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GES NewsFlash

Personal tax changes – Singapore Budget 2015

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Overview

The Singapore Minister for Finance presented the 2015 Budget Statement on 23 February 2015. It has been termed as the “Jubilee Budget” on account of Singapore’s 50th year of independence with focus on the country’s need to build and strengthen the social fabric and the retirement adequacies for the future. The following changes have been proposed:

Personal tax rebate

There was no personal income tax rebate granted to resident individual taxpayers for the Year of Assessment (YA) 2014 (income year 2013).

The Minister has proposed to grant a one-off personal income tax rebate of 50%, capped at $1,000, for resident individual taxpayers for the YA 2015 (income year 2014).

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Deloitte’s view

The $1,000 cap on the tax rebate is the lowest ever that has been announced by the government and aims to help the middle income group and the sandwiched class of individual taxpayers cope with rising costs of living in Singapore.

The above tax rebates will be granted automatically to resident taxpayers (including foreign employees who have paid tax relating to income year 2014 at the time of cessation of Singapore employment). A refund of tax will be made to these foreign employees and where tax is borne by the employer, arrangements have to be made to request for the refund to be made to the employer.

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Changes in personal tax rates

Currently, the top marginal personal income tax rate in respect of resident individual taxpayers is 20% for income exceeding $320,000.

The Minister has proposed the following changes to the personal income tax rates with effect from YA2017 (income year 2016):

A more progressive personal income tax rate structure for resident individual taxpayers, with the increase in the marginal tax rates for income exceeding $160,000.

An increase in the top marginal personal income tax rate from 20% to 22% for income exceeding $320,000.

The rates of income tax for resident individuals with effect from YA 2017 are enclosed in the appendix.

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Deloitte's view

This is the first increase in personal tax rates in more than 30 years and will impact the top 5% of the income earners in Singapore. This was carefully done to ensure that Singapore remains a competitive location for talents while allowing additional funds to support the various schemes that have been proposed in the budget and to close the gap on income inequality in Singapore.

The proposal is likely to have an impact on companies that have a substantial population of tax equalised assignees who are in the higher income tax bracket as this will increase the assignees' tax costs to companies.

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Allowing individual taxpayers to claim a specified amount of expenses against his rental income derived from residential properties in Singapore

The net rental income (gross rental less deductible expenses) derived from real property situated in Singapore is taxable.

Currently, an individual who derives passive rental income from a residential property in Singapore can, subject to income tax rules, claim the actual deductible expenses incurred in producing that income, e.g., mortgage interest payments, repairs and maintenance, property tax, fire insurance premiums etc. To substantiate the claim for the deduction of expenses, he is required to keep the relevant records for a period of at least five years from the YA to which the claims relate.

The Minister has proposed that an individual who derives passive rental income from the letting of a residential property in Singapore can, in lieu of claiming the actual deductible expenses, claim 15% of the gross rental income derived from that residential property as the deductible expenses (excluding mortgage interest expenses) with effect from YA 2016. The individual can continue to deduct against his rental income, any deductible mortgage interest expense.

This tax change does not apply to any rental income derived:

a) By an individual through a partnership in Singapore and

b) From a trust property.

The Inland Revenue Authority of Singapore will release further details by May 2015.

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Deloitte's view

The proposal provides an alternative to taxpayers to claim deduction of rental expenses and remove the administrative burden to keep records of expenses (excluding mortgage interest expenses) incurred to generate the rental income.

However, where the amount of deductible expenses (excluding mortgage interest expenses) is more than 15% of the gross rental income, it is expected that the individual should be able to claim the actual amount of deductible expenses, provided he has kept the supporting documents to substantiate his claim for these expenses, rather than based on the 15% of gross rental income.

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Tax exemption for non-resident mediators (NRMs)

Currently, NRMs are subject to a withholding tax of 15% of their gross income payable, or at 20% of the net income payable if the NRMs elect to be taxed on their net income, in respect of mediation work carried out in Singapore.

To promote the commercial mediation sector in Singapore, the Minister has proposed to exempt from tax the income derived by NRMs for mediation work carried out in Singapore from 1 April 2015 to 31 March 2020. The Ministry of Law will release further details by March 2015.

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Deloitte's view

The proposal is to encourage NRMs to carry out mediation work in Singapore and assist to build our capabilities and expertise in the area of mediation to meet the increasing demands for the same in today's dynamic business environments.

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Tax exemption for non-resident arbitrators (NRAs)

Currently, NRAs are exempted from tax on income derived from arbitration work carried out in Singapore. The Minister has now proposed to legislate a review date of 31 March 2020, to ensure that a periodic review on the relevance of the scheme is performed.

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Deloitte's view

While the government has recognised that the tax exemption currently available encourages NRAs to carry out arbitration work in Singapore, there is a need to review the relevance of the scheme in today's dynamic environment and whether the tax exemption should be continued indefinitely. Accordingly, there is a need to legislate a review date for the scheme.

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Increasing the Central Provident Fund (CPF) salary ceiling

CPF is the national social security and pension scheme in Singapore. Contributions to CPF are only required to be made by the employer in respect of cash emoluments paid to Singapore citizen and Singapore Permanent Resident (SPR) (SPR status acquired under immigration rules) employees working in Singapore. Contributions to CPF are not relevant for foreign employees.

Currently, CPF contribution is subject to a monthly salary ceiling of $5,000 and an annual total wage cap of $85,000.

The Minister has proposed to raise the CPF monthly salary ceiling to $6,000, with effect from 1 January 2016. With this proposed increase, the CPF annual total wage cap will also be raised to $102,000.

The existing limits on tax deduction for employers' statutory CPF contributions and tax relief for employees' CPF contributions will also be raised accordingly.

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Deloitte's view

The monthly CPF salary ceiling of S$6,000 was reduced to S$5,500 in 2004 and S$5,000 in 2005 to assist in reducing the business costs of companies. The proposal to reinstate the monthly salary ceiling to S$6,000 is in line with the government's focus to help Singaporeans and SPRs build up their retirement fund during their working years.

Although there will be incremental costs to companies, the tax relief for employee CPF for tax resident employees will also be increased accordingly.

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Changes to CPF contribution rates for older workers

The CPF contribution rates for older workers were lowered in the past to enhance their employability. The Minister has now proposed that the CPF contribution rates for workers aged 50 to 65 years and earning S$750 per month or more be increased with effect from 1 January 2016, as follows:

Age of workers	Employer's CPF rates	Employee's CPF rates
Above 50 to 55	17% (1% ↑)	20%(1% ↑)
Above 55 to 60	13% (1% ↑)	13%
Above 60 to 65	9% (0.5% ↑)	7.5%

For workers who are above 50 to 55 years old, the proposed change will restore the contribution rates for employees under this age group to the same level as those of younger workers.

The increase in employer contribution rates will go to the worker's special account, whereas the increase in employee contribution rates will go to the worker's ordinary account.

The existing limits on tax deduction for employers' statutory CPF contributions and tax relief for employees' CPF contributions will be raised accordingly.

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Deloitte's view

The proposal is in line with the government's objectives of addressing the issue of retirement fund adequacy for older workers who are nearing retirement age and also to encourage older workers to continue employment beyond 50 years old.

There will be increase in business costs to the company and also an increase in the tax relief on employee CPF for resident individuals.

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Increasing the contribution cap for the Supplementary Retirement Scheme (SRS)

SRS is a voluntary scheme operated by three approved banks in Singapore (DBS Bank, OCBC, and UOB Bank) to encourage individuals to save for retirement, over and above their CPF savings. The SRS contributions made by both the employee and/or his employer on his behalf are subject to SRS contribution cap.

Contributions to SRS are eligible for tax relief for tax resident individuals. Investment returns will also be tax free before withdrawal and only 50% of the withdrawals from SRS are taxable at retirement for Singapore citizen or SPR employee (i.e., at or after 62 years old) or for foreigner, after he has maintained the SRS account for at least 10 years.

Premature withdrawals made before retirement is taxable in full. The tax rate applicable on the SRS withdrawals would depend on the individual's Singapore tax residency status at the point of withdrawal (i.e., non-resident tax rate of 20% or progressive tax rate after the deduction of reliefs, for tax residents). In addition, a 5% penalty will be imposed on the premature withdrawal amount.

Currently, an individual and his employer can contribute to the individual's SRS account up to the prevailing statutory retirement age, subject to the following contribution limit:

Current	Annual Wage cap (S$)	Rate	SRS Cap (S$) per year
Singapore citizen/SPR employees	85,000	15%	12,750
Foreign employees	85,000	35%	29,750

With the proposed increase in the CPF salary ceiling with effect from 1 January 2016, from

$5,000 to $6,000 per month, the contribution cap and the existing limits on tax relief for the SRS contribution is expected to be raised to the following:

Proposed change	Annual Wage cap (S$)	Rate	SRS Cap (S$) per year
Singapore citizen/SPR employees	102,000	15%	15,300
Foreign employees	102,000	35%	35,700

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Deloitte's view

Although the SRS is a voluntary pension scheme, it is supported by the government and the increase in the SRS cap, together with the CPF cap increase will increase the amount of tax relief to be claimed by the account holder. This will encourage individuals to save more for their retirement.

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Appendix

Proposed rate 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	