CLIENT MEMORANDUM

February 19, 2018

SINGAPORE BUDGET 2018

The Singapore Budget was delivered on February 19, 2018. A summary of the main tax changes are highlighted below:

Corporate Income Tax ("CIT")

1. The CIT rebate for the Year of Assessment ("YA") 2018, currently at 20% of tax payable (capped at S$10,000), will be enhanced to 40% of tax payable (capped at S$15,000).

   The CIT rebate will also be extended to YA 2019 at a rate of 20% (capped at S$10,000).

2. The Start-up Tax Exemption scheme for new companies ("SUTE") will be adjusted as follows:

Chargeable income	Existing		New (w.e.f. YA 2020)	
	% exempted from tax	Amount subject to tax	% exempted from tax	Amount subject to tax
First S$100,000	100%	$0	75%	S$25,000
Next S$200,000	50%	$100,000		
Next S$100,000			50%	S$50,000
Next S$100,000			0%	S$100,000
Tax payable on first S$300,000 @ 17%		S$17,000		S$29,750
Effective tax rate		5.7%		9.9%

   The changes will result in an additional tax payable of S$12,750 for the first S$300,000 chargeable income (i.e. an increase in effective tax rate of 4.2%).

3. The partial tax exemption scheme ("PTE") for all companies (other than those which qualify for the SUTE) will be adjusted as follows:

Chargeable income	Existing		New (w.e.f. YA 2020)	
	% exempted from tax	Amount subject to tax	% exempted from tax	Amount subject to tax
First S$10,000	75%	$2,500	75%	S$2,500
Next S$290,000	50%	$145,000		
Next S$190,000			50%	S$95,000
Next S$100,000			0%	S$100,000
Tax payable on first S$300,000 @ 17%		S$25,075		S$33,575
Effective tax rate		8.4%		11.2%

The changes will result in additional tax payable of S$8,500 for the first S$300,000 chargeable income (i.e. an increase in effective tax rate of 2.8%).

4. The Double Tax Deduction for Internationalisation scheme will be enhanced by raising the expenditure cap for claims without prior approval from International Enterprise ("IE") Singapore or Singapore Tourism Board ("STB") from S$100,000 to S$150,000 per YA. Broadly, this applies to qualifying expenses incurred on overseas business development or overseas investment study trips/missions or participation in overseas or approved local trade fairs. The change will apply to qualifying expenses incurred on or after YA 2019.

   We expect that the change will apply to expenditure incurred during the basis period for YA 2019. *We expect this will be clarified when IE Singapore and/or STB release further details by April 2018.*

5. Tax deduction for qualifying expenditure (namely staff costs and consumables) on qualifying research and development ("R&D") projects performed in Singapore will be increased from 150% to 250%, effective from the YA 2019 to YA 2025.

6. Tax deduction for costs on protecting intellectual property ("IP") or IP in-licensing will be increased from 100% to 200% for the first S$100,000 of qualifying IP registration costs or qualifying IP in-licensing costs incurred for each YA, effective from the YA 2019 to YA 2025.

   Qualifying IP in-licensing costs are intended to support businesses to buy and use new solutions and include payments made by a qualifying person to publicly funded research performers or other businesses, but exclude related party licensing payments, or payments for IP where any allowance was previously made to that person.

7. The 250% tax deduction for qualifying donations will be extended for donations made on or before December 31, 2021.

8. The Business and IPC Partnership Scheme will be extended till December 31, 2021. Broadly, this scheme allows a qualifying person to claim 250% deduction on qualifying expenses such as wages in respect of the provision of services by his qualifying employees or secondment of his qualifying employees to an IPC.

The Ministry of Finance ("MOF") and the Inland Revenue Authority of Singapore ("IRAS") will review the administrative processes under this scheme. *The details of any change will be announced in the second half of 2018.*

<u>Goods and Services Tax ("GST")</u>

The Government plans to raise the GST rate from 7% to 9%, sometime in the period from 2021 to 2025. The exact timing of the GST increase will depend on the Singapore economy and expenditure growth. The GST increase will be implemented in a progressive manner.

GST will be levied on imported services with effect from January 1, 2020 as follows:

(i) <u>Business to business (B2B) imported services</u>

- It will be taxed via a reverse charge mechanism. The recipient is liable to account for GST to the IRAS on the services acquired and is entitled to claim the GST accounted as its input tax, subject to the conditions for claiming input tax.
- Only applies to businesses that make exempt supplies or do not make any taxable supplies.

(ii) <u>Business to consumer (B2C) imported services</u>

- It will be taxed through an Overseas Vendor Registration regime. Overseas suppliers and electronic marketplace operators such as app stores are required to register for GST in Singapore if they make significant supplies of digital services to Singapore consumers exceeding the registration threshold.

IRAS will release further details by end of February 2018.

For the import of goods, the Government is studying how GST can apply in light that international discussions (such as the OECD BEPS initiative) are on-going.

<u>Tax incentives</u>

1. A tax framework for Singapore Variable Capital Companies ("S-VACCs") will be introduced to complement the S-VACC regulatory framework:

   (i) For tax purposes, an S-VACC will be treated as a company and a single entity;

   (ii) The Singapore fund tax incentive schemes currently provided for under Sections 13R and 13X of the Income Tax Act ("ITA") will be extended to S-VACCs;

   (iii) The 10% concessionary tax rate under the Financial Sector Incentive – Fund Management ("FSI-FM) scheme will be extended to approved fund managers managing an incentivised S-VACC; and

   (iv) The GST remission currently granted to investment funds in Singapore will be extended to incentivised S-VACCs.

   The changes will apply from the effective date of the S-VACC regulatory framework. It is not clear if existing Singapore investment funds which are set up under the current regulatory framework e.g. as a Singapore unit trust, limited partnership or company will be allowed to convert to a S-VACC without any adverse Singapore tax consequences.

   The Monetary Authority of Singapore ("MAS") will release further details by October 2018.

2. The Enhanced-Tier Fund Scheme under Section 13X of the ITA will be enhanced to include all fund vehicles constituted in all forms (subject to conditions), and not confined to companies, trusts and limited partnerships.

   The change will apply to new awards approved on or after February 20, 2018. *MAS will release further details by May 2018.*

3. Subject to conditions, the following tax treatment for Singapore-listed Real Estate Investment Trusts ("S-REITs") will be extended to Singapore-listed Real Estate Investment Trusts Exchange-Traded Funds ("REITs ETFs"), effective July 1, 2018 (with a review date of March 31, 2020):

   (a) Tax transparency treatment on the distributions received by REITs ETFs from S-REITs which are made out of the latter's specified income;

   (b) Tax exemption on such REITs ETFs distributions received by individuals, excluding individuals who derive any distribution:

      (i) through a partnership in Singapore; or
      (ii) from the carrying on of a trade, business or profession; and

   (c) 10% concessionary tax rate on such REITs ETFs distributions received by qualifying non-resident non-individuals.

   Application for tax transparency treatment can be submitted to IRAS on or after April 1, 2018. *MAS and IRAS will release further details by March 2018.*

4. The Financial Sector Incentive ("FSI") scheme accords concessionary rates of 5%, 10%, 12% and 13.5% on income from qualifying banking and financial activities, headquarters and corporate services, fund management and investment advisory services. The trading in loans and their related collaterals, excluding immoveable property is a qualifying activity which is accorded a concessionary tax rate of 13.5%.

   The FSI scheme will be extended till December 31, 2023. Further, the scope of trading in loans and their related collaterals will be expanded to include collaterals that are prescribed infrastructure assets or projects. The change will apply to income derived on or after January 1, 2019 in respect of new and renewal awards approved on or after June 1, 2017.

   MAS will release further details by May 2018.

5. Generally, withholding tax ("WHT") of 15% applies to interest paid to a non-tax resident. The WHT exemptions for the financial sector will be rationalized as follows:

   (i) A review date of December 31, 2022* will be introduced for the WHT exemptions for the following payments:

      - Payments made under cross currency swap transactions made by Singapore swap counterparties to issuers of Singapore dollar debt securities;

      - Payments made under interest rate or currency swap transactions by financial institutions or MAS; and

      - Specified payments made under securities lending or repurchase agreements by specified institutions.

(ii) The following WHT exemptions will be legislated with a review date of December 31, 2022*:

- Interest on margin deposits paid by members of approved exchanges for transactions in futures; and
- Interest on margin deposits paid by members of approved exchanges for spot foreign exchange transactions (other than those involving Singapore dollars).

The above change will apply to payments under agreements entered into on or after February 20, 2018.

* *The WHT exemptions will cease to apply to payments that are liable to be made under agreements entered into on or after January 1, 2023 unless there is further extension.*

(iii) There will be withdrawal of the WHT exemption for the following payments:

- Interest from approved Asian Dollar Bonds; and
- Payments made under over-the-counter financial derivative transactions by companies with FSI-Derivatives Market awards that were approved on or before May 19, 2007.

The above change will apply to payments under agreements entered into on or after January 1, 2019.

6. The Qualifying Debt Securities ("QDS") incentive scheme will be extended till December 31, 2023, whilst the QDS Plus ("QDS+") scheme will be allowed to lapse after December 31, 2018.

Further, debt securities with tenure beyond 10 years, and Islamic debt securities that are issued:

(a) After December 31, 2018 can enjoy tax concessions under the QDS scheme, if the conditions of the QDS scheme are satisfied;

(b) On or before December 31, 2018 can continue to enjoy the tax concessions under the QDS+ scheme, if the conditions of the QDS+ scheme are satisfied.

MAS will release further details by May 2018.

7. Tax exemption on income derived by primary dealers from trading in Singapore Government Securities ("SGS") will be extended till December 31, 2023.

MAS will release further details by May 2018.

8. Container lease payments made to non-resident lessors (excluding Singapore permanent establishment) for the use of qualifying containers for the carriage of goods by sea are exempt from Singapore WHT. A review date of December 31, 2022 will be introduced. This means if the scheme is not extended, payments under any such lease or agreement entered into on or after January 1, 2023 will be subject to WHT.

9. Broadly, the Approved Special Purpose Vehicle ("ASPV") scheme grants the following tax concessions to an ASPV engaged in approved asset securitisation transactions:

   (a) the income from such transactions are tax exempt;

   (b) GST can be recovered on qualifying business expenses at a fixed rate of 76%;

   (c) WHT exemption applies to payments to qualifying non-residents on over-the-counter financial derivatives in connection with such transactions; and

   (d) Stamp duty remission applies to the transfer instrument for such transactions.

   The ASPV scheme is extended to December 31, 2023 with the exception of the stamp duty remission in (d) which will lapse after December 31, 2018.

   MAS will release further details of the extension by May 2018.

10. The Investment Allowance ("IA") scheme will be extended to include capital expenditure incurred on newly-constructed strategic submarine cable systems landing in Singapore, subject to qualifying conditions.

    All other conditions of the IA scheme will apply, except for the following which will be allowed:

    (a) The submarine cable systems can be used outside Singapore; and

    (b) The submarine cable systems, on which IA has been granted, can be leased out under the indefeasible rights of use arrangements.

    The above changes will apply to capital expenditure incurred between February 20, 2018 and December 31, 2023 (both dates inclusive).

11. The Insurance Business Development – Insurance Broking Business ("IBD-IBB") scheme will be extended till December 31, 2023. The Insurance Business Development – Specialised Insurance Broking Business ("IBD-SIBB") scheme will be allowed to lapse after March 31, 2018.

    MAS will release further details of the changes by May 2018.

12. Broadly, banks and qualifying finance companies can claim tax deduction under section 14I of the ITA for impairment losses on non-credit-impaired loans and debt securities under Financial Reporting Standard 109, and any additional losses as required by MAS Notices 612, 811 and 1005, subject to a cap. This tax deduction will be extended till YA 2024 (for banks and qualifying finance companies with December financial year end) or YA 2025 (for banks and qualifying finance companies with non-December financial year end).

    MAS will release further details of the changes by May 2018.

Individual Income Tax

The 250% tax deduction for qualifying donations will be extended for donations made on or before December 31, 2021.

Stamp Duty

The top marginal Buyer's Duty rate which is applicable on the value of residential property will be increased as follows:

Rates	Tiers (old)	Tiers (new – for all residential properties acquired on or after February 20, 2018)
1%	First S$180,000	First S$180,000
2%	Next S$180,000	Next S$180,000
3%	Amount exceeding S$360,000	Next S$640,000
4% (new)		Amount exceeding S$1,000,000

Others

1. The Wage Credit Scheme will be extended for 3 years from 2018 to 2020 with government co-funding on qualifying wage increases at 20% in 2018, 15% in 2019 and 10% in 2020.

2. The Foreign Worker Levy rates increase for the Marine Shipyard and Process sectors will be deferred for another year due the weakness currently faced by the industry.

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 and call us on:

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