS measures, but unilateral action at this stage is not recommended.

1.3 Competitiveness in the region

Today, we see declining corporate income tax rates across the region. Singapore's corporate income tax rate is currently second lowest in the region, after Hong Kong. Whilst arguably with the partial tax exemption scheme, Singapore's effective corporate income tax rate may be lower than Hong Kong's corporate income tax rate of 16.5% up to certain income levels, multinational companies still tend to look at the availability of tax incentives in Singapore when comparing its attractiveness to Hong Kong from a tax perspective, in deciding the location of their Asia Pacific hub.

While there is a need to be mindful of BEPS measures, the Government should nevertheless consider revisiting some of the tax incentives currently available to ensure they remain relevant and competitive in today's environment. Also, the incentive rates have in general remained stagnant even though the corporate tax rate has been decreasing over the years. For example, the basic incentive tax rate under the Global Trader Programme starts at 10% which is only a 7% reduction from the headline corporate tax rate. It may be more worthwhile to set such rate at 8.5% (half of the prevailing corporate tax rate) to signal a greater commitment from the Government to support foreign investment.

It would also be helpful to potential investors if there are more guidelines available in terms on the minimum headcount and local business spending requirements in order to be considered for the tax incentives. This would enable potential investors to do a self-assessment before approaching the Economic Development Board to discuss the possibility of tax incentives.

Broadly, renewal of tax incentives requires the applicant to demonstrate a commitment to grow its economic footprint in Singapore. This usually translates into a pledge by the applicant to increase its headcount and the submission of projections indicating business expansion. In line with the Government's push for productivity and innovation, a more holistic measure of economic contribution to Singapore should be adopted and less emphasis placed on headcount increases.

Having more guidelines and transparency on how our tax incentives are awarded could in itself help address international concerns about BEPS and countries engaging in harmful tax competition as Singapore tax incentives are awarded based on real business substance that investors put in Singapore.

2. Business Tax - Boosting Singapore's operating environment and raising productivity

2.1 Support for businesses

2.1.1 Partial tax exemption

We would like to propose increasing the partial tax exemption from the first S$300,000 of normal chargeable income to the first S$600,000 of normal chargeable income for Small and Medium Enterprises (SMEs). Under this enhancement, the effective tax rate for SMEs with chargeable income of S$600,000 would drop to 8.4%, from the current 12.7%. For ease of administration, the qualifying conditions can be aligned with the current definition of (SMEs) found in the PIC+ scheme. The partial tax exemption threshold of S$600,000 is also in line with the current expenditure cap of S$600,000 for each qualifying PIC activity for SMEs under the PIC+ scheme.

In this way, SMEs that are unable to fully exploit the PIC+ scheme will nevertheless enjoy some tax relief to cope with rising business costs.

2.1.2 Loss carry-back relief

The existing loss carry-back relief is capped at S$100,000 and can only be carried back to the immediate preceding year of assessment (YA). To help the cash flow of businesses which were making losses during the last financial crisis, the Government had temporarily enhanced the loss carry-back relief for YAs 2009 and 2010 by increasing the threshold to S$200,000 and also allowing the carry-back to the immediate 3 preceding years of assessment. This amount of S$100,000 now looks inadequate given the rising costs of business. Given that businesses, and especially SMEs, are still facing challenges in restructuring their business model to include greater automation and measures to reduce reliance on labour and hence may incur losses in the short-term, we propose to the Government to consider either removing the cap for loss carry-back relief permanently or at least enhance the loss carry-back relief to a cap of S$300,000 for each of the YAs 2015 to 2018 (tie-in with PIC expiry date), with a view to reviewing the situation in YA 2018.

In addition, the loss should be allowed to be carried back for at least 2 back years. Many developed countries have much more liberal loss carry-back rules, for example, the default rules in countries like UK allow carry-back without any cap for one year and the default US rules allow loss carry-backs without a cap for two years. Such rules recognise that economic cycles can produce profits in one year followed by losses in another and that it would be inherently unfair to currently tax the profits and provide relief for the losses only if and when future profits are realised (which of course may take a while and may sometimes not happen at all).

2.1.3 Foreign tax credit scheme

Foreign-sourced income is only taxable in Singapore when they are received/deemed received in Singapore. Where tax has been paid in the foreign jurisdiction from where the foreign-sourced income is received, the Singapore tax resident company should be able to claim a credit for the foreign tax paid against the Singapore tax payable on the same foreign-sourced income received/ deemed received in Singapore.

The amount of foreign tax credit allowed is restricted to the Singapore income tax payable on the foreign-sourced income, after deduction of allowable expenses, if any, or the actual foreign tax paid on the same foreign-sourced income, whichever is the lower. Under the pooling system for the claiming of foreign tax credit which was introduced from YA 2012, subject to certain conditions, the amount of foreign tax credit to be granted will be based on the lower of the pooled foreign taxes paid on the foreign source income and the pooled Singapore tax payable on such foreign-sourced income. However, any excess credit is not available for carry forward, regardless of whether the foreign tax credit is pooled or otherwise. Perhaps consideration may be given to allow the Singapore tax resident company to carry forward the excess foreign tax credits for offset against its future Singapore tax payable on foreign-sourced income, carry-back such excess credits for set-off against foreign-sourced income taxed in the immediate preceding year (akin to the current loss carry back relief scheme) and/or transfer the excess credits to other group companies under the group relief system.

In addition, where dividend income is received from a jurisdiction (e.g. Hong Kong and Malaysia) that does not impose dividend withholding tax and does not impose tax on foreign-sourced dividend income received by the holding company from its operating subsidiaries, such dividend income is not exempt under Section 13(8) of the Singapore Income Tax Act and is prima facie taxable in Singapore when received in Singapore. In such instances, no foreign tax credit is allowed for taxes paid by the operating subsidiaries. Although an application for exemption could be made under Section 13(12), consideration could also be given to allow the claim of foreign tax credit through more tiers of subsidiaries to enable the Singapore tax resident company to claim the dividend withholding tax and/ or underlying tax suffered at the level of the operating subsidiaries.

2.1.4 Group relief - Section 37C

Presently, subject to conditions, a company belonging to a group may transfer its unabsorbed tax losses, capital allowances and donations (collectively referred to as "loss items") for the current year to another company within the same group to set off against the assessable income of the claimant company. A group consists of a Singapore incorporated company and its Singapore incorporated group members. Two Singapore-incorporated companies are members of the same group if at least 75% of the ordinary share capital in one company is beneficially held by the other or at least 75% of the ordinary share capital in each of the two companies is beneficially held directly or indirectly, by a third Singapore company. In addition to this 75% shareholding requirement, the holders of the ordinary shares must also be beneficially entitled to at least 75% of the residual profits and assets of the first-mentioned company.

The above is arguably too restrictive as two Singapore incorporated companies which are held through a foreign intermediate holding company or commonly held directly by a third company incorporated outside Singapore will not be able to transfer loss items under the group relief system. It may be worthwhile to consider expanding the definition of "group" for the purpose of the above system. For instance, two Singapore incorporated companies should be allowed to transfer loss items if one is 75% owned directly or indirectly by the other (i.e. whether held through a Singapore or foreign intermediate holding company) or they are at least 75% commonly owned by the same corporate parent, whether incorporated in or outside Singapore. The relaxation of the "Singapore group" condition would put foreign-owned groups on par with Singapore-owned entities. This expanded definition of "group" is currently adopted for a similar group relief scheme in the UK.

2.1.5 Capital gains tax certainty

The capital gains safe harbor rules introduced during Budget 2012 stipulate that where corporate investors hold at least 20% of the ordinary shares in an investee company for a continuous period of at least 24 months immediately prior to the sale, they would not be taxable on the gains from the sale of such ordinary shares. This was a much welcome move for corporate investors as there is upfront certainty on the tax treatment of the gains if the conditions under the safe harbor rules are met. Unfortunately, these rules are set to expire on 31 May 2017.
We propose for the Government to consider making the safe harbor rules a permanent feature in Singapore tax legislation or extend the sunset date at least by another 5 years as the rules have been very useful in giving some certainty to the use of Singapore as an investment holding location. In addition, if a sunset date should remain, we propose that it should be applicable to acquisitions of shares (as opposed to disposition of shares which is the way the legislation is currently worded) on or before the sunset date, to give greater certainty to taxpayers.

In addition, to simplify compliance, consideration could be given to remove the requirement for foreign companies to file a tax return in Singapore in order to avail themselves to this certainty.

2.1.6 Section 19B Writing Down Allowance (WDA)

The existing Section 19B WDA scheme does not allow deferral of writing down allowance claim (i.e. Section 19B allowance is given within 5 years of expenditure incurred). We suggest that Section 19B allowance should be given on due claim basis similar to Section 19 allowances for plant and machinery.

Currently no balancing allowance will be given for disposal of IPR where it is sold at a price lower than the tax written down value. As such, we would also propose the current claw-back rules for Section 19B be amended to be same as normal claw-back rules for plant and machinery.

2.1.7 Reduce domestic interest withholding tax rate

We would like to propose a reduction in domestic interest withholding tax rates from the current 15% to 10%. Such a reduction would:

- Reduce the cost of financing for Singapore companies in instances where the burden of withholding tax is passed to the borrower due to the stronger negotiating powers of the lender; and
- Alleviate the administrative burden of Singapore borrowers having to apply for Certificate of Residency by reducing the gap between domestic interest withholding tax rates (if reduced to 5% or 10%) and Singapore's tax treaties.

A thin capitalisation rule can be implemented to mitigate the impact of this revenue change (and also partly as a response to BEPS) and mitigate erosion in the Singapore tax base.

2.1.8 Extend Mergers and Acquisition (M&A) Scheme

The M&A scheme was introduced in Budget 2010 and formed part of a package of measures (along with the PIC scheme) to help SMEs cope with economic restructuring brought about by a focus on productivity led growth.
One objective of the M&A scheme is to promote consolidation amongst SMEs, since lack of scale in smaller SMEs is a huge obstacle to productivity gains.

Since its introduction, we understand that the M&A Scheme had benefited 67 companies, of which 50 are SMEs. The scheme, which is due to expire on 31 March 2015, should be extended perhaps for another 5 years.

2.2 Raising productivity and innovation

2.2.1 Productivity and Innovation Credit (PIC) scheme (general)

Currently, the qualifying expenditure for PIC cash payout is limited to $100,000 per YA. For PIC enhanced deductions, the spending cap is $400,000 per YA; but the cap can be combined for YA 2013 to YA 2015, and for YA 2016 to YA 2018.

This creates a situation whereby if a taxpayer wishes to claim PIC cash payout in later years (say YA 2015) but incurs significant spending in an earlier year (say YA 2014) in excess of PIC cap of $1.2M, the taxpayer would have to set aside $100,000 of the cap to be claimed in YA 2015 for cash payout. This creates unnecessary administrative burden and uncertainty on the taxpayer. As such, the conversion cap for PIC cash payout should also be combined across the relevant assessment years, similar to the PIC enhanced deductions, i.e. the combined cap for PIC cash payout should be $300,000 for YA 2013 to YA 2015, and for YA 2016 to YA 2018.

In addition, to offer more support for SMEs, the PIC cash payout conversion cap should be increased to $200,000 per YA.

2.2.2 Productivity and Innovation Credit (PIC) scheme for R&D expenditure

Currently, the IRAS is responsible for administering the PIC scheme and further deduction (under Section 14DA) for qualifying R&D expenditure and performs a technical assessment in order to determine whether a project constitutes a qualifying R&D project. It may be beneficial to divorce the technical and financial assessment responsibilities, i.e. leaving the IRAS with the assessment of the financial aspect being its core expertise and forming a separate technical assessment team, or utilising a more suitable body like the EDB. This will greatly enhance the uniformity of the technical queries.

In addition, the Government may wish to consider a mechanism that permits for an independent technical assessment of projects as is the case in Australia (i.e. Innovation Australia).

2.2.3 Productivity and Innovation Credit (PIC) scheme for "innovative activities"

Due to the difficulty in qualifying for PIC enhanced and further deductions on R&D expenditure, perhaps a separate category could be set up for spending incurred on "innovative activities" that lead to creation of new products or services which may not be considered R&D, e.g. integration of 2 existing technologies. The benefit for such category could also be watered down, e.g. PIC additional enhanced deduction of 150% (compared to the current 300%) and further deduction of 25% (compared to the current 50%) etc., subject to relevant expenditure caps. Taxpayers can choose to claim under R&D activities or the more broad-based category of "innovative activities". This would encourage taxpayers to continue to engage in innovative activities which may not be considered as R&D, and make a conscious effort to claim R&D deductions only on projects that will likely qualify as R&D. The watered down benefits will hopefully also reduce resistance on IRAS' part to accept claims for spending on innovative activities.

2.2.4 PIC scheme for small and medium enterprises

To encourage the uptake of PIC among SMEs, it may be helpful to introduce a variation to the PIC scheme for SMEs. This may include, for example, increase the enhanced deduction for qualifying PIC spending for SMEs to 400% (from 300%), making a total of 500% tax deduction.

It may also be helpful to simplify the criteria for claiming benefits under the PIC scheme, for example, aligning the types of qualifying expenses for internal and external training (in that companies incurring rental expenses for external training premises would qualify for enhanced deduction under PIC, but not imputed overheads such as rental and cost of utilities on internal training).

2.3 Deductions

2.3.1 Borrowing costs - Section 14(1)(a)(ii)

Currently, borrowing costs (such as guarantee fees) which are incurred as a substitute for interest expense or to reduce interest costs could qualify for tax deduction. In this connection, a list of the allowable borrowing costs is prescribed by Regulations. However, with the continuous development of new bank products, there might be borrowing costs which are payable in lieu of interest or which reduce interest cost, but which are not on the prescribed list. It would be more useful to have a "negative" list rather than a prescribed list.

Furthermore, to reduce administrative efforts for the review of the deduction claim for borrowing costs, we would recommend a de-minimis rule, e.g. to allow tax deduction to taxpayers for borrowing costs up to x% of the loan.

In addition, borrowing costs incurred by holding companies to fund the acquisition of shares in a Singapore company are generally not deductible as the dividend income generated is tax exempt. In contrast, borrowing costs incurred to fund the acquisition of business assets are generally tax deductible as such assets generate taxable income. In certain M&A situations, the Buyer may not be able to dictate the mode of transfer (i.e. acquisition of assets vs acquisition of shares) due to various legal and commercial issues such as regulatory approvals needed, funding requirements, seller's bargaining power etc. In this regard, Singapore holding companies should be allowed to transfer qualifying acquisition borrowing costs to Singapore operating entities which are acquired via a share deal, under a special deduction. This should further enhance Singapore holding company tax regime.

2.3.2 Tax deduction for stock-based compensation expense - Sections 14P & 14PA

Currently, no tax deduction is allowed to taxpayers where new shares are issued to meet its obligations under an employee equity-based remuneration scheme. However, there could be circumstances where the taxpayer may issue new shares to employees first to fulfil stock plan obligations before the treasury shares are purchased from the open market, or the new shares are subsequently repurchased and cancelled. In such situations, we would recommend that tax deduction for stock-based compensation expense be considered allowable where the taxpayer incurs actual cost outlay on the subsequent treasury share purchase or repurchase of new shares to fulfil the stock option scheme.

In addition, where the stock-based compensation scheme is fulfilled via shares of the parent company being transferred to employees of the Singapore subsidiary, tax deduction is currently allowed based on the lower of the recharge from the parent company or the actual costs incurred by the parent company in acquiring the treasury shares. There are complex rules around how the actual costs incurred may be tracked, using either the weighted average or first-in-first-out method. This gives rise to administrative difficulties in tracking the cost of acquisition of the treasury shares, especially for MNCs where the parent company's shares are normally granted to employees of various subsidiaries worldwide. As such, to ease the administrative burden, we suggest that the Government consider allowing tax deduction for share-based compensation to be based on the amount recharged by the parent company as long as this is computed under FRS 102 (share-based payment), without a need to compare against the actual costs incurred in acquiring the treasury shares. This could be done on an election basis, similar to the current FRS 39 tax treatment.

2.3.3 Renovation and refurbishment (R&R) expenses - Section 14Q

The provisions of Section 14Q currently allows the taxpayer a deduction on expenditure incurred for any R&R works for the purpose of his trade or business, subject to certain

conditions and exceptions. The deduction is allowed over a period of 3 consecutive years on a straight line basis and the amount of R&R expenditure is capped at S$300,000 for every 3 consecutive tax years for each business entity.
Given the rising costs of doing business in Singapore, the S$300,000 expenditure cap for every 3 consecutive basis periods seems no longer adequate. As such, consideration should be given to increasing the expenditure cap for R&R works from S$300,000 to S$600,000 for every 3 consecutive basis periods.

2.3.4 Donations - Section 37

As Singapore progresses, it is important that vulnerable groups in our society, such as the low income, the elderly and the disabled are not left out. Currently, donations made from 1 January 2011 to 31 December 2015 to an approved Institution of a Public Character qualify for 250% tax deduction. It may be an opportune time to consider making this a permanent feature of Singapore's tax system thereby encouraging community involvement across the charitable sectors and emphasising the importance of caring for our society.

In addition, presently unabsorbed donations can only be carried forward for 5 years. We would suggest allowing for indefinite carry-forward of unabsorbed donations, similar to the carry-forward of unabsorbed capital allowances and tax losses.

2.3.5 Life insurance and other group insurance premiums

Currently, the tax rules relating to group insurance policies (e.g. group term life, personal accident insurance) are inherently complex and difficult to understand. The tax deduction rules vary depending on whether there are named beneficiaries or not and whether the company is under contractual obligation to disburse the payout to the employees or their nominated beneficiaries.

Also, where group term life or personal accident benefits are provided to employees or their named beneficiaries, the premiums incurred by the employer are currently taxable on the employee as a benefit in kind. Although an administrative concession is allowed such that the employees will not be taxed on such income if the employer elects not to claim such deduction, this requires additional administrative efforts between the finance and HR teams to communicate and coordinate the reporting.

Furthermore, separate tracking is needed where there are no named beneficiaries such that deduction is allowed only at the point when payout is given to the employee. This is on the basis that the group insurance schemes may be treated as an investment by the company where there are no named beneficiaries or no such contractual obligation and hence are considered as investments held on capital account. Given that businesses normally take up such insurance as a package of benefits provided to staff, we suggest that these premiums be treated as such, i.e. staff costs, and be allowed tax deduction to the company when the group insurance premiums are incurred, as opposed to the point when there is a payout. This also

creates an incentive for companies to continue to provide group insurance schemes to their employees, and reduces administrative burden for taxpayers, as the current rules requires significant effort for HR departments to track the terms of the group insurance policies and decide if they wish to avail themselves of the above concessionary treatment.
Alternatively, a limit for tax deduction could be imposed on life insurance and other group insurance premiums, based on a certain (say 5%) of staff costs, similar to the current deduction rules for medical expenses, while assuring that employees are not taxed on such premiums paid by the employer. This should also significantly alleviate the administrative burden of tracking whether the employees or their families are the named beneficiaries or otherwise, and whether the employer should avail itself of the administrative concession.

Please also refer to our comments under Section 3.1.9.

2.3.6 Increasing medical expense cap from current 2% due to rising medical costs

A limit on medical expense deductions was introduced in YA 1994 to curb potential overconsumption of medical services. The cap is set at 2% of total employee remuneration after a survey of some 325 companies then indicated that 85% of those surveyed spent less than 2% of their total employee remuneration on medical expenses. This cap has since been reduced to 1% unless certain portable medical benefits options are implemented.

Singapore's demographics have undergone profound changes in the two decades since the provision was enacted. Affordable health care has been at the top of the Government's agenda in recent years, due to an aging population and escalating health care costs. In this regard, we hope that the cap can be increased to at least 5% or removed totally. This will also alleviate the administrative burden on the part of employers to track the qualifying employee remuneration, and whether certain portable medical benefits schemes are implemented, for purposes of applying this cap.

3. Personal Tax

3.1 Enhancements to personal tax

3.1.1 Child relief

In view that the cost of living in Singapore is continually on the rise, the current child relief accorded (S$4,000 for each qualifying child) may not adequately address the financial burden that most parents face. Hence, the Government could consider increasing the quantum of child relief to S$8,000 in its efforts to encourage procreation.

3.1.2 Not Ordinarily Resident (NOR) concession

To encourage more companies to set up their regional and global headquarters in Singapore and attract their top talent to relocate here, consideration could be given to extending the period of the Not Ordinarily Resident (NOR) concession from 5 to 10 years. This increases the attractiveness of the local individual tax regime thereby encouraging foreign talent and Singaporeans who are based overseas to take a longer-term view in making Singapore their base.

In addition, consideration should be given to extending the NOR scheme to Singapore citizens who are currently not able to benefit from the scheme. This is with particular reference to the time-apportionment of income concession, as many Singapore citizens have global and regional roles which require extensive travel outside Singapore. This will not only incentivise Singapore citizens, but also encourage more to take on regional/global roles whilst facilitating the transfer of knowledge and build-up of local talent pools for management of regional/global companies.

3.1.3 Tax on motor cars provided to employees

In line with continuous efforts to reduce tax administration, we suggest removing the tax on private mileage for petrol cost borne by the employer in respect of leased or company cars provided to employees, since this will reduce the administrative burden of having to keep track of the private mileage incurred for the year. Further, the tax revenue that can be derived from this benefit is relatively insignificant. If removing this tax altogether is not feasible, we would instead suggest establishing a prescribed amount or fixed rate.

3.1.4 Claim of foreign tax credit on gains on stock options

We would like the Government to consider allowing the claim of foreign tax credit in Singapore on gains on stock options and share awards that are subject to tax both in and outside Singapore.

For example, a Singapore citizen employee granted stock options while working in Singapore prior to his overseas assignment to China, and who exercises the stock options in China, will be subject to tax in Singapore on the full stock option gains. He will also be subject to tax in China on a portion of the gains as a result of his China employment exercised during the vesting period of the stock options. Double taxation will thus arise in respect of the portion of the gains subject to tax in both Singapore and China.

Allowing the claim of foreign tax credit in Singapore for the taxes suffered in the overseas country on Singapore sourced income also subject to tax in Singapore will assist to mitigate the impact of any double taxation, thereby providing financial relief and ensuring equity to the affected individual.

3.1.5 Grant instalment payment on taxes arising from deemed exercise of stock options

We would like to propose allowing non-Singapore citizens and non-Singapore permanent residents to settle their Singapore tax liabilities arising on deemed exercise gains on unexercised / unvested stock options and shares via monthly GIRO instalments, of up to 12 months, so as to alleviate their cash flow burden on having to pay tax on income that they have not received.

3.1.6 Relief for mortgage interest incurred on owner-occupied properties

Currently, only interest expenses incurred on rental properties generating rental income are allowed for tax deduction. Mortgage interest incurred on properties which are owner-occupied are not deductible for tax purposes on the basis that they are non-income generating and as such, regarded as private expenses.

In view of the rising cost of housing in recent years, the Government should consider allowing a tax relief for mortgage interest incurred on owner-occupied properties. This will aid in alleviating the financial burden on the 'sandwiched' middle class who may still be liable to pay taxes.

However, in order to prevent abuse of the system and to ensure that it meets its intended objectives, we suggest that the tax relief should be subject to the following conditions:

- There should be a cap on the amount of relief claimable, for example, $10,000 per year (this could be based on the average mortgage interest incurred by a median income household)
- Tax relief is limited to Singapore citizens and Singapore Permanent Residents
- The individual claiming the relief cannot own other investment or rental properties in Singapore
- Allowing taxpayers to claim such a relief will partially mitigate the financial strain of owning a property and would be in line with the Government's policy to encourage home ownership.

3.1.7 Relief for premiums paid for medical insurance policy

Currently, tax relief is only given for premiums paid by a resident individual for his or his wife's life insurance policy. No relief will be given for premiums paid for medical or health insurance policies.

Due to rising healthcare costs and as most corporate medical insurance policies may not sufficiently cover the actual medical expenses, more individuals are purchasing their own medical or hospitalisation insurance policies. Hence, the Government should consider granting medical insurance relief for premiums paid by resident individuals on his own or his dependants’ medical/hospitalisation policy and up to a capping limit (e.g. S$3,000), to encourage individuals to take more ownership of their own and families’ health and ensure that they are adequately covered to cope with the healthcare costs.

3.1.8 Relief for premiums paid for life insurance policy

Currently, a resident individual may claim relief for premiums paid for his or his wife's life insurance policy if his total compulsory employee CPF contribution or self-employed Medisave/Voluntary CPF contribution or both is less than $5,000 in a year. As such, for the majority of Singapore citizens and SPRs, no relief can generally be claimed for life insurance coverage as their CPF contributions will typically exceed S$5,000 per annum.

To mitigate the cost for premiums paid for the life insurance, the Government should consider granting relief for premiums paid for life insurance policy (e.g. based on the same previous conditions) without taking into account the individual's CPF contributions.

The Government should also consider granting relief for premiums paid for life insurance coverage for dependent children, as this may also assist to mitigate the costs of raising a child in Singapore.

3.1.9 Tax exemption on non-group medical insurance policy

Currently, premiums of group medical insurance paid by the company is exempted from tax under administrative concession (with effect from YA 2008) provided the benefit is provided to all staff. This is to facilitate ease of administration in having to attribute premium amounts to each individual for purpose of tax reporting.
The Government should consider granting similar tax exemption for premiums of non-group medical insurance paid by the company if the benefit is provided to all staff, as there should not be differentiation between group and non-group insurance since the objective for both insurance is the same, i.e. to provide medical coverage.

3.2 Others

3.2.1 Property tax

With the objective of achieving further wealth re-distribution and movement towards a more progressive tax structure, considerations may be made to the imposition of higher property tax for owning a third or subsequent residential property, and a special tax on rental income derived from the lease of such residential properties.

3.2.2 Incentivise women to re-join workforce

It will be good for the Government to consider a framework that allows mothers to easily return to work, including availability of affordable childcare and job security consideration, incentivise company with flexible working arrangements, etc.

4. Goods and Services Tax (GST)

4.1 Goods and services tax (GST)

4.1.1 Co-funding for participation in ACAP

The final ACAP funding round has taken place, and currently ACAP applicants would still be able to participate in the scheme, but without the added incentive of co-funding for external costs incurred. In order to incentivise additional participants in the scheme, we propose for the Government to extend co-funding for participation in ACAP (as introduced in April 2011) on the same basis for a further 3 years.
We also hope IRAS can issue guidelines on details of ACAP application after 2019 and also the renewal details for existing ACAP award holders.

4.1.2 Introducing reverse charge under Section 14 of GST Act and remove the "directly benefitting" test under Section 21(3)(j)

We understand that the policy intent of having the condition that the direct beneficiary to the services must be a person who belongs outside Singapore for Section 21(3)(j) is to avoid "round tripping". In other words, it is to avoid Singapore GST-registered suppliers who provide services for the benefit of Singapore non-GST registered customers to deliberately contract with an overseas person so that they are able to zero-rate their services.

By introducing reverse charge, the non-GST registered customers will be required to self-assess for GST which they cannot recover under a "round tripping" scenario and therefore the "directly benefitting" test is no longer required. If certain sectors would be adversely affected by such a change, IRAS can consider prescribing the scope to limit the impact to particular sectors.

4.1.3 Waive requirement to report zero-rated purchases

There is currently a requirement to report zero-rated purchases as taxable purchases in the GST returns. As GST is incurred at 0% on zero-rated purchase, there is no input tax to be claimed on zero-rated purchases. Therefore, to reduce compliance costs associated with the tracking of zero-rated purchases for GST reporting, we propose that this requirement be removed.

4.1.4 Introduce deeming provision for free supplies of services

The current legislation only requires deeming on free supplies of goods or goods put to private use (subject to certain conditions) under Paragraphs 5(1) and 5(3) of the Second Schedule to the GST Act. To be consistent, we would recommend also introducing deeming for free supplies of services.

4.1.5 Increase value threshold for simplified invoices

Currently, a simplified invoice can be used for a supply of a value including GST not exceeding S$1,000. We would recommend that the value including GST be increased to S$3,000.

4.1.6 Remission for qualifying Funds and REITS

We note that IRAS has recently been considering the treatment of management services to offshore funds, where the fund may have a business establishment or fixed establishment by virtue of its manager in Singapore. We hope that IRAS can confirm the final position as soon as possible. We also note that the remission percentage for Statements of Claim for qualifying funds for the next year is announced in the 3rd quarter of the prior year and that the percentage tends to fluctuate. We request that IRAS and MOF consider giving some forward guidance so that funds have more visibility to the impact of GST on their costs to enable longer term planning.

4.1.7 Fixed and business establishments

There is currently no clear definition for fixed and business establishments in the GST legislation although IRAS have issued some guidelines. We hope the definition of fixed and business establishments can be legislated.

5. Focus on industry-specific matters

5.1 Financial Services

5.1.1 Finance and Treasury Centre (FTC) - Section 43G

The regulations which define the qualifying activities and qualifying sources of income appear to be out of date and thus need to be reviewed and updated in line with the continuous developments on treasury and finance centre activities globally. This is particularly so with regard to the rules for qualifying sources of funding. In addition, the withholding tax exemption for interest payments under the FTC regime should be extended to interest payments on loan notes, bonds, debentures and other debt securities (currently the withholding tax exemption only applies to interest payments on loans). It would be more useful to have a "negative" list rather than a lengthy list of prescribed qualifying activities and sources of funding.

5.1.2 Offshore Insurance Business

A sunset clause of 5 years till 31 March 2015 was introduced for tax incentives relating to the offshore insurance business in Budget 2010.

We propose that the Offshore Insurance Business ("OIB") incentives should be extended. In addition, the following enhancement to the OIB tax scheme should be made:

- The OIB tax rate be reduced to a more competitive rate of say 5% from the current 10% in line with incentives offered by regional competitors such as Malaysia and Hong Kong; and
- Expansion of qualifying investment income to include rental income, gains from derivative instruments, discounts from securities and unit trust distributions

5.2 Shipping

5.2.1 Tax exemption for shipping profits - Sections 13A &13F

Currently, the tax exemption for ship operators is on qualifying income derived from the operation of Singapore ships (Section 13A) and foreign ships (Section 13F). There is a list of activities that qualifies for the tax exemption treatment. In view of the evolving nature of the shipping industry, the Government should consider simplifying the list of qualifying activities under Sections 13A (Singapore ship) and by revising them into an exclusion list (in the same vein as the exclusion list of specified income under the Financial Services tax incentive). For example, Section 13A could apply to all income derived from operation of Singapore flagged ship except derived from within port limits of Singapore.

5.2.2 Maritime sector incentives

The above tax incentives for international shipping operations which offer tax exemption for ship operators/owners which is an Approved International Shipping Enterprise is due to expire on 31 May 2016 (i.e. no fresh approvals will be granted beyond this date). It is timely to look into the extension of this expiry date to give greater certainty to shipping players looking to base or grow their shipping business from Singapore.

Extension of the above sunset date should also be given for tax incentives for Maritime (Ship or Container) Leasing (i.e. tax exemption for approved shipping investment enterprise and 10% tax rate for approved shipping investment manager, container investment enterprise and container investment manager) and Supporting Shipping Services (i.e. 10% tax rate for qualifying income derived by approved persons).

5.3 Telecommunications

5.3.1 Withholding tax exemption and tax deduction to payments for the use of domestic IRU and access rights to telecommunication facilities

Currently, withholding tax exemption is granted to payments made to non-residents for the use of or the right to use international submarine cable capacity (including payments for an indefeasible right to use (IRU)). We propose that such withholding tax exemption should also be extended to payments made for the use of or the right to use domestic IRU. This will be helpful in situations where a non-resident company may enter into a capacity swap arrangement with a Singapore local carrier and such non-resident may then in turn also enters into contract with a Singapore resident in respect of the excess domestic capacity.

In addition, the current tax concession also provides for writing down allowance (WDA) over the number of years for which expenditure is incurred for the acquisition of an international IRU for the purposes of a person's trade, business or profession. Along the same argument that consideration should be given to aligning the tax treatment of payment for domestic IRU to that of international IRU, we also propose that a tax deduction or WDA be given on the upfront payment for the use of domestic IRU and also the costs incurred by a telecommunications carrier in acquiring access rights in relation to telecommunications sites and facilities.

5.3.2 Writing down allowance for spectrum rights payment

Currently, Section 19B of the Singapore Income Tax Act allows a WDA claim on certain intellectual property rights including patent, copyright, trademark, registered design, geographical indication, lay-out design of integrated circuit, trade secret or information that has commercial value, or the grant of protection of a plant variety. Consideration should be given to extend the WDA to acquisitions of spectrum rights and bandwidths as they are essential for the continual competitiveness of the telecommunication businesses.

5.4 REITS

5.4.1 Extend tax concessions to S-REITS

The following tax concessions for S-REITS are due to expire on 31 March 2015 (unless specifically revoked earlier): -

- Tax exemption scheme for specified foreign income received by trustees of S-REITS;
- Stamp duty remission on documents executed for the sale of property or interest thereof to a REIT, subject to conditions; and
- 10% withholding tax on REIT distributions to non-resident non-individuals

Each concession is critical to the continued success of the REIT industry in Singapore and should be extended.

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