PRIVATE & CONFIDENTIAL

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com

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Dear Sirs

Income Tax : Year of Assessment 2016
Basis Period : Financial Year Ended 2015

We wrote earlier last year regarding various tax matters applicable to your financial year end. We now take the opportunity to advise you of the following matters:-

SINGAPORE INCOME TAX

1. Annual Income Tax Return (Form C)

The 2016 Annual Income Tax Return ("Form C") will be issued by the Inland Revenue Authority of Singapore ("IRAS") shortly. Please forward the relevant Forms to us as soon as you receive them so that we can ensure their timely submission to the IRAS.

Eligible companies with annual revenue of S$1 million or below will be able to file their tax return using a simplified tax form, known as Form C-S. With Form C-S, eligible companies will only need to furnish essential tax and financial information and are not required to submit their financial accounts and tax computations. However, the financial accounts and tax computations are to be retained and submitted upon IRAS's request.

For the Year of Assessment 2016, the filing deadline is: -

- **30 November 2016** for paper submissions of Form C / Form C-S; and
- **15 December 2016** for electronic submissions of Form C / Form C-S

Please note that the IRAS has indicated that no extension will be granted beyond the abovementioned filing deadlines and **penalties are likely to be imposed** for late filing.

To enable us to prepare the income tax returns and assist the company in meeting the filing deadline, it is important that all details requested in Appendix II (Tax Schedules - see point 6, Page 5) are furnished to us as soon as possible and, in any event, not later than April 30, 2016.

2. Employer's Returns - Form IR 8A, Appendix 8A, Appendix 8B and Form IR 8S

Every employer is required to complete the Form IR 8A, Appendices 8A and 8B and Form IR 8S (where applicable) for their employees.

Please do not hesitate to call us should you require any assistance with the filing of these returns. Meanwhile, arrangements should be made to collate the necessary information to enable accurate and prompt completion of these returns. These returns are due for submission by employees together with their annual tax returns (Form B) by April 15, 2016. A penalty is normally imposed for late submissions.

However, employers who have 11 or more employees for the entire year ended December 31, 2015 or who have received the "Notice to File Employment Income of Employees Electronically" must submit their employees' income information to IRAS electronically by March 1, 2016 under the Auto-Inclusion Scheme ("AIS"). The employment income information will then be shown on the employees' electronic tax return and automatically included in their income tax assessments.

3. Payments to Non-Resident Individuals/Companies

Please ensure that requirements for withholding tax have been complied with when certain payments are liable to be made to non-residents e.g.,Singapore sourced interest, royalties, technical assistance fees, and management fees; directors' fees; trading gains from real property transactions; individual professional fees; public entertainer fees; etc. Generally, payers will no longer need to withhold tax for payments made on or after 21 February 2014 to Singapore branches of non-resident companies.

Penalties will be imposed by the Comptroller of Income Tax for late or non-compliance.

For all payments liable to be made to non-residents on or after July 1, 2012, the payer must complete the relevant withholding tax return and pay the withholding taxes to the IRAS by the 15th of the second month following the date of payment to the non-resident.

Please contact us should you require our assistance on this matter.

4. Arm's Length Transactions

Pursuant to Section 34D of SITA and transfer pricing ("TP") guidelines issued on 4 January 2016, the IRAS explicitly endorses the arm's length principle as the standard to guide related party transactions. Broadly, the arm's length principle requires transactions between related parties to be conducted under conditions and circumstances comparable with transactions between unrelated parties.

The IRAS has placed strong emphasis on the requirement for taxpayers to prepare and maintain contemporaneous TP documentation to substantiate that prices are set based on the arm's length principle and such documentation is prepared no later than the time of completing and filing the tax return for the financial year in which the transaction takes place. For example, TP documentation for transactions carried out in financial year 2015 should be prepared no later than 30 November 2016.

If the Company has not conducted any transfer pricing analysis to test and document the arm's length nature of its related party transactions, we would be happy to assist in this task and recommend the most appropriate approach to analyse the Company's related party transactions.

5. Productivity and Innovation Credit ("PIC") scheme

The PIC scheme is a broad-based tax incentive and provides more support for businesses to invest in productivity and innovation.

a) Enhanced deduction/allowance

Under the PIC scheme, enhanced deduction/allowance is available for a period of 8 years from the Year of Assessment 2011 to Year of Assessment 2018 on the first S$400,000 of qualifying expenditure incurred per year of assessment in addition to deduction and/ or allowance currently allowable. The total current and enhanced deduction /allowance will be at 400% of the first S$400,000 of qualifying expenditures incurred in each of the following six activities:-

i. acquisition or leasing of PIC Information Technology ("IT") and Automation Equipment;

ii. acquisition or in-licensing of intellectual property rights ("IPRs");

iii. registration of IPRs (i.e. patents, trademarks, designs and plant varieties);

iv. research and development activities;

v. training of employees; and

vi. investment in approved design projects primarily done in Singapore.

Other than design expenditure, no prior approval is required for the other 5 categories of expenditure to qualify for enhanced deduction/allowance. Businesses may claim enhanced deduction/allowance on qualifying expenditure incurred in their income tax return for the relevant qualifying Years of Assessment.

In addition, the PIC+ scheme was introduced in Budget 2014 to provide support to SMEs who are making more substantive investments to transform their businesses.

Under the PIC+ scheme, from Year of Assessment 2015 to Year of Assessment 2018, qualifying SMEs[1] that invest in the six qualifying activities under the PIC scheme can enjoy 400% tax deductions/allowances on an additional $200,000 in expenditure for each qualifying activity per year of assessment.

The enhanced deduction / allowance under the PIC and PIC+ scheme is subject to an expenditure cap:-

- Years of Assessment 2013 to 2015 – a combined expenditure cap of S$1,200,000 (S$1,400,000 under PIC+) applies for *each* category of activity.

- Years of Assessment 2016 to 2018 – a combined expenditure cap of S$1,200,000 (S$1,800,000 under PIC+) applies for *each* category of activity.

The enhanced deduction / allowance will be granted net of any government grant and subsidy. Expenditure incurred in excess of the expenditure cap would continue to qualify for normal tax deduction or allowance.

b) PIC Cash Payout

For Years of Assessment 2013 to 2018, eligible businesses which have at least 3 local employees (i.e. Singapore citizens or Singapore permanent residents with Central Provident Fund contributions) have the option to convert up to S$100,000 (subject to a minimum of S$400) of expenditure on all six qualifying activities into non-taxable cash grant for each qualifying year of assessment at the conversion rate of 60% (i.e. cash payout of up to S$60,000 per year of assessment).

With effect from the Year of Assessment 2016, businesses which wish to claim the PIC cash payout have to meet the “3 local employees” condition for a **consecutive period for at least 3 months** prior to claiming the cash payout. All other conditions mentioned above remain the same.

Businesses that wish to convert their qualifying expenditure into cash may make the claim to the IRAS any time after the end of each financial quarter but not later than the income tax filing due date for that relevant qualifying year of assessment. An online PIC Cash Payout Application Form would need to be completed and submitted to the IRAS for this purpose.

[1] Businesses eligible for the PIC+ scheme are sole-proprietorships, partnerships and companies carrying on a trade or business and whose (a) revenue is not more than $100 million or (b) employment size is not more than 200 employees. This criterion will be applied at the group level if the business is part of a group

Once a qualifying expenditure is converted into cash, the same amount shall no longer be available for tax deduction or allowance.

Please note that enhanced allowance/deduction claimed or cash payout received would be clawed back under certain circumstances, including the disposal of the relevant automation equipment or IPR ("a claw-back event").

If the cash payout option has been elected and a claw-back event occurs, the company is required to submit a Disposal of Qualifying Assets Form to the IRAS **within 30 days** from the date of the claw-back event. The cash payout is required to be repaid to IRAS **within 30 days** from the receipt of "Cash Payout Recovery" notice issued by IRAS. Penalties may be imposed if the notification requirement and repayment of cash payout are not made on time.

Please contact us should you require our assistance on this matter.

c) <u>Application for Approval of Automation Equipment for PIC</u>

Companies which invest in specialised equipment to automate their work processes and enhance productivity (e.g. reduced man hours, more output, etc.) may make an application to have such equipment approved for PIC on a case-by-case basis if the equipment is not included in the PIC IT and Automation Equipment list. The Finance Minister has also mentioned that if the equipment to be approved is a basic tool, it should at least increase the productivity as compared to the existing equipment or the equipment has not been used in the business before.

The application should be submitted at least two months before the filing due date. For the Year of Assessment 2016, the application has to be submitted by September 30, 2016. Pending the outcome of the application, the claim for PIC should not be made in the cash payout application form or tax return.

Please contact us if you are unsure whether your specialised equipment qualifies for PIC or if you require our assistance in making such applications.

d) <u>R&D activities</u>

While no prior approval is required for R&D expenditure to qualify for enhanced deduction/allowance, IRAS applies a fairly high level of scrutiny to **all** R&D tax claims. This includes an expectation that contemporaneous documentation evidencing R&D activities claimed have been maintained and are retained and available for review by IRAS.

In addition to the documentation above, information relating to how R&D activities claimed meet the eligibility criteria (objective, novelty, technical risk, SIE study etc.) should be prepared and maintained for review by IRAS.

Please contact us if you would like further assistance with your R&D expenditure claim from our specialist R&D Tax team.

6. Deduction on Renovation and Refurbishment ("R&R") expenditure

Capital expenditure incurred on certain R&R works carried out on business premises which do not qualify for capital allowances, industrial building allowances or land intensification allowances may be granted a special deduction under Section 14Q of the ITA.

The amount of R&R costs that qualify for tax deduction is subject to an expenditure cap of $300,000 for every relevant three-year period. Any unabsorbed R&R deduction would also be available for transfer to re lated companies under the Group Relief system.

7. Enhanced Capital Allowance Claim for Low Value Assets

Low value assets (costing no more than S$5,000) may be written down in one year for capital allowance purposes. The aggregate capital allowance claim to write these assets down in one year is S$30,000 for any year of assessment.

8. Integrated Investment Allowance (IIA) Scheme

Under the IIA scheme, businesses may claim additional allowance on fixed capital expenditure incurred on or after February 17, 2012 for productive equipment placed overseas on approved projects. The IIA scheme is administered by the Economic Development Board ("EDB") and will last for 5 years.

9. Foreign Tax Credit Pooling System ("FTC Pooling System")

FTC Pooling System took effect from the Year of Assessment 2012. Under this system, foreign tax credit is computed on a pooled basis, the amount of foreign tax credit to be granted will be based on the lower of the pooled foreign taxes paid on the foreign sourced income and the pooled Singapore tax payable on the same foreign sourced income.

A Singapore tax resident company has the option to elect for the FTC Pooling System for selected foreign-sourced income on a yearly basis. The current source-by-source and country-by-country basis for computing the amount of foreign tax credit on the foreign income will continue to apply where the Singapore tax resident company does not elect for FTC Pooling System or where the foreign-sourced income does not qualify for FTC Pooling System.

To qualify for the FTC pooling system, the foreign income must meet all the following conditions:

i) Income tax must have been paid on the income in the foreign jurisdiction from which the income is derived;

ii) The headline tax rate of the foreign jurisdiction from which the income is derived is at least 15% at the time the foreign-sourced income is received in Singapore; and

iii) Singapore tax is payable on the foreign-sourced income and the taxpayer is entitled to claim a foreign tax credit under Sections 50, 50A or 50B of the Singapore Income Tax Act on that foreign sourced income.

Should you require our assistance, please contact us.

10. Merger and Acquisition ("M&A") allowance for Qualifying M&A Deals

The M&A allowance will be granted to qualifying M&A deals executed from April 1, 2010 to March 31, 2020 (both dates inclusive), at 5% of the acquisition value. The allowances are capped at S$5 million for all qualifying deals executed per year of assessment.

The allowance will be written down equally over five years and cannot be deferred.

The following conditions must be met to remain eligible for M&A allowance for each year of assessment during the 5-year write down period:-

i) The acquiring company, throughout the basis period relating to the year of assessment in which the deduction is claimed,-

   a. Remains incorporated and tax resident in Singapore. Where the acquiring company belongs to a corporate group, its ultimate holding company must remain incorporated and tax resident in Singapore;
   b. Must continue to carry out a trade or business in Singapore; and
   c. Has in its employment at least 3 local employees, excluding company directors, (i.e. Singapore citizens or Singapore permanent residents where the employer and employee make CPF contributions); and

ii) The acquiring subsidiary (where applicable), throughout the basis period relating to the year of assessment in which the deduction is claimed,-

   a. Does not carry on any trade or business in Singapore or elsewhere; and
   b. Remains directly and wholly-owned by the acquiring company.

Under the M&A scheme, double tax deduction will also be granted on transaction costs incurred on qualifying share acquisitions which is completed during the period from February 17, 2012 to March 31, 2020, subject to an expenditure cap of S$100,000 per year of assessment. The deduction of the transaction costs will be allowed in the year of assessment in which M&A allowance, in respect of the qualifying share acquisition, is claimed.

The unabsorbed M&A allowance and the unabsorbed deduction of transaction costs are not available for transfer under the group relief system and are also not available for carry back to offset the acquiring company's assessable income for preceding year(s). However, the unabsorbed M&A allowance and unabsorbed deduction of transaction costs may be carried forward to offset the acquiring company's future income subject to the shareholding test.

Please contact us should you require our assistance on this matter.

11. Tax Treatment of Gains on Share Disposals

With effect from June 1, 2012, gains derived by a company from the disposal of ordinary shareholdings in another company is not taxable if the divesting company maintains a minimum shareholding of 20% for a minimum period of 24 months prior to the disposal of shares.

For share disposals that do not meet the above guidelines, the tax treatment of the gains/losses arising from share disposals will continue to be determined based on a consideration of the facts and circumstances of each case.

12. Year End Tax Planning

Tax savings may be maximised by organising the company's affairs so as to ensure that all possible deductions, allowances and reliefs are available for claiming in the current fiscal year. Appendix I is enclosed to enable you to consider some of these aspects. We would be pleased to discuss these matters with you should you require further details.

Your early response will be appreciated. Please do not hesitate to contact us should you require any clarification or advice.

Yours faithfully

Deloitte & Touche LLP

Encl.

Appendix I

MAXIMISATION OF TAX DEDUCTIONS, ALLOWANCES AND RELIEFS

The following are some common matters which a company may consider:

1. Ensure all expenditure are properly accrued at year end.

2. Write off damaged, slow-moving and obsolete stock where appropriate or reflect its decreased value in the closing stock figures.

3. Make specific provisions for trade debts (identifying the amount owing by each debtor) which are unlikely to be recovered instead of a general provision, and write off all debts which are bad.

4. Minimise adjustments to interest expense by the IRAS by reducing your non-trade debtors balances and non-income producing investments.

5. Make donations in cash to an Institution of a Public Character in Singapore / or in kind (gifts of computers) to a prescribed educational, research institution in Singapore.

6. Incur capital expenditure before the financial year end and ensure that capital expenditure is maximised by taking into account indirect as well as direct expenditure e.g. consultant's fees.

7. Consider acquiring PIC IT and automation equipment which qualify for 400% allowance up to S$400,000 (S$600,000 under PIC+) of expenditure incurred (or a combined cap of S$1.2 million (S$1.8 million under PIC+) for Years of Assessment 2016 to 2018) and 100% allowance for the balance expenditure.

8. When incurring capital expenditure on new plant and machinery, consider the application for investment allowance. Generally, purchase of new plant and machinery for the establishment of new operations, upgrading of existing operations or production methods, integrating, rationalising, expanding and diversifying of operations and products, may qualify for the investment allowance. The investment allowance is in addition to the normal capital allowance.

9. When incurring expenditure which qualify for double tax deduction (such as expenses relating to trade fairs, exhibitions or trade missions, certain expenditure on research and development project), consider making the application to the relevant government authorities.

10. Consider making an election under the group relief system to transfer/claim the current year unabsorbed capital allowances, current year unabsorbed trade losses and current year unabsorbed donations to/from qualifying member company(s) in the same group if the relevant conditions have been met.

11. Consider making an election under the carry-back relief system to set-off current year unabsorbed capital allowances and current year unabsorbed trade losses against the assessable income of the immediate preceding year of assessment.

12. Qualifying companies not expecting to derive taxable profits may consider making an election to convert their first S$100,000 PIC qualifying expenditure into cash at the rate of 60%.

13. Consider incurring qualifying training costs which could qualify for 400% tax deduction up to the first S$400,000 (S$600,000 under PIC+) (or a combined cap of S$1.2 million (S$1.8 million under PIC+) for Years of Assessment 2016 to 2018) of qualifying expenses.

14. Consider making an election under the Foreign Tax Credit Pooling System and the amount of foreign tax credit to be granted will be based on the lower of the pooled foreign taxes paid on the foreign sourced income and the pooled Singapore tax payable on the same foreign sourced income.

15. Consider applying to the IRAS for your specialised equipment in the year of purchase to qualify for PIC benefits if it does not currently fall within the PIC IT and Automation Equipment list.

16. Consider applying to the EDB for Integrated Investment Allowance for fixed capital expenditure incurred on productive equipment placed overseas on approved projects.