CLIENT MEMORANDUM

February 19, 2020

SINGAPORE BUDGET 2020

The Singapore Budget was delivered on February 18, 2020. A summary of the main tax changes are highlighted below:

Corporate Income Tax ("CIT")

Businesses

1. A one-off CIT rebate of 25% of tax payable (capped at S$15,000), will be granted for the Year of Assessment ("YA") 2020.

2. The interest-free monthly instalments for payment of CIT on Estimated Chargeable Income ("ECI") filed within 3 months from the companies' financial year-end ("FYE") will automatically be extended by 2 more months to (a) companies that file their ECI from February 19, 2020 to December 31, 2020; and (b) companies that file their ECI before February 19, 2020, and have ongoing instalment payments to be made in March 2020, as follows:

ECI filed within	No of tax instalments	
	Existing	New
1 month from FYE	10	12
2 months from FYE	8	10
3 months from FYE	6	8

For (b), the Inland Revenue Authority of Singapore ("IRAS") will issue a letter to qualifying companies by March 5, 2020 on the automatic two months extension of the instalment plan. Companies can also view their revised instalment plan at myTax Portal from March 5, 2020.

3. The carry-back relief scheme will be enhanced for YA 2020 by allowing the carry-back of the current year unabsorbed capital allowances ("CA") and trade losses for a YA ("qualifying deductions") from one YA to three YAs immediately preceding YA 2020 (i.e. YA 2017, YA 2018 and YA 2019), capped at S$100,000 of qualifying deductions and subject to conditions.

Companies may elect to carry back to the relevant preceding YAs an estimated amount of qualifying deductions available for YA 2020, before the actual filing of their income tax returns for YA 2020.

IRAS will provide the details of the change by end-February 2020.

4. Companies will have an option to accelerate the write-off of the cost of acquiring plant and machinery ("P&M") in the basis period for YA 2021 [i.e. financial year ("FY") 2020] from over 3 years or the prescribed working life of the asset, to 2 years as follows:

   a. 75% of the cost incurred to be written off in the first year (i.e. YA 2021); and

   b. 25% of the cost incurred to be written off in the second year (i.e. YA 2022).

   No deferment of CA claims is allowed under the above option.

5. Companies will have an option to accelerate the deduction of expenses incurred on renovation and refurbishment for the purposes of its trade, profession or business during the basis period for YA 2021 (i.e. FY 2020) from over 3 consecutive YAs to 1 YA. The cap of S$300,000 for every relevant period of 3 consecutive YAs will still apply.

6. To simplify CAs claim for P&M under Section 19 of the Income Tax Act, the number of years of prescribed working life in the Sixth Schedule will be streamlined. Taxpayers may make an irrevocable election to claim CAs on P&M based on the simplified working life as follows:

Current prescribed working life	**Simplified working life**
12 years or less	6 or 12 years
16 years	6, 12, or 16 years

   The above change will apply to (a) P&M acquired in or after FY 2022; and (b) P&M acquired prior to FY 2022 where the claim for CA has been deferred for the entire cost of the P&M.

7. The existing Double Tax Deduction for Internationalisation Scheme offers 200% tax deduction for qualifying expenditure incurred on certain internationalisation activities. No prior approval is required for tax deduction for the first S$150,000 of qualifying expenses.

   The Scheme will be extended until December 31, 2025 and enhanced to cover the following costs starting from April 1, 2020:

   a. Third-party consultancy costs relating to new overseas business development for identifying suitable talent and building up business network; and

   b. New categories of certain prescribed expenses incurred for overseas business missions such as transporting materials/samples used during business missions.

   Enterprise Singapore will release further details by end-March 2020.

8. The Section 14E incentive which provides further tax deduction for research and development ("R&D") expenditure incurred on approved R&D projects conducted in Singapore will lapse after March 31, 2020.

9. For capital grants approved by Government or statutory boards on or after January 1, 2021, the grant recipients will only be allowed to claim tax deductions or allowances on the net expenditure incurred (i.e. net of that part of the expenditure that were funded by the grants).

10. The upfront certainty of non-taxation of companies which derive gains from disposal of ordinary shares ("the scheme") will be extended till December 31, 2027.

    Currently, the scheme does not apply to disposals of unlisted shares in an investee company that is in the business of trading or holding Singapore immovable properties (excluding property development). For shares disposed on or after June 1, 2022, the scheme will not apply to disposals of shares in such companies (including property development) and will extend to immovable properties abroad.

    IRAS will provide further details by end-June 2020.

11. The Land Intensification Allowance ("LIA") Scheme will be extended till December 31, 2025. Broadly, under the LIA Scheme, companies can claim LIA as follows, subject to qualifying conditions being met:

    - Initial allowance of 25% of qualifying capital expenditure incurred on the construction or renovation / extension of an approved LIA building in the YA relating to the basis period during which the capital expenditure is incurred; and

    - Annual allowance of 5% of qualifying expenditure upon issuance of the Temporary Occupation Permit for the completed LIA building.

12. The existing Mergers & Acquisitions Scheme offers certain tax benefits comprising M&A allowance, stamp duty relief on certain instruments and 200% tax deduction for qualifying transaction costs, subject to conditions. Further, waiver of condition that acquiring companies must be held by an ultimate holding company that is incorporated in and is a tax resident of Singapore ("Singapore holding co. condition") may be allowed on a case-by-case basis.

    The Scheme will be extended to cover qualifying acquisitions made on or before December 31, 2025. However, starting from April 1, 2020, stamp duty relief will lapse and no waiver will be granted for the Singapore holding co. condition.

Tax incentives

13. The existing Maritime Section Incentive ("MSI") offers certain tax benefits to ship operators, maritime lessors and providers of certain shipping-related support services, such as tax exemption or concessionary tax rate on certain qualifying income, and stamp duty remission on certain prescribed instruments. Further, withholding tax ("WHT") is exempt on qualifying payments made to non-tax residents arising from certain qualifying financing arrangements.

The MSI and WHT exemption will be extended until December 31, 2026, with the following enhanced changes:

a. Expansion of the scope of qualifying in-house ship management income exemption under the MSI-Approved International Shipping ("MSI-AIS") Award to include such income derived by MSI-AIS Sister Company and MSI-AIS Local Subsidiary (with effect from February 19, 2020);

b. Exemption of income derived from operating a ship provisionally registered with the Singapore Registry of Ships. Where a permanent certificate is not subsequently obtained, the tax exemption is only allowed up to 1 year from the date of issue of the provisional certificate (with effect from February 19, 2020);

c. Lapsing of stamp duty remission for instruments executed on or after June 1, 2021.

Maritime and Port Authority of Singapore will release further details by May 2020.

14. The Global Trader Programme ("GTP") grants a concessionary tax rate of 5% or 10% on qualifying income derived by approved global trading companies ("AGTC"). Income derived by AGTC from qualifying transactions in liquefied natural gas ("LNG") are taxed at a concessionary rate of 5% (regardless of whether the AGTC was awarded a 5% or 10% concessionary tax rate on other qualifying income).

The GTP will be extended till December 31, 2026, with the following enhancements:

a) The qualifying activities under GTP (Structured Commodity Financing) ["GTP (SCF)"] will be subsumed under GTP with effect from February 19, 2020;

b) The GTP (SCF) will lapse after March 31, 2021; and

c) The concessionary tax rate of 5% on income from qualifying transactions in LNG will lapse after March 31, 2021. With the lapsing of this concession, LNG will be treated no differently from other GTP qualifying commodities under the GTP.

For (b) & (c), existing recipients of GTP (SCF) as well as GTP awards in respect of the 5% concessionary tax rate on income from qualifying transactions in LNG will be grand-fathered till the expiry of their awards provided the conditions for approval continue to be met.

Enterprise Singapore will provide further details of the changes by May 2020

15. The existing Finance and Treasury Centre ("FTC") Scheme offers 8% concessionary tax rate on qualifying income derived by approved FTCs from qualifying activities or services, subject to conditions.

The Scheme will be extended until December 31, 2026, with the following enhancements from February 19, 2020:

a. Expansion of the list of qualifying sources of funds to include funds raised via convertible debt issued on or after February 19, 2020; and

b. Expansion of the list of qualifying FTC activities which qualify for concessionary tax rate to include transacting or investing into private equity or venture capital funds that are not structured as companies.

16. The existing tax incentives for approved venture capital funds and approved venture capital fund management companies offer tax exemption (Section 13H) and 5% concessionary tax rate (Section 43ZG) on certain prescribed income derived by such entities respectively.

These tax incentives will be extended until December 31, 2025, with the following key refinements effective from April 1, 2020:

For Section 13H Scheme

a. Expansion of the list of investments and incentivised income;

b. Inclusion of venture capital funds constituted as foreign-incorporated companies or Singapore Variable Capital Companies for Section 13H incentive;

c. Removal of statutory sub-limit of maximum 10-years tenure for first tranche of tax exemption, whilst the 15-year cap on overall tenure of the tax exemption status remains;

d. Ability to claim, by way of remission, GST incurred on expenses at a fixed recovery rate to be determined for the industry.

For Fund Management Incentive

e. Removal of the statutory limitations on total incentive tenure and the maximum tenure will be set at 5 years and renewable subject to conditions.

Enterprise Singapore will release further details by May 2020.

17. The scope of the current WHT exemption for interest on margin deposits will be enhanced to include the following entities and products:

Covered entities	**Covered products**
• Members of approved clearing houses; • Approved exchanges; and • Approved clearing houses.	• All other derivative contracts traded or cleared on approved exchanges and approved clearing houses.

The enhancements will apply for agreements entered into on or after February 19, 2020.

Monetary Authority of Singapore will release further details by May 2020.

Individual Income Tax

1. Non-resident professionals' income attributable to services rendered in Singapore is subject to WHT at:

   (i) 15% of the gross income/fees payable to the non-resident professionals; or

   (ii) 22% if the non-resident professionals elect to be taxed on net income.

   As a concession, income derived by non-resident mediators and arbitrators from services carried in Singapore is exempt from tax, subject to conditions. This WHT exemption will be extended till March 31, 2022.

2. Non-resident public entertainers ("NRPEs") are subject to a WHT rate of 15% on gross income in respect of services performed in Singapore.

   As a concession announced in the Budget 2010, the WHT rate was reduced to 10%. The concessionary WHT rate of 10% will be extended till March 31, 2022.

3. The Angel Investors Tax Deduction ("AITD") Scheme was introduced during Budget 2010 to encourage eligible individuals who are able and willing to invest in start-ups and help them grow (e.g. through their management expertise, business networks etc).

   Under the scheme, an approved angel investor needs to invest a minimum of S$100,000 into a qualifying start-up in a YA, in order for him to enjoy a tax deduction at 50% of his investment at the end of his second year of holding of the investment. The deduction to an approved angel is capped at S$500,000 of investment into qualifying start-ups per YA. The scheme will lapse after March 31, 2020.

   However, Singapore-based startups can access funding through other government schemes such as Startup SG programme. These angel investors, whose approved angel investor status commences on and before March 31, 2020 can continue to be granted the tax deduction in respect of qualifying investments made during the period of his approved angel investor status, subject to existing conditions of the AITD scheme.

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Other changes

The Wage Credit Scheme ("WCS") was introduced to encourage employers to share productivity gains with employees by co-funding wage increases of at least S$50 given by employers to Singapore citizen employees who earn a gross monthly wage of up to S$4,000. The WCS will be enhanced as follows:

a) The monthly wage ceiling will be raised from S$4,000 to S$5,000; and

b) The Government co-funding levels for 2019 will be increased from 15% to 20% whilst 2020 will be increased from 10% to 15%.

The new Jobs Support Scheme ("JSS") is a one-off scheme for 2020 to help enterprises retain their local employees and support businesses through the COVID-19 situation. The JSS will offset 8% of the gross monthly wage of employees who are Singapore citizens or Singapore permanent residents, up to a monthly wage cap of S$3,600 per employee for 3 months. This payment will be given to employees by the end of July this year.

Certain qualifying commercial properties in sectors affected by COVID-129 will be granted a rebate at 10%, 15% or 30% of the property tax payable for the period from January 1, 2020 to December 31, 2020. The sectors are tourism, aviation, retail, food service and point-to-point transport services. The properties include licensed hotels, serviced apartments, prescribed Meetings, Incentive, Conferences and Events venues.

IRAS has published an e-Tax Guide on the above on February 18, 2020.

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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