Singapore Budget 2019 Commentary
Shaping the future
## Common abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>B</td>
<td>Billion</td>
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<tr>
<td>CPF</td>
<td>Central Provident Fund</td>
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<td>EDB</td>
<td>Economic Development Board</td>
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<td>FWL</td>
<td>Foreign Worker Levy</td>
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<td>GST</td>
<td>Goods &amp; Services Tax</td>
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<tr>
<td>IRAS</td>
<td>Inland Revenue Authority of Singapore</td>
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<td>ITA</td>
<td>Income Tax Act</td>
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<td>M</td>
<td>Million</td>
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<tr>
<td>MAS</td>
<td>Monetary Authority of Singapore</td>
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<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
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<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
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<tr>
<td>%</td>
<td>Percent</td>
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<tr>
<td>PE</td>
<td>Permanent Establishment</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<td>$</td>
<td>Singapore Dollar</td>
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<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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<td>SPR</td>
<td>Singapore Permanent Resident</td>
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<tr>
<td>WHT</td>
<td>Withholding Tax</td>
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<tr>
<td>YA</td>
<td>Year of Assessment</td>
</tr>
</tbody>
</table>
# Singapore Budget 2019 Commentary

## Contents

### Business Tax
- Corporate Income Tax rate and rebate 8
- Extend the Writing Down Allowance (WDA) for acquisition of qualifying Intellectual Property Rights (IPRs) under section 19B of the ITA 9
- Extend the 100% Investment Allowance (IA) under the Automation Support Package (ASP) 10
- Extend the income tax concessions for Singapore-listed Real Estate Investment Trusts (S-REITs) 10
- Extend the income tax concessions for Singapore-listed Real Estate Investment Trusts Exchange-Traded Funds (REITs ETFs) 11
- Extend and refine the tax incentive schemes for funds managed by Singapore-based fund managers (Qualifying Funds) 12
- Lapse the Designated Unit Trust (DUT) scheme 14
- Lapse the Approved Unit Trust (AUT) scheme 14

### Personal Tax
- Personal Income Tax rates 15
- Personal Income Tax rebate for resident individual taxpayers for YA 2019 15
- Enhance the Grandparent Caregiver Relief (GCR) 16
- Lapse the Not Ordinarily Resident (NOR) scheme 17

### Indirect Tax
- Extend the existing enhanced GST concessions for S-REITs and Singapore-listed Registered Business Trusts (S-RBTs) 18
- Recovery of GST for Qualifying Funds 18

### Others
- Carbon tax implementation 19
- Restructure diesel taxes 20
- Tighten GST import relief for travellers 22
- Tighten duty-free allowance for liquor products 23
- Extend Special Employment Credit (SEC) and Additional Special Employment Credit (ASEC) 24
- Maintain Foreign Worker Levy (FWL) and reduce Dependency Ratio Ceiling (DRC) 25
- Lapse the Property Tax (Tourist Projects) Order 26

### Appendices
- A—Singapore Corporate Income Tax rates for the YAs 1959 to 2019 27
- B—Comparison of current Corporate Income Tax rates in selected countries 28
- C—Comparative personal effective tax rates for YA 2019 29
- D—Comparative personal effective tax rates for YA 2019—Singapore versus Hong Kong 30
- E—Rates of income tax for resident individuals for YA 2019 31
- F—Personal reliefs for YA 2019 32
- G—Comparative standard VAT/GST rates for 2019 36

### Contacts
- 38
Foreword

The Finance Minister, Mr Heng Swee Keat, delivered his fourth Budget speech on 18 February 2019. The focus on driving innovation and growth among enterprises; increasing productivity of Singaporean workers; and strengthening the social framework; encapsulates the Budget 2019’s strategic plan of “building a strong, united Singapore”.

The number “4” seems to play a significant importance in Budget 2019. In the earlier part of his speech, the Minister identified the fourth major force that is gaining traction in the global environment; the decline in support for globalisation. This is on top of the 3 major shifts mentioned previously in Budget 2018, namely a tilt towards Asia, rapid technological advancements and changing demographics. The 4 forces identified are intertwined and have their upsides and downsides at global and regional levels. Domestically, Singapore remains committed to addressing long-term challenges of ageing, social mobility, economic transformation, and climate change as we chart our path forward.

Notably, to support the start-ups ecosystem, there is a clear focus on support schemes, which are non-tax related, such as providing customised assistance, better financing options and supporting technology adoption. The Government continues to recognise the importance of start-ups and the roles start-ups play, or will play, in Singapore’s economy. Several changes were made to ensure easy facilitation to such schemes.

The introduction of the Merdeka Generation Package, which will benefit half a million Singaporeans, ensures that “no one gets left behind” even as the country prospers. With the advent of the Pioneer Generation Package, the benefits under the Merdeka Generation Package bear similar features as its predecessor. It is a form of gratitude for the cohort who has valiantly lived through the independence struggle and played a critical role in our nation’s development.

This is also a year of celebration as Singapore marks her bicentennial since the arrival of Sir Stamford Raffles in Singapore. One of the initiatives announced, to commemorate this milestone, is the introduction of a Bicentennial Bonus. This is consistent with the Government’s policy of sharing fiscal surpluses with Singaporeans. There are various components under this Bicentennial Bonus to cater for every Singaporean, in particular, lower-income Singaporeans.

Importantly, in the Budget 2019 speech, the Minister has reiterated Singapore’s commitment to keep the overall tax burden low despite the need to raise revenues in the future to fund increasing expenditure. The Government recognises that a competitive tax regime is a key anchor to our economic growth. Tax has always been one of the cornerstones of Singapore’s fiscal policies to attract and retain foreign investments. This underpins Singapore’s intention to encourage foreign companies to anchor their operations in Singapore, thereby creating economic spin-off benefits, such as jobs and revenue.

Lastly, Singapore continues to chart her course forward towards a sustainable future with the Budget 2019 announcements. The Government’s approach remains consistent with the previous Budgets—it continues to tackle long-term challenges by planning ahead and ensuring fiscal surpluses are shared with Singaporeans.

The Budget Commentary is provided in the ensuing pages—Happy reading!

Low Hwee Chua
Regional Managing Partner
Southeast Asia Tax & Legal
Deloitte Southeast Asia
Bicentennial Package

- GST vouchers - Cash (Bicentennial Payment) up to $300 will be given to lower-income Singaporeans aged 21 & above in 2019
- Lower-income workers (aged 36 & above in 2019) who received Workfare Income Supplement (WIS) payments will get a cash Workfare Bicentennial Bonus. They will receive an additional 10% of their WIS payment for work year 2018, with a min payment of $100
- Singaporeans 50 to 64 years old in 2019 who have less than $60,000 of retirement savings in their CPF accounts will receive one-off CPF top-up of up to $1,000. This will be credited into the Special Account for members aged 50 to 54, and the Retirement Account for members aged 55 to 64. Those who qualify for Workfare will also benefit from WIS enhancements.
- A dollar-for-dollar matching for donations made to Institutions of a Public Character between 1 Apr ’19 to 31 Mar ’20 under the Bicentennial Community Fund
- A Personal Income Tax Rebate of 50% of tax payable, subject to a cap of $200, will be granted to all resident individual taxpayers for YA 2019

Corporate tax

- No change to Corporate Income Tax rate
- Writing down allowance for acquisition of qualifying PPR will be extended to cover qualifying capital expenditure acquired on or before the last day of the basis period for YA 2025 instead of YA 2020
- Automation Support Package which provides 100% Investment Allowance on the approved capital expenditure net of grants & capped $10M per project on projects approved by Enterprise Singapore during 1 Apr 16 to 31 Mar ’19 will be extended to cover the approved projects from 1 Apr ’19 to 31 Mar ’21
- Income tax concessions for S-REITs and REITs ETFs will be extended until 31 Dec ’25
- GST remission for S-REITs and Singapore-listed Registered Business Trusts in the infrastructure business, ship leasing & aircraft leasing sectors will be extended until 31 Dec ’25
- Tax incentive scheme for funds managed by Singapore-based fund managers, including concession to claim GST incurred on expenses at a fixed recovery rate, will be refined and extended until 31 Dec ’24

Education

- Primary & Secondary students will get one-off Edusave top-up of $150
- Students aged 17-20 will get up to $500 in their post-sec education accounts

Environment

- Raise excise duty for diesel by $0.10/litre to $0.20/litre
- Permanently reduce the annual special tax on diesel cars & taxis by $100 & $550 respectively
- Road tax rebates will be provided for commercial diesel vehicles: - 1 Aug ’21 to 31 Jul ’22: 100% road tax rebate - 1 Aug ’20 to 31 Jul ’21: 75% road tax rebate - 1 Aug ’21 to 31 Jul ’22: 50% road tax rebate
- Additional yearly cash grants of $1,600, $800, and $400 provided for running of school buses for the above periods respectively
- Additional yearly cash grants of $1,800, $900, and $500 provided to eligible diesel private hire and excursion buses that ferry students for the above periods respectively

Family

- From 1 Jan ‘20, the qualifying income cap for the WIS scheme will be raised from $2,000 to $3,300/mth. Max annual payouts will increase from $3,600 to $4,000
- A Medisave top-up of $100 a yr from 2019 to 2023 for ‘Sporeans who are aged 50 & above in 2019, & who do not receive the Merdeka Generation Package (MGP) or the Pioneer Generation Package (PGP)
- Eligible ‘Sporean households living in HDB flats will continue to receive rebates to offset between 1.5 & 3.5 months of Service & Conservancy Charges (S&CC)
- With effect from Income year 2019, working mothers may claim Grandparent Caregiver Relief in respect of a handicapped & unmarried dependent child

Security & Defense

- About 30% of the Government’s total expenditure this year will be set aside to support its defense, security, & diplomacy efforts
- The Home Team Science & Technology Agency will be set up by the Ministry of Home Affairs to develop science & technology capabilities
- Digital Defence has been incorporated as the 6th pillar of Total Defence

Support for businesses

- The extra announced PWP increases for Marine Shipyard & Process sectors will be deferred for another year
- Enterprise Development Grant will be extended for 3 more years, up to 31 Mar ’22
- Extension of Special Employment Credit (SEC) scheme & Additional SEC for another year until 31 Dec ’20
- SME Working Capital Loan scheme will be extended for another 2 more years, until Mar ’21

GST & Duty Free

- GST import relief is tightened for travellers on the first $100 (down from $150) & $250 (down from $400) of the value of goods bought overseas by travellers who spend less than 48 hrs or more than/ equal to 48 hrs outside Singapore respectively
- Duty-free allowance is tightened for liquor products & will be reduced from 3 litres to 2 litres with effect from 1 Apr ‘19

Health Care

- Community Health Assist Scheme will be extended to cover all ‘Sporeans for chronic conditions, regardless of income
- A new $5 (including $28 last yr) Long-Term Care Support Fund will be set up to help fund CareShield Life subsidies and long-term care support measures

Innovation

- Launch of the $100M SME Co-Investment Fund ITI to continue supporting firms to scale up internationally
- SMEs Go Digital Programme will be expanded through developing Industry Digital Plans to more sectors & extending support to a wider range of digital solutions
- Productivity Solutions Grant will be extended to 31 Mar ’23. Eligible enterprises can also receive a subsidy for up to 70% of their out-of-pocket training expenses (net of other government subsidies), capped at $10,000/enterprise
- Companies participating as demand users & technology solutions providers under the Digital Services Lab may apply for funding support of up to 70% of qualifying costs

Manpower

- New Professional Conversion Programmes (PCPs) relating to block-chain, embedded software & prefabrication to prepare ‘Sporeans to move into new growth areas
- Extension for 2 years of the Career Support Programmes (provides wage support for employers to hire eligible ‘Sporeans who are mature & retrenched, or in long-term unemployment)
- Reduction in the Services sector Dependency Ratio Ceiling (DRC) from 40% to 38% on 1 Jan ’20 & from 38% to 35% on 1 Jan ’21
- Reduction in the Services sector 5-Pass DRC from 15% to 13% on 1 Jan ’20 & from 13% to 10% on 1 Jan ’21

Merdeka Generation

- Benefits will be extended to those born in 1949 or earlier but missed out on the PSG if they obtained citizenship by 1960
- Merdeka Generation (MG) seniors will get MediSave top-up of $200/ year for 5 years (2019 to 2023) & a one-time $100 top-up to their Prudential Silver cards
- MG seniors will receive additional subsidies for their Medishield Life premiums, starting from 5% increasing to 10% after they reach 75
- Additional participation incentive of $1,500 for MG seniors who join CareShield Life, when available in 2021

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Business Tax

Corporate Income Tax rate and rebate
The Minister did not propose any changes to the Corporate Income Tax rate—it remains at 17%. In addition, a partial tax exemption is available on a company’s first $300,000 of normal chargeable income (reducing to the first $200,000 with effect from YA 2020 as announced in Budget 2018).

Companies also enjoy a Corporate Income Tax rebate of 20% of tax payable, capped at $10,000 in YA 2019.

Our view
• Although there has been a trend of reducing corporate income tax rates globally to attract investments, Singapore’s Corporate Income Tax rate has remained at 17% since YA 2010. This indicates the Government’s confidence that Singapore’s Corporate Income Tax rate remains sufficiently competitive to help draw foreign investments.

• Given the global trend of falling corporate income tax rates, there is limited scope to raise Singapore’s current rate, as it seeks to remain competitive and attractive to businesses. To ensure a sustainable revenue base to meet growing expenditure without affecting Singapore’s attractiveness, the Government announced in Budget 2018 an increase in GST rate from 7% to 9% sometime in 2021 to 2025. Consequently, there is unlikely to be a change to the Singapore’s Corporate Income Tax rate at 17% in the near future.

• The Corporate Income Tax rebate of 20% of tax payable, capped at $10,000 in YA 2019, has been on a decreasing trend since YA 2013. At first glance, this may seem to be counter-intuitive to the Government’s initiatives to support local SMEs. However, this is perhaps in recognition that some of the intended recipients of the rebate, which are generally start-up companies and SMEs, may not have sufficient taxable profits to fully enjoy the rebate; and hence other targeted ways of supporting these start-up companies and SMEs could be more helpful.
Extend the Writing Down Allowance (WDA) for acquisition of qualifying Intellectual Property Rights (IPRs) under section 19B of the ITA

Under section 19B of the ITA, companies and partnerships are granted WDA on capital expenditure incurred in acquiring qualifying IPRs for use in its trade or business. The expenditure can be written down over 5, 10, or 15 years.

The qualifying IPRs are patents, trademarks, registered designs, copyrights, geographical indications, layout designs of integrated circuits, trade secrets or information that has commercial value, and grant of protection of plant varieties. “Trade secret” and “information that has commercial value”, and any work or subject matter to which the expression “copyright” relates, exclude the following:

a. Information of customers of a trade or business, such as a list of those customers and requirements of those customers, gathered in the course of carrying on that trade or business; and

b. Information on work processes (such as standard operating procedures), other than industrial information, or technique, that is likely to assist in the manufacture or processing of goods or materials.

The WDA is available for capital expenditure incurred in respect of qualifying IPRs acquired on or before the last day of the basis period for YA 2020.

Proposed

In recognition that IPRs are important creators and drivers of value in a knowledge-based economy, the WDA under section 19B will be extended for another 5 years to cover capital expenditure incurred in respect of qualifying IPRs acquired on or before the last day of the basis period for YA 2025.

Our view

- This is in line with the Government’s intention for Singapore to be the intellectual property hub of Asia and the move towards a digital economy.

- The Government may also consider reviewing and broadening the definition of qualifying IPRs. Data and customer information/users’ profiles are significant value drivers in digital businesses.

- Currently, to be eligible for WDA, the transferee (i.e., the company that acquires the IPRs) must acquire both the legal and economic ownership of the IPRs from the transferor (i.e., the person who sells the IPRs to the transferee), except for cases where approval for waiver from legal ownership has been granted by the EDB. Legal ownership means the legal assignment of the IPRs is granted to the transferee, while economic ownership means the future economic benefits attributable to the IPRs will accrue to the transferee. To further encourage businesses to acquire IPRs, the Government may wish to consider removing the requirement for legal ownership as it may not be commercially viable to transfer legal ownership of the IPR, particularly when it relates to a cross-border transfer. The acquisition of economic ownership of the IPR should similarly allow businesses to manage and exploit the IPR and create significant economic value.
Extend the 100% Investment Allowance (IA) under the Automation Support Package (ASP)
The ASP was introduced in Budget 2016 for a period of 3 years to support companies to automate, drive productivity, and scale up. The package includes 100% IA on the amount of approved capital expenditure, net of grants, on projects approved by Enterprise Singapore from 1 April 2016 to 31 March 2019. The approved capital expenditure is capped at $10M per project.

Proposed
To encourage companies in their automation, productivity, and scale-up efforts; the 100% IA under the ASP will be extended by another 2 years to cover projects approved by Enterprise Singapore from 1 April 2019 to 31 March 2021. The approved capital expenditure will remain capped at $10M per project.

Our view
- The ASP that was introduced in 2016 has helped many companies to automate their operations and raise productivity.
- The extension of the ASP and the 100% IA on approved capital expenditure should encourage more companies to embark on large-scale automation projects to achieve productivity gains.
- To increase the attractiveness of the incentive, perhaps the $10M expenditure cap per project could have been raised.

Extend the income tax concessions for Singapore-listed Real Estate Investment Trusts (S-REITs)
Currently, S-REITs are granted tax transparency if their trustees distribute at least 90% of their taxable income to unitholders in the same year in which the income is derived by the trustee.

S-REITs are granted the following income tax concessions:

a. Tax exemption on S-REITs distributions received by individuals, excluding individuals who derive any distribution:
   i. Through a partnership in Singapore; or
   ii. From the carrying on of a trade, business or profession;

b. 10% concessionary income tax rate for S-REITs distributions received by qualifying non-resident non-individual investors; and

c. Tax exemption on qualifying foreign-sourced income (i.e., foreign-sourced dividend income, interest income, trust distributions and branch profits) received by S-REITs and wholly-owned Singapore resident subsidiary companies of S-REITs, that is paid out of qualifying income or gains in respect of overseas property acquired on or before 31 March 2020 by the trustee of the S-REITs or its wholly-owned Singapore resident subsidiary company.

The income tax concessions above are scheduled to lapse after 31 March 2020.

Proposed
To continue to promote the listing of REITs in Singapore and to strengthen Singapore’s position as a REITs hub in Asia, the existing tax concessions for S-REITs will be extended until 31 December 2025.

The sunset clause for the tax exemption on S-REITs distributions received by individuals will be removed.

All other conditions for the income tax concessions remain the same.

The MAS will provide additional details of the changes by May 2019.
Extend the income tax concessions for Singapore-listed Real Estate Investment Trusts Exchange-Traded Funds (REITs ETFs)

Currently, REITs ETFs are granted the following income tax concessions:

a. Tax transparency treatment on the distributions received by REITs ETFs from S-REITs, which are made out of the latter’s specified income;

b. Tax exemption on such REITs ETFs distributions received by individuals, excluding individuals who derive any distribution:
   i. Through a partnership in Singapore; or
   ii. From the carrying on of a trade, business or profession; and

c. 10% concessionary income tax rate on such REITs ETFs distributions received by qualifying non-resident non-individual investors.

The income tax concessions are scheduled to lapse after 31 March 2020.

Proposed

The existing tax concessions for REITs ETFs will be extended until 31 December 2025.

The sunset clause for the tax exemption on REITs ETFs distributions received by individuals will be removed.

All other conditions for the income tax concessions remain the same.

The MAS will provide additional details of the changes by May 2019.

Our view

- Outside of Japan, the S-REITs sector is the largest in Asia. The tax enhancements are in line with the Government’s initiatives to strengthen Singapore’s position as a REITs hub in Asia, and these changes demonstrate the Government’s continual efforts and commitment in building an attractive tax regime for the S-REITs sector.

- The extension of the existing tax concessions for S-REITs and REITs ETFs until 31 December 2025 should continue to encourage the listing of REITs in Singapore. This is a welcome move especially by S-REITs sponsors and managers who have already shortlisted Singapore as an ideal and business friendly location to raise funds.

- The removal of the sunset clause for the tax exemption on S-REITs distributions, as well as on REITs ETFs distributions, received by individuals should provide certainty and a level playing field when individual investors are contemplating to invest in S-REITs, REITs ETFs, or other financial instruments, and assessing the potential returns on investments.
Extend and refine the tax incentive schemes for funds managed by Singapore-based fund managers (Qualifying Funds)

Qualifying Funds are granted the following tax concessions, subject to conditions:

a. Tax exemption on specified income (SI) derived from designated investments (DI); and

b. WHT exemption on interest and other qualifying payments made to non-resident persons (excluding PEs in Singapore).

Qualifying Funds comprise the following:

a. Basic tier funds (sections 13CA and 13R schemes); and

b. Enhanced tier funds (section 13X scheme).

To qualify as a basic tier fund, a fund has to meet certain conditions, including not having 100% of the value of its issued securities beneficially owned, directly or indirectly, by Singapore persons. “Singapore persons” include persons who are Singapore citizens, residents of Singapore, or PEs in Singapore.

Enhanced tier funds do not have the Singapore ownership restriction but are subject to additional conditions, such as the minimum fund size. For enhanced tier funds approved as a collective structure, the master fund in the approved structure can have up to 2 tiers of Special Purpose Vehicles (SPVs). Such SPVs must be wholly-owned (directly or indirectly) by the master fund and can only take the form of companies.

Separately, for real estate, infrastructure and private equity funds applying to be enhanced tier funds, the minimum fund size requirement to be met at the point of application may be determined based on the amount of committed capital (committed capital concession).

The schemes for Qualifying Funds are scheduled to lapse after 31 March 2019.

Proposed

To continue to grow the Singapore’s fund management industry, the tax concessions relating to Qualifying Funds will be extended to 31 December 2024.

The sections 13CA, 13R, and 13X schemes will also be refined to keep the schemes relevant and to ease compliance burden. The key refinements are as follows:

a. The condition that a basic tier fund must not have 100% of the value of its issued securities beneficially owned, directly or indirectly, by Singapore persons will be removed;

b. The enhanced tier fund scheme will be enhanced to (i) include co-investments, non-company SPVs and more than two tiers of SPVs, (ii) allow debt and credit funds to access the “committed capital concession”, and (iii) include managed accounts. A managed account is a dedicated investment account where an investor places funds directly with a fund manager without using a separate fund vehicle;

c. The list of DI will be expanded by removing the counter-party and currency restrictions, and including investments such as credit facilities and advances, and Islamic financial products that are commercial equivalents of DI. The condition for unit trusts to wholly invest in DI will be removed;

d. The list of SI will be enhanced to include income in the form of payments that fall within the ambit of section 12(6) of the ITA; and

e. Qualifying non-resident funds under sections 13CA and 13X schemes will be able to avail themselves of the 10% concessional tax rate applicable to qualifying non-resident non-individual investors when investing in S-REITs and REITs ETFs.

The removal of condition in (a) will be effective from YA 2020.

The enhancements in (b) will apply on and after 19 February 2019.

The enhancements in (c) and (d) will apply to income derived on and after 19 February 2019.

The enhancements in (e) will apply to S-REITs and REITs ETFs distributions made during the period from 1 July 2019 to 31 December 2025.

The MAS will provide additional details of the changes by May 2019.
Our view

• With the tax exemption schemes expiring in less than 2 months, the announced 5-year extension until 31 December 2024 is definitely welcomed. Whilst the extension is not unexpected, fund managers in Singapore and investors should now have the legislative certainty. The announced extension and refinements should strengthen Singapore’s established position as a regional fund management hub, and could facilitate the access of fund managers based in Singapore to pan-Asian market and investor base.

• The removal of the condition that a basic tier fund must not have 100% of the value of its issued securities beneficially owned, directly or indirectly, by Singapore persons is welcomed. Unforeseen withdrawals of investments by non-Singapore person investors or changes in the status of investors from non-Singapore persons to Singapore persons should now not affect the tax exemption status of the basic tier fund. This could provide greater certainty to investors and fund managers. In addition, it could allow increased flexibility for Singapore family office fund structuring.

Despite this change, Singapore non-individual investors whose ownership levels in the basic tier funds exceed certain thresholds may still be subject to financial penalties. Fund managers would still be required to monitor the holdings of the Singapore non-individual investors in their basic tier funds.

The decision to remove the Singapore ownership condition from YA 2020 would avoid subjecting existing basic tier funds to 2 different set of conditions in the same basis period, and would help ease compliance burden of the fund.

• We are also pleased to see that the DI and SI lists under these tax exemption schemes have been refined and expanded. This is consistent with the Government’s commitment to continually review the lists for relevance and to ease compliance burden of the fund.

The removal of the counterparties and currency restrictions from the DI list should ease the compliance burden of funds in identifying whether investments are made with qualifying counterparties and/or qualifying currencies.

The expansion of the DI list to include Islamic financial products that are commercial equivalents of DI could further promote the Singapore Islamic financial market.

Importantly, the inclusion of interest income and interest related income deemed sourced in Singapore or borne by Singapore-based borrowers could help fund managers to broaden their investments mandate, in particular for private equity and venture capital investments.

• The enhancement of the section 13X enhanced tier fund approved as a collective structure (i.e., master-feeder-SPVs structure) to include co-investments, non-company SPVs and more than 2 tiers of SPVs should allow fund managers more flexibility in their fund structures and fund raising.

Similar to real estate, infrastructure and private equity funds, debt and credit funds generally only call for capital when suitable investments are identified. As such, the enhancement to allow debt and credit funds to access the “committed capital concession” under the enhanced tier tax scheme will be welcomed by fund managers managing such funds.

The added certainty that managed accounts can qualify for the enhanced tier fund tax exemption could allow fund managers to more actively seek investors via this route.

• Currently, a final WHT rate of 10% is applied on taxable S-REITs and REITs ETFs distributions made to qualifying non-resident non-individual unit holders. A qualifying non-resident non-individual unit holder is a non-individual person who is not a resident in Singapore for income tax purposes and:

  i. Who does not have any PE in Singapore; or

  ii. Who carries on any operations in Singapore through a PE in Singapore, but the funds used to acquire the units in the S-REITs and REITs ETFs are not obtained from that operations in Singapore.

Prior to the current announcement, taxable S-REITs and REITs ETFs distributions received by non-resident section 13CA and section 13X funds were taxable at the normal corporate income tax rate of 17%. The announcement that the qualifying non-resident section 13CA and 13X funds are now able to enjoy the concessionary 10% tax rate will be welcomed by these funds. We envisage this move could encourage additional investments in S-REITs and REITs ETFs.

• We understand that the announced changes will equally apply to Singapore Variable Capital Companies (VCC), once the VCC framework is legislated later this year.
Lapse the Designated Unit Trust (DUT) scheme
Currently, under the DUT scheme, specified income derived by a unit trust with the DUT status is not taxed at the trustee level, but is taxable upon distribution in the hands of investors. Qualifying foreign investors and individuals (unless such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business, or profession) are exempt from tax on distributions made by a DUT.

The DUT scheme is scheduled to lapse after 31 March 2019.

Proposed
The Minister has proposed that the DUT scheme will be allowed to lapse after 31 March 2019. Funds in the form of unit trusts may apply for other tax incentives.

Existing DUTs will continue to receive the tax deferral benefits under the DUT scheme, on and after 1 April 2019, if they continue to meet all the conditions.

Our view
• To encourage the development of the domestic trust industry, the Government introduced the DUT scheme in 1995. The scheme was streamlined and rationalised in 2014. The scheme was designed to impose little or no taxation at trust level for qualifying trusts, but is generally taxed in the hands of the investors.
• In 2014, the DUT scheme was restricted to retail unit trusts; and non-retail trusts that previously qualified for the scheme were required to apply for other tax incentives for funds under sections 13CA or 13X of the ITA.
• With the extension and enhancement of the fund tax incentives announced in Budget 2019, which are also applicable to trusts, this effectively renders the DUT scheme unnecessary.

Lapse the Approved Unit Trust (AUT) scheme
Under the AUT scheme, the trustee is taxed on its investment income, and 10% of the gains derived from the disposal of securities. The remaining 90% of the gains from the disposal of securities are instead taxed in the hands of the unit holders when distributed. Tax exemption is allowed on such distribution if the unit holder is:

a. An individual resident in Singapore; or
b. A person who is not resident in Singapore and has no PE in Singapore.

Proposed
The Minister has proposed that the AUT scheme will be allowed to lapse after 18 February 2019.

Existing AUTs will continue to receive the tax concession under the AUT scheme for a period of 5 years from YA 2020 to YA 2024.

This will allow existing AUTs sufficient time to transit to alternative tax incentive schemes, where relevant.

Our view
• The AUT scheme under section 10B of the ITA was introduced to treat unit trusts separately from investment companies. However, with the introduction of other tax exemption schemes under sections 13CA, 13R, and 13X of the ITA; the AUT scheme became largely irrelevant.
• Tax incentive schemes are reviewed regularly to ensure their relevance. It is timely that the MAS is allowing the AUT scheme to lapse to concentrate on more relevant fund tax exemption schemes.
• Giving current AUTs 5 years to transit should be more than sufficient for these entities to transit into the other tax incentives schemes available.
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.

Our view
• It was within expectations that no further changes to the Personal Income Tax rates would be announced.
• The Personal Income Tax rates in Singapore remain competitive as compared to other matured economies even though the top marginal tax rate was last increased to 22%.

Personal Income Tax rebate for resident individual taxpayers for YA 2019
There was no Personal Income Tax rebate granted to resident individual taxpayers for YA 2018.

Proposed
The Minister has proposed to grant a one-off Personal Income Tax rebate of 50%, capped at $200, to resident individual taxpayers for YA 2019.

Our view
• The Personal Income Tax rebate is intended to share the Government’s budget surplus and the Minister has made it clear that the tax rebate for this year is to benefit the middle-income earners. Individuals who pay a tax of more than $400 (translated to an annual chargeable income of more than $35,700) will have their income tax rebate capped at $200.
• The cap of $200 is the lowest in the history of Personal Income Tax rebates, with previous personal income tax rebate caps ranging from $500 to $2,000. The Personal Income Tax rebate cap has been progressively reduced over the years and it is clear that the Government’s intention is to ensure and enhance the progressivity of the tax system.
• However, the Government also recognises that the Personal Income Tax rebate will not provide relief to the lower-income earners who pay little or no tax, and who generally require more help. As such, the Government will provide other assistance under the Bicentennial Bonus to the lower-income Singaporeans through other forms of cash payouts and/or subsidies, rather than through the personal income tax rebate.
Enhance the Grandparent Caregiver Relief (GCR)
The GCR was introduced as part of an off-Budget procreation package announced in 2004 to support parenthood. The GCR is a personal income tax relief of $3,000 granted to working mothers with Singapore citizen children who engage the help of their parents, grandparents, parents-in-law, or grandparents-in-law (including those of ex-spouses) to take care of their children.

One of the qualifying conditions for the claim of GCR is that the child has to be 12 years old or below during the year preceding the YA of claim.

Proposed
To provide greater support and recognition to working mothers with handicapped and unmarried dependent children, they will be allowed to claim GCR in respect of a handicapped and unmarried dependent child (incapacitated by reason of physical or mental infirmity) regardless of the child’s age, if all other conditions to claim GCR have been met.

The change will take effect from YA 2020.

Our view
• The proposed change will help provide relief to working mothers of handicapped children who often require long-term care and assistance.
• Parents with handicapped children are currently able to claim Handicapped Child Relief (HCR) in respect of their handicapped children with no age criteria imposed. Removal of the age limit for handicapped children for purpose of the GCR claims is aligned with the HCR claim.
• This is also in line with the Government’s initiatives to promote a caring and inclusive society, where no one is left behind; and recognises the continuous support that working mothers with handicapped children require from family members.
Lapse the Not Ordinarily Resident (NOR) scheme
Under the NOR scheme, an eligible individual who is granted the NOR status for a 5-year qualifying period may, subject to conditions, be eligible to apply for the following NOR tax concessions:

a. Time apportionment of Singapore employment income, where the individual would not be subject to tax on the portion of the Singapore employment income that corresponds to the number of days spent outside Singapore for business reasons pursuant to Singapore employment; and

b. Tax exemption of the employer’s contribution to any non-mandatory overseas pension or provident fund.

Proposed
The Minister has proposed that the NOR scheme will lapse after YA 2020. The last 5-year qualifying period for the NOR status will be granted for YA 2020 and expire in YA 2024. Individuals who have been accorded the NOR status prior to YA 2020 will continue to be eligible to apply for the NOR tax concessions, subject to conditions, until their 5-year NOR status expires.

Our view
- The lapse of the NOR scheme came as a surprise as the NOR scheme was introduced in Budget 2002 with the objective of attracting foreign talent with regional and global responsibilities to relocate to Singapore; and it has enhanced Singapore as an attractive location for MNCs to locate regional and global headquarter functions.
- However, as Singaporeans and SPRs who may also have regional and global responsibilities will not generally qualify for the NOR status to enjoy the NOR tax concessions of time apportionment of Singapore employment income; it seems that the Government has levelled the playing field by removing the NOR scheme predominantly enjoyed by foreign individuals with regional and global responsibilities.
- This is in line with the Government’s intention to ensure progressivity and resilience of our tax system while continuing to build a conducive environment including a stable political, economic and social environment; regional connectivity; a high standard of health care; and to attract and retain highly skilled individuals.
Indirect Tax

Extend the existing enhanced GST concessions for S-REITs and Singapore-listed Registered Business Trusts (S-RBTs)
Currently, S-REITs and S-RBTs are allowed via a GST remission to claim GST on their:
   i. Qualifying business expenses;
   ii. Business expenses incurred to set up financing SPVs; and
   iii. Business expenses of financing SPVs.

The GST remission is scheduled to lapse after 31 March 2020.

Proposed
To continue facilitating the listing of S-REITs and S-RBTs in the infrastructure business, ship leasing, and aircraft leasing sectors, the existing GST remission will be extended until 31 December 2025.

The MAS will provide additional details of the change by May 2019.

Our view
- It is important to continue to strengthen Singapore as an attractive and competitive funds raising location for S-REITs and S-RBTs amid intense competition from other countries such as Hong Kong, which does not have a GST system. Therefore, the extension of the GST remission is welcomed.

Recovery of GST for Qualifying Funds
Funds that are not GST-registered are not entitled to claim GST on costs they incur. Qualifying Funds that are managed by prescribed fund managers in Singapore are allowed, by way of remission, to claim GST incurred on expenses at an annual fixed recovery rate. The annual fixed recovery rates from 1 April 2014 through 31 March 2019 are as follows:

<table>
<thead>
<tr>
<th>Applicable period</th>
<th>Fixed recovery rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Apr to 31 Dec 2014</td>
<td>90%</td>
</tr>
<tr>
<td>1 Jan to 31 Dec 2015</td>
<td>88%</td>
</tr>
<tr>
<td>1 Jan to 31 Dec 2016</td>
<td>87%</td>
</tr>
<tr>
<td>1 Jan to 31 Dec 2017</td>
<td>88%</td>
</tr>
<tr>
<td>1 Jan to 31 Dec 2018</td>
<td>88%</td>
</tr>
<tr>
<td>1 Jan to 31 Mar 2019</td>
<td>87%</td>
</tr>
</tbody>
</table>

Proposed
To continue to strengthen Singapore as a centre for fund management and administration, the existing GST remission will be extended until 31 December 2024.

The MAS will provide additional details of the change by May 2019.

Our view
- The extension is aligned with the extension for S-REITS and S-RBTS, and is an important part of Singapore’s continued focus on maintaining its attractiveness and competitiveness as a regional fund management hub.
- We believe that the extension is also in line with the Government’s longer term vision for Singapore as a hub for both fund management and fund domiciliation, since it has recently introduced the Singapore VCC framework (a corporate structure tailored specifically for investment funds) following Budget 2018.
- We hope that the MAS will continue to work with the industry to keep costs as low as possible. A fixed input tax recovery rate in the high 80%-90% range is ideal since any decrease in the rate means additional GST costs for the affected funds.
Carbon tax implementation

As part of the Government’s commitment to address climate change and reduce emissions, and in line with Budget 2017 andBudget 2018 announcements, the Carbon Pricing Act (CPA) and its accompanying Regulations came into operation on 1 January 2019.

Although there was no further announcement on carbon tax in Budget 2019, businesses should be aware of implementation details under the CPA and its accompanying Regulations that have entered into effect from 1 January 2019:

- Any industrial facility that emits direct greenhouse gas equal to or above 2,000 tCO2e annually is required to be registered as a reportable facility and to submit an Emissions Report annually.
- Any industrial facility that emits direct greenhouse gas equal to or above 25,000 tCO2e annually is required to be registered as a taxable facility and to submit a Monitoring Plan and an Emissions Report annually.
- Taxable facilities will have to pay a carbon tax from 1 January 2019 onwards for reckonable greenhouse gas emissions, with the first payment expected to be in 2020 based on emissions in 2019.
- The carbon tax will be $5 per tonne of greenhouse gas emissions in the first instance, from 2019 to 2023.
- The carbon tax will be reviewed again by 2023. The intention is to increase the carbon tax to between $10 and $15 per tonne of emissions by 2030.
- A carbon tax registry will be set up for registered and reportable businesses to obtain credits from the Registrar of Carbon Pricing, which will be used to pay the carbon tax levied.

Our view

- One of the key challenges in addressing climate change is to obtain “buy-in” from countries to agree to reduce greenhouse gas emissions. Following the signing of the Paris Agreement in April 2016, signatories have agreed to meeting certain timelines to combat climate change. As part of Singapore’s efforts to address climate change, the introduction of carbon tax through the CPA would help Singapore meet its commitments under the Paris Agreement.
- Whilst the carbon tax will not apply directly to households, the imposition of such tax on industries will see a cascading effect on end consumers. Although the impact is expected to be minimal in the short term, any subsequent increase in the carbon tax rate may have a more significant impact to end consumers.
- The additional Utilities-Save (U-Save) rebates for 2019 to 2021 announced in Budget 2018 will be helpful as an interim measure for households to adjust to the consequential increase in costs. However, in the longer term, the U-Save rebates may be reduced as industries become more efficient over time.
- The ability to channel the revenues collected from carbon tax into both national and international initiatives to support R&D in alternative green energy solutions and other measures could mitigate any potential regressive effects of carbon tax.
- After the CPA comes into effect, failure to register the reportable and taxable facility or submit the emissions reports would be an offence under the CPA. As part of the requirements, businesses will have to engage third-party verification services (by the National Environment Agency [NEA]-accredited service provider) to verify their taxable facility’s Emissions Report annually, before submitting the Emissions Report to the NEA by 30 June of the year following the end of each reporting period.
Restructure diesel taxes
Currently, an excise duty of $0.10 per litre is imposed on diesel fuel conforming to the standard for sulphur as specified in Part 1 of the Eighth Schedule to the Environmental Protection and Management (Vehicular Emissions) Regulations.

There is also a lump sum special tax on diesel cars and taxis.

Proposed
The excise duty on diesel fuel will increase from $0.10 per litre to $0.20 per litre with immediate effect from 18 February 2019.

To reduce the impact of the excise duty increase, the annual special tax on diesel cars and taxis will be permanently reduced by $100 and $850 respectively.

Table 1: Comparison of the current and proposed diesel tax structure for diesel cars

<table>
<thead>
<tr>
<th>Emission standard</th>
<th>Current Tax (every 6 months)</th>
<th>Proposed Tax (every 6 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Euro IV compliant</td>
<td>6 times the road tax of an equivalent petrol-driven car less $50</td>
<td>6 times the road tax of an equivalent petrol-driven car less $100</td>
</tr>
<tr>
<td>Euro IV compliant</td>
<td>$0.625 per cc, less $50, subject to a minimum payment of $575</td>
<td>$0.625 per cc, less $100, subject to a minimum payment of $525</td>
</tr>
<tr>
<td>Euro V or JPN2009 compliant</td>
<td>$0.20 per cc, less $50, subject to a minimum payment of $150</td>
<td>$0.20 per cc, less $100, subject to a minimum payment of $100</td>
</tr>
</tbody>
</table>

Table 2: Comparison of the current and proposed annual special tax on diesel taxis

<table>
<thead>
<tr>
<th>Diesel vehicle type</th>
<th>Current Tax (every 6 months)</th>
<th>Proposed Tax (every 6 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diesel taxi</td>
<td>$2,125</td>
<td>$1,700</td>
</tr>
</tbody>
</table>

- Vehicle owners will continue to receive their road tax payment notices (including the special tax payable) based on the existing rates until end June 2019.
- For vehicle owners paying the special tax based on the existing rates until end June 2019, as well as those who have already paid the special tax for the period beyond 18 February 2019, the excess special tax paid will be used to offset the amount payable at the next road tax renewal.
- If the vehicle is transferred to another owner before its next road tax renewal, the excess special tax paid will be offset against the transfer fee payable, and any remaining excess special tax paid will accrue to the new registered owner.

Businesses operating commercial diesel vehicles will be provided with road tax rebate over the next 3 years to offset the additional taxation based on usage:

Table 3: Road tax rebates for commercial diesel vehicles

<table>
<thead>
<tr>
<th>Year</th>
<th>Period</th>
<th>Road tax rebate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>1 Aug 2019 to 31 Jul 2020</td>
<td>100% road tax rebate¹</td>
</tr>
<tr>
<td>Year 2</td>
<td>1 Aug 2020 to 31 Jul 2021</td>
<td>75% road tax rebate</td>
</tr>
<tr>
<td>Year 3</td>
<td>1 Aug 2021 to 31 Jul 2022</td>
<td>50% road tax rebate</td>
</tr>
</tbody>
</table>

¹The new road tax rebate of 100% for 1 August 2019 to 31 July 2020 will supersede the road tax rebate of 25% announced in Budget 2017.
In addition to the 3-year road tax rebates, diesel school buses will be given yearly cash rebates to ease the impact of diesel duty on school bus fees.

Table 4: Annual cash rebate for commercial diesel school buses

<table>
<thead>
<tr>
<th>Year</th>
<th>Period</th>
<th>Cash rebate for diesel school bus</th>
<th>Cash rebate for eligible diesel private hire and excursion school bus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>1 Aug 2019 to 31 Jul 2020</td>
<td>$1,600</td>
<td>Up to $1,800²</td>
</tr>
<tr>
<td>Year 2</td>
<td>1 Aug 2020 to 31 Jul 2021</td>
<td>$800</td>
<td>Up to $900</td>
</tr>
<tr>
<td>Year 3</td>
<td>1 Aug 2021 to 31 Jul 2022</td>
<td>$400</td>
<td>Up to $500</td>
</tr>
</tbody>
</table>

Our view

- The increase in excise duty rate on diesel fuel is significant, representing a 100% increase to the existing excise duty rate. This will translate into higher costs of operating diesel vehicles and will likely weigh in on business operators and diesel car owners’ decisions on whether to make a switch to more energy efficient and less polluting vehicles.

- The reduction in annual special tax is meant to cushion the impact of the excise duty rate increase, although this is likely to serve as an interim measure only, given the significant rate of increase in excise duty rate. Likewise, the road tax rebate and the 3-year cash rebates provided to diesel school bus operators would help defer the impact on increased costs in the short term. Once rebates expire, increased costs will need to be borne by consumers.

- The reduction in annual special tax, road tax rebates on diesel cars and taxis, and cash rebates for school buses would nevertheless be welcomed as it will help diesel vehicle owners and commercial operators transition out of existing diesel fleets to more energy efficient and less polluting vehicles.

²The new cash grant for 1 August 2019 to 31 July 2020 will supersede the cash grant of up to $450 announced in Budget 2017.
Tighten GST import relief for travellers
Currently, travellers who spend less than 48 hours outside Singapore enjoy GST import relief for the first $150 of the value of goods bought overseas while travellers who spend at least 48 hours outside Singapore enjoy GST import relief for the first $600 of the value of goods bought overseas.

Proposed
With effect from 19 February 2019, the GST import relief on items bought overseas will be refined as follows:

Table: Comparison of the old and new GST import relief for travellers

<table>
<thead>
<tr>
<th>Duration spent outside Singapore</th>
<th>Old relief</th>
<th>New relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 48 hours</td>
<td>$150</td>
<td>$100</td>
</tr>
<tr>
<td>48 hours or more</td>
<td>$600</td>
<td>$500</td>
</tr>
</tbody>
</table>

The relief will apply to Singapore Citizens, Permanent Residents and tourists; however, it will not apply to crew members and holders of a work permit, employment pass, student’s pass, dependent’s pass, or long term pass.

The relief also will not apply to intoxicating liquor and tobacco, as well as goods imported for commercial purposes.

Our view
• According to the Government, the reduction of the GST import relief for travellers is necessary amid a rise in international travel. As the reduction is minimal, we do not expect it to drastically affect the spending on purchases of goods overseas by travellers. Therefore, there should not be a significant increase in GST revenue for the Government as a result of the reduction.
• The GST import relief of up to $400 will continue to apply on goods purchased from overseas suppliers, which are delivered via post or courier service to Singapore consumers. It was announced in Budget 2018 that the Government would be studying whether to follow countries such as Australia to completely remove the GST import relief on low-value goods. Until then, Singapore travellers and consumers are still entitled to enjoy the relevant GST import relief on low-value goods purchased overseas.
Tighten duty-free allowance for liquor products

Currently, travellers have 3 litres of duty-free allowance that can be used, provided the following conditions to claim duty-free allowances are met:

- Traveller is 18 years old and above;
- Traveller spent 48 hours or more outside Singapore immediately before arrival;
- Traveller is not arriving from Malaysia;
- The liquor is for traveller’s own consumption; and
- The liquor is not prohibited for import into Singapore.

Proposed

With effect from 1 April 2019, the total duty-free allowance will be reduced from 3 litres to 2 litres, with the maximum duty-free allowance for spirits remaining at 1 litre.

Table: Revised duty-free allowance options

<table>
<thead>
<tr>
<th>Options</th>
<th>Spirits</th>
<th>Wine</th>
<th>Beer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1 litre</td>
<td>1 litre</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>1 litre</td>
<td>-</td>
<td>1 litre</td>
</tr>
<tr>
<td>3</td>
<td>-</td>
<td>1 litre</td>
<td>1 litre</td>
</tr>
<tr>
<td>4</td>
<td>-</td>
<td>2 litres</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>-</td>
<td>-</td>
<td>2 litres</td>
</tr>
</tbody>
</table>

All the conditions for the provision of duty-free allowance remain unchanged.

Our view

- As the current duty rates on liquor products in Singapore are fairly significant, it may not come as a surprise that these rates have remain unchanged in the last 4 years. However, as announced by the Minister in Budget 2019, the reduction of duty-free allowance on liquor products is required to generate additional revenue to meet recurrent spending expenditure. The impact of such additional revenue could likely be seen in the Government’s summary of customs and excise duties collected in the subsequent year.
Extend Special Employment Credit (SEC) and Additional Special Employment Credit (ASEC)

The SEC was introduced in Budget 2011 to enhance the employability of older and low-wage Singaporean workers. To further encourage businesses to voluntarily re-employ older Singaporean workers, the SEC was enhanced in Budget 2015 with the introduction of the ASEC. The SEC and ASEC were subsequently extended in Budget 2016 and Budget 2017 respectively until 31 December 2019.

Presently, businesses that hire eligible employees earning up to $4,000 per month receive the following amounts:

a. SEC payout of up to 8% of the monthly wage for employees aged above 55 but below 65;

b. SEC and ASEC payout totalling up to 11% of the monthly wage for employees aged 65 and above.

The SEC and ASEC are paid twice a year, i.e., in March and September.

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

Proposed

The Minister has proposed to extend the SEC and ASEC for another year, until 31 December 2020.

Our view

- The extension of the SEC and ASEC is definitely a welcomed move. The employment of older Singaporean workers could ease the tight labour market in view of the ageing population and low birth rates.

- Since companies have responded positively to the SEC and ASEC schemes by hiring older workers and tapping on their experiences, the Government may wish to consider making these schemes permanent.

- The extension of the SEC and ASEC for another year could help older workers to remain productive, earn more, and save more for retirement.
Maintain Foreign Worker Levy (FWL) and reduce Dependency Ratio Ceiling (DRC)
The FWL is a pricing mechanism used to regulate the number of 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 FWL rates will remain unchanged for all pass types, sectors, and tiers. The FWL increases announced earlier for the Marine Shipyard and Process sectors will be deferred for another year, as these sectors still face weaknesses.

However, the DRC for the services sector will be reduced in 2 steps; on 1 January 2020, and on 1 January 2021.

With the above, the current levy rates for S Pass Holders will continue to apply and the proposed Dependency Ratio (DR) will be as follows:

Table 1: S Pass holder levy schedule

<table>
<thead>
<tr>
<th>Sector</th>
<th>Tier</th>
<th>Sector DR</th>
<th>Levy rates ($) current and up to 30 June 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>Basic Tier</td>
<td>≤10%</td>
<td>330</td>
</tr>
<tr>
<td>Services</td>
<td>Tier 2</td>
<td>10-15%1</td>
<td>650</td>
</tr>
<tr>
<td>Other sectors</td>
<td>Tier 2</td>
<td>10-20%</td>
<td>650</td>
</tr>
</tbody>
</table>

1 Reduced to 13% on 1 January 2020, and to 10% on 1 January 2021

The rates for Work Permit Holders and proposed DR are summarised as follows:

Table 2: Work Permit holders levy schedule

<table>
<thead>
<tr>
<th>Sector</th>
<th>Tier</th>
<th>Sector DR</th>
<th>Levy rates ($) (R1/R2) current and up to 30 June 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>Basic Tier</td>
<td>≤87.5%</td>
<td>300/700</td>
</tr>
<tr>
<td></td>
<td>Man-Year Entitlement Waiver</td>
<td></td>
<td>600/950</td>
</tr>
<tr>
<td>Services</td>
<td>Basic Tier</td>
<td>≤10%</td>
<td>300/450</td>
</tr>
<tr>
<td></td>
<td>Tier 2</td>
<td>10-25%</td>
<td>400/600</td>
</tr>
<tr>
<td></td>
<td>Tier 3</td>
<td>25-40%²</td>
<td>600/800</td>
</tr>
</tbody>
</table>

² Reduced to 38% on 1 January 2020, and to 35% on 1 January 2021

Our view
• It is not surprising that the Government has proposed to reduce the DRC for the services sector gradually over the next 2 years. The Government has introduced changes in recent years to encourage businesses to invest in technological capabilities to improve productivity. Whilst there has been progress across some of the sectors, the number of foreign workers in the services sector is at its highest level in 5 years.
• In line with the Government’s initiative to support businesses with their rising costs and to ease the transition for the services sector, the reduced rates would be implemented gradually over the next 2 years.
• The Government may also wish to consider other measures to reduce reliance on foreign workers and encourage businesses to shift Singaporeans’ perception and attitude towards working in certain industries currently not commonly taken up by Singaporeans, e.g., through redesigning certain jobs, or deploying technology to increase efficiency, and accord further tax deductions/allowances on costs incurred in this respect.
Lapse the Property Tax (Tourist Projects) Order

The Property Tax (Tourist Projects) Order was introduced on 1 January 1987 to promote tourism. Currently, under the Order, the Minister may grant approval for new tourist projects to have their annual value computed based on 6% of the preceding year’s gross receipts for the first 5 years from the completion of the buildings, subject to conditions.

Proposed

The Government has reviewed this concession and will allow it to lapse after 18 February 2019, as it is assessed to be no longer relevant.

Our view

• The concession is only applicable to approved tourist projects such as those relating to conservation and revitalisation of certain historical sites, excluding premises operated as a hotel whether outside or within the premises of an approved tourist project. Hence, the removal of this concessionary property tax rate should not have an adverse impact on hotel property owners.

• The removal of this concessionary property tax rate will increase the property tax payable by owners of such tourist projects to 10% of annual value.

• Over the years, the Government has developed various schemes to promote tourism through the offering of incentives and grants to tourism related industry players to rejuvenate tourism projects and enhance Singapore’s position as an international lifestyle destination and business events hub. Hence, the removal of the concession is unlikely to adversely impact the tourism sector in Singapore.
Appendix A

Singapore Corporate Income Tax rates for the YAs 1959 to 2019

(1) 75% of first $10,000 and 50% of next $290,000 of chargeable income are exempt from tax up to YA 2019.

(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 to YA 2019.

(3) A corporate income tax rebate at 20% of the tax payable up to a maximum rebate of $10,000.

(4) A corporate income tax rebate at 40% of the tax payable up to a maximum rebate of $15,000.

(5) A corporate income tax rebate at 50% of the tax payable up to a maximum rebate of $25,000.

(6) A corporate income tax rebate at 50% of the tax payable up to a maximum rebate of $20,000.

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

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

(9) 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);
   - 5% of revenue, capped at $5,000 (SME cash grant).

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

(11) 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.

(12) Effective tax rate (net of 10% tax rebate).
## Appendix B

### Comparison of current Corporate Income Tax rates in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>16.5% (1)</td>
</tr>
<tr>
<td>Singapore</td>
<td>17.0%</td>
</tr>
<tr>
<td>UK</td>
<td>19.0% (2)</td>
</tr>
<tr>
<td>Taiwan</td>
<td>20.0% (3)</td>
</tr>
<tr>
<td>Thailand</td>
<td>20.0% (4)</td>
</tr>
<tr>
<td>USA</td>
<td>21.0% (5)</td>
</tr>
<tr>
<td>Japan</td>
<td>23.2% (6)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>24.0% (6)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>25.0% (4)</td>
</tr>
<tr>
<td>China</td>
<td>25.0% (7)</td>
</tr>
<tr>
<td>India</td>
<td>25.0% (8)</td>
</tr>
</tbody>
</table>

(1) A two-tiered profits tax regime will apply to both corporations and unincorporated businesses starting from YA 2018/19. Each group of connected entities can only nominate one entity to enjoy two-tiered profits tax rates. For corporations, the tax rate will be 8.25% for the first HK$2M of assessable profits and 16.5% for over HK$2M of assessable profits. Whereas, for unincorporated businesses, the tax rate will be 7.5% for the first HK$2M of assessable profits and 15% for assessable profits in excess of HK$2M.

(2) Reducing to 17% from 1 April 2020. A 25% rate applies where multinational companies use artificial arrangements to divert profits overseas to avoid UK tax.

(3) Effective 1 January 2018.

(4) Lower rates of tax apply to income below certain levels.

(5) Effective 1 January 2018. Effective tax rate may vary depending on other state and local income taxes.

(6) Effective for fiscal years starting on or after 1 April 2018. After surtax, the effective tax rate is approximately 30%.

(7) A 10% rate (subject to meeting certain requirements) applies to small-scale enterprises and key software production and IC design enterprises and 15% rate applies to enterprises with new/high-technology status, advanced technology service enterprises that perform qualifying outsourcing services and enterprises incorporated in certain regions of China that engaged in encouraged business activities.

(8) From YA 2019 to YA 2020, 25% is applicable to small and medium-sized companies with an annual turnover of up to INR2,500M in FY 2016 to FY 2017. 40% applies to foreign companies and 30% applies to all other domestic companies with an annual turnover above INR2,500M; all rates exclude surcharge, health and education cess.
Appendix C

Comparative personal effective tax rates for YA 2019

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

Comparative personal effective tax rates for YA 2019—Singapore versus Hong Kong

Employee married with 2 children
Comparison of annual remuneration $200,000 versus $300,000
## Appendix E

### Rates of income tax for resident individuals for YA 2019

<table>
<thead>
<tr>
<th>Chargeable income ($)</th>
<th>Tax rate (%)</th>
<th>Tax ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first 20,000</td>
<td>0.00</td>
<td>0</td>
</tr>
<tr>
<td>On the next 10,000</td>
<td>2.00</td>
<td>200</td>
</tr>
<tr>
<td>On the first 30,000</td>
<td>3.50</td>
<td>350</td>
</tr>
<tr>
<td>On the next 40,000</td>
<td>7.00</td>
<td>2,800</td>
</tr>
<tr>
<td>On the first 80,000</td>
<td>11.50</td>
<td>3,350</td>
</tr>
<tr>
<td>On the next 40,000</td>
<td>15.00</td>
<td>6,000</td>
</tr>
<tr>
<td>On the first 120,000</td>
<td>18.00</td>
<td>7,200</td>
</tr>
<tr>
<td>On the next 40,000</td>
<td>19.00</td>
<td>7,600</td>
</tr>
<tr>
<td>On the first 200,000</td>
<td>19.50</td>
<td>7,800</td>
</tr>
<tr>
<td>On the next 40,000</td>
<td>20.00</td>
<td>8,000</td>
</tr>
<tr>
<td>On the first 240,000</td>
<td>19.50</td>
<td>28,750</td>
</tr>
<tr>
<td>On the next 40,000</td>
<td>20.00</td>
<td>36,550</td>
</tr>
<tr>
<td>On the first 280,000</td>
<td>20.00</td>
<td>44,550</td>
</tr>
<tr>
<td>Excess over 320,000</td>
<td>22.00</td>
<td></td>
</tr>
</tbody>
</table>

A personal income tax rebate of 50%, capped at $200, will be granted to resident individuals for YA 2019.
Appendix F

Personal reliefs for YA 2019

<table>
<thead>
<tr>
<th>Earned income relief</th>
<th>Parent relief</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age</strong></td>
<td><strong>Maximum of two parents</strong></td>
</tr>
<tr>
<td></td>
<td>Lower of actual earned income and</td>
</tr>
<tr>
<td>Below 55</td>
<td>$1,000 $4,000</td>
</tr>
<tr>
<td>55 to 59</td>
<td>$6,000 $10,000</td>
</tr>
<tr>
<td>60 and above</td>
<td>$8,000 $12,000</td>
</tr>
</tbody>
</table>

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

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

**Grandparent Caregiver Relief (GCR)**
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 claim.

With effect from YA 2020 (income year 2019), the age criteria of 12 years or below will not be applicable for GCR claim in respect of handicapped and unmarried dependent children incapacitated by reason of physical or mental infirmity, provided all other conditions are met.
Handicapped siblings relief
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

<table>
<thead>
<tr>
<th>Qualifying Child Relief (QCR)</th>
<th>Handicapped Child Relief (HCR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per child</td>
<td>$4,000</td>
</tr>
<tr>
<td></td>
<td>$7,500</td>
</tr>
</tbody>
</table>

The child's annual worldwide income shall not exceed $4,000 and studying full-time at any university, college, or other educational institution at any time in the preceding calendar year, if above 16 years old.

There is no income threshold condition for the handicapped child.

Working mother's child relief (WMCR)

<table>
<thead>
<tr>
<th>Quantum of relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st child</td>
</tr>
<tr>
<td>15% of earned income</td>
</tr>
<tr>
<td>2nd child</td>
</tr>
<tr>
<td>20% of earned income</td>
</tr>
<tr>
<td>3rd child and subsequent children</td>
</tr>
<tr>
<td>25% of earned income</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Quantum of rebate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st child</td>
</tr>
<tr>
<td>$5,000</td>
</tr>
<tr>
<td>2nd child</td>
</tr>
<tr>
<td>$10,000</td>
</tr>
<tr>
<td>3rd child and subsequent children</td>
</tr>
<tr>
<td>$20,000 per child</td>
</tr>
</tbody>
</table>

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**

<table>
<thead>
<tr>
<th>Employees</th>
<th>Statutory CPF relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary wages</td>
<td>Statutory contributions fully allowed.</td>
</tr>
<tr>
<td>Additional wage ceiling</td>
<td>Restricted to statutory contributions on total wages of $102,000 less total annual ordinary wages subject to CPF contributions in the year.</td>
</tr>
</tbody>
</table>

**Voluntary contributions to CPF**

<table>
<thead>
<tr>
<th>Maximum amount of voluntary contribution relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee or self-employed</td>
</tr>
</tbody>
</table>

**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**

<table>
<thead>
<tr>
<th>Quantum of relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

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.

- 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.

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 the CPF Minimum Sum Topping-Up Scheme regardless of the recipients’ age.

- Recipients must be Singapore citizens or SPRs.

<table>
<thead>
<tr>
<th>Quantum of relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>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 the CPF Minimum Sum Topping-Up Scheme regardless of the recipients’ age.</td>
</tr>
</tbody>
</table>
### Supplementary retirement scheme

<table>
<thead>
<tr>
<th>Employees and self-employed</th>
<th>Maximum contributions per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore citizens or SPRs</td>
<td>$15,300</td>
</tr>
<tr>
<td>Foreigners</td>
<td>$35,700</td>
</tr>
</tbody>
</table>

### Course fees relief

<table>
<thead>
<tr>
<th>Fees (registration fees, examination fees, tuition fees) for courses, seminars and conferences:</th>
<th>Quantum of relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Relating to one’s current trade, business, profession, vocation or employment in 2018.</td>
<td>$5,500 (Maximum)</td>
</tr>
<tr>
<td>• Leading to an approved academic, professional or vocational qualification in 2018.</td>
<td></td>
</tr>
</tbody>
</table>

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.

### National Serviceman (NSman) relief

<table>
<thead>
<tr>
<th>NS key command and staff appointment holders (in addition to basic NSman relief)</th>
<th>Quantum of relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wives or widows of active NSman who are Singapore citizens and entitled to NSman relief</td>
<td>$750</td>
</tr>
<tr>
<td>Each parent of active NSman who are Singapore citizens and entitled to NSman relief</td>
<td>$1,500</td>
</tr>
<tr>
<td>Active NSman</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

### Foreign maid levy relief

<table>
<thead>
<tr>
<th>For YA 2019</th>
<th>Quantum of relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6,360</td>
<td>(Maximum)</td>
</tr>
</tbody>
</table>

Claimable against the earned income of a married or divorced woman and widow with children in respect of whom child relief is available.

With effect from 1 April 2019 (YA 2020), the monthly Foreign Domestic Worker (FDW) levy will be increased from $265 to $300 for the first FDW and to $450 for the second FDW, without levy concession. The FDW levy (with concession) will remain at $60 per month.

The amount of relief claimable is twice the annual levy paid for 1 foreign maid in the preceding year.

### Personal Income Tax Relief Cap

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 G

Comparative standard VAT/GST rates for 2019

(1) Goods and services are categorised under a structure with 5 different rates of 0%, 5%, 12%, 18% and 28%. There is no standard rate per se, but the rate for most services is 18%. For goods, the rates are 12% and 18%.
(2) Goods and services are categorised under a structure with 3 different rates of 16%, 10% and 6%.
(3) Rate is scheduled to be increased to 10% from 1 October 2019.
(4) The reduced 7% rate was extended until 30 September 2019. The standard VAT rate is 10%.
(5) Rate will be increased from 7% to 9% some time in the period from 2021 to 2025.
(6) GST has been repealed with effect from 1 June 2018 and was replaced with Sales and Services Tax from 1 September 2018. A Sales Tax of 5% to 10% would apply on prescribed goods and a Service Tax of 6% would apply on prescribed services.
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