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The balancing act
Singapore Budget
Commentary 2014



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Common abbreviations

CPF	: Central Provident Fund
CIT	: Comptroller of Income Tax
EDB	: Economic Development Board
EEIA	: Economic Expansion Incentives (Relief from Income Tax) Act
GST	: Goods and Services Tax
IRAS	: Inland Revenue Authority of Singapore
HDB	: Housing and Development Board
IE Singapore	: International Enterprise Singapore
IPR	: Intellectual Property Right
ITA	: Income Tax Act
MAS	: Monetary Authority of Singapore
MoF	: Ministry of Finance
PIC	: Productivity and Innovation Credit
PE	: Permanent Establishment
R&D	: Research and Development
SME	: Small and Medium Enterprise
SPR	: Singapore Permanent Resident
URA	: Urban Redevelopment Authority
YA	: Year of Assessment



Foreword

Greetings from your tax team at Deloitte.

The Minister for Finance presented the 2014 Budget Statement on 21 February 2014. The main focus of Budget 2014 is to continue on the economic restructuring path by extending and tweaking incentives to enable productivity and innovation so as to drive the economy, while strengthening the social fabric of Singapore by providing senior citizens and the low and middle income groups with support as Singapore transforms itself and enters into a new phase of growth.

The Pioneer Generation has been rewarded with an array of benefits surrounding health care and related areas which would assist in subsidising the medical expenses of that generation. SMEs have also been another big beneficiary of this year's Budget through a variety of subsidies and additional tax incentives.

Overall, Budget 2014 combines tax and non-tax measures to drive growth in a more social, equitable and inclusive manner with a particular focus on productivity and technology. The tax measures and some of the key non-tax changes are further explored in this commentary.

It should be noted that the commentary is our interpretation of the changes proposed in the Budget Statement. As the proposals are yet to be enacted, and the legislation to enact the proposals is yet to be published, our comments in this commentary should not be considered definitive and should, therefore, be used only as a guide.

If you need any clarification or advice, please contact your regular tax advisors at Deloitte.

We hope you will find this commentary useful and look forward to supporting you as you grow your business in the coming years.

Business tax

The Deputy Prime Minister and Minister for Finance (the Minister) delivered his 2014 Budget Statement on 21 February 2014. He reported that the Singapore economy grew by 4.1% in 2013, an increase from 1.9% in 2012. For 2014, the Government expects Singapore’s GDP growth to be between 2% to 4% and the global economic outlook to be uncertain.

The Minister commented that the principal focus of this year’s budget is to reinforce and build on the major steps taken in recent years towards achieving quality growth, mainly through innovation and higher productivity, as well as building a fair and equitable society.

Corporate income tax rate

As in the past few years, the Minister did not propose any change in the corporate tax rate. The Singapore corporate tax rate remains at 17%. The first \$300,000 of normal chargeable income is, however, partially exempt from tax as follows:

Chargeable income (CI)	Portion of CI exempt from tax	Portion of CI subject to tax
For every dollar of the first \$10,000	75%	25%
For every dollar of the next \$290,000	50%	50%
For every dollar exceeding \$300,000	-	100%

A special corporate income tax rebate is also given from YA 2013 to YA 2015, based on 30% of the tax payable up to a maximum rebate of \$30,000 per YA.

Taking into account the above partial tax exemption scheme and corporate tax rebate, the Singapore effective tax rate can be much lower than 17%. For instance, for a company with chargeable income of \$500,000, the effective tax rate is about 8%.

← Our view

No change in the corporate tax rate is within expectations as Singapore strives to balance increased social spending and investments in quality growth. While there is a need to be mindful of the attention given to the OECD Base Erosion & Profit Shifting project, the Government could have considered revisiting some of the tax incentive rates, which have in general remained stagnant, to ensure that they remain relevant and competitive in today’s environment. Multinational companies still tend to look at the availability of tax incentives in Singapore when comparing its attractiveness to Hong Kong from a tax perspective, in deciding the location of their Asia Pacific hub. For example, the basic incentive tax rate under the Global Trader Programme starts at 10% which is only a 7% reduction from the headline corporate tax rate. It may have been worthwhile to set this rate at 8.5% (half of the prevailing corporate tax rate) to signal a greater commitment from the Government to support foreign investment.

The Government could also have considered increasing the partial tax exemption from the first \$300,000 of normal chargeable income to the first \$400,000 of normal chargeable income. This would have been a targeted measure to reduce the tax burden on SMEs, many of which are facing challenges in rising business costs especially in terms of rental and staff costs.

Productivity and Innovation Credit (PIC) scheme

The PIC scheme is a broad-based tax scheme granting a total of 400% tax deduction or allowance for the first \$400,000 of qualifying expenses incurred from YA 2011 to YA 2015 on each of the following 6 qualifying activities along the innovation value chain:

- (a) R&D;
- (b) acquisition or in-licensing of IPRs (the in-licensing of IPRs was included as a qualifying activity with effect from YA 2013);
- (c) registration of IPRs;
- (d) approved industrial or product design projects undertaken primarily in Singapore;
- (e) acquisition or leasing of qualifying PIC IT and automation equipment; and
- (f) training provided to employees so as to upgrade skills and capabilities.

This scheme was first introduced in Budget 2010 and is due to expire in YA 2015.

The enhanced deduction or allowance under the PIC scheme is available for a period of 5 years, subject to the following expenditure cap:

- (a) YA 2011 and YA 2012 – a combined expenditure cap of \$800,000 applies for each of the qualifying activities; and
- (b) YA 2013 to YA 2015 – a combined expenditure cap of \$1,200,000 applies for each of the qualifying activities.

Businesses (including sole proprietors and partnerships) can also make an irrevocable option to convert the qualifying expenditure into cash, subject to a minimum qualifying expenditure of \$400 per application. For YA 2013 to YA 2015, the conversion rate is 60%, subject to a maximum expenditure cap of \$100,000 (i.e. maximum cash payout of up to \$60,000) per YA if the business has:

- (a) incurred qualifying expenditure under the PIC during the basis period;
- (b) active business operations in Singapore; and
- (c) minimum 3 local employees (Singapore citizens or SPRs) in respect of who the businesses have contributed CPF in the last month of the basis period for a relevant qualifying YA or last month of the financial quarter or combined consecutive quarters in the business' financial year, as the case may be. Sole proprietor, a partner under contract for service and a shareholder who is a director of the company are excluded from the definition of "local employees".

The cash payout application can be made after the end of each financial quarter or combined consecutive quarters in the business' financial year. Once a qualifying expenditure is converted into cash, the same amount is no longer available for tax deduction or allowance. The cash payout quantum cannot be combined on expenditure across the 3 YAs (i.e. YA 2013 to YA 2015) and the cash payout is tax exempt.

Proposed

Extension of the PIC scheme

To continue to encourage businesses to invest in productivity and innovation with the objective of attaining long term sustainable productivity-driven economic growth, the Minister has proposed to extend the PIC scheme for 3 years till YA 2018.

The expenditure cap of \$400,000 per qualifying activity can be combined across YA 2016 to 2018 (i.e. combined expenditure cap of \$1,200,000 for each of the qualifying activities).

Effective: YA 2016 to YA 2018

PIC+ scheme

The Minister has also introduced a new PIC+ scheme to provide support to SMEs making more substantial investments to transform their businesses. This new scheme is available to qualifying SMEs which incur PIC qualifying expenditure in YA 2015 to YA 2018.

Under the PIC+ scheme, the expenditure cap for qualifying SMEs will be increased from \$400,000 to \$600,000 per qualifying activity per YA. This means that the SMEs that invest beyond the current expenditure of \$1,200,000 (for YA 2013 to YA 2015) for each qualifying activity in YA 2015 can claim 400% enhanced deduction on an additional \$200,000 of qualifying expenditure. In other words, the combined expenditure cap for qualifying SME will be increased up to \$1,400,000 for YA 2013 to YA 2015. For YA 2016 to YA 2018, the combined expenditure cap for each qualifying activity is \$1,800,000.

An entity is a qualifying SME if:

- (a) its annual turnover is not more than \$100 million; or
- (b) its employment size is not more than 200 workers.

This criterion will be applied at the group level if the entity is part of a group. On self-assessment, businesses that meet the qualifying criteria can claim 400% enhanced deduction or allowance on PIC qualifying expenditure incurred on the 6 qualifying activities.

The IRAS will provide further details on the PIC+ scheme by end-March 2014.

Effective: YA 2015 to YA 2018

Tightening of the cash payout condition

The expenditure cap for PIC cash payout under both the PIC scheme and the PIC+ scheme would remain at \$100,000 per YA and cannot be combined across YAs.

To reinforce the condition that the payouts are made to businesses with active operations, businesses will, with effect from YA 2016, have to meet the “3 local employees” condition for a consecutive period of at least 3 months prior to claiming the cash payout.

Effective: YA 2016

← Our view

The extension of the PIC scheme is expected given the continued focus on productivity and innovation. For SMEs especially, the introduction of the new PIC+ scheme is a welcomed move. There is, however, a need to help SMEs better understand the rules relating to PIC claims to accommodate SMEs which may not be as sophisticated.

Extending PIC benefits to training of individuals under centralised hiring arrangements

Currently, businesses that incur qualifying training expenses on individuals deployed to their organisations under centralised hiring arrangements are not allowed to claim PIC benefits as they are not the legal employers of these individuals.

Proposed

Responding to feedback from the industry and recognising that training of such individuals can improve the productivity of the businesses where the individuals are deployed, the PIC scheme will be enhanced to allow businesses to claim PIC benefits in respect of individuals hired under centralised hiring arrangements.

The IRAS will release further details by end-March 2014.

Effective: YA 2014

↑ Our view

In order for businesses to meet the CPF contribution requirement and qualify for the PIC Bonus, individuals under group centralised hiring arrangements are taken into consideration. This proposal has liberalised and streamlined the PIC scheme further. It is a welcomed move as it will certainly benefit businesses with centralised hiring arrangements.

Allowing the tax deferral option under the PIC scheme to lapse

Currently, to help SMEs with their cash flow and fund investments in productivity, businesses can elect to defer paying their tax for the current YA if they have incurred qualifying PIC expenditure in the current financial year.

The election is available for the deferment of tax payable for YA 2011 to YA 2014 based on the qualifying PIC expenditure incurred for the corresponding financial years 2011 to 2014.

The amount of tax that can be deferred is the lower of:

- (a) the amount of tax payable for the current YA; or
- (b) the amount of qualifying PIC expenditure incurred during the current financial period, subject to a cap of \$100,000 of tax payable.

There is also currently a cash payout option which is helpful in supporting small but growing businesses with lower taxable income that need cash to fund their investments in technology or upgrade their operations. A business may opt to convert qualifying expenditure of up to \$100,000 for each YA into cash at the rate of 60% (i.e. a cash payout of up to \$60,000) for YA 2013 to YA 2015, subject to meeting certain prescribed conditions.

Proposed

As the PIC cash payout serves a similar purpose to help businesses relieve cash-flow concerns, the tax deferral option will lapse with effect from YA 2015.

Effective: YA 2015

↑ Our view

The tax deferral option is not commonly used and is merely a cash-flow benefit. By allowing the tax deferral option under the PIC scheme to lapse, it should not have any significant impact on businesses. Companies may still use the PIC cash payout option to ease their cash flow.

Extending the Research & Development (R&D) tax measures

Currently, a taxpayer who incurs expenditure on qualifying R&D may claim the following tax benefits, where applicable:

- (a) Section 14D – 100% base deduction;
- (b) Section 14DA(1) – 50% additional deduction for R&D undertaken in Singapore;
- (c) Section 14DA(2) – 250%/300% enhanced deduction; and/or
- (d) Section 14E – further deduction for approved projects.

Sections 14DA(1) and 14DA(2) together with 14D provide the total 400% deduction for qualifying R&D expenditure under the PIC-R&D scheme, subject to the relevant PIC expenditure cap. If Section 14E is claimed for amount exceeding the PIC expenditure cap, the total amount of deduction allowed under Section 14E and Sections 14, 14D or 14DA in respect of any expenditure incurred by a person for an approved R&D project in Singapore shall not exceed 200% of such expenditure incurred.

“R&D” means any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the object of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce, or processes, but does not include:

- (a) Quality control or routine testing of materials, devices or products;
- (b) Research in the social sciences or the humanities;
- (c) Routine data collection;
- (d) Efficiency surveys or management studies;
- (e) Market research or sales promotion;
- (f) Routine modifications or changes to materials, devices, products, processes or production methods; or
- (g) Cosmetic modifications or stylistic changes to materials, devices, products, processes or production methods.

Qualifying R&D expenditure under Sections 14DA(1) and 14DA(2) are defined to include only staff costs, consumables, and any other expense prescribed by the Minister. This is a narrower definition of qualifying expenses than under Section 14D. Expenditure incurred on R&D performed outside of Singapore do not qualify for the additional deduction of 50% under Section 14DA(1).

Sections 14DA(1) and 14DA(2) will expire after YA 2015. No R&D projects may be approved under Section 14E after 31 March 2015.

Proposed

Extension of R&D tax measures

To continue to encourage R&D and to provide certainty to businesses, the Minister has proposed to extend the additional 50% tax deduction available under Section 14DA(1) for 10 years till YA 2025.

Effective: YA 2016 to YA 2025

In addition, to attract businesses to conduct large R&D projects in Singapore, the Minister has proposed to extend the further deduction permitted under Section 14E for 5 years till 31 March 2020.

Effective: 1 April 2015 to 31 March 2020

↑ Our view

Under the PIC, companies will continue to benefit from a maximum 400% deduction on qualifying R&D expenditure until YA 2018. Due to the long-term nature of investment in R&D, companies will appreciate the certainty and visibility accorded by the extension of the additional deduction until YA 2025, although the quantum of 50% could have been made more generous.

Extending and refining the Section 19B Writing Down Allowance (WDA) scheme

A person carrying on a trade or business who has incurred capital expenditure in acquiring any IPRs for use in that trade or business can claim WDA under Section 19B of the ITA. The WDA on the expenditure is claimable on a straight line basis over 5 years.

IPRs means the right to do or authorise the doing of anything which would, but for that right, be an infringement of any:

- (a) Patent;
- (b) Copyright;
- (c) Trademark;
- (d) Registered design;
- (e) Geographical indication;
- (f) Lay-out design of integrated circuit;
- (g) Trade secret or information with commercial value; and
- (h) Grant of protection of a plant variety (with effect from YA 2011).

To encourage Media and Digital Entertainment (MDE) companies to actively exploit their IPRs from Singapore, Budget 2009 introduced an accelerated 2-year WDA to approved MDE companies for the acquisition of qualifying IPRs pertaining to MDE content.

Section 19B WDA and the accelerated WDA for the MDE industry will expire in YA 2015.

Proposed

The Minister announced that Section 19B WDA will be extended for 5 years till YA 2020 and accelerated WDA for MDE companies will be extended for 3 years till YA 2018.

Companies can continue to claim a further 300% enhanced allowance up to \$400,000 (\$600,000 for qualifying SMEs with effect from YA 2015) of such qualifying costs under the PIC scheme.

All existing conditions of the Section 19B WDA remain unchanged.

Effective: Various

Further, to provide clarity on the types of items that would not meet the description of “information with commercial value” in item (g), a negative list will be legislated to exclude the following types of information:

- (a) Customer-based intangibles; and
- (b) Documentation of work processes.

This is to ensure that the encouragement of the economic exploitation of confidential “information” is restricted to the same class or nature as trade secrets, as well as other forms of IPRs for example, patents, trademarks, registered designs, etc. as defined in the ITA.

The IRAS will release the negative list by the end of April 2014 and will be legislated by the end of December 2014.

Effective: Details to be announced by IRAS by the end of April 2014

↑ Our view

It appears that customer-based intangibles may include existing customer list(s) and documentation of work processes may include standard operating procedures. We expect this to be clarified in due course. The extension of Section 19B WDA should enable Singapore to be a competitive and attractive choice as an international IPRs holding location and continue to build Singapore as an IP hub.

Extending the Section 14A tax deduction scheme for registration costs of Intellectual Property (IP)

Currently, a person carrying on a trade or business is allowed to claim 100% deduction under Section 14A of the ITA on the costs incurred to register the following qualifying IPs:

- (a) patent;
- (b) trademarks;
- (c) designs; and
- (d) plant varieties.

The scope of Section 14A of the ITA was expanded for YA 2011 to YA 2015 to include the above in line with the introduction of the PIC Scheme. It allows a further 300% deduction on qualifying costs incurred to register patents, trademarks, designs and plant varieties.

Qualifying IP costs means the fees paid to:

- (a) The Registry of Patents, Registry of Trade Marks, Registry of Designs or Registry of Plant Varieties in Singapore or an equivalent registry outside Singapore for the –
 - (i) filing of an application for a patent for registration of a trademark or design, or for the grant of protection of a plant variety;
 - (ii) search and examination report on the application for a patent;
 - (iii) examination report on the application for grant of protection of a plant variety; or
 - (iv) grant of a patent; and

- (b) Any person acting as an agent for:
- (i) applying for any patent, for the registration of a trademark or design, or for the grant of protection of a plant variety, in Singapore or elsewhere;
 - (ii) preparing specifications or other documents for the purposes of the Patents Act (Cap. 221), the Trade Marks Act (Cap. 332), the Registered Designs Act (Cap. 266) or the Plant Varieties Protection Act (Cap. 232A) or the IP law of any other country relating to patents, trademarks, designs or plant varieties; or
 - (iii) giving advice on the validity or infringement of any patent, registered trademark, registered design or grant of protection of a plant variety;

Proposed

To encourage businesses to protect their IP, the Minister has proposed to extend the 100% tax deduction on registration costs of qualifying IP under Section 14A of the ITA for 5 years from from YA 2015 till YA 2020.

Businesses are allowed to continue to claim a further 300% tax deduction on up to \$400,000 (\$600,000 for qualifying SMEs) of such qualifying costs under the PIC Scheme from YA 2015 till YA 2018.

Effective: YA 2016

↑ Our view

The extension of the 100% tax deduction on registration costs of qualifying IP for 5 years till YA 2020 and the further 300% tax deduction under the PIC scheme on such qualifying costs till YA 2018 should encourage businesses in Singapore to continue to invest in innovation and to patent their inventions. These extensions should continue to make Singapore a more attractive base for R&D and IP management activities and should further enhance the commercialisation of innovation activities in Singapore.



Extending and enhancing the Land Intensification Allowance (LIA) scheme

The LIA scheme was first introduced in Budget 2010 to promote more intensive use of industrial land through more land-efficient and higher value activities.

Qualifying industry sectors and criteria

The LIA scheme currently applies to buildings or structures used for the following activities identified to have large land take:

- (a) Food, beverage and tobacco;
- (b) Printing and recorded media;
- (c) Manufacture of coke and refined petroleum products, petrochemicals, chemicals;
- (d) Manufacture of pharmaceuticals and biological products;
- (e) Manufacture of computers, semiconductors, communications, equipment etc.;
- (f) Land transport;
- (g) Aerospace;
- (h) Marine and offshore engineering;
- (i) Medical technology;
- (j) Machinery and systems; and
- (k) Other manufacturing industries.

Businesses engaged in the above activities may claim LIA on qualifying expenditure incurred for the construction of a qualifying building or structure provided the following qualifying criteria are met:

- (a) The land on which the building or structure is to be built is zoned as Business 1 or Business 2 (excluding Business 1 White and Business 2 White) under the URA Master Plan;
- (b) The building or structure meets the Gross Plot Ratio (GPR) benchmark relevant to the industry sector of the building user. The GPR benchmark is based on that applicable at the time the business submits to URA the development application for the building or structure; and
- (c) At least 80% of the total floor area of the building or structure is in use by a single user for carrying out the qualifying activity.

The LIA scheme is scheduled to lapse after 30 June 2015.

Proposed

The scheme will be extended for a further 5 years till 30 June 2020 in an effort to continue encouraging businesses to optimise land use.

In addition to the activities specified above, the LIA scheme will be enhanced to include the logistics sector and businesses carrying out qualifying activities on airport and port land.

The Minister has also proposed to introduce a new condition that will require existing buildings that have already met or exceeded the GPR benchmark to meet a minimum GPR criterion of 10%.

All other existing conditions of the scheme remain unchanged. Implementation details will be announced by EDB by end-May 2014.

Effective: 22 February 2014 to 30 June 2020

↑ Our view

The LIA scheme, which aims to encourage businesses to focus on land productivity by intensifying industrial land use through more efficient and higher value-added activities, is fully aligned with the Government's focus on increasing productivity and promoting innovation. Further, the LIA scheme helps reconcile the need to attract more investments in specialised industries that take up significant land, with the reality of a limited supply of land. Accordingly, it makes good sense to extend the LIA scheme for a further period of 5 years.

Waiving the withholding tax requirement for payments made to branches in Singapore

Currently, Sections 12(6) and 12(7) of the ITA provide that payments, such as interest and royalty payments, which are borne directly or indirectly by a person resident in Singapore or a PE in Singapore (except in respect of any business carried on outside Singapore through a PE outside Singapore) or which are deductible against any income accruing in or derived from Singapore, are deemed to be derived from Singapore.

For such payments falling within the ambit of Sections 12(6) and 12(7) of the ITA which are paid/payable to a non-resident person for the purpose of the trade or business of the payer, the payer has to withhold tax on such payments. This includes payments made to PEs that are Singapore branches of non-resident companies. An exception to this is payments made to Singapore branches of non-resident banks. For Singapore branches of non-resident companies which are not banks, withholding tax would be applicable when they receive payments from their Singapore customers unless they apply for waiver of withholding tax on such payments.

Proposed

The Minister has proposed that payers will no longer need to withhold tax on Sections 12(6) and 12(7) payments made to PEs that are Singapore branches of non-resident companies to reduce compliance costs for businesses. These branches in Singapore will continue to be assessed for income tax on such payments that they receive and will be required to declare such payments in their annual tax returns.

This change will take effect for payment obligations that arise on or after 21 February 2014.

Effective: Immediate

↑ Our view

The proposed automatic withholding tax waiver is a welcomed move that reduces the administrative burden and also demonstrates the Government's commitment to reducing business running costs.

Treating Basel III Additional Tier 1 Instruments as debt for tax purposes

On 28 June 2011, the MAS announced that Singapore incorporated banks will be required to meet new capital adequacy requirements in line with the Basel III global standards on bank capital adequacy.

Under MAS Notice 637, Singapore incorporated banks will be required to meet a minimum Common Equity Tier 1 (CET 1) capital adequacy ratio (CAR) of 6.5%, Tier 1 CAR of 8% and Total CAR of 10% from 1 January 2015, which are 2% higher than the Basel III minimum requirements.

In addition, MAS requires Singapore incorporated banks to meet Basel III minimum requirements from 1 January 2013, two years ahead of the Basel Committee on Banking Supervision's 2015 timeline. This means that from 1 January 2013, Singapore incorporated banks are required to meet a minimum CET 1 CAR of 4.5% and Tier 1 CAR of 6%. MAS' existing requirement for total CAR remains unchanged at 10%.

Under the minimum requirements of Basel III, banks are required to hold at least 6% of their risk-weighted assets (RWA) in the form of Tier 1 capital, of which up to 1.5% of the Tier 1 capital may be in the form of additional Tier 1 (AT1) capital.

The tax treatment of AT1 capital instruments has not been certain.

Proposed

To provide tax certainty and maintain a level-playing field for Singapore incorporated banks which issue Basel III AT1 instruments, such instruments other than shares will be treated as debt for tax purposes. Accordingly, distributions on such instruments will be deductible for issuers and taxable in the hands of investors, subject to existing rules.

The tax treatment will apply to distributions accrued in the basis period for YA 2015 and thereafter, in respect of such instruments issued by Singapore incorporated banks (excluding their foreign branches) that are subject to MAS 637.

MAS will release further details by the end of May 2014.

Effective: YA 2015

↑ Our view

This is a welcomed development for Singapore incorporated banks as it provides certainty on the tax treatment of distributions on Additional Tier 1 capital instruments. The tax treatment of the Additional Tier 1 capital issuances that we have seen to-date in the market has not been certain; and this had the potential to be a factor for Singapore banks as they seek to issue MAS 637 compliant capital. This development provides not just a certain tax treatment which is crucial in capital markets transactions but also a level-playing field for Singapore incorporated banks.

Enhancing and refining tax incentive schemes for qualifying funds

Singapore is a key location for fund managers and advisors as well as funds to be based in. To promote the fund management industry in Singapore, there are tax exemption schemes which have created a safe harbour for certain income and gains derived by prescribed funds which are managed by Singapore-based fund managers (Qualifying funds), provided certain conditions are met.

Qualifying funds comprise the following:

- Trust funds with resident trustee – Section 13C scheme
- Offshore funds – Section 13CA scheme
- Singapore resident corporate funds – Section 13R scheme
- Enhanced-tier funds – Section 13X scheme

These Qualifying funds currently enjoy the following tax incentives under the tax exemption schemes:

- (a) Tax exemption in respect of income and gains derived from designated investments, subject to certain exceptions. The list of designated investments covers a wide range of investments, including stocks, shares, securities and derivatives. A key exclusion is immovable property in Singapore.
- (b) Withholding tax exemption in respect of interest payments made by these funds for the purpose of their trade or business to non-resident persons.

The sunset clause for the tax exemption schemes is currently 31 March 2014. All funds which are Qualifying funds on or before 31 March 2014 will continue to enjoy the tax incentives after 31 March 2014, subject to their meeting the conditions under their respective tax exemption scheme.

Under the Section 13CA and Section 13R tax exemption schemes, if Qualifying funds have non-qualifying investors, a financial penalty is imposed on the non-qualifying investors. An investor is a non-qualifying investor if the investor is, essentially, a Singapore based non-individual or a non-bona fide entity having a 30% or more interest in the fund if the

fund has less than 10 owners or a 50% or more interest if the fund has 10 or more owners. Whether there are any non-qualifying investors is determined on the last day of the Qualifying fund's basis period for the relevant YA and the ownership levels are based on the historical value of the Qualifying fund's issued securities.

Proposed

The Sections 13CA, 13R and 13X tax exemption schemes will be extended for 5 years till 31 March 2019. The Section 13C scheme will be allowed to lapse after 31 March 2014.

In addition, the Sections 13CA, 13R and 13X schemes will be refined as follows:

- (a) The Section 13CA scheme will be expanded to include trust funds with resident trustees, which are presently covered under the Section 13C scheme.

Effective: 1 April 2014

- (b) The list of designated investments will be expanded to include loans to qualifying offshore trusts, interest in certain limited liability companies and bankers acceptance.

Effective: Immediate

- (c) The investor ownership levels for the Sections 13CA and 13R schemes will be computed based on the prevailing market value of the issued securities on that day instead of the historical value.

Effective: 1 April 2014

Other existing conditions of the schemes remain unchanged. The MAS will release further details of the changes by end of May 2014.

← Our view

We welcome the 5-year extension of the tax exemption schemes to 31 March 2019. We are also pleased to see that the list of investments which qualify for exemption under those schemes has been expanded. However, we would have also liked to see a change which allows wholly-owned Singapore subsidiaries of Singapore based Qualifying funds to automatically enjoy the same tax incentives as the Qualifying funds themselves. This additional change would, in our view, further enhance the tax incentive schemes for funds at a time when Hong Kong is also enhancing its tax incentives for funds.

Enhancing the foreign-sourced income exemption scheme for listed infrastructure Registered Business Trusts (RBTs)

Currently, foreign-sourced income derived by listed infrastructure RBTs in Singapore is exempted from tax if the income falls within certain scenarios specified under Section 13(12) of the ITA. Tax exemption for foreign-sourced income received in all other situations must be approved by the MoF, on a case-by-case basis, including the tax exemptions for foreign-sourced dividends that originate from interest income and foreign-sourced interest income derived from a qualifying offshore infrastructure project/asset.

Proposed

To accord listed infrastructure RBTs in Singapore greater tax certainty, thereby facilitating the listing of more infrastructure assets in Singapore, the foreign-sourced income exemption for listed infrastructure RBTs will be enhanced as follows:

- (a) The specified scenarios under Section 13(12) will be expanded to cover dividend income originating from foreign-sourced interest income so long as it relates to the qualifying offshore infrastructure project/asset. IRAS will continue to verify that the qualifying conditions are met for all specified scenarios; and
- (b) Interest income derived from a qualifying offshore infrastructure project/asset will automatically qualify for Section 13(12) exemption provided certain conditions are met. With the change, the IRAS will verify that the qualifying conditions are met instead of the current case-by-case approval by the MoF.

The IRAS will release further details, including the effective date of these enhancements, by end-May 2014.

Effective: Details to be announced by IRAS in May 2014.

↑ Our view

This proposal is in line with the Government's initiatives to encourage listing of more infrastructure assets in Singapore and make it more attractive for international investors to base and list their businesses in Singapore. The proposed tax exemption (subject to meeting of certain conditions) will be welcomed by listed infrastructure RBTs as it will provide greater certainty on the tax treatment of foreign-sourced dividends that originate from interest income and foreign-sourced interest income derived from a qualifying offshore infrastructure project/asset. It also reduces the RBTs' administrative burden, and delays which can sometimes occur, in applications to the MoF for tax exemption before such foreign-sourced income can be received/remitted into Singapore. However, notwithstanding the removal of the application requirement, the listed infrastructure RBTs nevertheless need to ensure the relevant conditions are met.

Refining the Designated Unit Trust (DUT) scheme

A DUT is defined in Section 35(14) of the ITA as any unit trust scheme designated by the Minister or such person as he may appoint.

A DUT enjoys certain statutory income exclusions and such income is not taxed on the trustee, but is taxed upon distribution in the hands of certain investors. Qualifying foreign investors and individuals are exempted from tax on any distribution made by a DUT.

The main qualifying criteria of the DUT scheme are as follows:

- (a) the unit trust is a collective investment scheme that is
 - (i) authorised under section 286 of the Securities and Futures Act (SFA) and is open to public subscription;
 - (ii) authorised under section 305 of the SFA, i.e. a Restricted Authorised Scheme (RAS); or
 - (iii) exempted from authorisation under section 304 of the SFA;
- (b) the unit trust is not a real estate investment trust or property trust that invests directly in Singapore immovable properties;
- (c) the trustee is tax resident in Singapore; and
- (d) the investment or fund manager holds a capital markets services licence for fund management under the SFA or is exempt from the requirement to hold such a licence under that Act.

To the extent that the qualifying criteria are met, the DUT scheme is available to both retail unit trusts and other unit trusts which are targeted at sophisticated and institutional investors.

Proposed

The Minister has proposed that the DUT scheme will be streamlined and rationalised as follows:

- (a) the DUT scheme will be limited to unit trusts offered to retail investors with effect from 21 February 2014. Non-retail unit trusts may consider other fund schemes;
- (b) existing non-retail unit trusts that were approved under the DUT Scheme prior to 21 February 2014 may continue to retain their DUT status; and
- (c) from 1 September 2014, subject to meeting the conditions, unit trusts do not have to apply for the DUT scheme to enjoy the benefits of the scheme.

Other existing conditions of the DUT scheme remain unchanged and a review date of 31 March 2019 will be introduced.

Effective: Details to be announced by MAS by end-May 2014

← Our view

For unit trusts that are targeted at sophisticated and institutional investors, there are currently other fund schemes that accord similar benefits as the DUT scheme. Therefore, it is timely that the DUT scheme is now rationalised and limited to unit trusts offered to retail investors. Furthermore, due to the requirements of the other fund schemes, they may not be suited for retail investors.

Allowing the Investment Allowance (IA) scheme for aircraft rotables to lapse

Investment allowance is currently available under Part X of the EEIA upon application in respect of fixed capital expenditure to be incurred for a specific project. Once approval is obtained, a company is granted IA based on a specified percentage of the approved fixed expenditure incurred for an approved project, within a specified period. The percentage of allowance may vary from project to project and will not exceed 100% of qualifying expenditure. The IA is given in addition to the normal capital allowance provided in ITA.

The IA scheme for aircraft rotables was introduced in 2004 for a period of 5 years to encourage investment in aircraft rotables for the provision of aerospace maintenance, repair and overhaul (MRO) services. The scheme was renewed for another 5 years from 1 April 2010 and is scheduled to expire on 31 March 2015.

Proposed

The IA scheme for aircraft rotables will lapse after 31 March 2015.

Effective: 1 April 2015

↑ Our view

The IA scheme for aircraft rotables was introduced in 2004 to develop the aerospace industry, particularly to encourage the greater use of rotables by companies that were providing aerospace MRO services. The scheme has been successful and Singapore has become the region's aerospace hub as well as a leader in aerospace MRO services. We believe the scheme has been allowed to lapse as its intention, i.e. the development of the MRO services sector, has been achieved.

Personal tax

Personal tax rates

The personal tax rates have remained the same as the prior year as the Minister has not proposed any changes in the tax rates.

The personal tax rate table for YA 2014 is enclosed in Appendix D.

↑ Our view

Given the need for increased funding of the Pioneer Generation package and subsidies for health care and education, etc., there was speculation of the possibility of an increase in personal tax rates for high-income individuals to make our tax system even more progressive. It is a relief to such high-income individuals that the Minister has not proposed to increase the personal tax rates. Notwithstanding that, it would have been good if the Minister had granted a tax rebate for YA 2014 to help individual taxpayers cope with rising costs in Singapore.

Enhancing the Parent and Handicapped Parent Reliefs

Currently, a tax resident individual may claim parent/handicapped parent relief in a YA if he/she supported his/her or his/her spouse's parents, grandparents and great-grandparents (collectively referred to as "parents"). The current quantum of parent/handicapped parent relief granted for each parent is as follows:

Type of relief	Current relief quantum up to YA 2014
Parent Relief (individual staying with dependant)	\$7,000
Parent Relief (individual not staying with dependant)	\$4,500
Handicapped Parent Relief (individual staying with dependant)	\$11,000
Handicapped Parent Relief (individual not staying with dependant)	\$8,000

Currently, parent/handicapped parent relief in respect of a qualifying parent can only be claimed by one claimant in any YA. Where the family members are unable to agree among themselves on who is to claim the parent/handicapped parent relief, the CIT has the discretion to decide to whom the relief will be allowed.

Proposed

To provide greater encouragement and recognition to individuals supporting their parents, the Minister has proposed to increase the quantum of parent/handicapped parent relief, with individuals who are staying with these dependants enjoying a higher relief quantum, as follows:

Type of relief	Relief quantum with effect from YA 2015
Parent Relief (individual staying with dependant)	\$9,000
Parent Relief (individual not staying with dependant)	\$5,500
Handicapped Parent Relief (individual staying with dependant)	\$14,000
Handicapped Parent Relief (individual not staying with dependant)	\$10,000

Recognising that care for parents is a shared responsibility among family members, claimants of parent/handicapped parent relief will be able to share the relief according to the claimants' agreed proportion. If more than one claimant is making the claim and the claimants cannot come to an agreement on the apportionment ratio among themselves, the CIT will apportion the relief equally among all claimants.

Effective: YA 2015

↑ Our view

The proposed increase in reliefs is consistent with the Government's social policies of promoting filial piety and encouraging caring for the elderly parents in view of the rapidly aging population in Singapore.

Enhancing the Handicapped Dependant Reliefs

Currently, individuals who have supported their physically or mentally handicapped spouse, sibling and/or child can claim the respective handicapped dependant reliefs as follows:

Type of relief	Current relief quantum up to YA 2014
Handicapped Spouse relief	\$3,500
Handicapped Sibling relief	\$3,500
Handicapped Child relief	\$5,500

Proposed

To boost support for individuals with handicapped dependants, the Minister has proposed to increase the reliefs for those caring for their handicapped spouse, sibling and/or child as follows:

Type of relief	Relief quantum with effect from YA 2015
Handicapped Spouse relief	\$5,500
Handicapped Sibling relief	\$5,500
Handicapped Child relief	\$7,500

Effective: YA 2015

↑ Our view

This is in line with the Government's focus to build an "inclusive society" and consider those with disabilities. It is a nice gesture to provide greater recognition and support for individuals who care for their handicapped dependants.

Removing transfers of qualifying deductions and deficits between spouses

Currently, a married taxpayer can transfer the following qualifying deductions and deficits to his/her spouse for a particular YA:

- (a) Unabsorbed trade losses;
- (b) Unabsorbed capital allowances;
- (c) Unutilised donations; and
- (d) Rental deficits.

Further, the taxpayer can carry back any unabsorbed trade losses or capital allowances to set-off against the income of his or her spouse for the immediate preceding YA under the loss carry-back scheme.

Proposed

The Minister has proposed that with effect from YA 2016, married couples can no longer transfer qualifying deductions and deficits between each other (including under the loss carry-back scheme).

As a transitional concession, qualifying deductions and deficits incurred by a married couple during and before YA 2015 will still be allowed inter-spousal transfers up until YA 2017, subject to current rules.

Any unabsorbed trade losses or capital allowances of the taxpayer may still be carried forward to future years to be set-off against the future income of the taxpayer, until the amount is fully utilised, subject to current rules. Similarly, any unutilised donations of the taxpayer may be carried forward to future years to be set-off against the future income of the taxpayer, up to a maximum of five years.

The IRAS will release further details of the change by end-May 2014.

Effective: YA 2016

↑ Our view

In practice, we note that the above is beneficial to a limited number of individuals and their spouses. It is therefore understandable that the Minister has proposed to remove the transfer of deductions and deficits between spouses in view of the administrative burden of tracking the amount of deductions and deficits that are transferred between spouses.

Removing Section 40 Relief

Currently, certain categories of non-resident individuals are entitled to Section 40 relief that would reduce the individuals' tax payable on their aggregate income (worldwide income) to an amount equivalent to what they should have been liable to pay had they been assessed as tax resident in Singapore and entitled to personal income tax reliefs.

The categories of individuals include the following:

- (a) Singapore citizens who are treated as non-residents;
- (b) Non-resident individuals who derive Singapore-sourced pension income; and
- (c) Non-resident individuals who are residents of countries with which Singapore has a tax treaty that accords such benefits on a reciprocal basis.

The mechanics of claiming Section 40 relief are complex.

Proposed

To simplify the personal income tax system, the Minister has proposed to remove the Section 40 relief.

Effective: YA 2016

↑ Our view

Section 40 relief was to accord relief to non-resident individuals who were subject to tax on Singapore-sourced income during the time when the Singapore tax rate for such individuals was at 40%. Given the reduction in tax rates over the years for non-resident individuals (currently at 20% on other income and 15% on employment income), the Section 40 relief is no longer relevant.



Indirect tax

Recovery of GST for qualifying funds

Strictly under the law, only GST-registered funds can claim GST input tax recovery on costs. To further position Singapore as a centre for fund management and administration, in 2009, the MoF introduced a simplifying GST remission rule to allow qualifying funds managed by prescribed fund managers in Singapore which are not GST registered, to claim GST input tax recovery on costs based on certain fixed rates.

These fixed recovery rates have applied from 22 January 2009 through 31 March 2014 as follows:

Applicable period	Fixed recovery rate
22 Jan to 31 Dec 2009	93%
1 Jan to 31 Dec 2010	92%
1 Jan to 31 Dec 2011	91%
1 Jan to 31 Dec 2012	90%
1 Jan to 31 Dec 2013	87%
1 Jan to 31 Mar 2014	90%

Proposed

To further encourage the Singapore fund management sector, the concession will be extended for 5 years till 31 March 2019. MAS will release further details of the change by the end of March 2014.

Effective: 1 April 2014 to 31 March 2019

↑ Our view
This is a welcomed extension of a popular concession, particularly in challenging times for the fund management industry here.

Others

Changes to CPF contribution rates

Currently, the employer and employee CPF contribution rates for employees who are Singapore citizens or SPRs (with effect from the third year of obtaining the SPR status) are as follows:

Employee age (Years)	Contribution rate (%) (for monthly wages exceeding \$1,500)			Credited to (% of wage)		
	Employer	Employee	Total	Ordinary account	Special account	Medisave account
35 and below	16	20	36	23	6	7
Above 35 to 45	16	20	36	21	7	8
Above 45 to 50	16	20	36	19	8	9
Above 50 to 55	14	18.5	32.5	13.5	9.5	9.5
Above 55 to 60	10.5	13	23.5	12	2	9.5
Above 60 to 65	7	7.5	14.5	3.5	1.5	9.5
Above 65	6.5	5	11.5	1	1	9.5

The CPF ordinary wage ceiling is \$5,000 per month. The additional wage ceiling is limited to \$85,000 less total ordinary wages subject to CPF.

Proposed

In order to meet future healthcare costs, the Minister has proposed to increase the employer CPF contribution rates by 1% for all employees. This increase will be channelled to the Medisave Account.

On top of the 1% increase in the Medisave Account mentioned above, the Minister has also proposed to increase the employer and employee CPF contribution rates for workers aged above 50 to 55 years by 1% and 0.5% respectively and the employer CPF contribution rates for workers aged above 55 to 65 years by 0.5%.

The increase in the employer and employee contribution rates will be allocated to the Special Account and the Ordinary Account respectively.

The proposed CPF contribution rates are as follows:

Employee age (Years)	Contribution rate (%) (for monthly wages exceeding \$1,500)			Credited to (% of wage)		
	Employer	Employee	Total	Ordinary account	Special account	Medisave account
35 and below	17	20	37	23	6	8
Above 35 to 45	17	20	37	21	7	9
Above 45 to 50	17	20	37	19	8	10
Above 50 to 55	16	19	35	14	10.5	10.5
Above 55 to 60	12	13	25	12	2.5	10.5
Above 60 to 65	8.5	7.5	16	3.5	2	10.5
Above 65	7.5	5	12.5	1	1	10.5

Effective: 1 January 2015

↑ Our view

The proposed increase in contribution rates towards Medisave Account for Singaporean and SPR employees will enhance affordability of future healthcare costs, and also give recognition of the need for older workers to accumulate more retirement savings. However, the across-the-board 1% increase comes as a surprise and will result in higher business costs in the long run, despite the temporary offsets provided by the Government. Nevertheless, businesses should view this as a positive measure to boost staff morale at a relatively reasonable cost.

Streamlining of stamp duty rate structure

The current stamp duty structures are as follows:

(a) Leases of immovable property

Leases of immovable property with average annual rent (AAR) equal or less than \$1,000 are exempt.

Where AAR exceeds \$1,000:

Lease period	Stamp duty rates
Up to one year	\$1 for every \$250 or part thereof of the AAR
Exceeding one but not exceeding three years	\$2 for every \$250 or part thereof of the AAR
Exceeding three years or for any indefinite term	\$4 for every \$250 or part thereof of the AAR

(b) Buyer's stamp duty – Land premiums and purchase of property

Purchase price or market value (whichever is higher)	Buyer's stamp duty rates
First \$180,000	\$1 for every \$100 or part thereof
Next \$180,000	\$2 for every \$100 or part thereof
Remainder	\$3 for every \$100 or part thereof

(c) Shares transfer and mortgages

Types of instruments	Stamp duty rates
Transfer of stock or shares	\$0.20 for every \$100 or part thereof of the purchase price or market value of the stock or shares transferred, whichever is higher
Mortgage instruments	\$2 or \$4 for every \$1,000 or part thereof (depending on the type of mortgage instrument*), subject to maximum duty of \$500

* Mortgage (\$4), equitable mortgage (\$2), variation to mortgage (\$4), transfer, assignment or disposition of any mortgage or debenture (\$2)

Proposed

(a) Leases of immovable property

Leases of immovable property with AAR equal or less than \$1,000 will continue to be exempt.

Where AAR exceeds \$1,000:

Lease period	Stamp duty rates
Up to four years	0.4% of the total rent for the entire period of the lease
Exceeding four years or for any indefinite term	0.4% of four times of the AAR for the entire period of the lease

(b) Buyer's stamp duty – Land premiums and purchase of property

Purchase price or market value (whichever is higher)	Buyer's stamp duty rates
First \$180,000	1%
Next \$180,000	2%
Remainder	3%

(c) Shares transfer and mortgages

Types of instruments	Stamp duty rates
Transfer of stock or shares	0.2% of the purchase price or market value of the stock or shares transferred, whichever is higher
Mortgage instruments	0.2% or 0.4% of the relevant amount (depending on the type of mortgage instrument*), subject to maximum duty of \$500

* Mortgage (0.4%), equitable mortgage (0.2%), variation to mortgage (0.4%), transfer, assignment or disposition of any mortgage or debenture (0.2%)

Effective: 22 February 2014

↑ Our view

The proposed change to (a) takes into account the actual lease period which should result in lower stamp duty payable in cases where the lease does not run for complete years. The proposed changes to (b) and (c) would certainly make it easier to apply the rates in calculating the stamp duty payable and any impact would be small.

Enhancement of Special Employment Credit (SEC)

The SEC was first introduced in Budget 2011 to provide employers with support to attract and retain older Singaporean workers. Currently, the SEC is given to employers who hire Singaporean workers aged above 50 and earning up to \$4,000 per month between 1 January 2012 and 31 December 2016. Employers will receive an SEC of 8% of the employee's monthly wage of up to \$3,000. The SEC amount will be lower for employees with a monthly wage of between \$3,000 and \$4,000.

Proposed

To help employers cope with cost increases associated with the increase in CPF contribution rates effective from 1 January 2015, the SEC will be enhanced for one year with an additional offset of up to 0.5% of wages. With this enhancement, employers who hire Singaporean workers aged above 50 between 1 January 2015 and 31 December 2015 will receive an SEC of 8.5% of the employee's monthly wage of up to \$3,000. The SEC amount will be lower for employees with a monthly wage of between \$3,000 and \$4,000.

In addition, employers of persons with disabilities (PWDs) aged above 50 will receive a one-time SEC enhancement of up to 1% for work done in 2015. This will increase the SEC quantum to up to 17% of the monthly wage for PWDs.

Effective: 1 January 2015 to 31 December 2015

Temporary Employment Credit (TEC)

To help employers manage the rise in business costs with the increase in the employer CPF contribution rate of 1%, employers will receive a one-year TEC of 0.5% offset on wages for Singapore citizens and SPRs up to the CPF salary ceiling of \$5,000 per month. This will be made based on the employees' wages paid in 2015.

Further details will be made available at a later date.

Effective: 1 January 2015 to 31 December 2015

↑ Our view

The enhancement to the SEC and introduction of the TEC is meant to provide temporary relief to offset the increase in employer CPF contribution rate. Businesses will need to manage the increase in salary costs in the long run. As with the SEC payouts, we expect the TEC payments to be taxable to businesses.

Introducing a review date for the Approved Building Project (ABP) scheme

Property tax exemption for land under development can be granted under the Property Tax (Exemption of Land under Development) Order 2001 if the development project on the land has been granted ABP status by the Minister. The ABP status is granted upon meeting all of the following criteria:

- (a) The date of commencement of foundation works of the project is on or after 1 May 2001;
- (b) The project has the support of the EDB;
- (c) The project involves substantial investment cost (excludes land costs); and
- (d) The project will create substantial spin-offs and benefits for Singapore.

The exemption is valid from the date of commencement of foundation works for a maximum period of 3 years, or till the date when Temporary Occupation Permit (TOP) is obtained, whichever is earlier.

Proposed

In order to ensure that the scheme continues to be relevant, the ABP scheme will be further reviewed on 31 March 2017 and this date will be legislated.

↑ Our view

The scheme has been useful in attracting major projects with substantial economic spin-offs to Singapore. This scheme has been reviewed several times in the past, having been withdrawn and reinstated. Given the scarcity of land in Singapore and the uncertain economic situations, having the review date legislated would help ensure the relevance of the scheme, allowing the period of exemption and/or the conditions for the ABP status to be changed to suit the needs of businesses and the objectives of the Government.

Extension of Carbon Emissions-based Vehicle Scheme (CEVS)

The CEVS was introduced last year to encourage drivers to take into consideration carbon emissions and fuel efficiency when purchasing a new or imported used car.

Under the scheme, vehicles with low carbon emissions of less than or equal to 160g carbon emissions per kilometer, qualify for a rebate of up to \$20,000, which is given as an offset against the vehicle's Additional Registration Fee (ARF). Vehicles with high carbon emissions equal to or more than 211g carbon emissions per kilometer incur a registration surcharge up to \$20,000. The scheme applies to all new cars, taxis and newly imported used cars registered with effect from 1 January 2013.

The MoF notes that more than 50% of the new cars registered in 2013 received CEVS rebates while about 10% paid the surcharge, and that this is an improvement over 2012, when approximately 40% of new cars registered would have been in the rebate bands and about 14% in the surcharge bands.

Proposed

The CEVS was originally set to expire on 31 December 2014. Although encouraged by the success of the Scheme to date, the Government needs more time to assess the full impact and so has extended CEVS to June 2015, with a view to continuing it thereafter.

Effective: 1 January 2015 to 1 June 2015

↑ Our view

The ARF was amended in March 2013 from a flat rate of 100% of the vehicle's Open Market Value (OMV) to a tiered structure of up to 180% of the OMV. This change significantly impacted the motor vehicle sales industry.

The CEVS has been a positive means of reducing the impact of the ARF while promoting the use of environmentally friendly vehicles. The extension of CEVS to June 2015, with a view to extending it thereafter, will be a welcomed development for motor vehicle dealers and purchasers alike.

10% increase in excise taxes for cigarettes and other manufactured tobacco products

With effect from 21 February 2014, excise duties will be increased for 13 line items of tobacco products. The specific changes are as follows:

HS code	Product description	Excise duty rate before 21 February 2014	New excise duty rate with effect from 21 February 2014
24022020	Clove cigarettes		
24022090	Other cigarettes containing tobacco	35.2 cents for every gram or part thereof of each stick of cigarette	38.8 cents for every gram or part thereof of each stick of cigarette
24029020	Cigarettes of tobacco substitutes		
24021000	Cigars, cheroots & cigarillos containing tobacco		
24029010	Cigars, cheroots & cigarillos of tobacco substitutes		
24031100	Water pipe tobacco (excluding tobacco-free products)		
24031919	Other smoking tobacco packed for retail sale		
24031990	Other smoking tobacco not packed for retail sale	\$352 per kg	\$388 per kg
24039110	Homogenised or reconstituted tobacco packed for retail sale		
24039190	Homogenised or reconstituted tobacco not packed for retail sale		
24039930	Manufactured tobacco substitutes		
24039940	Snuff, whether or not dry		
24039990	Other manufactured tobacco not for smoking		

Effective: Immediate

↑ Our view

The increases announced align with the Government's long-held objectives to increase excise duties on cigarettes and manufactured tobacco after the harmonisation of excise duties on other tobacco products was concluded last year.

It remains to be seen whether these announced increases will have any material impact in reducing the number of smokers in Singapore. It may, however, potentially impact smaller tobacco companies, as margins for inexpensive cigarettes will be reduced.

25% increase in excise taxes for most liquor products

With effect from 21 February 2014, excise duties on liquor products will generally increase by 25%. The specific changes are as follows:

HS code	Product description	Excise duty rate before 21 February 2014	New excise duty rate with effect from 21 February 2014
21069061	Alcoholic preparations in liquid form as raw material for making composite concentrates of a kind used for the manufacture of alcoholic beverages	\$70.00 per litre of alcohol	\$88.00 per litre of alcohol
21069062	Alcoholic preparations in other forms being raw material for making composite concentrates of a kind used for the manufacture of alcoholic beverages	\$90.00 per kgm	\$113.00 per kgm
21069064	Alcoholic composite concentrates in liquid form for simple dilution with water of a kind used for the manufacture of alcoholic beverages	\$70.00 per litre of alcohol	\$88.00 per litre of alcohol
21069065	Alcoholic composite concentrates in other forms for simple dilution with water of a kind used for the manufacture of alcoholic beverages	\$90.00 per kgm	\$113.00 per kgm
21069066	Other alcoholic preparations in liquid form of a kind used for the manufacture of alcoholic beverages	\$70.00 per litre of alcohol	\$88.00 per litre of alcohol
21069067	Other alcoholic preparations in other forms of a kind used for the manufacture of alcoholic beverages	\$90.00 per kgm	\$113.00 per kgm
22030010	Stout or porter		
22030090	Other beer including ale	\$48.00 per litre of alcohol	\$60.00 per litre of alcohol
22041000	Sparkling wine	\$70.00 per litre of alcohol	\$88.00 per litre of alcohol
22042111	Wine of fresh grapes not over 15% alcoholic in containers of 2 litres or less		
22042113	Wine of fresh grapes over 15% but not over 23% alcoholic in containers of 2 litres or less		
22042114	Wine of fresh grapes over 23% alcoholic in containers of 2 litres or less		
22042121	Grape must with fermentation prevented or arrested by addition of alcohol not over 15% alcoholic in containers of 2 litres or less		
22042122	Grape must with fermentation prevented or arrested by addition of alcohol over 15% alcoholic in containers of 2 litres or less	\$70.00 per litre of alcohol	\$88.00 per litre of alcohol
22042911	Wine of fresh grapes not over 15% alcoholic in containers of more than 2 litres		
22042913	Wine of fresh grapes over 15% but not over 23% alcoholic in containers of more than 2 litres		
22042914	Wine of fresh grapes over 23% alcoholic in containers of more than 2 litres		

HS code	Product description	Excise duty rate before 21 February 2014	New excise duty rate with effect from 21 February 2014
22042921	Grape must with fermentation prevented or arrested by addition of alcohol not over 15% alcoholic in containers of more than 2 litres		
22042922	Grape must with fermentation prevented or arrested by addition of alcohol over 15% alcoholic in containers of more than 2 litres		
22043010	Other grape must not over 15% alcoholic		
22043020	Other grape must over 15% alcoholic		
22051010	Vermouth & other wine of fresh grape flavoured with plants or aromatic substances not over 15% alcoholic in containers of 2 litres or less	\$70.00 per litre of alcohol	\$88.00 per litre of alcohol
22051020	Vermouth & other wine of fresh grape flavoured with plants or aromatic substances over 15% alcoholic in containers of 2 litres or less		
22059010	Vermouth & other wine of fresh grape flavoured with plants or aromatic substances not over 15% alcoholic in containers of more than 2 litres		
22059020	Vermouth & other wine of fresh grape flavoured with plants or aromatic substances over 15% alcoholic in containers of more than 2 litres		
22060010	Cider & perry	\$48.00 per litre of alcohol	\$60.00 per litre of alcohol
22060020	Sake	\$70.00 per litre of alcohol	\$88.00 per litre of alcohol
22060030	Toddy		
22060040	Shandy	\$70.00 per litre of alcohol	\$60.00 per litre of alcohol
22060091	Other rice wine		
22060099	Other fermented beverages mixtures of fermented beverages & mixtures of fermented beverages & non-alcoholic beverages		
22071000	Undenatured ethyl alcohol of alcoholic strength by vol of 80% or more	\$70.00 per litre of alcohol	\$88.00 per litre of alcohol
22082050	Brandy obtained by distilling grape wine or grape marc		
22082090	Other spirits obtained by distilling grape wine or grape marc		
22083000	Whiskies		
22084000	Rum & other spirits distilled from fermented sugar-cane products		

HS code	Product description	Excise duty rate before 21 February 2014	New excise duty rate with effect from 21 February 2014
22085000	Gin & geneva		
22086000	Vodka		
22087000	Liqueurs & cordials		
22089010	Medicated samsu not over 40% alcoholic		
22089020	Medicated samsu over 40% alcoholic		
22089030	Other samsu not over 40% alcoholic		
22089040	Other samsu over 40% alcoholic	\$70.00 per litre of alcohol	\$88.00 per litre of alcohol
22089050	Arrack or pineapple spirit not over 40% alcoholic		
22089060	Arrack or pineapple spirit over 40% alcoholic		
22089070	Bitters & similar beverages not over 57% alcoholic		
22089080	Bitters & similar beverages over 57% alcoholic		
22089090	Undenatured ethyl alcohol of less than 80% alcoholic & other spirituous beverages		
33021010	Odoriferous alcoholic preparations in liquid form for manufacture of alcoholic beverages		
33021020	Odoriferous alcoholic preparations in other forms for manufacture of alcoholic beverages	\$90.00 per kgm	\$113.00 per kgm

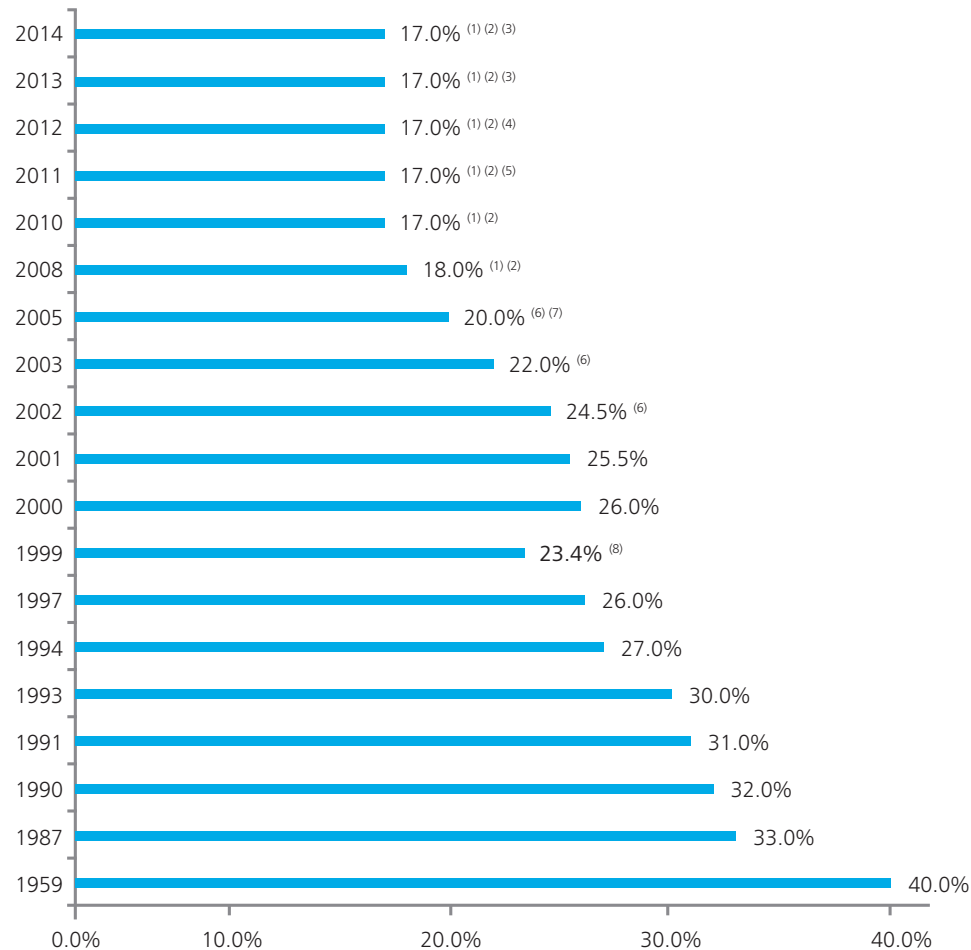
Effective: Immediate

↑ Our view

Being that these excise duty increases are the first in 10 years, it remains to be seen what impact these significant rate hikes will have on the food and beverage sector.

Appendix A

Singapore corporate tax rates for YAs 1959 to 2014

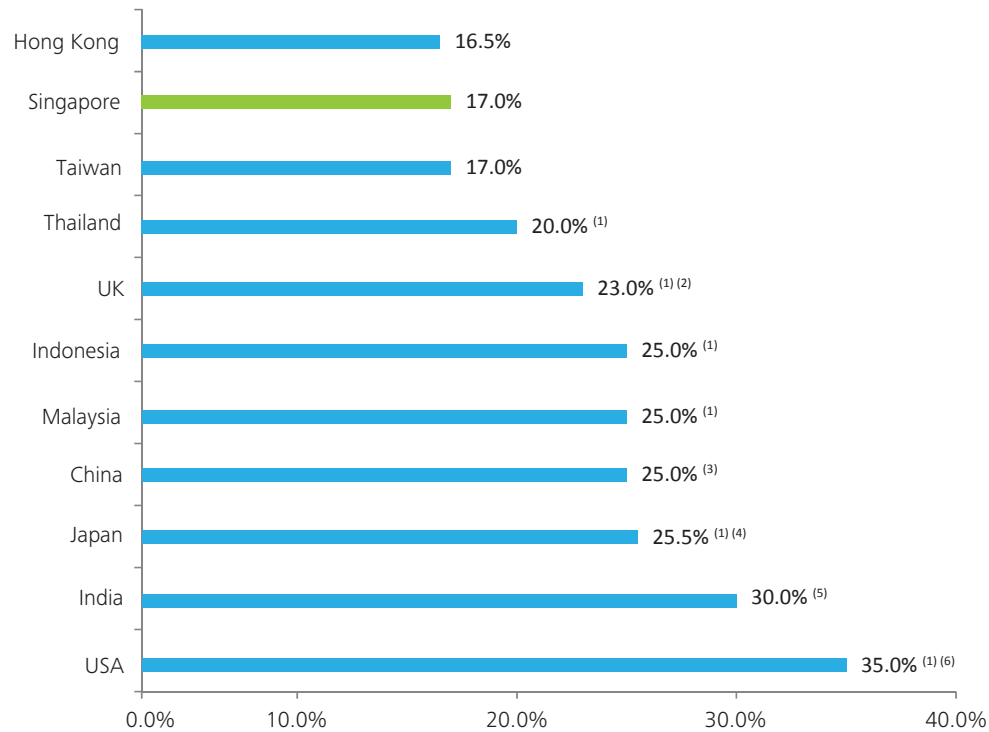


Notes:

- (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 chargeable income and 50% of the next \$200,000 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 30% of the tax payable up to a maximum rebate of \$30,000
- (4) A one-off SME cash grant of 5% of revenue, capped at \$5,000
- (5) A one-off corporate income tax rebate or SME cash grant computed at 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)
- (6) 75% of first \$10,000 and 50% of next \$90,000 of chargeable income are exempt from tax
- (7) For qualifying new companies, the first \$100,000 chargeable income is exempt from tax for any of the first 3 consecutive YAs falling within the period from YA 2005 onwards
- (8) Effective tax rate (net of 10% tax rebate)

Appendix B

Comparison of current corporate tax rates in selected countries



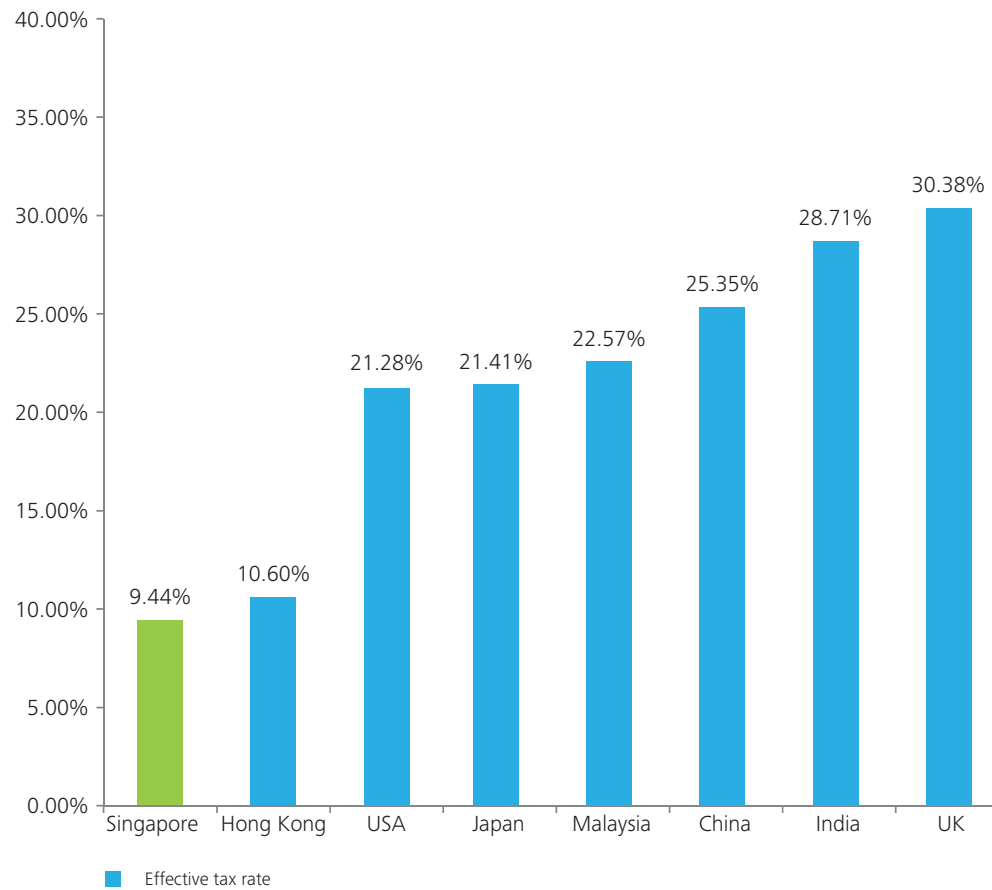
Notes

- (1) Lower rates of tax apply to income below certain levels
- (2) To reduce to 21% from 1 April 2014
- (3) A 20% rate applies to small-scale enterprises
- (4) After surtax, the effective tax rate is approximately 38% for the first three years beginning on or after 1 April 2012, and 35.64% thereafter
- (5) 40% for foreign companies
- (6) After other taxes, the total maximum effective tax rate is approximately 39.5%

Appendix C

Comparative personal effective tax rates for YA 2014

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



Appendix D

Rates of income tax for resident individuals for YA 2014

	Chargeable income (\$)	Tax rate (%)	Tax (\$)
On the first	20,000	0.00	0
On the next	<u>10,000</u>	2.00	<u>200</u>
On the first	30,000		200
On the next	<u>10,000</u>	3.50	<u>350</u>
On the first	40,000		550
On the next	<u>40,000</u>	7.00	<u>2,800</u>
On the first	80,000		3,350
On the next	<u>40,000</u>	11.50	<u>4,600</u>
On the first	120,000		7,950
On the next	<u>40,000</u>	15.00	<u>6,000</u>
On the first	160,000		13,950
On the next	<u>40,000</u>	17.00	<u>6,800</u>
On the first	200,000		20,750
On the next	<u>120,000</u>	18.00	<u>21,600</u>
On the first	320,000		42,350
Excess over	<u>320,000</u>	20.00	

Appendix E

Personal reliefs for YA 2014

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

With effect from YA 2010, relief is granted to taxpayer who is supporting a non-working husband (renamed spouse relief) with an annual income not exceeding \$4,000.

With effect from YA 2012, taxpayers can no longer claim spouse relief for maintaining their former spouses.

Handicapped dependant spouse relief

With effect from YA 2010, the income threshold condition in respect of the handicapped spouse is removed.

With effect from YA 2012, taxpayers can no longer claim handicapped spouse relief for maintaining their former spouses.

Handicapped dependant spouse relief (with effect from YA 2015)

\$2,000

\$3,500

\$5,500

Parent relief

Maximum of two parents*	Parent relief	Handicapped parent relief
Living in the same household	\$7,000	\$11,000
Not living in the same household	\$4,500	\$8,000

Parent relief – with effect from YA 2015

Maximum of two parents*	Parent relief	Handicapped parent relief
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 greatgrandparents who are living in Singapore and are 55 years old and above. In addition, the dependants must not have an annual income of more than \$4,000.

With effect from YA 2010, the income threshold condition in respect of handicapped dependant is removed.

With effect from YA 2015, where more than one taxpayer is claiming same relief on the same dependant, the relief shall be apportioned based on the claimants' agreed proportion or equally among all the claimants by the CIT.

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.

\$3,000

Handicapped siblings relief

Each dependant must have lived with the taxpayer in the same household in 2013. If not, the taxpayer must have incurred at least \$2,000 per annum in the maintenance of each dependant.

With effect from YA 2010, the income threshold condition is removed.

Where more than one taxpayer is claiming same relief on the same dependant, the relief shall be apportioned.

\$3,500

Handicapped siblings relief (with effect from YA 2015)

\$5,500

Child relief

	Qualifying Child Relief (QCR)	Handicapped Child Relief (HCR)
Per child	\$4,000	\$5,500

With effect from YA 2010,

- Child's annual income shall not exceed \$4,000.
- Income threshold condition for handicapped child is removed.

Handicapped child relief (with effect from YA 2015)

\$7,500

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/HRC + 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.

With effect from YA 2010, child's annual 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 applies for child, depending on whether 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.

Further tax rebate (FTR)

Claimants of FTR whose FTR balances have not been fully utilised as at 1 January 2005 can continue to draw on the FTR balance until the balance is fully utilised or up to 9 years following the year of birth of the child.

Approved provident fund/Life insurance relief

Compulsory contributions to CPF

Employees	Statutory CPF deductions
Ordinary wages	Statutory contributions fully allowed
Additional wage ceiling	Restricted to statutory contributions of \$85,000 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	\$30,600

Voluntary contributions to Medisave account

With effect from the YA 2012, voluntary contributions made to a taxpayer's Medisave account may be claimed as a deduction, subject to a cap of \$30,600 less total mandatory contributions per YA.

Life insurance premiums

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

CPF cash top-up

	Quantum of relief
Top-up in cash to taxpayer's parents' or taxpayer's grandparents', non-working spouse's or siblings' retirement accounts or special accounts under CPF Minimum Sum Topping-Up Scheme regardless of the age of the recipients.	\$7,000 (Maximum)
<ul style="list-style-type: none">• Non-working spouse or siblings must not have income of more than \$4,000 with effect from YA 2011• Recipients must be Singapore citizens or Singapore Permanent Residents• Where more than one person is entitled to such claim in respect of the same parent or grandparent, the relief shall be apportioned	
Top-up in cash by taxpayer or his employer to his retirement account or special account under the CPF Minimum Sum Topping-Up Scheme, regardless of the age of the recipients.	\$7,000 (Maximum)

Supplementary retirement scheme

Employees and self employed	Maximum contributions per year
Singapore Citizens or Permanent Residents	\$12,750
Foreigners	\$29,750

Course fees relief

	Quantum of relief
Fees (registration fees, examination fees, tuition fees), for courses, seminars and conferences: <ul style="list-style-type: none">• Relating to one's current trade, business, profession, vocation or employment in 2013;• Leading to an approved academic, professional or vocational qualification in 2013.	\$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)

NSmen relief

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

Foreign maid levy relief

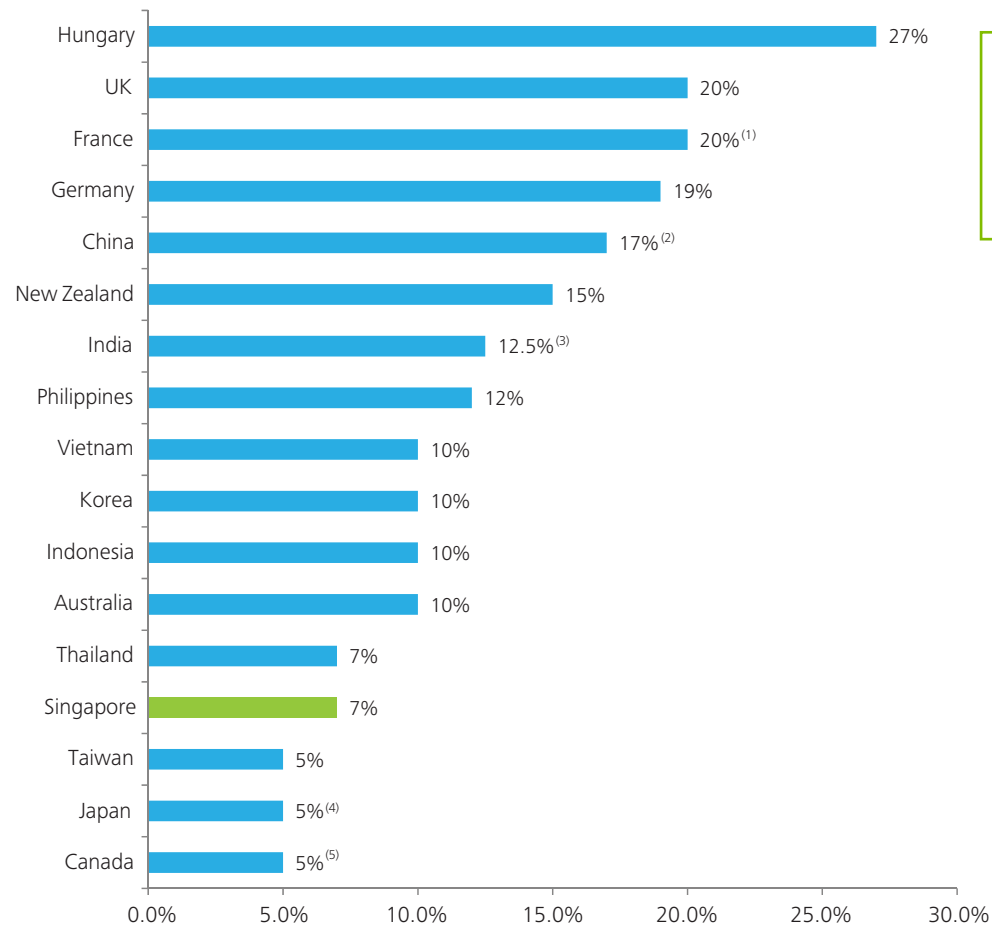
	Quantum of relief
For YA 2014	\$6,360 (Maximum)

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

(Twice the annual levy paid for 1 foreign maid.)

Appendix F

Comparative standard VAT/GST rates for 2014



- (1) France increased the VAT rate from 19.6% to 20% on 1 January 2014.
- (2) China has a VAT Pilot Reform in a number of cities across the country, replacing Business Tax with a modified form of VAT (rates vary up to 17%).
- (3) The Indian rate above is indicative only – India has a range of Indirect Taxes that vary state to state.
- (4) Japan has a 5% consumption tax at the moment, but is expected to increase to 8% on 1 April 2014 and further to 10% on 1 Oct
- (5) The Canadian rate above is indicative only – many provinces have additional taxes and/or a Harmonised Sales Tax in force.

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