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Singapore Budget 2015

SINGAPORE | HONGKONG
20 YEARS IN PRACTICE

FOREWORD

Budget 2015 was set against a background of a balanced position for FY2014 compared to a projected deficit of S\$1.2 billion. Singapore's economy grew by almost 3% in 2014 and the projection for 2015 is a growth of between 2% to 4%. Singapore's labour market once again remains close to full employment. Wages have continued to increase but at a slower pace and it was announced that the wages of the median Singaporean worker increased by about 1.4% in real terms in 2014.

The Minister proposed major steps in four areas:

1. Invest in the skills of the future and empower every individual to learn and develop throughout life. The government has called this initiative "SkillsFuture". The proposal includes the creation of a SkillsFuture Credit for all Singaporeans and significant sums of money will be available to each citizen at each stage of their working lives to improve their skills.
2. Continue to restructure the economy and support the next generation of business successes by promoting innovation and internationalisation.
3. Invest in economic and social infrastructure for the future.
4. Strengthen assurance in retirement and enhance support for middle income families.

Many of the business related incentives announced in the budget were aimed at SMEs:

- The M&A scheme was extended to 2020 and the benefits and thresholds were revised to focus more on encouraging SMEs to grow via strategic acquisitions
- The Double Tax Deduction for Internationalisation was enhanced to include qualifying manpower expenses incurred for Singaporeans posted to new overseas entities.
- The Angel Investors Tax Deduction Scheme was made more attractive by including investments which are also co-funded by Government.
- SMEs engaged in innovation can benefit from a simplified application process for government grants in respect of projects below S\$30,000
- The 30% Corporate Income Tax rebate announced in the 2013 Budget was extended for a further two years albeit at a lower cap of S\$20,000.

The Minister spoke of his expectation that government expenditure will increase over the medium to long term, particularly in the areas of healthcare, public transport and for the development of Changi Airport Terminal 5, quite apart from increased expenditure on domestic security and the proposed SkillsFuture initiative. This would necessitate steps now to strengthen future revenues and Minister proposed two areas for this to be achieved:

- Inclusion of Temasek's expected returns in the Net Investment Return Framework, which previously only included the other government investment entities of GIC and MAS.
- Increase of the marginal personal tax rates for the top 5% of taxpayers from 2016, with the top marginal rate going up from 20% to 22%. The Minister noted that this tax increase will enhance progressivity and strengthen future revenues. The government's assessment is that this move should not significantly dent Singapore's competitiveness. The Minister acknowledged that Singapore cannot keep raising taxes without affecting its competitiveness.

Singapore celebrates its 50th anniversary of independence in 2015 and a general election is not too far away. There was widespread expectation of generous handouts. Whilst this did not quite transpire, it would be fair to say that most Singaporeans would have benefited in some way from the Budget measures.

Shanker Iyer
Chairman



TAX CHANGES FOR BUSINESSES

Measures to offset increased business costs

Corporate Income Tax (“CIT”) Rebate

30% CIT rebate will be granted for another 2 years for YAs 2016 and 2017, up to a reduced cap of S\$20,000.

Special Employment Credit (“SEC”)

SEC will provide employers a benefit on wages paid to workers aged over 50 (earning up to S\$4,000 per month) for up to 8% and 8.5% of wages in 2015 and 2016 respectively for workers aged below 65.

Temporary Employment Credit (“TEC”)

TEC provided employers a benefit on wages for SPRs and SCs in 2015 up to the CPF Salary ceiling to help businesses cope with the impact of additional CPF contributions. This will be extended from 0.5% of wages upto the CPF ceiling (2015) to 1% (2015/2016) and 0.5% (2017).

Wage Credit Scheme

The Wage Credit Scheme (which provides co-funding of the increase in gross monthly wages for Singaporeans earnings S\$4,000 or less) will be extended to the years ended 2016 and 2017 with a reduced co-funding from 40% to 20%.

Capability Development Grant

The Capability Development Grant (CDG) is a financial assistance programme (up to 70% of costs) that helps businesses develop capabilities across 10 development areas, ranging from raising service standards, adopting technology to staff training and overseas expansion.

The process for application will be simplified for projects below S\$30,000. Enhanced funding support (up to 70% of costs) has been extended to 31 March 2018.

Simplifying Pre-registration GST Claims

Current Position

Businesses are required to apportion pre-registrations claims and only claim the portion attributable to taxable supplies made after GST registration

New Position

Certain pre-registration expenses can be claimed if the following criteria apply:

- Expenditure within 6 months before GST registration date; and
 - Goods held by business at the point of GST registration
 - Property rental, utilities and services which are not directly attributable to any supply made by the business before GST registration

Applicable to businesses that are newly GST registered from 1 July 2015

Schemes to encourage internationalisation



Double Tax Deduction (“DTD”) Scheme

A 200% tax deduction is currently allowed on qualifying expenditure incurred on qualifying market expansion and investment development activities, subject to conditions.

Certain manpower expenses will now be allowable.

Qualifying manpower expenses to be allowed DTD is capped at S\$1 million per approved entity per year, subject to conditions.

Application to International Enterprise (IE) Singapore is required to enjoy the DTD on qualifying manpower expenses.

The enhancement applies to expenditure incurred from 1 July 2015 to 31 March 2020.

Further details will be announced in May 2015

International Growth Scheme (“IGS”)

Under this new scheme, qualifying Singapore companies will enjoy a concessionary tax rate of 10% for a period not exceeding 5 years on their incremental income from qualifying activities.

Qualifying companies are expected to engage in internationalisation activities and provide Singaporeans with opportunities to gain greater international exposure.

The approval window will be from 1 April 2015 to 31 March 2020. Details to be announced in May 2015.



CHANGES TO TAX INCENTIVES

Singapore Fund Sector Incentives



Venture Capital Funds

Fund Management Companies previously may have been provided a 100% tax exemption under the Pioneer Service Incentive on managing Section 13H funds. The budget withdraws this exemption from 1 April 2015 and provides 5% tax concession from 1 April 2015 to 31 March 2020 for eligible companies under a different scheme.

Enhanced-Tier Scheme Funds

The current tax exemption provided for tax exemption on specified income earned from designated investments for approved funds

Currently, Master-feeder funds (excluding SPVs) may qualify by meeting the economic conditions on a collective basis under an administrative concession. The budget enhances the administrative concession to apply to SPVs held by the Master fund

The enhancement will take effect from 1 April 2015.

Singapore Maritime Sector Incentives



Automatic WHT exemption

The automatic WHT exemption is extended to finance leases, hire-purchase arrangements and loans used to finance equity injection into wholly-owned SPVs or intercompany loans to wholly-owned SPVs for the SPVs' purchase or construction of vessels, containers and intermodal equipment

Definition of “ship management activities”

The definition of qualifying ship management activities will be updated to be aligned with the industry changes for the various awards under the MSI.

Extensions to qualifying income

The MSI-SRS and MSI-AIS award will cover mobilisation fees, demobilisation fees, holding fees and incidental container rental income that are derived in the course of qualifying shipping operations

Exemption on qualifying profits remitted from approved foreign branches by MSI-AIS entities

Existing MSI-SSS award recipients can renew their award tenure for another 5 years, subject to meeting qualifying conditions and higher economic commitments

The MSI-ML award will be expanded to cover income derived from finance leases treated as sale.

The above enhancements will be effective for new and existing recipients from 24 February 2015.

Other incentive changes

Mergers & Acquisitions (“M&A”) Scheme

The M&A Scheme was introduced to encourage companies in Singapore to grow their businesses through mergers and acquisitions.

To encourage local SMEs to expand and grow through acquisitions, the M&A allowance has been increased significantly from 5% to 25% of the value of acquisition up to a reduced cap equivalent to a \$20 million acquisition for each Year of Assessment (YA).

The acquisition criteria has been reduced to 20% (which the original shareholder was less than 20%) or more than 50% (if original shareholding was 50% or less)

Applicable to acquisitions carried out from 1 April 2015 to 31 March 2020.

Tax Concessions for REITs and RBTs

The current Income Tax and Goods and Services Tax concessions will be extended to 31 March 2020 with the following exceptions:

GST remission will be extended to GST incurred on the setup and operation of SPVs.

Stamp duty remissions for REITs on the transfer of Singapore immovable properties will expire on 31 March 2015.

Other incentive changes

Extensions

Angel Investors Tax Deduction (“AITD”) Scheme extended to 31 March 2020. AITD also enhanced to include investments made by approved angel investors that are co-funded by the government under the SEEDS or BAS.

Tax deductions for Collective Impairment Provisions made under MAS Notices will be extended till YA 2019 or YA 2020

Tax incentive scheme for insurance businesses will be extended to 31 March 2020

The IA-EE and IA-EE Green Data Centres schemes will be combined into the IA-EE scheme and be extended till 31 March 2021

The International Legal Services incentive scheme will be extended till 31 March 2020.

MSI-AIS, MSI-ML(Ship), MSI-ML(Container) and MSI-SSS approvals will be extended till 31 May 2021 together with the automatic WHT exemption regime for qualifying loans taken on or before 31 May 2021

Review dates

Approved Foreign Loan incentive and Approved Royalty incentive will be reviewed by 31 December 2023

The WDA scheme under Section 19D of the ITA for the purchase of the IRU of any international telecommunications submarine cable system will be reviewed by 31 December 2023.

Section 13H scheme will be reviewed by 31 March 2020

Phasing-out

The PIC Bonus will lapse after YA 2015

Concessionary Tax Rate on Income Derived From Offshore Leasing of Machinery and Plant under Section 43I of the ITA from 1 January 2016

Approved Headquarters Incentive under Section 43E of the ITA from 1 October 2015

Tax Concession on Royalties and Other Payments from Approved Intellectual Property or Innovation under Section 10(16) of the ITA from YA 2017



TAX CHANGES FOR INDIVIDUALS

Increase in Personal Income Tax rates for high earners

Current tax rates (above S\$160,000)

	Chargeable Income (\$)	Tax Rate (%)	Gross Tax Payable (S\$)
On the first	160,000	17	13,950
On the next	40,000		6,800
On the first	200,000	18	20,750
On the next	120,000		21,600
On the first	320,000	20	42,350
In excess of	320,000		

New tax rates (above S\$160,000)

	Chargeable Income (\$)	Tax Rate (%)	Gross Tax Payable (S\$)
On the first	160,000	18	13,950
On the next	40,000		7,200
On the first	200,000	19	21,150
On the next	40,000		7,600
On the first	240,000	19.5	28,750
On the next	40,000		7,800
On the first	280,000	20	36,550
On the next	40,000		8,000
On the first	320,000	22	44,550
In excess of	320,000		

Personal Income Tax Rebate

A personal income tax rebate of 50% (capped at S\$1,000) for each individual tax resident will be granted for YA 2015.

Other tax changes

Alternative method for claiming expenses against rental income

An individual can claim 15% of gross rental income as rental expenses in lieu of actual expenses incurred with effect from YA 2016. Either would be in addition to mortgage interest which can be separately claimed.

Enhanced donations for deductions

The rate will be increased from 250% to 300% for qualifying donations made in 2015.

From 1 January 2016 to 31 December 2018, the tax deduction rate will revert to 250% for qualifying donations.

Tax exemption for non-resident mediators and arbitrators

Taxation of non-resident mediators from income derived from Singapore from 1 April 2015 to 31 March 2020 will be exempt. A similar exemption for arbitrators will be reviewed by 31 March 2020.

Vehicle Tax Changes

Petrol duties have increased. This has been mitigated by a one-off road tax rebate. Rebates for low emission vehicles will be extended to 30 June 2017 and increased from S\$20,000 to S\$30,000.

Changes to Social Security Contributions ("CPF")

Increased CPF rates for employees aged over 50

Age of Employee (Years)	Employer (Current/with effect from 1 January 2016)	
	Employee (%)	Employer (%)
Above 50-55	19/20	16/17
Above 55-60	13	12/13
Above 60-65	7.5	8.5/9

CPF Salary ceiling

The CPF salary ceiling will be increased from S\$5,000 per month and S\$85,000 (annually) to S\$6,000 and S\$102,000 respectively.

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