March 24, 2016

SINGAPORE BUDGET 2016

The Singapore Budget was delivered on Thursday, March 24, 2016. A summary of the main tax changes are highlighted below.

Corporate Income Tax

1. The corporate income tax rebate will be raised to 50% for Year of Assessments ("YAs") 2016 and 2017, subject to a cap of S$20,000 rebate per YA.

2. The Productivity and Innovation Credit ("PIC") Scheme will lapse in YA 2018. The cash payout rate will be lowered from 60% to 40% for qualifying expenditure incurred from August 1, 2016.

3. The non-taxation of companies' gain on disposal of their equity investments under Section 13Z will be extended till May 31, 2022. Broadly, this exemption is available to Singapore companies who dispose of ordinary shares in another company (Singapore or elsewhere), where the seller has held at least 20% of the ordinary shares in that other company for a period of at least 24 months prior to the disposal.

4. The Double Tax Deduction for Internationalisation scheme will be extended to March 31, 2020. The scheme allows companies to deduct up to S$100,000 of eligible expenses incurred to expand their market and overseas investment. Any expenses above S$100,000 requires prior approval from International Enterprise Singapore ("IE Singapore"). IE Singapore will release further details of the change by June 2016.

5. A new initiative, the Industry Transformation Programme will be introduced to provide a more targeted approach to assist businesses to create new value and drive growth. In addition to fiscal assistance to assist companies to automate and drive productivity, a new Investment Allowance ("IA") of 100% will apply to approved qualifying capital expenditure (capped at S$10 million) per project, net of grants. This IA is in addition to the existing capital allowances for plant and machinery.

6. Companies and partnerships can elect for their section 19B writing-down allowance ("WDA") to be claimed over a period of 5, 10 or 15 years. WDA applies to qualifying Intellectual Property Rights ("IPR") and the change will apply for qualifying IPRs acquired within the basis periods for YAs 2017 to 2020. In addition, an anti-avoidance mechanism for IPR transfers will be included in section 19B to empower the Comptroller to make adjustments where the acquisition price is not at fair value.

7. The cap on qualifying mergers and acquisitions ("M&A") under the M&A scheme will increase from S$20 million to S$40 million.

8. A pilot Business and Institutions of a Public Character ("IPC") Partnership Scheme ("BIPS") will be introduced from July 1, 2016 to December 31, 2018. Under the BIPS, businesses that organizes their employees to volunteer and provide services to IPCs, including secondments, will receive 250% tax deduction on wages and incidental expenses, subject to a yearly cap of S$250,000 per business and the receiving IPC's agreement. Ministry of Finance ("MOF") and Inland Revenue Authority of Singapore ("IRAS") will release further details by June 2016.

9. The Land Intensification Allowance ("LIA") will be extended to buildings used by a user or multiple users, who are related, for one or multiple trades or businesses. A new criterion requiring applicants to be related to the qualifying user or users of the building will also be introduced.

10. Under Section 14U, business can claim a tax deduction for expenses incurred up to 12 months before the date of commencement of business. The company is deemed to have commenced business on the first day of the accounting year that it earned its first dollar of income. Changes will be made to Section 14U to require companies which are awarded tax incentives to track direct expenses which will be set-off against each category of income (ie, incentive and non-incentive income) and indirect expenses to be allocated between the categories of income based on comparative income ratios (eg turnover).

11. Companies will be required to submit their corporate income tax returns electronically. This will be phased in so that by YA 2020, all companies will file their corporate income tax returns electronically. In addition, PIC cash payout applications must be submitted electronically from August 1, 2016.

<u>Tax incentives</u>

12. The Finance and Treasury Centre ("FTC") Scheme will be extended till March 31, 2021. The concessionary tax rate will be lowered to 8% and the substantive requirements to qualify for the scheme will be increased. The FTCs will be allowed to obtain funds indirectly from approved offices and associated companies, subject to certain safeguards to prevent round tripping. The withholding tax exemption will be expanded to cover interest payments on deposits placed with the FTC by its non-resident approved offices and associated companies, provided the funds are used for the conduct of qualifying activities or services. The changes are effective March 25, 2016. Economic Development Board ("EDB") will release further details by June 2016.

13. The Tax Incentive Scheme for Trustee Companies will be subsumed under the Financial Sector Incentive ("FSI") scheme from April 1, 2016. The scope of qualifying activities will be expanded to align with trustee activities covered under the Financial Sector Incentive-Standard Tier ("FSI-ST") scheme. As a result, the concessionary tax rate of 12% will apply to new awards. Existing recipients will continue to enjoy the existing benefits until the expiry of their awards. The changes are effective April 1, 2016. Monetary Authority of Singapore ("MAS") will release further details by June 2016.

14. The Global Trader Programme (Structured Commodity Finance) Scheme will be enhanced to include consolidation, management and distribution of funds for designated investments, M&A advisory services and streaming financing with effect from March 25, 2016.

15. The Maritime Sector Incentive ("MSI") will be enhanced effective from March 25, 2016 as follows:

    a. The MSI-Shipping Enterprise (Singapore Registry of Ships) for the operation of Singapore-flagged ships and MSI-Approved International Shipping Enterprise for the operation of foreign flagged ships has been extended to include income derived from the operation of ships used for exploration or exploitation of offshore energy or minerals, or ancillary activities.

    b. The MSI-Maritime Leasing (Ship) award, qualifying income will also be extended to include income from the leasing of ships used for exploration or exploitation of offshore energy or minerals, or ancillary activities. In addition, the restriction on the qualifying counterparty requirement will be removed. As a result, tax exemption will apply on income derived from the leasing of ships to any counterparty for qualifying use outside the port limits of Singapore.

16. The tax incentives for Marine Hull and Liability Insurance, Specialised Insurance Business and Captive Insurance will be subsumed under the Insurance Business Development Scheme with new concessionary rates from 8% to 10% for new entrants.

17. The Not for Profit ("NPO") tax incentive will be extended till March 31, 2022 to continue the Government's efforts to promote Singapore as a hub for NPOs.

18. The Approved Investment Company Scheme which was introduced to promote the investment management industry will be withdrawn from YA 2018 as it was assessed as no longer relevant.

Individual Income Tax

19. A cap of S$80,000 on claims for personal reliefs will be introduced with effect from YA 2018. This will not affect expatriates as they typically apply to working mothers who are Singapore citizens.

20. Expatriates will no longer enjoy the 20% concessionary rate on home leave with effect from YA 2018.

Further information

Should you have any queries as to how these developments may impact your business, please do not hesitate to get in touch with your usual contact at Pioneer Associates, or please write or call us at:

Pioneer Associates
Telephone no: +65 6632 8488
Email : general@pioneerassociates.com.sg