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Singapore Budget 2017 Commentary

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A budget for the future of Singapore

Common abbreviations

BEPS	:	Base Erosion and Profit Shifting
CFE	:	Committee on the Future Economy
CPF	:	Central Provident Fund
EDB	:	Economic Development Board
GDP	:	Gross Domestic Product
GST	:	Goods and Services Tax
ITA	:	Income Tax Act
IRAS	:	Inland Revenue Authority of Singapore
IPC	:	Institution of a Public Character
IPR	:	Intellectual Property Right
IE Singapore	:	International Enterprise Singapore
M&A	:	Mergers and Acquisitions
MoF	:	Ministry of Finance
MoM	:	Ministry of Manpower
MAS	:	Monetary Authority of Singapore
MNC	:	Multinational Corporation
%	:	Percent
PE	:	Permanent Establishment
PIC	:	Productivity and Innovation Credit
R&D	:	Research and Development
$	:	Singapore Dollar
SGX	:	Singapore Stock Exchange
SPR	:	Singapore Permanent Resident
SME	:	Small and Medium Enterprise
VAT	:	Value Added Tax
WHT	:	Withholding Tax
YA	:	Year of Assessment

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Foreword

Greetings from your tax team at Deloitte Singapore.

The Finance Minister, Mr Heng Swee Keat, presented the Budget Statement on 20 February 2017.

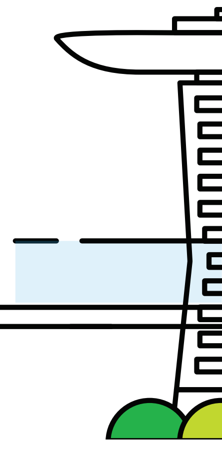
With Budget 2017 and its focus on digitalisation, innovation and internationalisation, the Government is focusing on building deep partnerships and developing strong capabilities to help our businesses and society re-position for the future.

Coming on the back of a report issued by the CFE outlining long-term strategies to maximise the chances of Singapore's success, there was a general expectation that Budget 2017 would contain 'big-bang' tax policies to address the challenges ahead. However, from a tax perspective, Budget 2017 is arguably a muted one.

The most notable tax change appears to be the introduction of a 'BEPS-compliant' patent box regime that incentivises income from the exploitation of intellectual property. In addition, several tax incentives and measures deemed important to Singapore, including the Global Trader Programme, have either been enhanced or extended. Modest tax rebates were also announced for both corporate and personal income taxes.

Most of the measures in Budget 2017 were introduced in response to the economic strategies highlighted by the CFE. These range from the SMEs Go Digital Programme where SMEs are given advice on the technologies to use at each stage of their growth, to the establishment of a Global Innovation Alliance for Singaporeans to gain overseas experience, build networks and collaborate with their counterparts in other innovative cities.

Our readers will realise that a common theme across the various announcements is the provision of highly-targeted assistance to businesses, in some instances 'hand-holding' them so as to provide that vital boost in the innovation value-chain. With the authorities repeatedly stressing that not all businesses will survive as the economy restructures into one that is value-creating, the days of broad-based tax schemes to drive productivity and innovation may be well and truly over.

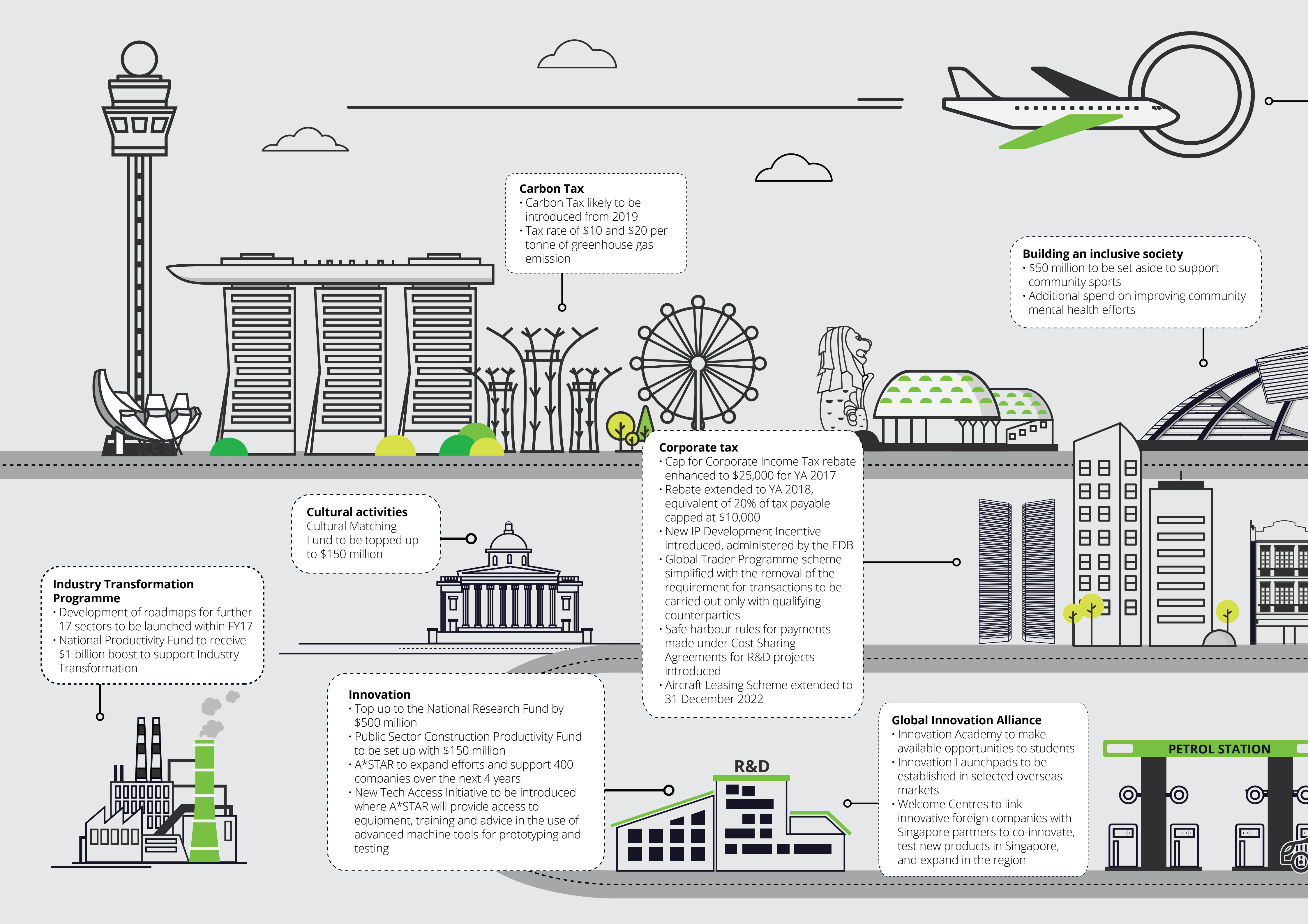


A very welcome inclusion in Budget 2017, is the multi-faceted measures introduced by the authorities to address climate change. Rising sea levels caused by increased temperatures pose an existential threat to Singapore's survival. With this in mind, the Government has announced the likely introduction of a tax on carbon emissions. Taxes on diesel, regarded as a highly pollutive fuel, will also be restructured to a volume-based duty to encourage users to reduce diesel consumption.

Finally, the Finance Minister cautioned that rising expenditure in the longer term, especially in healthcare and infrastructure, will require the Government to raise revenue through new taxes or increases to existing tax rates. In addition to the aforementioned 'carbon tax', we may see the GST base being broadened with measures taken to ensure a level playing field between local businesses which are GST-registered, and foreign-based ones which are not.

Budget 2017 is, however, coy on the measures that may be taken by the Government to balance the books in the long-term.

What is clear to us is that this Budget signals a clear preference by the Government to concentrate its resources on targeted initiatives. Businesses that are quick to adapt to this 'new normal' and proactively take advantage of the various targeted schemes introduced in this Budget will certainly thrive in the future economy.



Carbon Tax
- Carbon Tax likely to be introduced from 2019
- Tax rate of $10 and $20 per tonne of greenhouse gas emission

Building an inclusive society
- $50 million to be set aside to support community sports
- Additional spend on improving community mental health efforts

Cultural activities

Cultural Matching Fund to be topped up to $150 million

Corporate tax
- Cap for Corporate Income Tax rebate enhanced to $25,000 for YA 2017
- Rebate extended to YA 2018, equivalent of 20% of tax payable capped at $10,000
- New IP Development Incentive introduced, administered by the EDB
- Global Trader Programme scheme simplified with the removal of the requirement for transactions to be carried out only with qualifying counterparties
- Safe harbour rules for payments made under Cost Sharing Agreements for R&D projects introduced
- Aircraft Leasing Scheme extended to 31 December 2022

Industry Transformation Programme
- Development of roadmaps for further 17 sectors to be launched within FY17
- National Productivity Fund to receive $1 billion boost to support Industry Transformation

Innovation
- Top up to the National Research Fund by $500 million
- Public Sector Construction Productivity Fund to be set up with $150 million
- A*STAR to expand efforts and support 400 companies over the next 4 years
- New Tech Access Initiative to be introduced where A*STAR will provide access to equipment, training and advice in the use of advanced machine tools for prototyping and testing

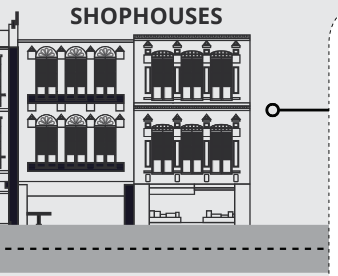
Global Innovation Alliance
- Innovation Academy to make available opportunities to students
- Innovation Launchpads to be established in selected overseas markets
- Welcome Centres to link innovative foreign companies with Singapore partners to co-innovate, test new products in Singapore, and expand in the region

Internationalisation
- Up to $600 million in Government capital committed for a new International Partnership Fund, for co-investing with Singapore-based firms to scale up and internationalise
- Enhancement of Internationalisation Finance Schemes by catalysing private finance and sharing risk with financial institutions

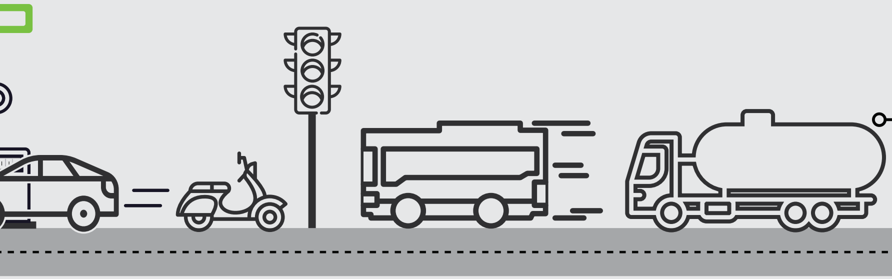
Family support
- Personal Income Tax rebate of 20% of tax payable capped at $500 for YA 2017
- CPF housing grant increased
- Increase in GST Voucher – U-Save rebate
- New one-off GST Voucher – Cash Special Payment up to $200 to be provided to lower income household
- Extension of Service and Conservancy charges rebate
- Infant care centres to be increased
- Annual bursaries amount increased

Water
- Water prices to increase by 30% in 2 phases from 1 July 2017
- Water Conservation Tax on NEWater of 10% starting from 1 July 2017

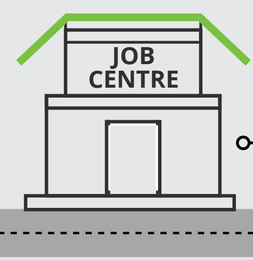
Lifelong Learning
- Increase wage and training support under Career Support Programme, the Professional Conversion Programme, and the Work Trial Programme
- "Attach and Train" initiative introduced for sectors with good future employment prospects
- Additional sum of up to $26 million to be committed from the Lifelong Learning Endowment Fund and the Skills Development Fund



Support for SMEs
- SMEs working capital loan continues to be available for the next 2 years
- Extension of additional Special Employment Credit up to 31 December 2019
- "SMEs Go Digital Programme" launched: SMEs to get advice on technologies to be used during different phases of growth, assistance at SME centre and new SME Technology Hub to be set up by the Info-Communications Media Development Authority
- SMEs ready to pilot imaging Info-Communications and Technology solution to receive advice and support



Restructuring Diesel Taxes
- Diesel taxes restructured to a volume-based duty at $0.10 per litre on automotive diesel, industrial diesel and diesel component in biodiesel
- Reduction in annual Special Tax on diesel cars and taxis by $100 and $850 respectively
- Road tax rebates for commercial diesel vehicles; additional cash rebates for school buses
- New Vehicular Emission Scheme to replace Carbon Emission-based Vehicular Scheme



Support for businesses
- Special Employment Credit to continue to provide employers with support for the wages of older workers till 2019
- MoM to raise the re-employment age from 65 to 67 years, with effect from 1 July 2017
- Foreign worker levy increases in the Marine and Process Sectors deferred by 1 year

Business tax

The Finance Minister (the Minister) delivered his 2017 Budget Statement on 20 February 2017. He reported that the Singapore economy grew by 2% in 2016. For 2017, with the global economic outlook remaining uncertain, the Government expects Singapore's GDP growth to be between 2% to 3%.

The Minister commented that the principal focus of this year's Budget is to develop an innovative and connected economy, build a caring and inclusive society, and keep Singapore a vibrant city with a quality living environment.

Corporate Income Tax rate and rebate

The Corporate Income Tax rate is currently at 17% with a partial tax exemption on a company's first $300,000 of normal chargeable income (CI).

Companies currently enjoy a 50% Corporate Income Tax rebate for YA 2016 and YA 2017, subject to a cap of $20,000 per YA.

Proposed

No changes to the Corporate Income Tax rate and the partial tax exemption threshold were proposed by the Minister.

Nevertheless, companies, especially SMEs, will enjoy an extension and enhancement of the Corporate Income Tax rebate as follows:

a. The rebate cap will be raised from $20,000 to $25,000 for YA 2017 (with the rebate rate unchanged at 50%); and
b. The rebate will be extended for another year to YA 2018, but at a reduced rate of 20% of tax payable and capped at $10,000.

Our view

- Although there is a global trend of declining corporate tax rates, Singapore's Corporate Income Tax rate, at 17%, remains competitive vis-à-vis other countries in the region. However, we note that the Minister has cautioned in recent Budgets (including this Budget) that the Government would need to raise revenue to meet projected increases in expenditure, particularly in infrastructure and social spending (due to an ageing population). As such, it remains to be seen whether the Corporate Income Tax rate would remain at 17% in future.
- The increase of $5,000 in the rebate cap for YA 2017 and the extension of the rebate to YA 2018 will be welcomed by SMEs; although, the quantum of the rebate may not be significant as compared to the rising business costs, especially in terms of rental and staff costs that some of the SMEs are facing. Perhaps in future the Government could consider granting a higher tax exemption on the first $300,000 normal CI (or even full tax exemption) for qualifying SMEs. This will provide more financial support to SMEs.
- The Corporate Income Tax rebate would only benefit companies that are tax-paying. In view of the weak business sentiment, perhaps an SME cash grant similar to that introduced in YA 2011 may be more useful.
- The IRAS has clarified the following:
  - The Corporate Income Tax rebate is given to all companies including registered business trusts, non-resident companies that is not subject to a final WHT and companies that receive income taxed at a concessionary tax rate.
  - Companies need not factor in the Corporate Income Tax rebate when filing their estimated chargeable income and income tax returns (Form C/C-S) as the IRAS will compute and allow the Corporate Income Tax rebate automatically.

Extending the WHT exemption on payments made to non-resident non-individuals for structured products offered by Financial Institutions (FIs)

Presently, income from a structured product offered by a FI and derived by a non-resident non-individual is exempt from WHT, if the contract for the structured product takes effect during the period from 1 January 2007 to 31 March 2017 (both dates inclusive) or is renewed or extended before 1 April 2017.

Proposed

The qualifying period for the WHT exemption on payments made to non-resident non-individuals for structured products will be extended until 31 March 2021.

All other conditions for the WHT exemption remain the same.

← Our view

- The WHT exemption scheme was introduced in 2007 with the objective to promote Singapore as a financial hub and strengthen the competitiveness of Singapore's financial sector.
- In Budget 2011, the Government had introduced a liberalised WHT exemption scheme for banks, under which, specified entities do not need to withhold tax on interest payments under Section 12(6) of the ITA made to non-resident persons. The sunset clause for this scheme is 31 March 2021.
- The extension of the WHT exemption scheme is aligned with the sunset clause for the liberalised WHT exemption scheme currently available to banks.
- The conditions to qualify for the WHT exemption scheme are relatively straightforward and should not represent an administrative or compliance burden.

Extending the Tax Incentive Scheme for Project and Infrastructure Finance

The tax incentive scheme currently provides the following tax benefits:

a. Exemption of qualifying income from qualifying project debt securities;
b. Exemption of qualifying income from qualifying infrastructure projects or assets received by approved entities listed on the SGX;
c. Concessionary tax rate of 10% on qualifying income derived by an approved Infrastructure Trustee Manager or Fund Management Company from managing qualifying SGX-listed Business Trusts or Infrastructure Funds in relation to qualifying infrastructure projects or assets; and
d. Remission of stamp duty payable on any instrument of transfer relating to qualifying infrastructure projects or assets to qualifying entities listed, or to be listed, on the SGX.

Currently, the tax incentive scheme is scheduled to lapse after 31 March 2017.

Proposed

The Minister has proposed to extend the tax incentive scheme for Project and Infrastructure Finance till 31 December 2022 except that the stamp duty remission on instruments of transfer relating to qualifying infrastructure projects or assets will be allowed to lapse after 31 March 2017. All other conditions of the tax incentive scheme will remain the same.

The MAS will release additional details of the change by May 2017.

Our view

- The tax incentive scheme for Project and Infrastructure Finance was first introduced in 2006. The tax incentive scheme has been updated over the years to reflect Singapore's status as a key Project and Infrastructure Finance hub.
- Many parts of Asia Pacific are still undergoing urban and infrastructure development with ongoing need for capital investments in infrastructure. With its more developed and better regulated financial and capital markets, Singapore is well-positioned to play a major role in financing infrastructure projects in the Asia Pacific region. The extension of income tax benefits of this incentive scheme will help continue to develop Singapore as an infrastructure financing hub for the Asia Pacific region.
- Singapore stamp duty is levied on the conveyance, assignment or transfer on sale of stock and shares in Singapore companies and foreign companies that maintain a register in Singapore, and immovable properties in Singapore and interests therein. Under the tax incentive scheme, stamp duty is remitted on otherwise dutiable instruments, subject to conditions, including the condition that the qualifying project or assets must be transferred to an entity which is listed or will be listed on the SGX.
- The stamp duty remission was intended to enable the industry to acquire a critical mass of local assets as a base to expand overseas. As this has been achieved, the stamp duty remission will be allowed to lapse.
- The decision to allow stamp duty remission to lapse is consistent with the decision by the Government in 2015 to allow a similar remission on transfers of real property in Singapore and stocks and shares of Singapore companies owning real property, to real estate investment trusts listed, or to be listed, on the SGX, to also lapse. With the lapse of the stamp duty remission, there will be additional costs on the transfer of qualifying infrastructure projects or assets to qualifying entities listed, or to be listed, on the SGX.

Refining the Finance and Treasury Centre (FTC) scheme

The FTC scheme grants a concessionary tax rate of 8% on qualifying income derived by approved FTCs from qualifying FTC services to approved network companies as well as qualifying FTC activities carried out on its account with funds obtained from qualifying sources.

Proposed

The Minister has proposed the streamlining of qualifying counterparties for certain transactions of approved FTCs.

This will apply to new or renewal incentive awards approved on or after 21 February 2017.

The EDB will release additional details of the change by May 2017.

Our view

- Currently, FTCs enjoy the concessionary tax rate on income that is derived from qualifying services provided to its approved network companies as well as qualifying activities (e.g., foreign exchange transactions with banks outside Singapore or persons who are neither residents of nor PEs in Singapore or with banks licensed under the Banking Act or merchant banks approved under section 28 of the MAS Act).
- The streamlining of qualifying counterparties should help to reduce the administrative and compliance burden of FTCs.
- A continued review and refinement to the FTC regulations is encouraged to further strengthen Singapore's continued position as a treasury hub in the Asia Pacific region.

Enhancing the Global Trader Programme (GTP)

The GTP confers a concessionary tax rate of 5% or 10% on qualifying trading income derived by approved global trading companies from qualifying transactions. Qualifying trading income includes income from physical trading, brokering of physical trades and derivative trading income.

Proposed

To facilitate and encourage more trading activities in Singapore and to simplify the GTP, the scheme will be enhanced as follows:

a. The requirement for qualifying transactions to be carried out with qualifying counterparties will be removed. Consequently, a concessionary tax rate will be granted to approved global trading companies on income derived from qualifying transactions with any counterparty;
b. A concessionary tax rate will be granted to approved global trading companies on physical trading income derived from transactions in which the commodity is purchased for the purposes of consumption in Singapore or for the supply of fuel to aircraft or vessels within Singapore;
c. A concessionary tax rate will be granted to approved global trading companies on physical trading income attributable to storage in Singapore or any activity carried out in Singapore which adds value to commodity by any physical alteration, addition or improvement (including refining, blending, processing or bulk-breaking); and
d. The substantive requirement to qualify for the GTP will be increased.

The enhancements in (a) to (c) will apply to qualifying income derived on or after 21 February 2017 by approved global trading companies from qualifying transactions.

The enhancement in (d) will apply to new or renewal incentive awards approved on or after 21 February 2017.

IE Singapore will release additional details of the change by May 2017.

Our view

- Under the current GTP scheme, approved global trading companies are required to trade with qualifying counterparties, e.g., offshore parties, fellow GTP companies, companies designated with a qualifying party status.
- The GTP concessionary tax rate presently does not apply to transactions in which the commodity is purchased for consumption in Singapore or for the supply of fuel to aircraft or vessels within Singapore, and excludes income from local value-added activities.
- Hence, enhancements (a) to (c) will be welcomed by approved global trading companies as these changes can significantly ease the present administrative burden in complying with the requirements of the GTP incentive.
- Specifically, companies will no longer have to track qualifying counterparties and transactions, as well as segregate non-qualifying transactions for local consumption and income from local value-added activities.
- In addition to alleviating the administrative burden, the enhancements will allow approved global trading companies to enjoy greater tax benefits from the concessionary tax rate being applied to transactions for local consumption and income from local value-added activities.
- Increasing substantive requirement to qualify for the GTP will raise the entry barrier for new applicants and existing companies looking to renew their incentive awards. In determining the new substantive requirements, IE Singapore may want to consider competition from the region in the drive to attract global trading companies, particularly trading incentives currently available in neighbouring countries such as Malaysia and Thailand.

Withdrawing the tax deduction for computer donation scheme

To encourage the use of information technology (IT), the IRAS currently grants a 250% tax deduction on the donation of computers (including computer hardware, software, accessories and peripherals) by any company to prescribed educational, research or other institutions and all IPCs in Singapore.

Proposed

The tax deduction scheme will be withdrawn after 20 February 2017 as the objective has been achieved.

Our view

- When first introduced, the objective of the scheme was to increase the availability of IT equipment to needy students in less well-off families who may have limited access to modern technology. It also sought to improve efficiency in administration work and increase productivity in institutions and IPCs where there was a shortage of such equipment.
- With the advancement of IT coupled with a higher standard of living today, individuals are exposed to technology at a younger age and are more IT-savvy as compared to the past. The administration and management in institutions and IPCs have also been automated. Hence, the need to receive computers as donations may not seem to be as relevant.
- Instead, businesses are now encouraged to participate actively through volunteering activities or secondments to give back to society. This will help cultivate a caring environment in Singapore where people can play a more active role in meeting social needs to build a more inclusive community.

Withdrawing the Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology (ADA-EEET) scheme

Capital expenditure incurred for certified energy efficient and energy-saving equipment may qualify for an accelerated writing-down period of 1 year instead of 3 years under Section 19A(6) of the ITA.

Proposed

To streamline incentives that promote energy efficiency, the ADA-EEET scheme will be withdrawn after 31 December 2017. Therefore, the ADA-EEET scheme will not be available for equipment installed on or after 1 January 2018.

Our view

- The ADA-EEET scheme was introduced in 1996 by the Government to encourage companies to replace old, energy-consuming equipment with more energy efficient ones and to invest in energy-saving equipment.
- The ADA-EEET scheme has been around for more than 20 years and is restricted to 2 categories of projects, which are:
  - Replacement of machines and equipment with more energy efficient ones; and
  - Installation of energy-saving equipment and devices that would result in significant energy savings.
- Over the years new incentives, such as the Investment Allowance–Energy Efficiency Scheme and the Productivity Grant, were introduced to promote energy efficiency.
- As various incentives are available to promote similar objectives, the proposed change seeks to streamline and simplify these schemes.
- Taxpayers who are affected by the proposed withdrawal should explore if they would be eligible for the other schemes and incentives. Otherwise, they should be able to claim the capital expenditure over a writing-down period of 3 years.

Allowing the accelerated Writing-Down Allowance (WDA) for acquisition of IPRs for Media and Digital Entertainment (MDE) content scheme to lapse

An approved MDE company or partnership could claim accelerated WDA over a period of 2 years for capital expenditure incurred in respect of IPRs pertaining to films, television programmes, digital animation or games, or other MDE content acquired for use in its business, subject to approval from the EDB.

The accelerated WDA was to expire in YA 2015 but was extended for 3 years to YA 2018 in Budget 2014.

Proposed

The accelerated WDA for the MDE content scheme is scheduled to lapse after the last day of the basis period for YA 2018.

MDE companies or partnerships may elect to claim WDA under Section 19B over a writing-down period of 5, 10 or 15 years on qualifying capital expenditure.

Our view

- To encourage MDE companies to actively exploit their IPRs from Singapore, the accelerated WDA for the MDE content scheme was first introduced in Budget 2009.
- The accelerated WDA has been regularly reviewed to ensure its relevance. The Minister has now assessed that the scheme is no longer relevant, hence allowing it to lapse.
- This change will simplify the Singapore tax regime and should not significantly compromise the Government's focus to continue to build Singapore as an intellectual property hub as companies will still be eligible to claim WDA, albeit over a longer life.

Allowing the International Arbitration Tax Incentive (IArb) to lapse

Currently, under the incentive, an approved law practice is granted 50% tax exemption for a period of 5 years on qualifying incremental income derived from international arbitration cases with substantive hearings held in Singapore or which would have been heard in Singapore if not for the case having been settled.

Proposed

As part of the Government's regular review of tax incentives, the IArb will be allowed to lapse after 30 June 2017.

Our view

- In 2002, the Government identified arbitration as a growth area and now Singapore is globally recognised as one of the most preferred seats of arbitration, behind only London and Geneva.
- This did not happen by chance: it is the result of the aggressive and holistic approach that Singapore has taken to develop the arbitration sector over the years, with the Government supporting its development through favourable legislation and through the creation of Maxwell Chambers (the world's first integrated dispute resolution complex). Combined with the ongoing success of the Singapore International Arbitration Centre, the completely open regime for international commercial arbitration and the tax incentives for arbitrators and arbitration work, Singapore is now on par with the more traditional arbitration jurisdictions of London, Paris, New York and Hong Kong.
- The Minister has reaffirmed the Government's continued focus to develop and strengthen Singapore's arbitration landscape, including by:
  - Strengthening the legislative framework;
  - Expanding Maxwell Chambers; and
  - Supporting local dispute resolution institutions and top international institutions seeking to set up in Singapore or use Singapore as a venue for arbitration activities.
- Notwithstanding the withdrawal of the incentive, it is believed that foreign law firms will continue to relocate their top-tier international arbitration practitioners to Singapore. One of the reasons is Asia's tremendous growth potential. We are seeing a significant new wave of investments and with that comes the potential for increased arbitration activity in the Southeast Asian and South Asian economies; Singapore is on the doorstep of the world's fastest growing region for arbitration in the years to come.

Introducing a safe harbour rule for payments under Cost Sharing Agreements (CSAs) for R&D projects

Currently, taxpayers claiming a tax deduction for R&D expenditure under Section 14D of the ITA for payments made under a CSA (CSA payments) are subject to specific restriction rules for certain categories of expenditure disallowed under Section 15 of the ITA. As such, the breakdown of the expenditure covered by the CSA payments has to be examined so as to exclude any disallowed expenditure.

Proposed

To ease compliance, a safe harbour rule has been proposed. Taxpayers may now opt to claim a tax deduction under Section 14D for 75% of the CSA payments incurred for qualifying R&D projects, instead of providing the breakdown of the expenditure covered by the CSA payments.

The change will apply to CSA payments made on or after 21 February 2017.

The IRAS will release additional details of the change by May 2017.

Our view

- Taxpayers currently undertaking R&D projects under CSAs are required to identify and exclude expenditure disallowed under Section 15 of the ITA when computing tax deductions. Quite often, substantial effort is required to identify these disallowed costs and in some instances, a breakdown may not be possible.
- The proposed safe harbour rule proposed should help ease the administrative and compliance burden, and will be welcomed by taxpayers particularly where the identification of non-qualifying costs involves an onerous process.
- Companies that are able to identify non-qualifying costs with minimal effort, particularly where these amount to less than 25% of the CSA payments, should continue with the existing process of providing a breakdown of expenditure covered by the CSA payments.
- While this is in line with the Government's aim of supporting companies undertaking R&D, the proposed 75% cap on CSA payments is not as attractive as writing-down allowances previously available under Section 19C of the ITA for approved CSA payments for R&D activities that did not require the onerous processes currently prescribed.
- It is not mentioned in Budget 2017 how enhanced tax deductions for PIC R&D expenses claimed under Section 14DA of the ITA for CSA payments made between 21 February 2017 and 31 December 2017 will now apply. In our view, the proposed safe harbour rule for CSA payments should similarly apply to taxpayers claiming enhanced PIC R&D tax deductions of up to 300%, i.e., 75% instead of 60% of CSA payments should be regarded as qualifying expenditure for the purpose of PIC R&D tax claims as the PIC scheme is still applicable for R&D expenses incurred until 31 December 2017.

Extending the WHT exemption on payments for international telecommunications submarine cable capacity under an Indefeasible Rights of Use (IRU) agreement

Payments for international telecommunications submarine cable capacity under an IRU agreement are considered by the IRAS to fall under the scope of Section 12(7) of the ITA. Hence, persons making such payments to non-residents are required to withhold tax on these payments.

However, there is currently a WHT exemption on such payments for the use of or right to use international telecommunications submarine cable capacity under an IRU agreement. This was introduced to encourage telecommunications operators to provide international connectivity.

The scheme is scheduled to lapse after 27 February 2018.

Proposed

In line with the Government's thrust to grow the digital economy and continue to be a key hub for data flow, the WHT exemption on payments for international telecommunications submarine cable capacity under an IRU agreement will be extended until 31 December 2023.

Our view

- This is the second time that the WHT exemption (first introduced in 2003) has been extended. This should make it less costly for telecommunications operators to provide international connectivity.
- The extension should help ensure that Singapore remains an attractive location for telecommunications operators to hub their network from Singapore. Telecommunications services are critical to all businesses and a significant portion of the costs of many telecommunications carriers is associated with the acquisition of international connectivity, primarily on international telecommunications submarine cable systems.
- As Singapore looks to build strong digital capabilities especially in relation to data acquisition and analytics under the CFE recommendations, the extension of the WHT exemption is timely and beneficial.
- To provide more support for this important industry, perhaps the WHT exemption could in the future be extended to payments made for the use of or the right to use domestic or local onshore backhaul capacity under an IRU agreement. This will be helpful in situations where a non-resident company (for e.g., the offshore parent company) enters into a capacity swap arrangement with a Singapore local carrier and such non-resident in turn contracts with a Singapore tax resident (for e.g., its Singapore subsidiary) in respect of the excess domestic capacity.
- There is still a sunset clause but taxpayers will at least have some tax certainty in the medium term.

Extending and refining the Aircraft Leasing Scheme (ALS)

Under the ALS, approved aircraft lessors and aircraft investment managers currently enjoy the following tax benefits:

a. Approved aircraft lessors are subject to a concessionary tax rate of 5% or 10% on income derived from the leasing of aircraft or aircraft engines and qualifying ancillary activities under Section 43Y of the ITA; and
b. Approved aircraft managers are subject to a concessionary tax rate of 10% on income derived from managing the approved aircraft lessor and qualifying activities under Section 43Z of the ITA.

Qualifying ancillary activities under Section 43Y of the ITA include incidental income derived from the provision of finance in the acquisition of any aircraft or aircraft engines by any airline company.

Under the ALS, automatic WHT exemption is also granted on qualifying payments made by approved aircraft lessors to non-tax residents (excluding a PE in Singapore) in respect of qualifying loans entered into on or before 31 March 2017 to finance the purchase of aircraft and aircraft engines, subject to certain conditions being satisfied.

The ALS is scheduled to lapse after 31 March 2017.

Proposed

To continue to encourage the growth of the aircraft leasing sector in Singapore, the ALS will be extended and refined as follows:

a. The ALS will be extended till 31 December 2022;
b. The scope of qualifying ancillary activities for approved aircraft lessors under Section 43Y of the ITA will be updated to cover incidental income derived from the provision of finance in the acquisition of aircraft or aircraft engines by any lessee; and
c. The concessionary tax rate on income derived from leasing of aircraft or aircraft engines and qualifying ancillary activities will be streamlined from 5% and 10% to a single rate of 8%.

The enhancement for (b) above will apply to income derived on or after 21 February 2017 for all incentive recipients.

The refinement in (c) above will apply to new or renewal incentive awards approved on or after 1 April 2017.

In addition, the automatic WHT exemption regime will be extended to qualifying payments made on qualifying loans entered into on or before 31 December 2022.

The EDB will release additional details of the change by May 2017.

Our view

- The extension and refinement of the ALS, along with the extension of the automatic WHT exemption on qualifying loan payments till 31 December 2022, are in line with the Government's initiatives to promote the aviation industry in Singapore. It is envisaged that the extension and refinement would attract new and existing aircraft lessors and aircraft managers to carry out and/or further entrench their aircraft leasing and related operations in Singapore.
- The streamlining of the 5% and 10% tax rates into a single rate of 8% under the refined ALS represents a simplification of the ALS, while ensuring that any revenue loss by the Government from current incentive holders enjoying the 10% tax rate may be minimised by revenue gains from other incentive holders enjoying the lower 5% tax rate. However, it remains to be seen whether the qualifying conditions under the single tax rate regime will be changed and harmonised as different conditions currently apply to the 5% and 10% incentive holders. Additional clarifications from the EDB are anticipated in this regard.
- Given that the streamlining of the ALS concessionary tax rates to a single rate of 8% will apply to new or renewals of incentive awards on or after 1 April 2017, as with any changes made to other tax incentive awards in the past, it is expected that existing approved aircraft lessors should continue to enjoy their respective 5% or 10% concessionary tax rate on qualifying income derived on or after 1 April 2017 till the end of their respective incentive award. This in turn should minimise any disruptions to existing approved aircraft lessors' operations in Singapore. Additional clarifications from the EDB are anticipated when more details are released by May 2017.

Extending and refining the Integrated Investment Allowance (IIA) scheme

Introduced in Budget 2012, the IIA scheme provides for an allowance (on top of the normal capital allowance) on a percentage of approved fixed capital expenditure to be incurred on productive equipment that is placed outside Singapore for an approved project.

The IIA is to be granted during the period between 17 February 2012 and 28 February 2017 upon successful application to the EDB.

For the purposes of the IIA scheme, one of the qualifying requirements is that the qualifying productive equipment has to be used by the overseas company solely to manufacture products for the qualifying company under the approved project.

Proposed

The Minister has announced the following changes to the IIA scheme:

- The IIA scheme will be extended till 31 December 2022.
- The qualifying productive equipment may be used by the overseas company primarily to manufacture products for the qualifying company under an approved project. This liberalisation in the qualifying requirement will apply to expenditure incurred on a qualifying productive equipment for a project approved on or after 21 February 2017.

Our view

- The move to extend and liberalise the IIA scheme to include qualifying productive equipment used by an overseas company primarily to manufacture products for the Singapore taxpayer under the approved project is welcomed, as this will allow greater flexibility in the use of the equipment. Previously, the qualifying productive equipment has to be used by the overseas company solely to manufacture products under the approved project, which meant that equipment used for any other purposes (even if incidentally) would strictly not qualify for the IIA scheme.
- With outsourcing being a key measure to drive cost efficiency, the liberalisation and extension of the IIA scheme should benefit taxpayers that outsource manufacturing arrangements to their overseas affiliates. Companies that meet the conditions should consider applying for the IIA given the liberalisation.
- However, it remains to be seen how the IRAS and taxpayers would apply the “primarily to manufacture products” requirement for the purposes of the IIA scheme, and this may be a point of contention between the IRAS and taxpayers. It is hoped that during the application process with the EDB, the EDB would agree on specific thresholds or issue guidance for the “primarily to manufacture products” requirement to be met.

Base Erosion and Profit Shifting (BEPS)

The BEPS project, which is now 4 years old, is the most significant change in the world of international tax in 50 years.

Launched by the Organisation of Economic Co-operation and Development (OECD) and Group of Twenty (G20) countries in 2013, it is now being progressed by a coalition of countries (called the Inclusive Framework) numbering over 100. Singapore is a member of that coalition.

New Intellectual Property (IP) regime

Currently, 2 existing tax incentives offered by the EDB (Pioneer-Services/Headquarters incentive, and the Development and Expansion Incentive (DEI)-Services/Headquarters incentive) cover IP income if such income arises from the qualifying activities prescribed under each incentive.

Proposed

The Minister has proposed a new IP Development Incentive (IDI) to incentivise income generated from the exploitation of IP arising from R&D activities performed by the taxpayer in Singapore or outsourced to third parties. "IP income" will cover royalties from the licensing of IP and (according to an MoF briefing) is also likely to cover embedded royalties in the profit derived by a supply chain principal.

Singapore will phase-out the operation of the existing Pioneer-Services/Headquarters and DEI-Services/Headquarters incentives in regard to such IP income.

The EDB will administer the IDI.

The relevant dates are as follows:

a. Grandfathering: existing Pioneer and DEI incentives will cover IP income until 30 June 2021, or until the relevant award expires, whichever occurs first.
b. New Pioneer and DEI incentives granted after 30 June 2017 will not cover IP income.
c. IDI will take effect from 1 July 2017.

The EDB will release additional details by May 2017.

Our view

- These changes are required by Action 5 (Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance) of the BEPS project, which is a minimum standard - i.e., all members of the Inclusive Framework have committed to implement Action 5.
- It can be expected that the details to be provided by the EDB will comply with the requirements set out in the BEPS Action 5 Report.
- The IDI, to be compliant with Action 5, will not apply to marketing intangibles (e.g., trademarks). Instead, patents and similar IP will be the focus of the new incentive. However, the IDI will incorporate the Action 5 "nexus approach", which involves the use of a formula.
- This will mean that the IDI will apply only to the extent that the relevant R&D is performed by the taxpayer in Singapore or outsourced to third parties. Thus, the IDI will not apply to the extent that the R&D is performed by a related party. IP income from acquired IP will also be excluded.
- It should also be noted that the Action 5 "nexus approach" permits countries to provide a 30% uplift in the relevant formula.
- It can also be expected that the new IDI will be in the form of a lower corporate income tax rate, which could be zero (the rate has not yet been indicated).
- Income other than IP income will likely still be covered under the Pioneer and DEI incentives.
- These various changes (i.e., the non-applicability to marketing intangibles, the likely covering of embedded royalties, and the requirement to conduct the R&D by the taxpayer in Singapore or outsource such R&D to a third party) will impact quite a number of MNCs that currently enjoy tax incentives in Singapore.

Other BEPS changes

a. The Minister announced that the Government will consult with businesses on changes to be made to the GST system, in regard to the inbound supply of digital services, in accordance with BEPS Action 1 (Addressing the Tax Challenges of the Digital Economy).

   Please refer to the Indirect Tax section for additional details.

b. The Minister also made reference during his Budget speech that the Government is "in consultation with businesses, refining [Singapore's] schemes and implementing the relevant [BEPS] standards." No further information is provided.

Our view

- The above statement on the refining of Singapore's schemes and implementing the relevant BEPS standards appears to go beyond the proposed changes in regard to the IDI (see above). It suggests that changes might need to be made to some of Singapore's other tax incentives.

Personal tax

Personal income tax rates

In Budget 2015, the Minister had announced a more progressive personal income tax rate structure for resident individual taxpayers with effect from YA 2017.

Proposed

The Minister did not propose additional changes to the personal income tax rates.

The personal tax rate table for YA 2017 is enclosed in Appendix D.

Our view

- Given that the Minister had already announced in Budget 2015 a change in the personal income tax rates to take effect from YA 2017, it was within expectations that no further changes to the personal income tax rates would be announced.
- While any lowering of personal income tax rates would have been welcomed by individual taxpayers in light of the economic downturn, this was not likely since the increase in the marginal tax rates for the higher income tax bands only took effect from YA 2017.
- The personal income tax rates in Singapore remain competitive as compared to other matured economies despite the increase in the top marginal tax rate from 20% to 22%.

Personal income tax rebate

There was no personal income tax rebate granted to resident individual taxpayers for YA 2016.

Proposed

The Minister has proposed to grant a one-off personal income tax rebate of 20%, capped at $500, to resident individual taxpayers for YA 2017.

Our view

- The announcement of the personal income tax rebate is somewhat surprising since personal income tax rebates do not provide relief to the significant proportion of the population that pay little or no tax and who are the ones that generally require more help.
- The cap of $500 is the lowest in the history of personal income tax rebates announced by the Government, with previous rebate caps ranging from $1,000 to $2,000. Individuals who pay a tax of more than $2,500 (translated to an annual chargeable income of approximately $67,800) will have their income tax rebates capped at $500.
- Notwithstanding the low cap, the personal income tax rebate should still provide some welcome relief to the middle-income sandwich class given the current economic climate; this is probably the target group the Government is trying to help with the announcement of the personal income tax rebate.

Indirect tax

Withdrawal of the GST Tourist Refund Scheme (TRS) for tourists departing by international cruise ship

Proposed

Due to the very low transaction volume for tourist refunds at the two cruise terminals in Singapore, i.e., the Marina Bay Cruise Centre Singapore and the International Passenger Terminal at Harbourfront Centre, the GST TRS will be withdrawn for tourists who are departing from these locations. This will apply to tourist purchases made on or after 1 July 2017.

Tourists who are departing by international cruise ship from these cruise terminals will have until 31 August 2017 to claim GST refunds on purchases made prior to 1 July 2017.

The IRAS will release additional details of the change by April 2017.

Our view

- This should have limited impact on tourist spending in Singapore as the GST TRS is still available to tourists who depart from Singapore via Changi International Airport and Seletar Airport, where the passenger volume is significantly higher.

Cross-border supplies and GST

Proposed

The Minister announced that Singapore is studying whether changes can be made to equalise the GST treatment of cross-border supplies of services and imports of low value goods, in line with many other countries in the region.

Our view

- Singapore's open trading model encourages international trade; under the current GST system, international purchases are taxed differently from local purchases. For example, supplies of services purchased from a supplier based outside Singapore would not be subject to local GST. For goods imported via post where the value is less than $400, no GST is levied at importation.
- The BEPS Action 1 report made recommendations on how to address this mismatch. Examples of countries that have adopted some of the recommended measures include Japan, Korea and New Zealand. In these countries, overseas suppliers need to register for local indirect tax, charge it on their sales of digital services to local consumers in those countries and account for the tax to the local Government via a simplified indirect tax return. Australia has also announced changes, including the removal of the postal import threshold such that from July 2017, imports of goods via post into Australia will be subject to Australian GST, regardless of the value of the goods.

← Our view

- With respect to international purchases by local businesses, many countries apply a reverse charge or impose a self-assessment requirement so that the acquiring business calculates and then recovers the tax, subject to the normal rules of recovery.
- Singapore has a similar provision in its law, but it has never been utilised. The most impacted sector under the reverse charge would be the financial services industry, which is usually unable to recover all of the GST incurred. The Government will likely need to balance the potential revenue increase by making changes for businesses. An unexpected increase in costs is unlikely to be welcomed.
- Singapore could look carefully at the other countries to decide what would work best for its economy. Whichever method Singapore adopts, businesses and consumers will have to pay more.

Others

Introduction of volumetric diesel duty

In addition to the Road Tax for vehicles, an annual lump sum Special Tax is levied on diesel cars and taxis regardless of the amount of diesel usage.

The rate of Special Tax that applies takes into account the Emission Standard that the vehicle satisfies.

Proposed

To incentivise users to reduce usage of diesel, the Minister has introduced volumetric diesel duty of $0.10/litre on automotive diesel, industrial diesel and diesel components of biodiesel.

Annual Special Tax on diesel cars and taxis is permanently reduced by $100 and $850 respectively:

Table 1: Comparison of the current and proposed annual Special Tax on diesel cars (per 6 months)

Emission Standard	Current treatment	Proposed treatment
Pre-Euro IV compliant	• 6 times the Road Tax of an equivalent petrol-driven car	• 6 times the Road Tax of an equivalent petrol-driven car, less $50
Euro IV compliant	• $0.625 per cc, subject to a minimum payment of $625	• $0.625 per cc, less $50, subject to a minimum payment of $575
Euro V or JPN2009 compliant	• $0.20 per cc, subject to a minimum payment of $200	• $0.20 per cc, less $50, subject to a minimum payment of $150

Table 2: Comparison of the current and proposed annual Special Tax on diesel taxis

Diesel Vehicle Type	Current treatment	Proposed treatment
Diesel taxi	• $2,550 every 6 months, or $5,100 every year	• $2,125 every 6 months, or $4,250 every year

Businesses operating commercial diesel vehicles will be provided with a Road Tax Rebate over the next 3 years to help them offset the additional taxation based on usage:

Table 3: Road Tax Rebate provided for commercial diesel vehicles

Year	Period	Road Tax Rebate
Year 1	1 August 2017 to 31 July 2018	100% Road Tax Rebate
Year 2	1 August 2018 to 31 July 2019	75% Road Tax Rebate
Year 3	1 August 2019 to 31 July 2020	25% Road Tax Rebate

In addition to the Road Tax Rebate, businesses operating buses to ferry school children will be provided with annual cash rebates over the next 3 years:

Table 4: Annual Cash Rebate for businesses operating buses to ferry school children

Period	Cash Rebate for diesel school buses	Cash Rebate for eligible private hire buses and diesel excursion buses
1 August 2017 to 31 July 2018	$1,400	Up to $1,500
1 August 2018 to 31 July 2019	$700	Up to $800
1 August 2019 to 31 July 2020	$350	Up to $450

The effective date is from 20 February 2017.

Our view

- The introduction of the volumetric diesel duty is a major step in encouraging the usage of cleaner emission vehicles and thereby improving air quality in Singapore.
- The Special Tax reduction and Road Tax Rebate for diesel vehicles and taxis should soften the impact of the introduction of diesel duty, but ultimately when these expire, the increased costs will be borne by the consumer.
- The Road Tax Rebate and the 3-year cash rebates provided to businesses operating buses to ferry school children should help defer the impact on school bus fees in the short term.

Vehicular Emissions Scheme (VES)

The Carbon Emissions-based Vehicle Scheme (CEVS) has been implemented since 2013 to encourage car buyers to consider lower carbon emissions and fuel efficiency when purchasing a new car or importing a used car. Under the existing scheme, rebates are provided and surcharges are imposed based on the vehicle's carbon dioxide emissions level.

Proposed

The Minister will extend the CEVS until 31 December 2017.

To further encourage car buyers to purchase cleaner and more environmentally-friendly vehicles, the Minister will replace CEVS with VES.

VES will, in addition to carbon dioxide, consider four other pollutants – nitrogen oxides, hydrocarbons, particulate matter and carbon monoxide.

VES will be introduced on 1 January 2018 and will run for 2 years. The effectiveness of the new scheme will be reviewed before it expires on 31 December 2019.

Our view

- The introduction of VES covering other pollutants is in line with Singapore's commitment to the Paris Agreement to reduce emissions intensity by 36% by 2030, and complements a number of other measures to tackle environmental pollution.
- As details on the rebates/surcharges that will be applied under VES are yet to be announced, it is not possible to fully assess the impact on businesses and consumers at this time.

Extension of Early Turnover Scheme (ETS)

The ETS was an initiative introduced in 2013 to encourage the early replacement of old commercial diesel vehicles with newer models that comply with tighter emission standards.

Proposed

The ETS, which was due to expire on 31 July 2017, will be extended for 2 more years to 31 July 2019.

Details on the enhancement of the Certificate of Entitlement (COE) bonus period for Light Goods Vehicles are yet to be announced, but should further promote the replacement of older commercial vehicles with greener vehicles that meet tighter emission standards.

Our view

- Since the ETS implementation, 27,000 commercial diesel vehicles were replaced with cleaner and greener vehicles. The extension of the ETS will further reduce the number of older and more pollutive commercial diesel vehicles in Singapore.
- In line with the wider efforts to reduce pollution in Singapore, the extension of the ETS will encourage motor vehicle manufacturers and dealers to promote cleaner vehicles.

Introduction of a tiered Additional Registration Fees (ARF) scheme for motorcycles

The ARF for motorcycles is currently at a flat rate of 15%, regardless of the Open Market Value (OMV) of the motorcycles.

Proposed

The existing flat ARF rate for motorcycles will be replaced with a 3-tiered rate structure, as follows:

Motorcycle OMV	ARF Rate
First $5,000	15%
Next $5,000 (i.e., $5,001 to $10,000)	50%
Remaining OMV above $10,000	100%

The effective date is from 21 February 2017.

Our view

- The introduction of the 3-tiered ARF Scheme for motorcycles aligns with the progressive tax structure that currently applies to passenger cars and taxis.
- Based on current registration trends for motorcycles, the revised structure should impact less than half of new motorcycle buyers, but clearly those looking to purchase higher specification or higher powered motorcycles with a correspondingly higher OMV will face a significant increase in taxation.

Implementing a Carbon Tax

Singapore ratified the Paris Agreement under the United Nations Framework Convention on Climate Change on September 2016.

Proposed

As part of Singapore's commitment to address climate change and reduce emissions, the Minister intends to implement a carbon tax on the emission of greenhouse gases from 2019.

The tax will be in the range of $10 to $20 per tonne, which is broadly in line with what other countries have implemented, and will be applied largely to producers as opposed to electricity consumers, with appropriate measures taken to ease the transition to the new tax. In keeping with Singapore's consultative approach, the Government will seek feedback from the industry and the public before implementing the tax.

Our view

- Singapore committed, when ratifying the Paris Agreement, to take steps to mitigate climate change, and on that basis, the implementation of the carbon tax was widely anticipated.
- A carbon tax could be implemented and enforced without the need for a complex new regulatory regime and would provide an immediate carbon price signal. In addition, as the Minister has pointed out, revenue from a carbon tax could support the R&D of alternative green energy solutions and ease any regressive effects of the tax.
- Singapore's approach of widely consulting with affected parties and its stated commitment to ease the transition should facilitate successful implementation.

Allowing the Approved Building Project (ABP) scheme to lapse

The Property Tax (Exemption of Land under Development) Order 2001 (ABP scheme) grants qualifying projects a maximum of 3 years of property tax exemption during the project's construction period.

The period of exemption starts from the date of Commencement of Foundation Works (CFW) for the building project to the earlier of (i) the first Temporary Occupation Permit date obtained for the project, or (ii) 3 years from the CFW date.

Proposed

The scheme will be allowed to lapse after 31 March 2017.

Our view

- The ABP scheme provides an exemption for property tax on vacant land set aside for high-value, large-scale building projects. It was introduced with the aim of attracting strategic building projects which had the potential to create substantial economic spin-offs and benefits for Singapore.
- In its rationale for allowing the ABP scheme to lapse, the MoF has indicated that since property tax is a tax on property ownership, such property taxes should apply when the land is being developed.
- In Budget 2017, the Minister had highlighted that the Government would be investing heavily into several significant and critical economic infrastructure projects. For example, he spoke about the new Changi Airport Terminal 5 to deepen Singapore's connectivity to global markets; the Jurong Innovation District that would provide an exciting development to live and work in; and also the growth cluster in Punggol co-locating cyber security and digital industries, which will have industry collaborations with the Singapore Institute of Technology.
- It appears that in view of the Government's plans for major infrastructure projects which are designed to create economic spin-offs and benefits for Singapore, the need to attract additional building projects may no longer be critical in the already land-scarce nation and hence the ABP scheme has been allowed to lapse.

Extension of Additional Special Employment Credit (ASEC)

The Special Employment Credit (SEC) was introduced in Budget 2011 to enhance the employability of older Singaporean workers. To further encourage businesses to voluntarily re-employ older Singaporean workers, the SEC was enhanced in Budget 2015 with the introduction of ASEC.

Presently, businesses that hire Singaporean workers aged 65 and above will receive SEC of 8% and ASEC of 3% (totalling 11%) of the wages of employees who earn $3,000 or lower per month. A lower quantum of SEC and ASEC is provided for eligible employees with a monthly wage above $3,000 and below $4,000.

Proposed

The Minister has proposed to extend the ASEC for another 2.5 years, from 1 July 2017 to 31 December 2019.

The extended ASEC will be applicable to eligible employees who are on the payroll from 1 July 2017 to 31 December 2019. The extended ASEC will be paid twice a year together with the SEC; for example, in March 2018 for work done from July 2017 to December 2017 and September 2018 for work done from January 2018 to June 2018.

In addition, the Minister has proposed to double the monthly SEC and ASEC provided to businesses that hire Persons with Disabilities (PWDs), subject to a monthly cap of $330 per PWD.

Our view

- The extension of ASEC is a welcome move for businesses that employ older workers. It demonstrates the Government's continued efforts in providing support to businesses that employ older Singaporean workers.
- With Singapore's falling birth rate and rapidly ageing population, the labour force growth is expected to fall year-on-year. The Government should consider making the ASEC a permanent feature and further enhancing it to make it more attractive for businesses to employ older Singaporean workers. This would greatly encourage businesses to undertake the voluntary re-employment of older Singaporean workers to sustain our labour force.
- With the re-employment age set to be raised from 65 to 67 with effect from 1 July 2017, the Minister introduced a transitional measure to allow Singaporean workers who are 65 or older as of 1 July 2017 to continue to be regarded as eligible employees. Employees who are below 65 as of 1 July 2017 would become eligible employees only in the month they turn 67.

Changes to Foreign Worker Levy (FWL)

The FWL is a pricing control mechanism used to regulate the demand for foreign workers in Singapore. An employer who employs any foreign worker under a Work Permit or Special Pass is required to pay the monthly FWL at the prevailing rate.

Proposed

The Minister has proposed the following:

- S Pass Holders: Levy rates for all tiers will be kept unchanged at 1 July 2016 rates as previously announced in Budget 2016.
- Work Permit Holders:
  - Construction Sector: Levy rates for Basic Tier R2 workers will be raised from the current $650 to $700 on 1 July 2017 as previously announced in Budget 2015. The rates will apply up to 30 June 2019.
  - Marine and Process Sectors: Levy rates will be kept unchanged for one more year, from 1 July 2017 to 30 June 2018.
  - Manufacturing and Services Sectors: No change for 2017.

The current levy rates for S Pass Holders previously announced in Budget 2016 which continue to apply are summarised as follows:

Table 1: S Pass Holders Levy schedule

Tier (Sector)	Sector Dependency Ratio (DR)	Levy Rates ($) From 1 July 2016
Basic Tier (All)	≤10%	330
Tier 2 (Services)	10-15%	650
Tier 2 (Other Sectors)	10-20%	650

The revised rates for Work Permit Holders are summarised as follows:

Table 2: Work Permit Holders Levy schedule

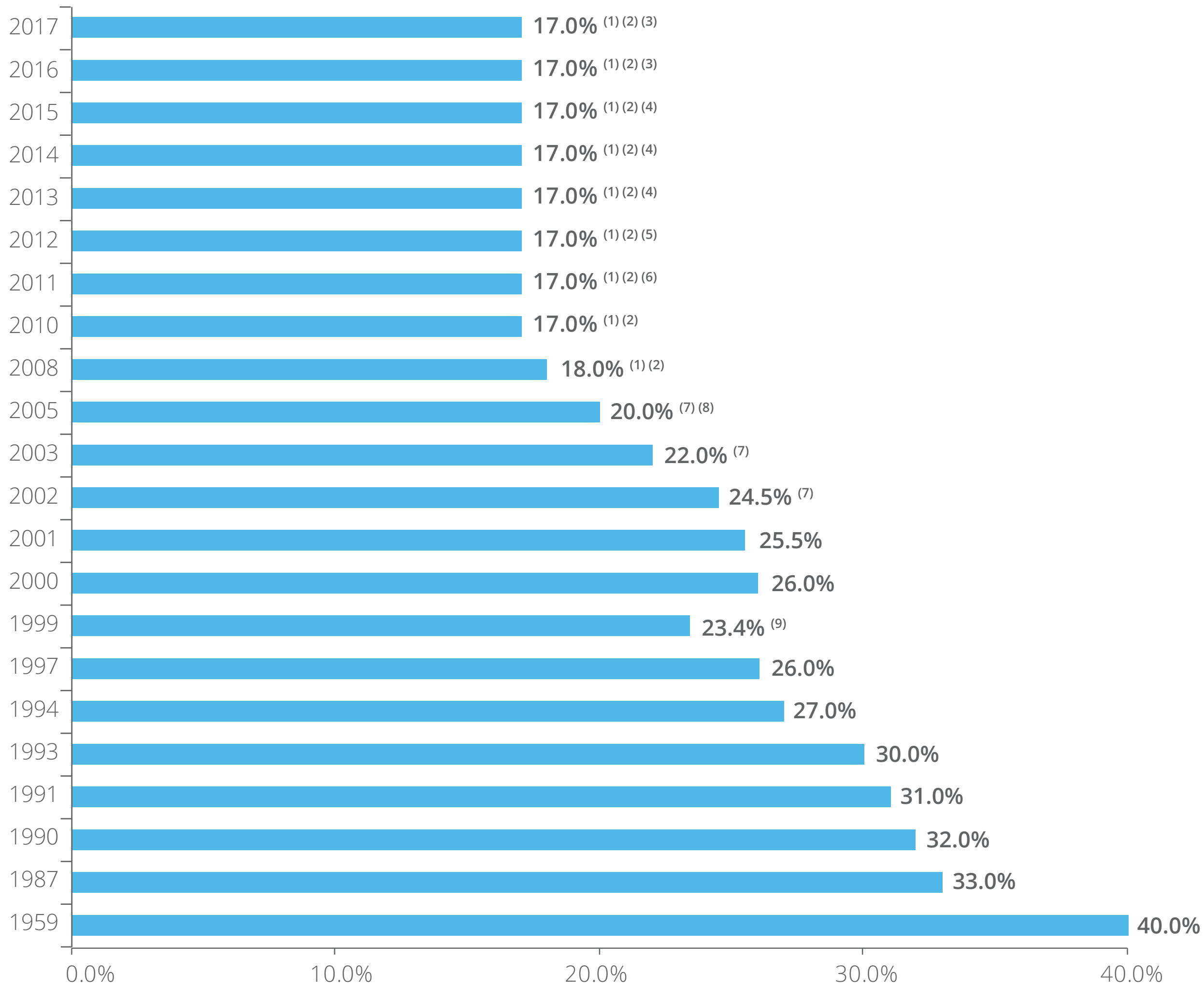
Sector	Tier	Sector Dependency Ratio (DR)	Levy Rates ($) (R1/R2) Current	Levy Rates ($) (R1/R2) 1 July 2017	Levy Rates ($) (R1/R2) 1 July 2018
Construction	Basic Tier	≤87.5%	300/650	300/700	300/700
	MYE-Waiver		600/950	600/950	600/950
Services	Basic Tier	≤10%	300/450	300/450	
	Tier 2	10-25%	400/600	400/600	
	Tier 3	25-40%	600/800	600/800	
Marine	Basic Tier	≤83.3%	300/400	300/400	
Process	Basic Tier	≤87.5%	300/450	300/450	
	MYE-Waiver		600/750	600/750	
Manufacturing	Basic Tier	≤25%	250/370	250/370	
	Tier 2	25-50%	350/470	350/470	
	Tier 3	50-60%	550/650	550/650	

Our view

- In line with the Government's efforts to improve labour efficiency through innovation, the increased levy rate in the Construction Sector would hopefully encourage less reliance of the sector on foreign labour.
- It is not surprising that the Government has continued to defer the levy hikes for Work Permit Holders in the Marine and Process Sectors, given the continued cyclical weakness in these sectors.
- Amid the lacklustre economic growth in Singapore, where companies are increasingly tightening budgets to stay competitive, the decision to keep FWL largely unchanged will certainly be welcomed by businesses, especially SMEs.

Appendix A

Singapore corporate tax rates
For the YAs 1959 to 2017



(1) 75% of first $10,000 and 50% of next $290,000 of chargeable income are exempt from tax.

(2) For qualifying new companies, the first $100,000 of chargeable income and 50% of the next $200,000 of chargeable income are exempt from tax for any of the first 3 consecutive YAs falling within the period from YA 2008 onwards.

(3) A corporate income tax rebate at 50% of the tax payable up to a maximum rebate of $20,000. ($25,000 for YA 2017)

(4) A corporate income tax rebate at 30% of the tax payable up to a maximum rebate of $30,000.

(5) A one-off SME cash grant of 5% of revenue, capped at $5,000.

(6) A one-off corporate income tax rebate or SME cash grant computed at the higher of:
- 20% of YA 2011 corporate income tax payable, capped at $10,000 (corporate income tax rebate); or
- 5% of revenue, capped at $5,000 (SME cash grant).

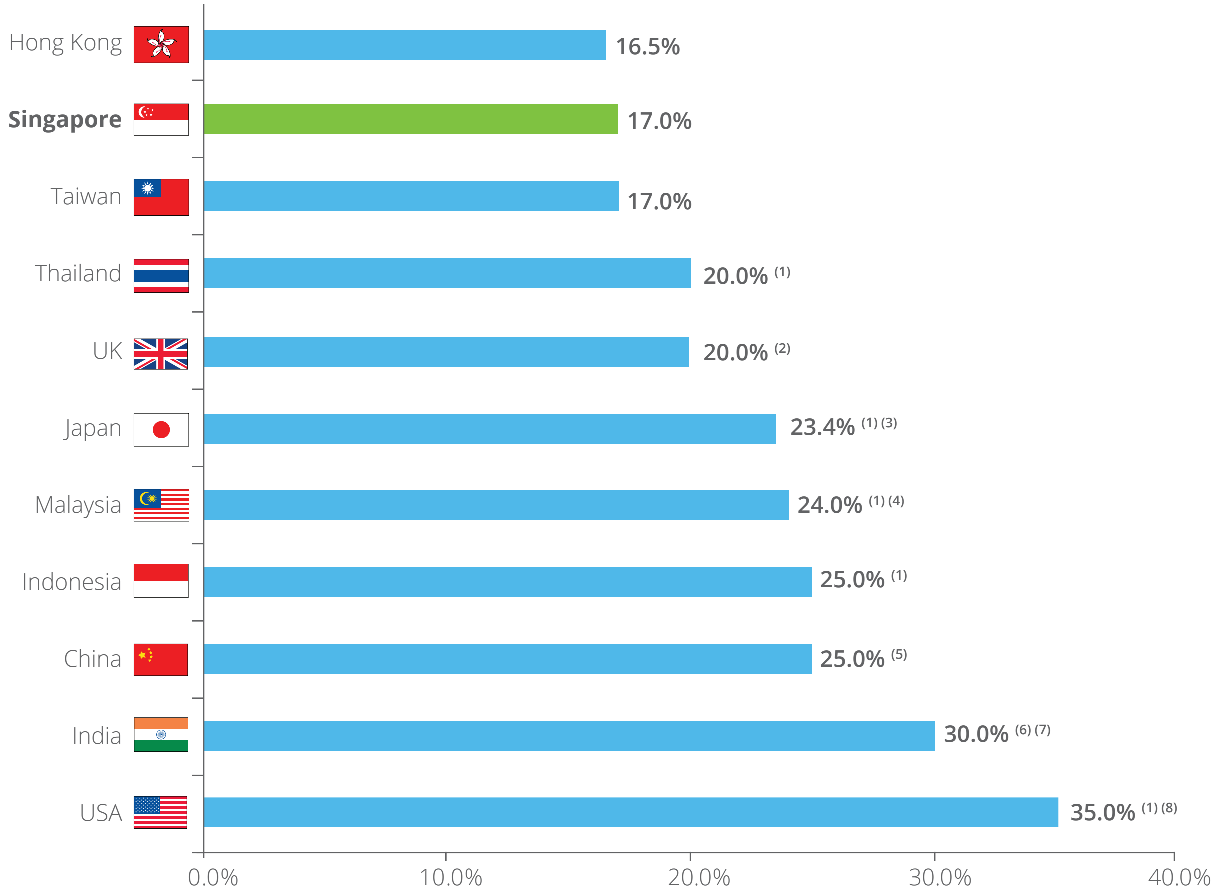
(7) 75% of first $10,000 and 50% of next $90,000 of chargeable income are exempt from tax.

(8) For qualifying new companies, the first $100,000 of chargeable income is exempt from tax for any of the first 3 consecutive YAs falling within the period from YA 2005 onwards.

(9) Effective tax rate (net of 10% tax rebate).

Appendix B

Comparison of current corporate tax rates in selected countries

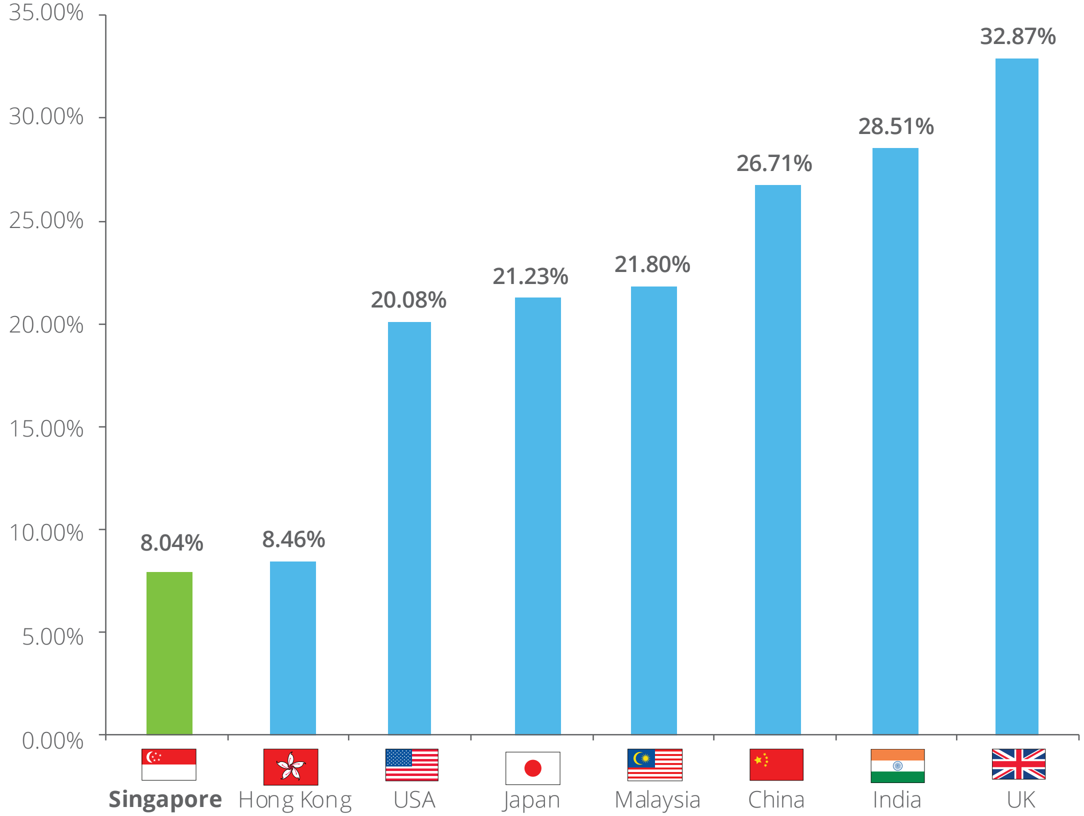


(1) Lower rates of tax apply to income below certain levels.
(2) Reducing to 19% from 1 April 2017 and 17% from 1 April 2020.
(3) After surtax, the effective tax rate is approximately 30%.
(4) Based on the Malaysia Budget 2017, corporate tax rate of 24% is proposed to remain for YA 2017 and YA 2018. It is also proposed that the corporate tax rate be reduced further (to 20%-23% depending on the percentage point reduction) if the percentage of increase in chargeable income as compared to the immediate preceding YA is at least 5%.
(5) A 10% rate (subject to meeting certain requirements) or 20% rate applies to small-scale enterprises and 15% rate applies to state-encouraged new and high-technology enterprises.
(6) 40% for foreign companies; both rates exclude surcharge and education cess which could range in aggregate from 2% to 12%.
(7) Based on the India Budget 2017, corporate tax rate is proposed to be reduced to 25% for small and medium companies with an annual turnover of up to INR500million in FY 2015-2016 (excluding surcharge and education cess).
(8) After other state and local income taxes, the total maximum effective tax rate is approximately 39.5%.

Appendix C

Comparative personal effective tax rates for YA 2017

Employee married with 2 children
Gross annual remuneration $200,000



Appendix D

Rates of income tax
For resident individuals with effect from YA 2017*

	Chargeable Income $	Tax Rate %	Tax $
On the first	20,000	0.00	0
On the next	10,000	2.00	200
On the first	30,000		200
On the next	10,000	3.50	350
On the first	40,000		550
On the next	40,000	7.00	2,800
On the first	80,000		3,350
On the next	40,000	11.50	4,600
On the first	120,000		7,950
On the next	40,000	15.00	6,000
On the first	160,000		13,950
On the next	40,000	18.00	7,200
On the first	200,000		21,150
On the next	40,000	19.00	7,600
On the first	240,000		28,750
On the next	40,000	19.50	7,800
On the first	280,000		36,550
On the next	40,000	20.00	8,000
On the first	320,000		44,550
Excess over	320,000	22.00	

* A personal income tax rebate of 20%, capped at $500, will be granted to resident individuals for YA 2017

Appendix E

Personal reliefs for YA 2017

Earned income relief

Age	Earned income relief	Handicapped earned income relief
	Lower of actual earned income and	
Below 55	$1,000	$ 4,000
55 to 59	$6,000	$10,000
60 and above	$8,000	$12,000

Spouse relief

$2,000

Relief is granted to the taxpayer who is supporting a non-working spouse with an annual worldwide income not exceeding $4,000.

Taxpayers cannot claim spouse relief for maintaining their former spouses.

Handicapped spouse relief

$5,500

There is no income threshold condition in respect of the handicapped spouse.

Taxpayers cannot claim handicapped spouse relief for maintaining their former spouses.

Parent relief

Maximum of two parents*	Parent relief (per dependant)	Handicapped parent relief (per dependant)
Living in the same household	$9,000	$14,000
Not living in the same household	$5,500	$10,000

* Taxpayer's or spouse's parents, grandparents or great-grandparents who are living in Singapore and are 55 years old and above. In addition, the dependants must not have an annual worldwide income of more than $4,000.

There is no income threshold condition in respect of handicapped dependant.

Where more than one taxpayer is claiming the same relief on the same dependant, the relief shall be apportioned by the IRAS based on the claimants' agreed proportion or equally among all the claimants.

Grandparent caregiver relief (GCR)

$3,000

Applicable to working mothers (including widows and divorcees) whose child is being looked after by their parent/parent-in-law/grandparent/grandparent-in-law or ex-spouse's parent/grandparent living in Singapore.

The child must be a Singapore citizen aged 12 years or below at any time during the year preceding the YA of the claim.

Handicapped siblings relief $5,500

Each dependant must have lived with the taxpayer in the same household. If not, the taxpayer must have incurred at least $2,000 per annum in the maintenance of each dependant.

There is no income threshold condition for the handicapped sibling.

Where more than one taxpayer is claiming the same relief on the same dependant, the relief shall be apportioned based on the claimants' agreed proportion.

Child relief

	Qualifying Child Relief (QCR)	Handicapped Child Relief (HCR)
Per Child	$4,000	$7,500

- Child's annual worldwide income shall not exceed $4,000.
- There is no income threshold condition for the handicapped child.

Working mother's child relief (WMCR)

	Quantum of relief
1st child	15% of earned income
2nd child	20% of earned income
3rd child and subsequent children	25% of earned income

WMCR is capped as follows:

- Maximum of $50,000 per child (QCR/HCR + WMCR); and
- Up to 100% of the mother's earned income for all qualifying children.

QCR/HCR will be claimed first, and WMCR will be limited to the remaining cap balance.

Only applicable to working mothers (including widows and divorcees) with children who are Singapore citizens.

The child's annual worldwide income shall not exceed $4,000.

Parenthood tax rebate (PTR)

	Quantum of rebate
1st child	$5,000
2nd child	$10,000
3rd child and subsequent children	$20,000 per child

Different qualifying criteria under PTR apply for the child, depending on whether the child is legitimate, illegitimate or adopted.

Special tax rebate (STR)

Previous claimants of STR whose STR balances have not been fully utilised as at 1 January 2005 can continue to draw on the STR balance until the balance is fully utilised.

Approved provident fund/life insurance relief

Compulsory contributions to CPF

Employees	Statutory CPF relief
Ordinary wages	Statutory contributions fully allowed
Additional wage ceiling	Restricted to statutory contributions on total wages of $102,000 less total annual ordinary wages subject to CPF contributions in the year

Voluntary contributions to CPF

	Maximum amount of voluntary contribution relief
Employee or self-employed	$37,740

Voluntary contributions to Medisave account

With effect from YA 2017, voluntary contributions made to a taxpayer's Medisave account may be claimed as a relief, subject to a cap of $37,740 less total mandatory contributions per YA and the prevailing Basic Healthcare Sum (BHS) limits.

Life insurance premiums

Where compulsory CPF contributions are less than $5,000, the taxpayer may claim qualifying life insurance premiums on his or his wife's life as a relief; however, the total relief (for both CPF contributions and life insurance premium together) is subject to a cap of $5,000.

CPF cash top-up

	Quantum of relief
Cash top-up to taxpayer's parents'/parents-in-law or taxpayer's grandparents'/grandparents-in-law, non-working spouse's or siblings' retirement accounts or special accounts under CPF Minimum Sum Topping-Up Scheme regardless of the recipients' age • Non-working spouse or siblings must not have a worldwide income of more than $4,000. Income threshold does not apply to the handicapped spouse or handicapped siblings. • Recipients must be Singapore citizens or SPRs.	$7,000 (Maximum)
Cash top-up by taxpayer or his employer to his retirement account or special account under the CPF Minimum Sum Topping-Up Scheme, regardless of the recipients' age	$7,000 (Maximum)

Supplementary retirement scheme

Employees and self-employed	Maximum contributions per year (with effect from YA 2017)
Singapore Citizens or SPRs	$15,300
Foreigners	$35,700

Course fees relief

	Quantum of relief
Fees (registration fees, examination fees, tuition fees) for courses, seminars and conferences: • Relating to one's current trade, business, profession, vocation or employment in 2016 • Leading to an approved academic, professional or vocational qualification in 2016	$5,500 (Maximum)
Fees for courses which are not directly related to one's current trade, business, profession, vocation or employment only if such courses resulted in a career switch to a relevant trade, business, profession, vocation or employment within a period of 2 years of assessment. The claim can be made within 2 years from the YA in which the taxpayer completed the courses	$5,500 (Maximum)

National Serviceman (NSman) relief

	Quantum of relief
Active NSman	$3,000
Non-active NSman	$1,500
Each parent of active NSman who are Singapore citizens and entitled to NSman relief	$750
Wives or widows of active NSman who are Singapore citizens and entitled to NSman relief	$750
NS key command and staff appointment holders (in addition to basic NSman relief)	$2,000

Foreign maid levy relief

	Quantum of relief
For YA 2017	$6,360 (Maximum)

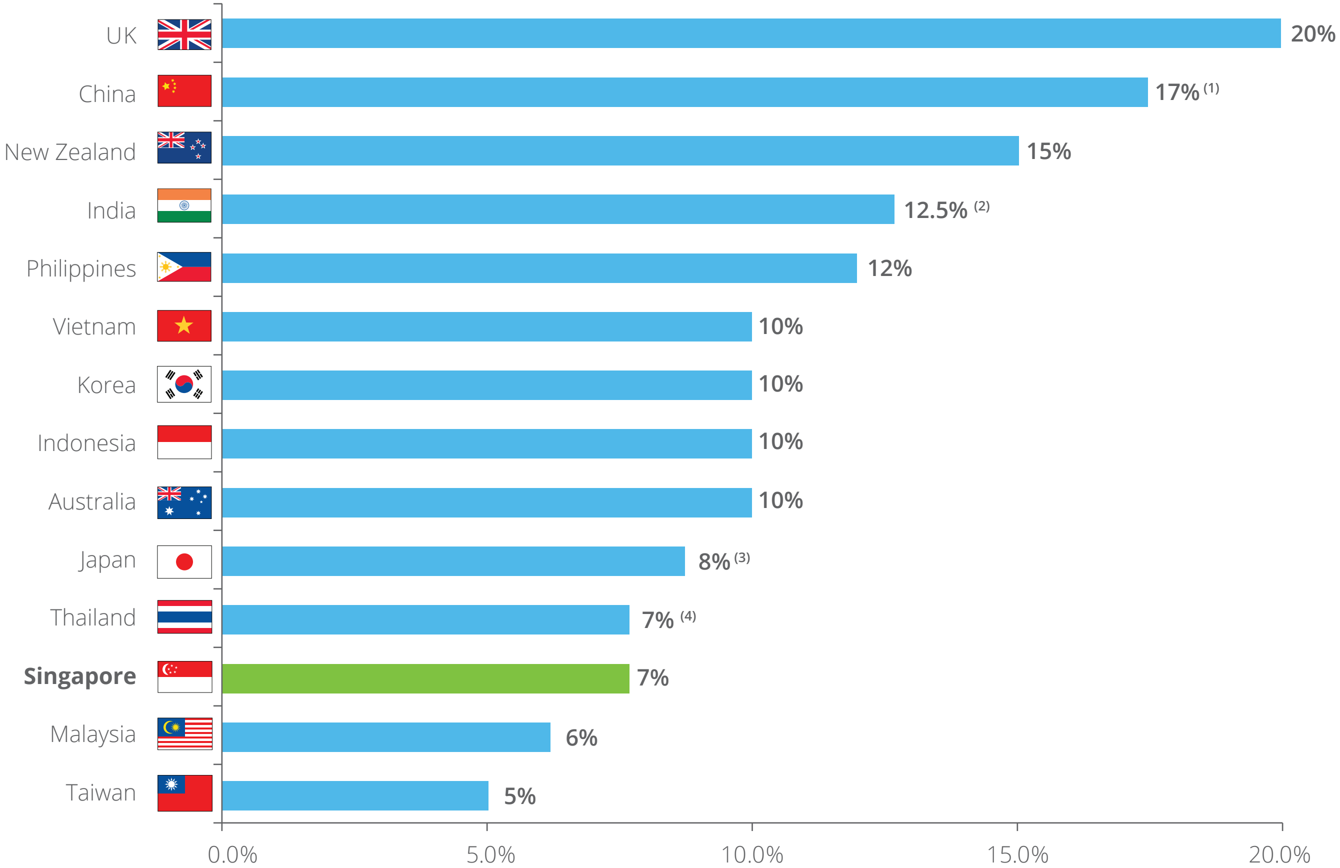
Claimable against the earned income of a married or divorced woman and a widow with children in respect of whom child relief is available.
(Twice the annual levy paid for 1 foreign maid)

Personal Income Tax Relief Cap (with effect from YA 2018)

With effect from YA 2018, the total amount of personal income tax reliefs an individual can claim is capped at $80,000 per YA.

Appendix F

Comparative standard VAT/GST rates for 2017



(1) China has implemented its VAT Reform across the last remaining sectors i.e., construction, real estate, financial services and consumer services with effect from 1 May 2016 and has replaced Business Tax with a modified form of VAT (rates vary up to 17% depending on type of business).

(2) The India rate is indicative only - India has a range of Indirect Taxes that vary from state to state. India has announced that it expects to implement GST in 2017.

(3) Japan increased the Japanese Consumption Tax (JCT) rate to 8% on 1 April 2014 and proposes to further increase it to 10% from 1 October 2019.

(4) The reduced 7% rate in Thailand was extended until 30 September 2017. The VAT rate will revert to 10% from 1 October 2017.

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