



Singapore Budget 2010 Synopsis



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Introduction

Better, faster, smarter

It was this sentence, from the Minister's Budget speech, that struck me the most:

"[Budget 2010] focuses on building up the capabilities we need for a phase shift in our economy over the next decade, with growth being based on the quality of our efforts rather than the ever-expanding use of manpower and other resources".

There is a lot in that sentence, it bears reading a few times, and it is the essence of Budget 2010. First, it is about change for the long-term. The Budget is not about the day after tomorrow, it is about the next 10 years. Second, we are not talking about a small change, but a "phase shift" - a transformational step up the value chain to a new phase in the economic life of Singapore. Third, we will be doing this by building capabilities, by increasing productivity through superior skills and innovation. At the end the point is then driven home - we cannot grow much further by simply doing "more of the same".

Such long-term transformational change requires the whole community to be aligned, and a theme running throughout the Budget speech is an emphasis on the public sector and private sector working together. For example, there is the establishment of a National Productivity and Continuing Education Council, a new Partnerships for Capability Transformation programme, the start of a Public-Private Co-Innovation Partnership, and a co-investor programme for start-ups. All of these have significant funds committed, and are just some of many initiatives. The success of Budget 2010 will largely depend on the performance of these various joint-action initiatives.

Of course tax policy can only go so far in helping to achieve a productivity phase shift in the economy. Many people will consider that tax changes in this Budget are more conspicuous by their absence. Where is the hoped for cut in personal income tax rates? Where are the measures for further exemption of foreign income? Where are the incentives for environmental sustainability? Where is the current year basis of taxation? Nevertheless there are some important, targeted and, above all, innovative tax measures in Budget 2010.

Taxation innovation

The Government has taken a novel approach to allow tax relief in respect of mergers and acquisitions. Over the years there have been frequent calls to liberalise the tax treatment of acquisition debt and to allow tax deductions for expenses incurred in making acquisitions. However these would require changes to the fabric of tax law, and were therefore problematic. The Budget proposal for an M&A allowance neatly gets around these problems by allowing a tax deduction based on 5% of the value of the acquisition, subject to a cap of S\$5 million (i.e. 5% of deals worth up to S\$100 million). The allowance will be written down over five years. More details of this allowance will be available in June 2010.

The new Productivity and Innovation Credit is designed to encourage companies to invest in six areas: R&D, design, automation, training, registration and acquisition of intellectual property rights. For each of the identified areas, companies will be given tax deductions of 250% of the amount expended for the first S\$300,000 of qualifying expenditure. For SMEs, this could be much more beneficial than a cut in the corporate income tax rate. This measure is a big step forward in promoting Singapore as a place to research and innovate.

Budget 2010 sees the death of the industrial building allowance (IBA), which is being phased out. The IBA was introduced in the 1940's to encourage industrialisation but is no longer relevant to current national priorities. Nevertheless, it is a very decisive move to remove the IBA, which will be unpopular in some quarters.

A new scheme, known as the Land Intensification Allowance (LIA), is being introduced. Like the IBA, the LIA awards tax allowances for expenditure on certain building construction costs, but the qualifying conditions are very different. Buildings must belong to one of nine specified industry sectors and must meet a Gross Plot Ratio benchmark. The idea of the allowance is to support enhanced land productivity, a concept alien to the IBA and more relevant to Singapore's current needs.

Another innovative tax measure in the Budget is a special tax deduction for individuals who are eligible angel investors. Angel investors nurture start-ups in the very early stages not just by providing funds but providing advice and access to business networks. Angel investors provide a crucial link in turning good ideas into business reality, but of course their investments are usually high risk. Under the Budget proposal, an eligible angel investor is able to obtain, subject to conditions, a tax deduction at 50% of her investment after a two-year holding period.

In conclusion...

So the Budget is about achieving growth through skills, innovation and productivity. By delivering products and services better, faster and smarter, we achieve more value in our work and raise the economy to a new phase. This is a challenge made to all of us, a goal for each of us to aspire to individually and collectively. I can almost hear you complain: "It sounds like a lot of work!" As Paul J Meyer said: *"Productivity is never an accident. It is always the result of a commitment to excellence, intelligent planning and focused efforts"*.

But there was another sentence in the Minister's Budget speech that struck me just as hard, and one word in particular:

*"We must also pursue initiatives to make Singapore a vibrant and distinctive global city, and a home that provides an **outstanding** quality of life for our people."*

This vision is critical. It is both the reward for our efforts and the glue that will make our efforts sustainable and worthwhile. It also includes all Singaporeans in growth, which is another theme of the Budget. That word *"outstanding"* is both important and surprising. Most countries, even highly-developed first-world countries, would only dare aspire to a "better" or "good" or "decent" quality of life for their people. But an "outstanding" quality of life? For all our people? Let's make it happen.

Russell Aubrey

Head of Tax

22 February 2010

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Business tax

Business tax

Corporate income tax rate

Current

The corporate income tax rate is 17% with a partial tax exemption for normal chargeable income of up to S\$300,000 as follows:

- ▶ 75% exemption of up to the first S\$10,000; and
- ▶ 50% exemption of up to the next S\$290,000.

For lower levels of normal chargeable income, the effective rates are 4.25% on the first S\$10,000 and 8.5% on the next S\$290,000 of normal chargeable income.

Proposed

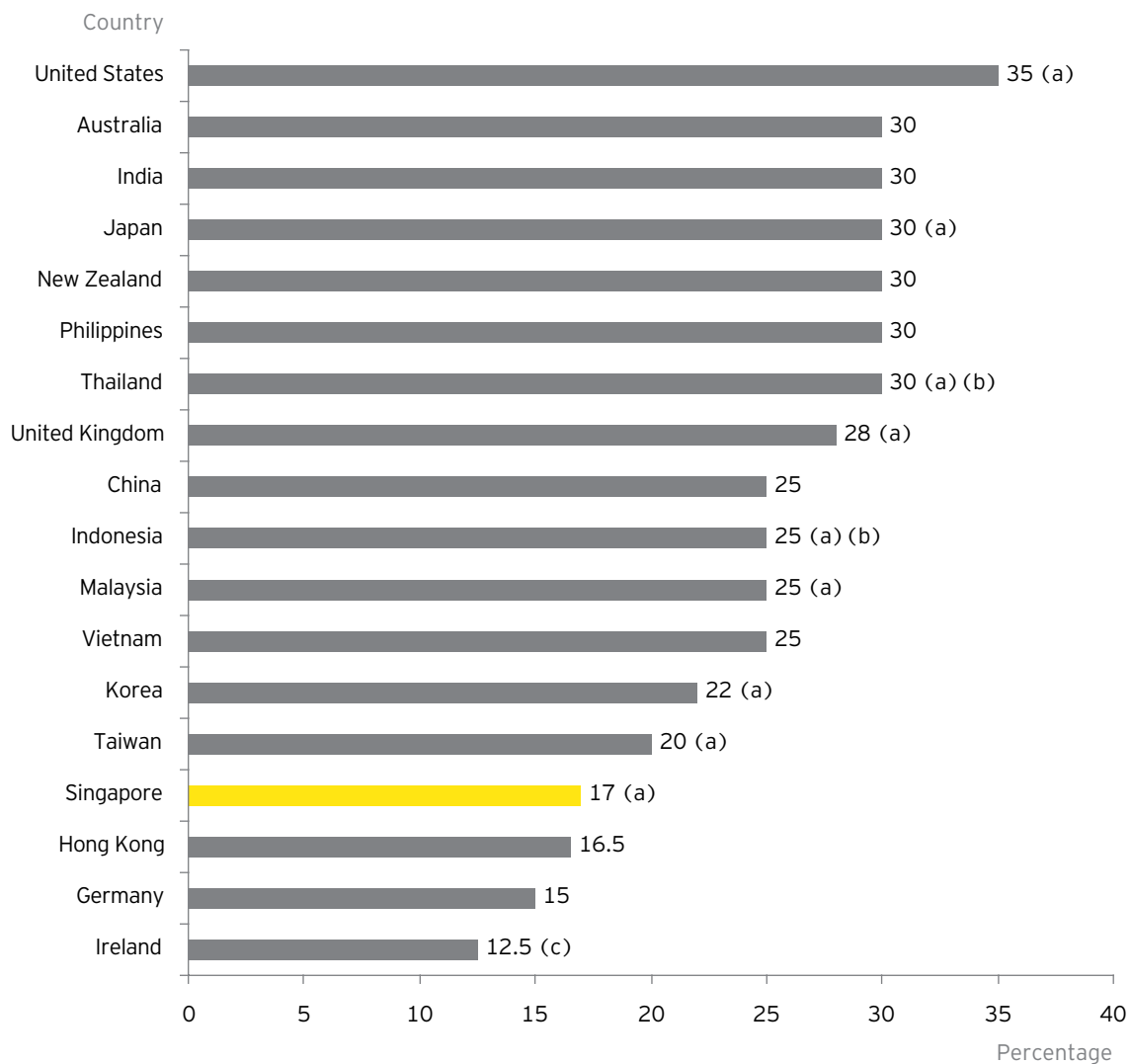
The Minister did not propose a reduction in the corporate income tax rate. The headline tax rate stays at 17% and the partial tax exemption threshold remains as before.

Comments

- ▶ At 17%, Singapore's corporate income tax rate is already one of the lowest headline corporate tax rates in the world. This rate is only 0.5% higher than the current Hong Kong corporate tax rate of 16.5% and 4.5% higher than the corporate tax rate of 12.5% in Ireland on trading income.
- ▶ After taking into account the partial tax exemption, a company in Singapore with S\$500,000 of normal chargeable income will have an effective tax rate of only 11.8%. This is significantly lower than the 16.5% tax rate in Hong Kong and is also lower than the 12.5% tax rate in Ireland. Only with normal chargeable income exceeding S\$5.2 million and S\$577,000 would a company in Singapore be paying tax at an effective rate higher than that of 16.5% and 12.5% respectively.
- ▶ Singapore's corporate income tax rate of 17% is clearly competitive at the present time. Fiscal fine tuning is more important and indeed more effective than blanket give-aways in the form of an across the board corporate income tax rate reduction. Double deduction reliefs and various other tax incentives including the proposed Productivity and Innovation Credit will reduce the effective tax rate well below the headline tax rate of 17%, especially for SMEs.
- ▶ The 3% rate difference between corporate income tax of 17% and the top marginal personal income tax rate of 20% remains. Self-employed individuals, depending on their level of income, may find it more attractive to corporatise their businesses in view of the lower corporate income tax rate and partial tax exemption. However, the additional costs of operating a company, e.g., audit and secretarial fees, will also have to be taken into account before such a decision is made.

Business tax

Prevailing corporate income tax rates in selected countries as at 1 January 2010



Notes:

- (a) Lower rates or partial tax exemption are applicable for lower income bands or companies with smaller paid-up capital
- (b) Listed companies meeting certain conditions may enjoy lower rates
- (c) The rate is applicable only for trading income; different rates are applicable for other income

The above rates are the top corporate income tax rates, excluding dividend withholding tax, surcharges, trade tax, or other state and local taxes, where applicable.

Business tax

Productivity and innovation credit

Current

Businesses that incur qualifying expenditure on R&D done in Singapore can enjoy up to 150% deduction. Further, certain expenditure on training, automation equipment, local design work, IP acquisition and patent registration can qualify for 100% tax deduction or allowance.

Under the R&D tax allowances (RDA) scheme, companies will be granted RDA amounting to 50% of the first S\$300,000 of chargeable income (i.e. amount of RDA granted for each qualifying YA is capped at S\$150,000 per year) from YA 2009 to YA 2013. The allowance can be used to offset chargeable income in a subsequent YA if the companies spend more on R&D done in Singapore.

The R&D Incentive Scheme for Start-up Enterprises (RISE) is a grant scheme for R&D intensive start-up companies that incur losses in any of their first three YAs. This scheme enables loss making start-ups spending annually at least S\$150,000 on R&D activities in Singapore to convert up to S\$225,000 of tax losses arising from the R&D expenditure to cash grants. This conversion is done at the rate of 9%, which translates to a cash grant of up to S\$20,250 from the Government.

Proposed

The productivity and innovation credit or PIC is a new broad-based tax incentive which will be available for all businesses from YA 2011 to YA 2015. It will provide significant tax deductions or allowances, for investments in a range of six activities along the innovation value chain, as follows:

- ▶ R&D;
- ▶ registration of IP rights;
- ▶ acquisition of IP rights, e.g. where a company buys a patent or copyright for use in its business;
- ▶ design activities;
- ▶ automation through technology or software; and
- ▶ training of employees.

The enhancement in tax benefits for the six activities under the PIC is summarised in the table below.

Activities	Current	Proposed
R&D	Up to 150% tax deduction on qualifying expenditure incurred on R&D done in Singapore under sections 14D and 14DA of the ITA	<ul style="list-style-type: none"> ▶ 250% tax deduction for the first S\$300,000 of qualifying expenditure incurred on R&D activities done in Singapore per YA ▶ 150% tax deduction for the balance expenditure
Registration of IP rights	100% tax deduction on certain patenting costs under section 14A of the ITA	<ul style="list-style-type: none"> ▶ 250% tax deduction for the first S\$300,000 of qualifying costs incurred to register patents, trademarks, designs and plant varieties per YA ▶ 100% tax deduction for the balance expenditure

Activities	Current	Proposed
Acquisition of IP rights	WDA over a period of five years under section 19B of the ITA	<ul style="list-style-type: none"> ▶ 250% allowance for the first S\$300,000 of qualifying costs incurred to acquire economic and legal ownership of IP rights (EDB approved IP rights and IP rights relating to media and digital entertainment contents are excluded) per YA ▶ 100% allowance for the balance expenditure
Design activities	100% tax deduction on revenue expenditure under section 14(1) of the ITA	<ul style="list-style-type: none"> ▶ 250% tax deduction for the first S\$300,000 of qualifying expenditure on eligible design activities done in Singapore per YA ▶ 100% tax deduction for the balance expenditure
Automation through technology or software	100% capital allowance under section 19A(2) of the ITA	<ul style="list-style-type: none"> ▶ 250% allowance for the first S\$300,000 of costs incurred to acquire prescribed automation equipment per YA ▶ 100% allowance for the balance expenditure
Training of employees	100% tax deduction on revenue expenditure under section 14(1) of the ITA	<ul style="list-style-type: none"> ▶ 250% tax deduction for the first S\$300,000 of qualifying training expenditure incurred per YA for external training and Workforce Development Agency-certified-in-house training ▶ 100% tax deduction for the balance expenditure

With this enhancement of the tax incentive for R&D done in Singapore under the PIC, the Government will phase out two existing R&D tax incentives, namely the RDA and RISE schemes. No RDA will be granted on chargeable income from YA 2011, and RISE will cease with effect from YA 2011. For taxpayers with unutilised RDA granted for YA 2009 and YA 2010, they may opt to utilise the RDA as further deductions against their incremental R&D expenses from YA 2011 until YA 2016. Alternatively, instead of utilising the RDA, they can elect to claim the 250% tax deduction for the first S\$300,000 of their qualifying R&D expenses incurred for YA 2011 to YA 2015.

The tax allowance for IP acquisition under the PIC will cover patent, copyright, trademark, registered design, geographical indication, lay-out design of integrated circuits, trade secret or information that has commercial value, and plant varieties.

The allowance for qualifying investments in automation will be based on the current list of automation equipment specified in the Income Tax (Automation Equipment) Rules 2004. The list will be updated and expanded to include a wider range of equipment and software for automating processes.

Businesses which have at least three local employees (Singapore citizens and permanent residents with CPF contribution) may convert the tax deductions or allowances arising from their expenditure on the six types of activities under the PIC into a non-taxable cash grant at the rate of 7%. This is higher than the median effective tax rate of taxpaying companies, including SMEs for which the PIC is aimed to benefit. Specifically, they may convert up to S\$300,000 of such tax benefits into at most S\$21,000 cash per YA. This cash component of the scheme will be reviewed after three years.

The IRAS will release details of the PIC in June 2010.

Comments

- ▶ The PIC is expected to encourage a broader range of productivity and innovation activities and help defray some of the related business costs. If a company spends S\$300,000 on automated equipment and S\$200,000 on training expenses, it will enjoy additional tax savings of S\$127,500 (based on a 17% tax rate) under the PIC.
- ▶ The 250% enhanced tax deduction/allowance under the PIC has a cap of S\$300,000 claimable per activity for each YA. This is consistent with the focus on encouraging smaller businesses and SMEs to increase productivity and to innovate.
- ▶ It has been clarified by the IRAS that the qualifying expenditure must be incurred during the basis periods for YA 2011 to YA 2015.

- ▶ In addition to the option of converting the PIC into a non-taxable cash grant, taxpayers would also welcome the ability to claim group relief and to carry back any unutilised tax deductions or allowances under the PIC. This is yet to be clarified.
- ▶ Where a corporate taxpayer derives both normal and concessionary tax rate income, the current rules of attribution and set-off are likely to similarly apply. However, this is subject to further clarification.
- ▶ **R&D expenditures:** The IRAS has clarified that the PIC enhanced tax deduction only applies to expenses which qualify under section 14DA. Briefly, these include R&D expenses which are:
 - ▶ not incurred in the production of the company's income (which would then be deductible under section 14);
 - ▶ for R&D performed in Singapore by the company directly or by an R&D organisation;
 - ▶ not in respect of capital expenditure on plant and machinery or land or buildings or the acquisition of rights in or arising out of R&D; and
 - ▶ not necessarily related to the existing trade or business.
- ▶ Tax deduction of 150% (or such specified percentage for payments to an R&D organisation) is allowed for qualifying expenses (such as specified staff costs, consumables and other prescribed expenses) under section 14DA provided the R&D is a systematic, investigative and experimental study in the field of science and technology that is novel or involves technical risks with the objective of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce or processes. This should similarly apply to R&D expenses for PIC.
- ▶ As there is no application required for the existing R&D schemes, it is likely that taxpayers who meet the section 14DA conditions will automatically qualify for the enhanced tax benefits under the PIC.
- ▶ For taxpayers with unutilised RDA, they should review from a cost-benefit perspective whether it is indeed advantageous to utilise such tax allowance against incremental R&D expenses from YA 2011 onwards, or elect to claim the PIC in place of the RDA.
- ▶ **Registration of IP rights:** Currently, certain patenting costs are tax deductible under section 14A. However, these do not include the cost of registering trademarks, designs and plant varieties which qualify for PIC. The IRAS has clarified that IP registration costs under section 14A will be expanded to include costs paid to register trademarks, designs and plant varieties.
- ▶ **Acquisition of IP rights:** Under current law, WDA is claimable over a five-year period on capital expenditure incurred for the acquisition of certain IP rights. The claim is allowed if both economic and legal ownership of the IP rights are acquired. Such IP rights include patent, copyright, trademark, registered design, geographic indication, lay-out design of integrated circuit, trade secret or information that has commercial value. The PIC covers similarly defined IP rights. Further, the definition of IP rights will be expanded to include plant variety.
- ▶ There is no definition of "plant variety" in the ITA. It remains to be seen if this will include a plant group within a single botanical taxon of the lowest rank which is given Grant of Protection by the Government.
- ▶ Currently, where only economic interest but not legal ownership of an IP right is acquired, WDA is claimable if approved by the EDB. Further, for the acquisition of IP rights relating to films, television programs, digital animation or games, or other media and digital entertainment contents, WDA is claimable if the company is an approved media and digital entertainment company. It has been clarified that such EDB approved IP rights and IP rights relating to media and digital entertainment contents will be excluded from the PIC enhanced tax allowance.
- ▶ It is yet to be clarified if and how the existing recapture rules such as those relating to the sale, transfer or assignment of IP rights will be applied to enhanced tax allowance claimable under the PIC i.e. will the tax allowance claimable under PIC be similarly recaptured? It is unclear if the clawback rules will also apply if the IP rights acquired comes to an end (and is not subsequently revived) or the rights are (all or partly) sold, transferred or assigned or the company ceases to carry on the trade or business during the five-year period. If such recapture rule is to apply, it may discourage taxpayers from making the investment and taking the related risks of acquiring IP rights. This is especially the case, if there is no opt-out provision and the trigger events are due to commercial reasons and are not tax motivated.
- ▶ Currently for WDA claims under section 19B of the ITA, third-party independent valuation reports on the value of the IP rights acquired are required to be submitted to the IRAS for all unrelated party transactions equal to or greater than S\$2 million and all related party transactions equal to or greater than S\$500,000. This valuation is likely to continue to apply for the enhanced tax allowance for acquisition of IP rights under the PIC.

- ▶ **Investments in design:** The IRAS has clarified that the qualifying expenditure under the PIC for design done in Singapore covers the costs incurred to create new products and industrial designs. This tax incentive will be administered by the DesignSingapore Council and more details will be released by the DesignSingapore Council by May 2010.
- ▶ It is yet to be seen if the types of expenditure would be similar or different from those covered under the enhanced tax deduction for R&D under the PIC.
- ▶ **Investments in automation:** Automated equipment may currently qualify for additional allowance under the IA scheme. It will be a bonus, if such automated equipment will also qualify for PIC. It is uncommon to have the same expenditure being incentivised twice.
- ▶ It remains to be seen what other automation equipment will be added to the current prescribed list of automation equipment.
- ▶ It is yet to be clarified if the additional allowance under the PIC will be recaptured upon the sale or disposal of the equipment. If such allowance is to be treated like IA, there should not be any clawback except under certain circumstances. Similarly, unutilised IA can be carried forward and is not subject to the shareholders test and same trade test. Taxpayers will be more encouraged to make such automation investments if the rules for IA apply. However, it is noted that if the PIC is to be treated like IA, it will not be eligible for transfer under the group relief system.
- ▶ **Training:** The IRAS has clarified that the qualifying training costs are to be computed net of any Government grant or subsidy. The qualifying training costs will include:
 - ▶ for in-house training - qualifying costs incurred in providing accredited Workforce Skills Qualification (WSQ) training courses by a WSQ in-house training provider; and
 - ▶ for outsourced training - course fees paid to the external training service provider.
- ▶ To qualify for the PIC, both the R&D and design activities are required to be done in Singapore. It is unclear if training activities are also required to be conducted in Singapore in order to qualify.
- ▶ **Conversion to cash grant:** The IRAS has clarified that:
 - ▶ the amount for conversion should not be less than S\$1,500 each year;
 - ▶ the non-taxable cash grant is available for YA 2011 to YA 2013;
 - ▶ the cap of S\$300,000 convertible to cash grant is to be applied at the individual, company or trust level. For partnerships, the cap is to be applied at the partnership level;
 - ▶ for automation equipment, the cash grant is on a per equipment basis and a one-year minimum holding period is required; otherwise clawback provisions will apply; and
 - ▶ taxpayers that wish to apply for the cash grant have to complete and submit an application form to the IRAS after their accounting year-end and before the due date for tax return submission.
- ▶ The option of cash conversion under the PIC will benefit more taxpayers than under the existing RISE scheme which only applies to qualifying start-ups. Under the PIC, the condition is easier to meet as businesses are only required to have at least three local employees with CPF contributions.
- ▶ It is unclear if the minimum of at least three local employees who are Singapore citizens or permanent residents (contributing to CPF) condition has to be met throughout the basis period or only as at the end of the basis period.
- ▶ Under the RISE scheme, the amount of cash grant is equal to 9% of the amount of tax losses to be converted. The 9% rate is equivalent to the effective marginal tax rate for companies with chargeable income between S\$10,000 and S\$300,000 (after the partial tax exemption of 50% of this chargeable income range). It is noted that the conversion rate under PIC (of 7%) is lower.
- ▶ Given that the value of cash conversion is calculated based on 7% (subject to review after three years) and not the prevailing corporate tax rate, taxpayers should take into account their effective tax rate for each YA before deciding on whether to convert the PIC into cash.

Business tax

M&A allowance and stamp duty remission

Current

Previously, interest expenses incurred to acquire shares in a company could be deducted against taxable dividend income. This is no longer possible, as dividend income is no longer taxable. In addition, acquisition costs associated with M&A incurred by an acquiring company generally do not qualify for tax deductions.

Stamp duty is payable on share transfer documents at a rate of 0.2% on the purchase price or net asset value, whichever is higher.

Proposed

A new M&A allowance will be introduced to encourage companies to consider M&A as a strategy for growth and internationalisation. The M&A allowance is a one-off tax allowance scheme to help defray a portion of acquisition costs. The M&A allowance is designed for simplicity. The new allowance will help the acquiring firm to offset part of its costs, but without seeking to distinguish between interest costs and other costs. It is therefore designed to be neutral between debt and equity in financing transactions.

The M&A allowance will be granted to qualifying M&As executed from 1 April 2010 to 31 March 2015 (both dates inclusive).

The quantum of the allowance is 5% of the value of the acquisition, subject to a cap of S\$5 million (5% of deals worth up to S\$100 million) of allowance granted for all qualifying deals executed per YA. The allowance will be written down equally over five years.

In addition, stamp duty on transfers of unlisted shares for qualifying M&A deals executed from 1 April 2010 to 31 March 2015 will also be remitted. This remission is capped at S\$200,000 (0.2% of deals worth up to S\$100 million) of stamp duty per year.

The IRAS will release details of the M&A allowance and stamp duty relief scheme by June 2010. However, the stamp duty remission will be available for qualifying M&As executed from 1 April 2010 to 31 March 2015 (both dates inclusive).

The full stamp duty on such transfers of unlisted shares will continue to be payable on all transfers of unlisted shares until details of the scheme including the definition of qualifying M&A deals are finalised. The IRAS will refund stamp duty paid if a deal, executed on and after 1 April 2010 but before the finalisation of the rules, can satisfy the finalised rules.

Comments

- ▶ As the M&A allowance is a one-off allowance, it therefore appears that allowance is given only upon the initial acquisition. Costs associated with subsequent post-acquisition re-organisation are not likely to qualify for the allowance.
- ▶ The M&A allowance would have no tax deduction value if the acquiring company is an investment holding company that derives only tax exempt dividend income and has no other taxable income. Hence, to be beneficial, the M&A allowance should be fully transferable to any company in the group of the acquiring company if the acquiring company does not have sufficient taxable income to utilise the M&A allowance.
- ▶ It is unclear whether any unutilised M&A allowance may be carried forward or carried back to offset against future years' and prior year's taxable income respectively and whether it would be subject to the shareholders test, same trade test or other criteria.
- ▶ Since the M&A allowance is meant to encourage growth and internationalisation, it appears that the scheme will apply to acquisition of both local and foreign companies.

- ▶ It remains to be seen what conditions will be stipulated for a “qualifying” M&A; e.g.
 - ▶ Must the acquiring company be a Singapore tax resident?
 - ▶ Would there be a minimum threshold for the acquisition, say at least 50% (or more) of the equity interest of the target company?
 - ▶ Would this be limited only to M&As involving unrelated entities such that acquisitions involving related parties or internal group restructuring would not qualify?
 - ▶ Would this be limited to transactions involving share acquisitions only or would it also cover transactions where only business assets are acquired or both?
 - ▶ Would this be applicable only to acquiring company which is incorporated in Singapore? E.g., in a global M&A deal where the acquiring company is a foreign company, would the M&A allowance be granted to the Singapore entities of the acquiring company? If so, would the M&A allowance be granted on the date of acquisition or when the Singapore entities are subsequently merged with the Singapore entities of the target company?
- ▶ It remains to be clarified how the value of acquisition would be determined:
 - ▶ The government recognises that M&A can be a costly and resource intensive process, particularly for acquiring companies which are not large players. Since the M&A allowance scheme is meant to help defray a portion of the acquisition cost, would transaction costs (e.g. valuation costs and due diligence costs) be allowed to be included in computing the acquisition value?
 - ▶ In the case of a global M&A where both the acquiring company and the target company are outside Singapore, how would the Singapore target company be valued?
- ▶ The concession on stamp duty does not apply to transfers of listed shares as such transfers are already exempt from stamp duty.

Business tax

Phasing out of IBA

Current

IBA is granted on capital expenditure incurred on industrial buildings or structures. "Industrial building or structure" is a building or structure in use for qualifying purposes such as:

- ▶ for the purposes of a trade which consists in the manufacture of goods or materials or the subjection of goods or materials to any process;
- ▶ for the purposes of a trade which consists in the storage of goods or materials which are to be used in the manufacture of other goods or to be subjected to any process; and
- ▶ for the purposes of a trade which consists of the storage of goods or materials on their arrival in Singapore.

Generally, IBA is computed as follows:

- ▶ initial allowance of 25% of the qualifying expenditure; and
- ▶ annual allowance of 3% of the qualifying expenditure.

For the purchase of second-hand industrial buildings prior to 1 January 2006, an annual allowance of 3% based on the residue of expenditure brought forward from the previous owner will be granted. Under certain circumstances, initial allowance could be given to the buyer.

For the purchase of second-hand industrial buildings on or after 1 January 2006, an annual allowance of 3% based on the purchase price will be granted. Similarly, initial allowance may be claimed if certain conditions are met.

Proposed

IBA was introduced in 1940s to encourage industrialisation. It has met its objective but is no longer adequate or relevant to meet the current priorities. It does not distinguish between efficient and inefficient uses of industrial land. Therefore, it will be phased out after 22 February 2010. Existing IBA claimants can continue to claim their remainder IBA on qualifying buildings until the allowances are written down.

Qualifying capital expenditures incurred by businesses on or before 22 February 2010 on the construction or purchase of industrial buildings or structures will continue to qualify for IBA, subject to existing IBA rules.

With the phasing out of IBA, IBA will not be allowed on capital expenditure on the construction or purchase of industrial buildings or structures which are incurred after 22 February 2010, except in the following specified scenarios:

- ▶ purchase of industrial buildings or structures where the option to purchase was signed on or before 22 February 2010¹;
- ▶ construction of new industrial buildings or structures on land for which an application to bid, buy or lease the land from the Government was submitted or for which an option to purchase the land was signed with the private industrial landlord on or before 22 February 2010, and the development application to build the industrial buildings or structures on the land is submitted to the URA by 31 December 2010²;
- ▶ extension or alteration works on existing industrial buildings or structures, or conversion works on existing non-industrial buildings or structures to convert the buildings or structures to industrial buildings or structures, for which a qualified person had been engaged on or before 22 February 2010 to carry out the works and the development application for such works is submitted to the URA by 31 December 2010²; or

¹ The purchase prices incurred will qualify for IBA, subject to existing IBA rules.

² Qualifying capital expenditure incurred up till the earlier of the date of Temporary Occupation Permit or the end of the basis period for YA 2016 will qualify for IBA, subject to existing IBA rules.

- ▶ renovation works (that do not require a development application) on existing industrial buildings or structures, or on existing non-industrial buildings or structures to convert them to industrial buildings or structures; and a building/renovation contractor had been engaged on or before 22 February 2010 to carry out the renovation works³.

The IRAS will release more details in April 2010.

Comments

- ▶ With the phasing out of IBA, businesses which carry on qualifying purposes for IBA and which are not in the industry sectors identified for the newly introduced LIA would be worse off if they were to purchase an industrial building or incur capital expenditure on their existing building after 22 February 2010. Businesses may consider leasing instead of constructing or purchasing the buildings since the cost of acquisition and construction of the buildings will no longer qualify for any allowance. On the other hand, the leasing charges should be tax deductible. Having said this, the landlord could also pass-on the additional tax burden as an increase in rent to the tenant since the landlord would also not be able to claim IBA on the building.
- ▶ The hardest hit businesses from this significant change to the IBA regime would likely be those in the manufacturing and logistics industries, as well as those which do not qualify for the newly introduced LIA.
- ▶ Due to the gradual phase-out of IBA, there may not be an immediate tax impact, but businesses should be prepared for the medium-to-long term increase in tax costs.
- ▶ It becomes more critical now for businesses that incur new capital expenditure to identify the costs incurred on plant and machinery which qualify for capital allowance, versus costs incurred on building and structure which would not be entitled to any tax allowance/deduction. It may be worthwhile for businesses which have incurred a substantial amount of capital expenditure to consider carrying out a capital allowance study to identify the relevant costs attributable to plant and machinery.
- ▶ Under the current tax legislation, related entities may jointly elect for section 24 in respect of a transfer of fixed assets between them, subject to certain conditions. With the section 24 election, the related buyer would continue to claim capital allowances or IBA on the fixed assets transferred as if the transfer has not taken place. It is unclear whether section 24 election would continue to apply to intra-group transfer of industrial buildings after 22 February 2010.
- ▶ Under the current tax framework for corporate amalgamations, a section 24 election is deemed to be made for assets qualifying for capital allowances or IBA even though the amalgamating and amalgamated entities may not be related. It remains to be seen whether any consequential change will be made to this rule.
- ▶ Currently, a tax deduction is given for upfront land premium paid in respect of a designated lease for the construction or use of an industrial building. The quantum of deduction for each year is based on a certain prescribed formula. With the phasing out of IBA, it remains to be seen whether this tax deduction would also be phased out or made available to businesses eligible for LIA.

³ Qualifying capital expenditure incurred up till the earlier of the date of completion of renovation works or the end of the basis period for YA 2016 will qualify for IBA, subject to existing IBA rules.

Business tax

Land intensification allowance scheme

Current

Capital expenditure incurred on buildings or structures in use for qualifying purposes is eligible for IBA. As announced in the 2010 Budget, IBA will be phased out (see section on Phasing out of IBA).

Proposed

A more targeted scheme, known as land intensification allowance scheme or LIA, will be introduced to support enhanced land productivity among industrial users.

Businesses may claim LIA on qualifying capital expenditure incurred for the construction of a qualifying building or structure.

The qualifying criteria are:

- ▶ The user of the building or structure belongs to one of the following nine industry sectors:
 - ▶ pharmaceuticals;
 - ▶ petrochemicals;
 - ▶ petroleum;
 - ▶ specialties;
 - ▶ other chemicals;
 - ▶ semiconductor - wafer fabrication;
 - ▶ aerospace;
 - ▶ marine and offshore engineering; and
 - ▶ solar cell manufacturing.
- ▶ The land on which the building or structure is to be built is zoned as Business 1 or Business 2 (excluding Business 1 White and Business 2 White) under the URA Master Plan.
- ▶ The building or structure meets the Gross Plot Ratio (GPR) benchmark relevant to the industry sector of the building user. The GPR benchmark is based on that applicable at the time the business submits to the URA the development application for the building or structure. To encourage intensification, the benchmarks for each industry sector will be set around the 75th percentile of actual GPRs for the sector.

The qualifying business will be granted an initial allowance of 25% and an annual allowance of 5% on the qualifying capital expenditure. This means that qualifying expenditure can be written down over 15 years under LIA.

The LIA incentive will be in place for five years and will be administered by the EDB.

The commencement date of the incentive is 1 July 2010. Details of the scheme will be released by JTC/EDB by June 2010.

Comments

- ▶ LIA is a more focused approach than IBA. Buildings and structures used for qualifying activities under IBA, such as manufacturing, may not fall within the ambit of the LIA scheme. This could result in additional tax cost in the medium-to-long term for businesses which are outside the identified industry sectors (see section on Phasing out of IBA).
- ▶ It appears that owners of buildings may apply for LIA as long as the user of the building is in one of the identified industry sectors and the other qualifying conditions are met. This may allow landlords to pass-on some tax savings to their tenants.
- ▶ Many of the businesses under the identified industry sectors may be enjoying tax incentives such as pioneer incentive or DEI. Under these incentives, it is currently mandatory to claim all capital allowances and IBA during the incentive period. If the tax benefits to be derived from LIA is not sufficiently significant, such businesses may decide not to apply for LIA.
- ▶ Further details relating to the LIA scheme which will be released may include:
 - ▶ the nature of the activities and types of business that are considered to be included in each of the industry sectors, e.g. whether the primary supporting businesses of the industry sector will qualify as being part of the industry sector;
 - ▶ whether a building or structure which did not previously qualify for LIA, e.g. due to not meeting the GPR requirement, may subsequently be eligible for LIA if the qualifying conditions are met;
 - ▶ whether second-hand buildings and structures will qualify; and
 - ▶ whether a fresh application will be required for capital expenditure incurred to carry out subsequent alterations and renovations works to a qualifying building or structure.
- ▶ It remains to be seen whether the following IBA rules will also apply under the LIA scheme:
 - ▶ the making of balancing adjustment, i.e. balancing allowance or balancing charge as the case may be, upon disposal of a building or structure;
 - ▶ whether LIA would be granted on the purchase price of the building in the case of a second-hand building which qualifies for LIA; and
 - ▶ whether capital expenditure incurred for parts of the building used for non-qualifying activities such as showroom or office would be excluded from LIA, unless the capital expenditure for the non-qualifying area is 10% or less of the total capital expenditure incurred for construction of the building.
- ▶ Currently, in addition to IBA claims, businesses are also eligible to claim a tax deduction on the upfront land premium paid by a lessee in respect of a designated lease for the construction or use of a building or structure for the purposes of carrying on qualifying activities. It remains to be seen if deduction for upfront land premium will be given to businesses eligible for LIA.
- ▶ Based on the IRAS clarifications, the building must be put to use at the end of the basis period for purposes of the annual allowance claim of 5%.

Business tax

Promoting the financial sector

Extension of and enhancement to listed REITs concessions

Current

The following income tax and stamp duty concessions granted to listed REITs expired on 17 February 2010:

▶ Income tax

The concessionary income tax rate of 10% on distributions of taxable income to non-resident non-individual investors.

▶ Stamp duty

The stamp duty remission on the transfer of the following to a Singapore-listed REIT:

- (a) a Singapore immovable property; and
- (b) 100% of the issued share capital of a Singapore-incorporated company that holds immovable properties situated outside Singapore.

An unlisted REIT will also qualify for the stamp duty remissions provided it is listed within one month from the date of completion of the sale and purchase agreement.

FSIE income tax concession

Singapore-listed REITs and their wholly-owned Singapore subsidiary companies that invest in foreign properties through foreign companies and/or foreign trusts may apply and be granted tax exemption under section 13(12) of the ITA on qualifying foreign-sourced dividends, interest and trust distributions paid out of income or gains from the foreign properties. This tax exemption is subject to the satisfaction of certain conditions. There is currently no sunset clause for this income tax exemption.

Proposed

▶ Income tax

The existing income tax concession for listed REITs on distributions made to non-resident non-individual investors will be renewed for the period from 18 February 2010 to 31 March 2015 (both dates inclusive).

▶ Stamp duty

The stamp duty remissions for a Singapore-listed REIT will be renewed for the period from 18 February 2010 to 31 March 2015 (both dates inclusive).

The current requirement for unlisted REITs to be listed within one month (from the date of completion of the agreements for sale) in order to qualify for the stamp duty remissions will be liberalised to listing within six months.

▶ FSIE income tax concession

The FSIE income tax concession for listed REITs will be subject to a sunset clause of 31 March 2015. This means that for the FSIE to apply to listed REITs or wholly-owned Singapore subsidiary companies of listed REITs (which have been granted or will be granted the FSIE), the qualifying foreign-sourced income should be remitted on or before 31 March 2015.

Comments

- ▶ The extension of the income tax and stamp duty concessions (see also section on Extension of GST concession for listed REITs and qualifying RBTs) was much anticipated by industry players. Stamp duty can be a substantial cost for REITs and the extension of the stamp duty remission will facilitate more acquisitions of Singapore properties by Singapore-listed REITs.
- ▶ The extension of the 10% concessionary tax rate will continue to make it attractive for foreign non-individual investors to invest in Singapore-listed REITs. This helps to attract more foreign capital and facilitate the continual growth of the Singapore REITs industry.
- ▶ The newly introduced sunset clause for the tax concession under FSIE for Singapore-listed REITs and their wholly-owned Singapore subsidiary companies is consistent with the Government's policy to introduce sunset clause for tax incentives so as to allow the Government to review the effectiveness of the tax incentives and to consider if there is a need to continue with and/or refine the tax incentives upon their expiry. However, the introduction of the sunset clause in the manner described for the FSIE income tax concession will create uncertainty for investors, REIT managers and potential REIT sponsors of cross-border REITs. Without the tax exemption under the FSIE income tax concession, the tax payable in Singapore on foreign-sourced income derived in respect of overseas properties could dilute the returns of a REIT significantly and make Singapore-listed cross-border REITs unattractive.
- ▶ Although Singapore is currently the largest listing hub for REITs in Asia ex-Japan, the Singapore REITs industry is still relatively small by global standards. In terms of organic growth, there are limitations as Singapore is a small country and the pool of good class properties is relatively small. Nevertheless, it is still important for the Singapore REITs industry to have a number of blue chip REITs with ample liquidity and large market capitalisations. More listing of Pan Asian REITs on the SGX will build critical mass, enhance market capitalisation and add vibrancy, breadth and depth to the Singapore REITs industry. The FSIE income tax concession removes a tax impediment for Singapore-listed REITs to invest in overseas properties and facilitates the listing of Pan Asian REITs on the SGX.
- ▶ To remove uncertainty, if the sunset clause cannot be removed totally, it would be good if the sunset clause could be refined such that qualifying foreign-sourced income from overseas properties acquired on or before 31 March 2015 and in respect of which tax exemption under the FSIE income tax concession has been granted will continue to enjoy the tax exemption throughout the period of ownership by the Singapore-listed REITs. This is currently the case for ships acquired during the qualifying period for the MFI.
- ▶ The liberalised time period of six months will allow unlisted REITs to have more leeway in the acquisition of properties in preparation for listing on the SGX.

Business tax

Promoting the financial sector

Enhancement to FSI scheme

Current

Financial institutions which are granted FSI-ST awards are required to compute and deduct the QB from their income derived from FSI qualifying activities, in order to determine the net income to be taxed at the concessionary tax rate of 10%. The QB is to be taxed at the prevailing corporate tax rate, currently 17%.

- ▶ The QB is a proxy for the income from certain activities that were previously subject to tax at the prevailing corporate tax rate before the removal of the counter-party and/or currency restrictions under FSI.
- ▶ The initial QB for financial institutions that transited into the FSI-ST scheme on 1 January 2004 was applicable for five years to 31 December 2008. Financial institutions which renewed their FSI-ST awards were required to compute the subsequent QB based on a prescribed formula. However, as a concession, these financial institutions can continue to use the initial QB up to 31 December 2010.
- ▶ While the QB has relieved financial institutions of the need to track counter-party and/or currency restrictions for qualifying activities, there has been feedback from financial institutions that the administration and computation of QB is complex and results in significant compliance cost.

Proposed

With effect from 1 January 2011, the QB will be removed and instead the concessionary tax rate under the FSI-ST award will be changed in tandem from 10% to 12% as a revenue neutral change. The list of qualifying activities will also be updated. These changes will help to simplify the rules for the FSI scheme and to lower compliance costs for financial institutions. The MAS will be releasing details of the changes by April 2010.

Comments

- ▶ This proposal is timely as financial institutions can avoid the significant time and expense involved in computing the subsequent QB which would otherwise be due on 31 December 2010.
- ▶ A financial institution with a QB of 28.57% would be neutral but a financial institution with a QB% of more than 28.57% would benefit from this enhancement as its former effective tax rate of more than 12% would be reduced to 12%. Conversely, a financial institution with a QB of less than 28.57% would be worse off since its former effective tax rate of less than 12% would be increased to 12%.
- ▶ As the proposal to remove QB will take effect from 1 January 2011, based on previous experience, a financial institution with a non-December financial year end will likely be required to prepare two sets of computations for YA 2012 - one set for income and expenses up to 31 December 2010 which are subject to QB and another set for income and expenses from 1 January 2011.
- ▶ The increase in the concessionary tax rate to 12% is to offset the benefit arising from removal of the QB and maintain revenue neutrality. It remains to be clarified whether the concessionary tax rate of 10% will be given to a new applicant of the FSI-ST award who might have qualified for a QB of 0%. If not, the FSI-ST award would appear to be less attractive than other tax incentives which generally offer a concessionary tax rate of 10%. This will be less of an issue if the new applicant is able to qualify for the concessionary tax rate of 5% under the FSI-ET award for certain activities.

- ▶ The details of the changes will be released by the MAS by April 2010. It remains to be seen if the updated list of qualifying FSI activities will include any new activities and/or exclude any existing activities. For example, it would be appropriate to remove qualifying income from QDS from the list of qualifying FSI activities so that financial institutions like other corporate taxpayers would be able to enjoy the 10% concessionary tax rate under the QDS tax incentives instead of the 12% rate under FSI-ST award.
- ▶ It also remains to be clarified whether there will be any transitional rules on the tax treatment for recovery of general provisions and impairment losses incurred in prior years. In line with the objective of simplifying the FSI-ST tax incentive and to reduce compliance costs, it would be good if the current requirement to track and apply the QB can be removed since the applicable tax rate will be increased to 12%.

Business tax

Promoting the financial sector

Review of tax concession for offshore insurance business

Current

Approved general, life and composite insurers can enjoy a concessionary tax rate of 10% on qualifying income derived from offshore insurance business conducted from Singapore. There is no sunset clause for the scheme and incentive recipients are incentivised indefinitely.

Proposed

In line with the Government's policy to review tax incentives on a regular basis and to encourage companies to grow their presence in Singapore, the Government will introduce the following changes to the tax incentive with effect from 1 April 2010:

- ▶ the incentive will be subject to a sunset clause of five years till 31 March 2015. There will be a review mechanism to determine whether the incentive will be further extended after 31 March 2015;
- ▶ the incentive will be awarded to an approved recipient for a period of 10 years; and
- ▶ new headcount requirement will be imposed for incentive recipients (except for captive insurers).

New applicants will be required to meet the headcount criterion at the point of application for the tax incentive from 1 April 2010.

To facilitate the transition of existing incentive recipients to the revised incentive framework, existing incentive recipients will be given a transition period of three years from 1 April 2010 to 31 March 2013 to meet the necessary headcount requirement in order to continue to qualify for the incentive after 31 March 2013 for the remaining tenure of their awards.

The MAS will release further details by April 2010.

Comments

- ▶ It remains to be seen what the new headcount requirement will be and whether there will be additional conditions other than those announced. This should be clarified by the MAS when it releases further details by April 2010.
- ▶ It is possible that certain existing incentive recipients may lose the 10% concessionary tax rate if they are unable to meet the headcount requirement by 31 March 2013. For these insurers, it remains to be clarified whether any unabsorbed tax losses and/or capital allowances which arose from the offshore insurance business (which previously enjoyed the 10% concessionary tax rate) would be subject to the adjustment factor (for the different tax rates) when these are used to offset against taxable income (derived from the same business) which will then be taxed at the normal tax rate.
- ▶ Currently, captive insurers who are approved during the period from 17 February 2006 to 16 February 2011 (both dates inclusive) are granted tax exemption on their qualifying income for a period not exceeding 10 years. It remains to be seen whether the approval period for this incentive will be extended in future and whether there will be alignment with the above 31 March 2015 expiry date.
- ▶ Presently, an approved marine hull and liability insurer is exempt from Singapore tax on its qualifying income for a period not exceeding 10 years. In addition, specialised insurers who are approved during the period from 1 September 2006 to 31 August 2011 are granted tax exemption on their qualifying income for a period not exceeding five years. In our view, these exemptions should not be affected by the above 31 March 2015 sunset clause because Singapore is committed to strengthening its position as a leading Financial and Maritime Centre.

Business tax

Promoting the financial sector

Review of existing tax incentives for futures members of SGX and members of SICOM

Current

Futures members of SGX and members of SICOM are granted a concessionary tax rate of 10% on their qualifying income derived from qualifying transactions under sections 43D and 43K of the ITA respectively.

Proposed

To streamline existing tax incentive schemes for better incentive administration, the above two existing incentives would be discontinued on 31 December 2010. From 1 January 2011 onwards, these two tax incentives will cease and new incentive applicants which engage in qualifying transactions that were incentivised under these two tax incentives will have to apply for the FSI scheme and meet economic commitments under the FSI scheme at the point of application.

As a transition measure, on 1 January 2011, existing futures members of SGX and members of SICOM who are incentivised under these two existing tax incentives will be allowed to transit to the FSI-ST scheme automatically if they notify the MAS of their intent to transit by 31 July 2010. They will not be subject to the approval criteria for the FST-ST award at the point of transition in January 2011. However, they will be subject to the prevailing FSI-ST renewal criteria, when they apply for renewal of their awards in December 2013, if the FSI scheme is extended.

Further details will be released by the MAS by April 2010.

Comments

- ▶ There is currently no sunset clause under the two existing incentives. The subsuming of the two tax incentives into the FSI-ST scheme means that there is now an expiry date of 31 December 2013, which coincides with the expiry dates of the other awards under the FSI umbrella. This enables the MAS to review all of the awards under the FSI umbrella at one go.
- ▶ Under the two existing incentives, no separate application is required. As long as the company is a futures member of SGX or a member of SICOM, it will be able to enjoy the tax incentive. However, with the merger into the FSI umbrella, futures members of SGX and members of SICOM are required to demonstrate their economic commitments before their new incentive application or renewal application is approved.
- ▶ It is mentioned in the 2010 Budget announcement that the concessionary tax rate under the FSI-ST award will be changed from 10% to 12% in tandem with the removal of the QB with effect from 1 January 2011. It remains to be seen if the revised tax rate of 12% will similarly apply to relevant income derived from qualifying transactions by futures members of SGX and members of SICOM as they were not previously subject to QB adjustments.
- ▶ As the qualifying activities for futures members of SGX and members of SICOM are currently not covered under the FSI, the list of qualifying activities in the FSI regulations will have to be expanded accordingly.
- ▶ Under the two existing incentives, to enjoy the concessionary tax rate, the transactions have to be entered into with specified counterparties. Generally, the identity of the counterparty is not known for trades carried out on exchanges. Thus, it remains to be seen whether the counterparty condition will be removed in respect of qualifying trades carried out on approved exchanges in line with the enhancement under FSI-DM (CDT) award announced in the 2009 Budget.

Business tax

Promoting the financial sector

Removal of approved start-up fund manager scheme

Current

The approved start-up fund manager scheme was introduced in 2005 to allow a fund managed in Singapore by an approved start-up fund manager to be granted a 12-month grace period from the date of set up of the fund to meet the requisite residency conditions on the fund's investors under the fund management tax incentives. This is meant to provide approved start-up fund managers with certainty of tax exemption of the fund managed by them while they build up their track record and source for mandates.

Proposed

With the liberalisation of the residency conditions under the fund management tax incentives in 2007, it is now less difficult for funds to qualify for tax exemption under the fund management tax incentives.

The approved start-up fund manager scheme will be allowed to lapse after its expiry on 17 February 2010. No fund manager will be approved under the scheme after 17 February 2010. Funds managed by fund managers approved on or before 17 February 2010 under the approved start-up fund manager scheme will continue to be allowed the 12-month grace period from the date of set up of the fund, even if such grace period stretches beyond the expiry of the scheme on 17 February 2010.

Comments

- ▶ The approved start-up fund manager scheme was introduced when the "80:20" rule was in place. To recap, under the "80:20" rule, tax exemption is granted on specified income derived by a foreign investor from funds managed by any fund manager in Singapore in respect of designated investments. For a company or trust fund to qualify as a foreign investor, at least 80% of the beneficial interest in the company or trust fund must be held by investors who are neither Singapore citizens nor residents of Singapore.
- ▶ Recognising that start-up fund managers may face difficulties in meeting the above-mentioned 80% threshold, the approved start-up fund manager scheme was introduced from 18 February 2005 to 17 February 2010 to allow start-up fund managers a 12-month grace period to meet the 80% threshold.
- ▶ The above "80:20" rule was largely replaced with effect from 1 September 2007 by a new condition that a company or trust fund must be less than 100% beneficially owned by Singapore persons in order to qualify for the tax exemption. Since this condition is fairly easy to satisfy, the approved start-up fund manager scheme is no longer considered necessary.
- ▶ The removal of the scheme is not expected to adversely impact the fund management industry.

Business tax

Promoting the maritime sector

Incentives for ship brokers and FFA traders

Current

Ship brokers and FFA traders are taxed at the prevailing corporate tax rate.

Proposed

To grow the activities of ship broking and FFA trading in Singapore and further promote Singapore as an International Maritime Centre, a new incentive targeted at ship brokers and FFA traders will be introduced.

Under the new incentive, a company solely carrying out ship broking and/or FFA trading in Singapore will be granted a concessionary tax rate of 10%, subject to conditions.

Interested taxpayers can apply to the MPA for this incentive from 1 April 2010 to 31 March 2015 (both dates inclusive). Incentive recipients will enjoy incentive awards of five years.

The MPA will release the implementation details by end March 2010.

Comments

- ▶ This proposed incentive is to apply to companies which solely carry out ship broking and/or FFA trading. It remains to be seen whether the conditions are so restrictive as to exclude companies that carry out incidental but related value-added activities such as research, consultancy and ship financing.
- ▶ As such, it is not clear whether the 10% tax concessionary rate will apply to other incidental income, such as foreign exchange gains, interest rate swaps, hedging and other derivative gains.
- ▶ Typically, to enjoy maritime tax incentives, qualifying companies must satisfy certain criteria. These include annual local business spending in Singapore, headcount commitment, good track record and substantial operations in Singapore. It remains to be seen whether such conditions will apply to this new incentive.
- ▶ It remains to be clarified whether existing companies will enjoy the 10% concessionary tax rate only on incremental income from qualifying activities.
- ▶ Generally, tax incentives for the maritime sector are renewable after the initial qualifying period. Hopefully, the same will apply under this incentive after the initial five-year period.

Business tax

Promoting the maritime sector

Enhancement to section 13A of the ITA and AIS scheme

Current

Ship management fees derived from rendering ship management services to related SPVs are taxed at the prevailing corporate income tax rate.

Proposed

In line with the objective of developing Singapore into an International Maritime Centre, ship management fees derived on or after 22 February 2010 from the rendering of ship management services to related qualifying SPVs will be treated as qualifying income to be exempted from tax under section 13A of the ITA and the AIS scheme, subject to conditions.

The MPA will release the implementation details by end March 2010.

Comments

- ▶ We await the definition of “related qualifying SPVs” and whether it will be confined to SPVs set up in Singapore. If it includes SPVs set up outside of Singapore, the proposed tax exemption may encourage shipping enterprises to locate their regional ship management operations in Singapore.
- ▶ A shipping enterprise qualifying for tax exemption under section 13A of the ITA or under the AIS scheme that houses all the ships owned and operated by the shipping enterprise in the same entity will manage such vessels itself and will not have to deal with the issue of paying ship management fees to another entity. However, if a SPV was set up to own one or more of the vessels of the shipping enterprise group with ship management services being performed by another entity in the group, then the related fees will need to be charged to the SPV. The ship management income will be subject to tax at the prevailing corporate income tax rate while the ship management expense may have no tax deduction value if the SPV enjoys tax exemption on its shipping income under section 13A of the ITA or under the AIS scheme. The proposed tax exemption will remove the additional tax cost of housing or centralising ship management activity in a separate entity different from the SPVs that own and operate the ships.
- ▶ It remains to be clarified whether the ship management income will qualify for the proposed tax exemption only when the services are provided to related qualifying SPVs that are exempted from tax under section 13A of the ITA and the AIS scheme.
- ▶ It also remains to be seen whether conditions such as having a good track record, incremental business spending in Singapore, the provision of services to regional SPVs, headcount and the size of the fleet being managed will be imposed.

Business tax

Promoting the maritime sector

Extension of MFI

Current

Under the MFI scheme administered by the MPA:

- ▶ an approved MFI entity will enjoy either tax exemption or a tax concession (10% or 5%) on its qualifying leasing income; and
- ▶ an approved manager of the MFI entity will enjoy a tax concession of 10% on its qualifying income.

This scheme will expire on 28 February 2011. Taxpayers applying for the MFI on or before 28 February 2011 will be given approval for a period of not more than 10 years.

Proposed

To further support Singapore's development as a maritime financing hub, the expiry date of the MFI scheme will be extended from 28 February 2011 to 31 March 2016.

Taxpayers applying for the MFI during the period from 1 March 2011 to 31 March 2016 (both dates inclusive) will be given approval for a period of not more than five years.

Comments

- ▶ Although the MFI scheme has been extended to beyond 28 February 2011, the incentive period has been shortened to a maximum of five years.
- ▶ The shortened period of the incentive may attract new operators to set up earlier in Singapore, to qualify for the 10-year incentive period.
- ▶ There are other tax benefits, such as remission of stamp duties, exemption from withholding tax on certain charter and interest payments to non-residents of Singapore, which are available under the current MFI scheme. It is not clear if these tax benefits will continue to be available under the extended MFI scheme.
- ▶ It remains to be seen whether any new or additional conditions will be imposed by the MPA in reviewing applications for the MFI status under the extended MFI scheme.

Business tax

Extension of DEI to international legal services

Current

At present, international legal services may benefit to some extent from the International Arbitration Tax Incentive scheme. Approved law practices (whether established as partnerships or companies) are allowed a 50% tax exemption on their incremental qualifying income from international arbitration services with substantive hearings held in Singapore.

Proposed

To further enhance Singapore's position as an international arbitration hub and to encourage law practices to do more international legal work, the DEI scheme will be extended to cover income derived from the provision of international legal services.

The incentive will be available to law practices registered in Singapore as a company or as a branch of a foreign company. Approved law practices will enjoy a 10% concessionary tax rate on incremental income from qualifying international legal services for five years. The incentive is valid from 1 April 2010 to 31 March 2015 (both dates inclusive).

The Ministry of Law and the EDB will release details in March 2010.

Comments

- ▶ The above scheme is in line with the ESC's recommendation to strengthen Singapore's position as a leading Global-Asia financial and business hub by growing accounting, legal and consulting services.
- ▶ Qualifying conditions for this DEI scheme would likely include headcount of lawyers engaging in international legal services based in Singapore, size of the law practice and established credentials.
- ▶ Only income that is incremental to the base profits will qualify for the 10% concessionary tax rate. The base profits would likely be the average of the profits earned from the provision international legal services over the preceding three years.
- ▶ The extension of the DEI scheme only applies to Singapore incorporated companies and Singapore registered branches. It is unclear why this proposed scheme is not extended to partnerships.
- ▶ It remains to be seen whether there will be a prescribed list of activities (e.g. environmental law, intellectual property and maritime law) that will qualify as international legal services, or whether all legal services rendered out of Singapore to overseas parties would qualify.
- ▶ Tax compliance cost of the law practice may increase as there will be a need to track and segregate the qualifying and non-qualifying income and expenses.
- ▶ Generally, the DEI scheme is renewable for up to 20 years. This incentive is proposed for a five-year period only.
- ▶ Approved law practices may not be able to reap the maximum benefits from this scheme if they suffer foreign withholding taxes on the qualifying income and are able to claim a credit for the foreign taxes paid. Foreign branches which are generally not entitled to foreign tax credit claims for foreign taxes suffered may find this scheme more attractive.

Business tax

Promoting the aerospace sector

Renewal and enhancement of IA scheme for aircraft rotables

Current

The IA scheme on aircraft rotables introduced on 10 September 2004 granted IA (in addition to normal capital allowances) to approved aircraft maintenance, repair and overhaul companies at 50% of the qualifying costs incurred on aircraft rotables. In order to qualify for the scheme, the approved companies are required to recover from their clients the swapped rotatable part, with the same part number and serial number, by the end of the service contracts. This is also known as the “non-swapping condition”.

The above IA scheme was valid for five years and expired on 9 September 2009.

Proposed

In line with Singapore’s commitment to develop the aerospace maintenance, repair and overhaul industry:

- ▶ the IA scheme for aircraft rotables will be renewed for another five years from 1 April 2010 to 31 March 2015; and
- ▶ approved aircraft maintenance, repair and overhaul companies will no longer be required to meet the “non-swapping condition”. This enhancement removes the administrative difficulties of having to track specific aircraft rotables.

The EDB will release details by March 2010.

Comments

- ▶ Since this is a renewal of the previous IA scheme, it is likely that the EDB will again grant IA at 50% of qualifying costs.
- ▶ The extension and enhancement of the IA scheme on aircraft rotables could encourage existing aerospace maintenance, repair and overhaul companies to expand their operations in Singapore and continue to strengthen Singapore’s role as an aerospace hub.

Business tax

Withholding tax rate for non-resident public entertainers

Current

A non-resident public entertainer is subject to tax at a withholding tax rate of 15% on his gross income derived in respect of services performed in Singapore.

Non-resident public entertainers include:

- ▶ stage, radio or television artistes (e.g. singers, dancers, actors);
- ▶ musicians;
- ▶ athletes (include all types of sportsmen and women e.g. runners, swimmers, jockeys, golfers, tennis players, racing drivers); and
- ▶ individuals exercising any profession, vocation or employment of a similar nature to the above in Singapore for less than 183 days in a calendar year.

Proposed

As a concession to help local organisers attract high quality performances to Singapore, the withholding tax rate of 15% will be reduced to 10% on sums payable to non-resident public entertainers from 22 February 2010 to 31 March 2015.

Comments

- ▶ Singapore's entertainment scene is emerging as an important part of our appeal as a global city. The lowered withholding tax rate is designed to attract more internationally-rated acts and performances to Singapore.
- ▶ Although withholding tax is theoretically a tax on the non-resident, the obligation to account for the tax lies with the payer and, in the case of payment to public entertainers, the tax cost is typically borne by the payer. This proposal will help reduce the business costs for Singapore entertainment businesses and resorts that invite these non-resident public entertainers to perform in Singapore.
- ▶ As the withholding tax rate of 10% applies on sum payable from 22 February 2010 to 31 March 2015, an issue that needs to be clarified is whether the 10% withholding tax rate applies to gross fees payable on or after 22 February 2010 but in respect of services performed before 22 February 2010.
- ▶ The proposal only addresses payments to non-resident public entertainers. Withholding tax for payments to other non-resident professionals such as foreign speakers, academics conducting seminars or workshops, coaches and trainers remains at 15% of gross income derived in Singapore.

Business tax

Enhancement of tax deduction on donations

Current

All donations to IPCs and other approved recipients (such as approved museums and prescribed schools) qualify for double tax deduction under the ITA. These include both cash donations and approved donations-in-kind such as computers and artefacts.

An enhanced tax deduction of 250% was given during the economic downturn for donations made during the period from 1 January 2009 to 31 December 2009.

Individuals and corporations are allowed to carry forward for five years all unutilised deductions granted for these qualifying donations. However, unlike unutilised tax losses and capital allowances, unutilised donations do not qualify for carry back to offset against the taxable profits of the donor under the loss carry-back relief scheme.

Any unutilised donation may be transferred to a claimant company of the same group as the donor under the group relief system to set off taxable profits of the claimant company or to a spouse to set off taxable profits of the spouse.

Proposed

To encourage both individuals and corporates to give more as the economy recovers, the tax deduction of 250% will be extended for another year for donations made during the period from 1 January 2010 to 31 December 2010.

All existing rules to qualify for the enhanced tax deduction will remain the same.

Comments

- ▶ Many charities found that the 250% tax deduction given in respect of the year 2009 was helpful in attracting donations, especially given the difficult state of the economy then.
- ▶ The enhanced 250% tax deduction will result in an effective tax saving of 42.5% of the value of the qualifying donation made by a corporate donor which is subject to tax at the rate of 17%, i.e. for every S\$100 donated by a corporate donor, the donor will enjoy a reduction in tax of S\$42.50, resulting in a post-tax cost of only S\$57.50 to the donor (S\$100 less S\$42.50).
- ▶ Unutilised donations can only be carried forward for five years. As such, corporate donors which are not generating any profits in 2010 or in the near future may or may not be able to enjoy the enhanced tax deduction since carried forward capital allowances and tax losses must be set off against future profits before carried forward donations can be utilised.
- ▶ It would have been helpful if unutilised qualifying donations made in 2010 are available for carry back under the current loss carry-back relief scheme.



Personal income tax

Personal income tax

Personal income tax rate and rebate

Current

The income tax rates for Singapore tax residents range from 0% for the first S\$20,000 of chargeable income to 20% for chargeable income exceeding S\$320,000. A one-off personal income tax rebate of 20% with a S\$2,000 cap, was accorded to all resident taxpayers for YA 2008 and YA 2009.

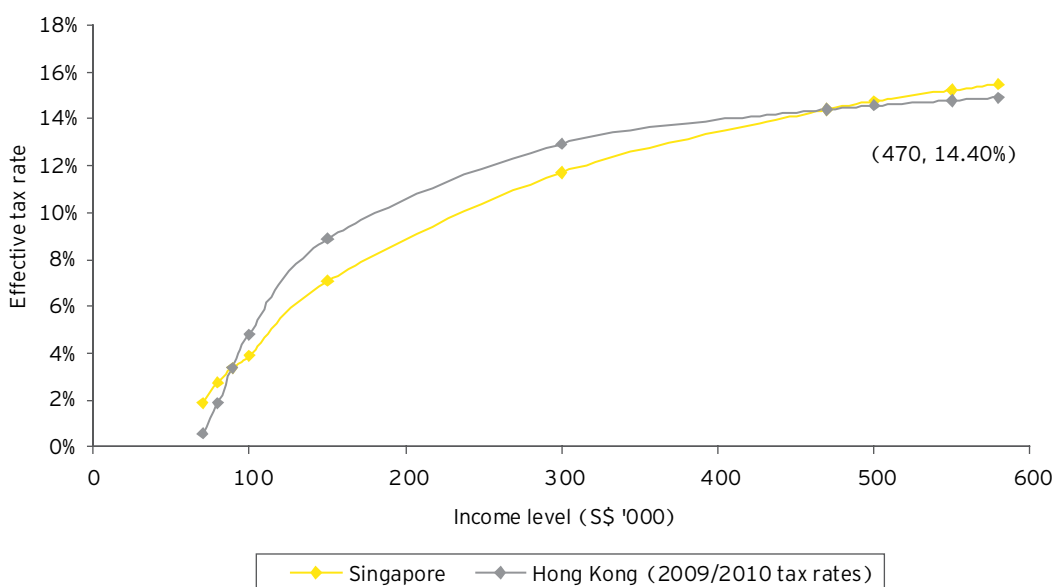
Proposed

There is no change to the current personal income tax rates.

Comments

- ▶ Without the personal income tax rebate, resident taxpayers who are paying their personal income taxes under the extended 24-month instalment scheme and had recommenced employment in 2009 could have an increased tax burden arising from payment of their prior year taxes as well as the current year's taxes.
- ▶ Currently, the difference between the 20% top marginal personal income tax rate and the corporate income tax rate is 3%. This would encourage highly successful entrepreneurs to corporatise their business rather than conduct it through sole proprietorship or partnership. In addition, corporatisation should reduce the risk of personal liability and bankruptcy.
- ▶ Without the rebate, an individual who earns between S\$89,000 and S\$470,000 will pay lower income tax in Singapore compared to Hong Kong as illustrated below. The upper threshold could be higher for certain individuals who qualify for the tax benefits under the NOR scheme.

Comparative analysis (Hong Kong versus Singapore)

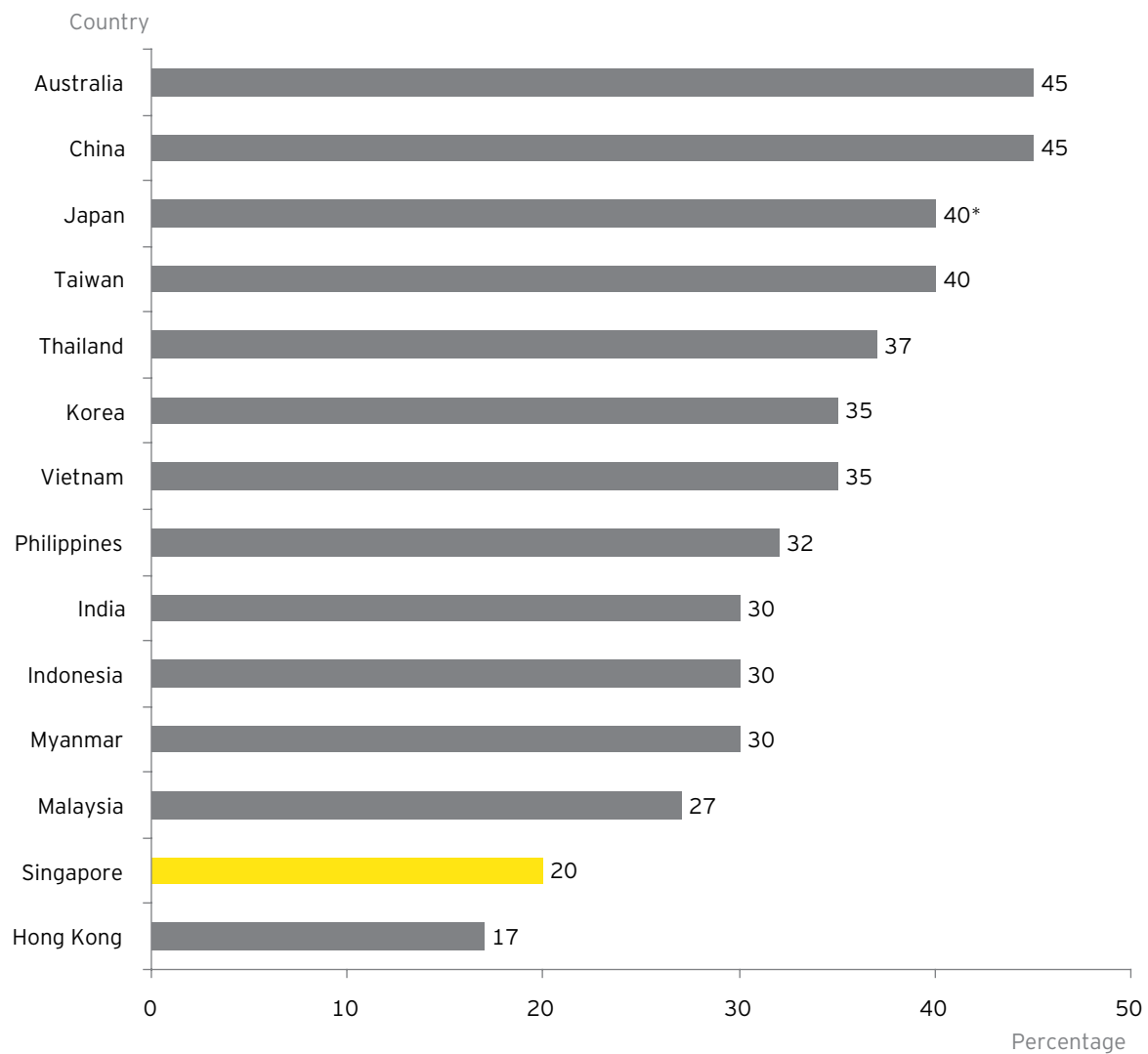


Notes:

- ▶ The income tax calculation above is based on a married man with two children, his spouse does not derive any income, and the only source of income is from his employment.
- ▶ Exchange rate used: S\$1 : HK\$5.3975

Personal income tax

Comparison of top marginal personal income tax rates in selected countries in the region



Note: The above table is based on latest tax rates as at December 2009.

* Excludes local inhabitant tax

Personal income tax

Tax deduction for angel investors

Current

Generally, no tax deduction is available for cost of investment by angel investors.

Proposed

With the aim of encouraging greater angel investment, the Government will introduce a new scheme to incentivise private individuals with appropriate investment and business expertise to provide financing to qualifying start-ups. Successful angel investors nurture start-ups not just by contributing funds, but also by providing mentorship, and access to business networks and markets.

Under this incentive, an eligible angel investor who commits a minimum of S\$100,000 of equity investment in a qualifying start-up in a given year can claim 50% tax deduction on his investment at the end of a two-year holding period. This deduction is subject to a cap of S\$500,000 of investments for each YA. This incentive is valid from 1 March 2010 to 31 March 2015 (both dates inclusive) and applies to qualifying investments in qualifying start-ups made during this period. SPRING Singapore will release more details of the scheme by June 2010.

Comments

- ▶ The most challenging period for a start-up company is usually in the early stage of its growth where securing finance and cashflow is a major issue. By making it attractive for private individuals to invest in start-up companies, these companies will find it easier to attract the necessary funding. This new scheme will foster greater entrepreneurial spirit.
- ▶ The two-year holding period will encourage the angel investors to take a longer-term approach towards their investment with a view to nurturing it. This would provide more certainty to the start-up company in terms of financing and allow it time to grow and develop.

Personal income tax

Enhancements to dependant reliefs

(A) Parent/handicapped parent relief

Current

The parent/handicapped parent relief available to resident individual taxpayers is as follows:

- | | |
|--|---|
| ▶ If the dependant is living in the same household as the taxpayer | S\$5,000 per dependant/
S\$8,000 per handicapped dependant |
| ▶ If otherwise and the taxpayer has incurred at least S\$2,000 a year for the maintenance of the dependant | S\$3,500 per dependant/
S\$6,000 per handicapped dependant |

Dependants would include the taxpayer's/spouse's parents, grandparents and great grandparents who were supported by the taxpayer in the previous year.

Proposed

With effect from YA 2010, the quantum for all categories of parent relief will be increased as follows:

- | | |
|--|--|
| ▶ If the dependant is living in the same household as the taxpayer | S\$7,000 per dependant/
S\$11,000 per handicapped dependant |
| ▶ If otherwise and the taxpayer has incurred at least S\$2,000 a year for the maintenance of the dependant | S\$4,500 per dependant/
S\$8,000 per handicapped dependant |

Other than the change in the quantum as described above and income thresholds (see item (C) below for details), all other existing qualifying conditions for parent relief continue to apply.

Comments

- ▶ The increase in the relief is in line with the Government's policy of encouraging families to look after their aged and handicapped parents and grandparents.
- ▶ With Singapore's ageing population, the increase in this relief gives greater recognition to those who looked after their aged parents and grandparents.

(B) Spouse relief

Current

Male resident taxpayers may claim wife relief of S\$2,000 if he was living with his wife or supporting her in the previous year so long as her income does not exceed S\$2,000 in the previous year.

Proposed

With effect from YA 2010, the relief will be expanded to female resident taxpayers who support their husbands. The wife relief will now be known as the spouse relief. The income threshold condition will also apply for the husband before the female taxpayer may claim the spouse relief (see item (C) below for the proposed change in the quantum of the income threshold).

Comments

- ▶ The proposed amendment is reflective of the change in the social context in Singapore wherein more married women are working and in certain circumstances, the sole wage earner for the family.
- ▶ The change in the relief will help families where the wife is the breadwinner in instances where the husband has retired or is unemployed.

(C) Enhancing income threshold

Current

Resident taxpayers may claim the following dependant-related reliefs so long as the dependant income is not more than S\$2,000 in the previous year:

- ▶ handicapped sibling relief;
- ▶ wife relief;
- ▶ handicapped spouse relief;
- ▶ parent relief;
- ▶ handicapped parent relief;
- ▶ qualifying child relief;
- ▶ handicapped child relief;
- ▶ working mother's child relief; and
- ▶ CPF cash top-up relief for top-up to the CPF account of spouse or siblings.

Proposed

The income threshold of S\$2,000 will be increased to S\$4,000. Further, for handicapped-dependant-related reliefs, the income threshold condition will be removed.

The changes on the income threshold condition are effective from YA 2010, except for the CPF cash top-up relief for top-up to the CPF accounts of spouse or siblings, for which the changes will be effective from YA 2011.

Comments

- ▶ The current income threshold of S\$2,000 has been in effect since YA 1998. The proposed increase is therefore welcomed as it recognises taxpayers' efforts in supporting dependant family members and encourages fairly able dependants to be engaged in some work to keep an active life.
- ▶ The removal of the income threshold for handicapped-dependant-related reliefs is in recognition of the extra resources and attention needed in providing care to the disabled. This will also help to encourage the disabled to be engaged in more active living and at the same time contributing towards household expenses.
- ▶ The income threshold for the CPF cash top-up relief for top-up to the CPF accounts of spouse or siblings is only effective from YA 2011. This allows planning for top-up to be made in year 2010 and will not disadvantage taxpayers who planned top-up in 2009 based on S\$2,000 income threshold.

Personal income tax

Increase in course fee relief

Current

A tax resident individual may deduct up to S\$3,500 for course fees in a year provided:

- ▶ the course, seminar or conference is related to his/her existing trade, business, profession or employment;
- ▶ where the course, seminar or conference is not related to his/her existing trade, business, profession or employment at the time it was undertaken, it is subsequently relevant due to a career change within prescribed periods; or
- ▶ it leads to an approved academic, professional or vocational qualification.

Proposed

The course fee relief will be increased from S\$3,500 to S\$5,500 with effect from YA 2011.

Comments

- ▶ The purpose of granting the increased course fee relief is to encourage and support life-long learning and training to maintain employability as well as to improve job quality.
- ▶ This change is in line with the Government's effort to raise productivity by deepening the skills and expertise in the workforce.



Goods and services tax

Goods and services tax

Deferring import GST

Current

Import GST is payable on all goods brought into Singapore at the point of entry, unless import GST relief has been granted or the goods are imported under import GST suspension schemes such as the Major Exporter Scheme.

Proposed

A new scheme will be introduced to allow approved GST-registered businesses to defer import GST that is payable on their goods at the point of entry into Singapore. The import GST is deferred for at least one month and declared as a payable amount in the corresponding GST return.

Approval will be accorded to GST-registered businesses that meet all qualifying conditions including good compliance records and subscription to monthly GST filing.

This scheme will take effect from 1 October 2010 and the IRAS will release details of the scheme by March 2010.

Comments

- ▶ Currently, GST is payable upfront to the Singapore Customs upon the importation of goods into Singapore unless import GST relief has been granted or the goods are imported under GST suspension schemes. Subject to satisfying the input tax claim conditions, the GST paid would be recoverable as input tax credits by GST-registered businesses in their GST returns in the period in which the goods are imported into Singapore. For GST-registered businesses filing monthly GST returns, their GST returns are due to the IRAS within one month from the end of their prescribed accounting period and the IRAS has up to one month from the date of receipt of the GST returns to process any refunds. The current process of paying GST upfront and claiming it back at a later date could create a cashflow burden for businesses.
- ▶ The proposed scheme, to be known as the Import GST Deferment Scheme (IGDS), aims to ease the import GST cashflow for GST-registered businesses.
- ▶ The proposed IGDS is only applicable to GST-registered businesses filing GST returns on a monthly basis. Under the proposed IGDS, approved GST-registered businesses would be permitted to defer their import GST payments. They would instead account for the deferred import GST in their monthly GST return and concurrently be allowed to claim the said GST incurred as input tax credits in the same GST return.
- ▶ GST-registered businesses that are granted the IGDS should still maintain the import permits to facilitate the reporting of the GST payable on the imports and the claiming of the input tax credits in their GST returns.
- ▶ The proposed IGDS would add to the list of import GST suspension schemes currently available, such as the Major Exporter Scheme, Zero-GST Warehouse Scheme and the Approved Contract Manufacturer and Trader Scheme.

Goods and services tax

Simplifying GST accounting rules

Current

Under the general time of supply rules (General Rules), GST is accounted at the earliest of the following events:

- ▶ when a tax invoice is issued ;
- ▶ when payment is received ; or
- ▶ when goods are delivered or made available or when services are performed.

Proposed

The General Rules will be simplified to allow most businesses to account for GST at the earlier of:

- ▶ when a tax invoice is issued; or
- ▶ when payment is received.

However, there are circumstances (e.g. GST registration and deregistration), where the date on which goods are delivered/made available or services performed will be retained as a reference point.

These changes will take effect from 1 January 2011 and the IRAS will release more details by May 2010.

Comments

- ▶ The above changes will ease the GST accounting for most businesses as they will no longer need to track the date on which goods are delivered or made available or services are performed.
- ▶ Currently, businesses are allowed to account for GST based on the date of the tax invoice if the tax invoice is issued within 14 days from the time the goods are delivered or made available or when services are performed assuming payment is received after the date of the tax invoice. This is known as the 14-day rule. With the proposed changes, the 14-day rule will no longer be relevant in determining when businesses should account for GST.
- ▶ The proposed changes also align the time of supply rules for single (i.e. one-off) supply of services and continuous supply of services (i.e. services supplied for a period of time for which the consideration is determined or payable periodically or from time to time). Hence, businesses will no longer need to differentiate the type of supplies of services (i.e. single or continuous) for the purpose of accounting for GST.
- ▶ Clarification will be required on the transitional rules that will apply to transactions that straddle 1 January 2011. For example, if goods are delivered or services are performed on 31 December 2010 and a tax invoice is issued on 16 January 2011, clarification will be required on whether the existing or the proposed time of supply rule will apply to such a transaction.

Goods and services tax

Zero-rating for marine industry

Current

Zero-rating of GST is allowed for:

- ▶ sale and lease of a qualifying ship not used for recreational or pleasure purposes, and is not a passenger harbour craft or pleasure craft licensed by the MPA;
- ▶ sale of stores and merchandises to ships that are travelling to or from a destination outside Singapore (i.e. ship calls on a port outside Singapore); or
- ▶ transport of goods or passengers via a ship to or from a place outside Singapore (i.e. ship calls on a port outside Singapore).

Sale of goods for use or installation on ships can only be zero-rated if there is sufficient documentary evidence to prove that such goods will be exported.

Proposed

- ▶ The scope of qualifying ship for zero-rating of GST will be expanded to include pleasure and recreational ships that are wholly used for international travel regardless of whether they call on a port outside Singapore. This would include private yachts that ply international waters, provided that they are not licensed for use within Singapore waters.
- ▶ Zero-rating is extended to all goods (including stores and merchandises) supplied for use on board or installation on a qualifying ship, regardless of whether the ship calls on a port outside Singapore.
- ▶ Zero-rating is extended to the transport of goods or passengers via a ship to or from international waters, regardless of whether the ship calls on a port outside Singapore.
- ▶ Zero-rating is also extended to stores supplied to and merchandises for sale on board a qualifying aircraft.

The above changes will ease GST compliance for the businesses supporting the marine industry, and reflect the international character of supplies relating to ships.

These changes will take effect from 1 July 2010 and the IRAS will release more details by June 2010.

Comments

- ▶ The proposed expansion of the definition of qualifying ship to include pleasure and recreational ships that are wholly used for international travel regardless of whether they call on a port outside Singapore follows on the heels of similar changes to the definition of a qualifying aircraft the year before.
- ▶ It is noted that the zero-rating GST relief has not been extended to the supply of ship parts even though the supply of aircraft parts has been granted zero-rating relief last year. One possible reason could be that, unlike aircraft parts, ship parts are not as unique and could have alternative uses, thus giving rise to compliance risk.
- ▶ Consistent with the proposed changes for stores supplied to and merchandises for sale on board a qualifying ship, the zero-rating of GST will also be expanded to include the supply of stores and merchandises for sale on board any qualifying aircraft, as defined under section 21 (4) (a) of the GST Act, regardless of whether the aircraft is on a flight to or from a destination outside Singapore.
- ▶ Subject to further details to be released by the IRAS in June 2010, it appears that zero-rating of GST will apply as long as the goods are supplied for use on board or are installed on a qualifying ship, without the need for documentary evidence to prove that the goods will be exported.

Goods and services tax

Extension of GST concession for listed REITs and qualifying listed RBTs

Current

GST remission is granted to listed REITs and listed RBTs in the sectors of infrastructure, ship leasing and aircraft leasing to allow such REITs and RBTs to claim input tax on their business expenses regardless of whether they hold the underlying assets directly or indirectly through multi-tiered structures such as special purpose vehicles or sub-trusts. This GST remission expired on 17 February 2010.

Proposed

The GST remission for listed REITs and qualifying listed RBTs will be renewed for the period from 18 February 2010 to 31 March 2015 (both dates inclusive).

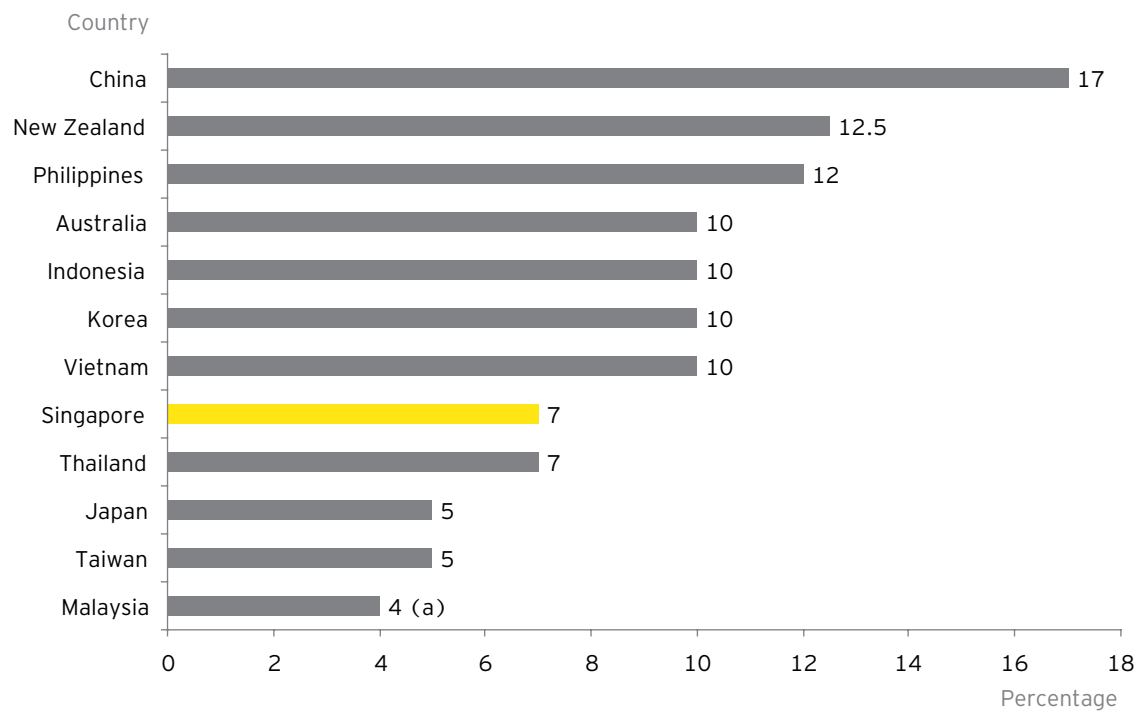
Comments

- ▶ The expiry of the GST remission in 2010 could significantly increase the business costs of listed REITs and qualifying listed RBTs, especially those that are not eligible for GST registration. The extension of the GST remission is therefore in line with the Government's continuous effort to promote Singapore as the preferred location in Asia for the setting up and listing of REITs and business trusts.
- ▶ The above GST remission is however not granted to listed RBTs in the property sector. A similar GST remission for listed property RBTs would be welcomed by the industry. It would place listed property RBTs on equal footing with listed REITs.

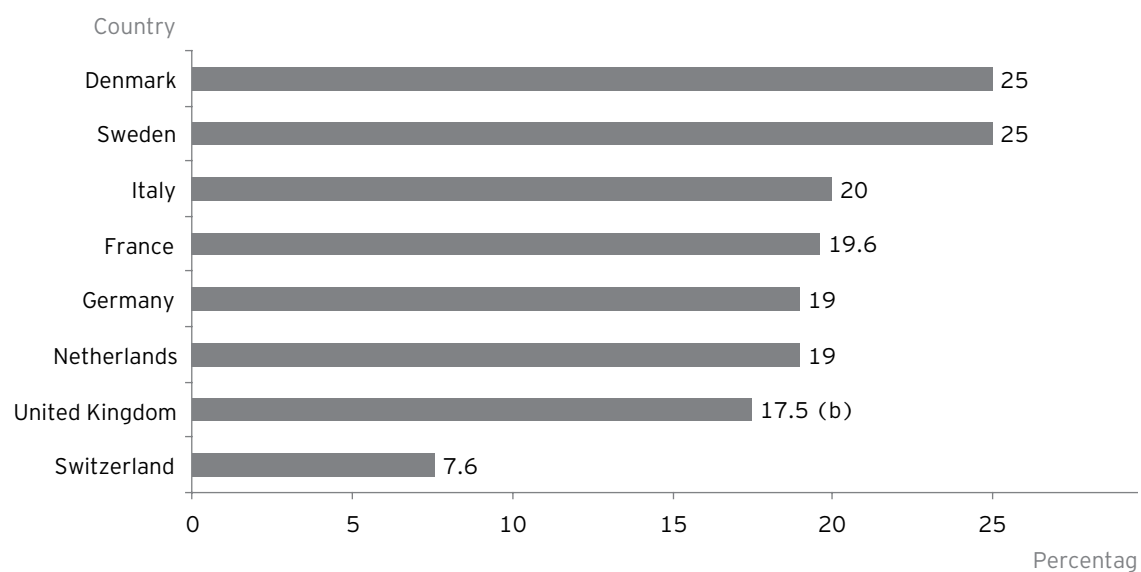
GST rates

Prevailing standard GST rates in selected countries

Asia Pacific



Europe



Notes:

(a) GST is expected to be introduced by mid-2011

(b) The VAT rate was reduced from 17.5% to 15% on 1 December 2008 but was reinstated to 17.5% from 1 January 2010



Miscellaneous

Miscellaneous

Progressive property tax regime for owner-occupied residential properties

Current

Owner-occupied residential properties are taxed at a concessionary rate of 4% of the property's assessed annual value (AV). In addition, owners of owner-occupied residential properties with AVs below S\$10,000 can enjoy the on-going 1994 property tax rebates ranging from S\$25 to S\$150, depending on the AV of their properties. Non owner-occupied residential properties and other properties are subject to a flat 10% property tax.

Proposed

For property tax payable from January 2011, the 1994 property tax rebates will be replaced by a progressive property tax schedule for owner-occupied residential properties as follows:

AV	Rate of property tax
First S\$6,000	0%
Next S\$59,000	4%
Exceeding S\$65,000	6%

Non owner-occupied residential properties and other properties will continue to be subject to 10% property tax.

Comments

- ▶ Most owner-occupied property owners will enjoy a reduction in property tax, due to the exemption applicable to the first S\$6,000 of AV.
- ▶ The introduction of the progressive property tax regime for owner-occupied residential properties results in higher property tax for property owners with homes that have AVs exceeding S\$77,000. This is a measure to introduce some progressivity in the property tax system.

Miscellaneous

Enhanced transport technology innovation development scheme

Current

The transport technology innovation development scheme (TIDES) was formulated in 2001 by the EDB and the LTA to waive certificate of entitlement, taxes and duties for vehicles brought to Singapore for the purposes of R&D and test-bedding.

- ▶ The tenure for the waiver was for two years in the first instance, with an option to extend for another two years, subject to the EDB's approval.
- ▶ Beyond the fourth year, buyers will have to pay the appropriate taxes (based on depreciated OMV) for ordinary vehicle ownership should they decide to continue using the car; or they could choose to export their car overseas.
- ▶ The quota under TIDES is 300 vehicles.

Proposed

- ▶ To further support the development and test-bedding of transport technologies, green vehicles brought to Singapore for the purpose of test-bedding can enjoy waiver of additional registration fees, certificate of entitlement and customs duties for an initial period of six years (under TIDES+).
- ▶ Under TIDES+, the quota will be increased to 1,300 vehicles.

Comments

- ▶ The above enhancement is a positive step, indicating of the Government's commitment to embrace and further develop green technology.
- ▶ However, another way to embrace green technology could be by providing cash grants and other incentives to companies which successfully develop technologies to significantly reduce carbon emissions in the automotive sector.
- ▶ There appears to be no date set for the proposed changes to take effect. It is hoped that the Government will release this information by March 2010 together with the details of the extension of the green vehicles rebate scheme.

Miscellaneous

Extension of green vehicle rebate

Current

The green vehicle rebate scheme was introduced to encourage the use of electric, hybrid and CNG vehicles in Singapore. The scheme provides various rebates and incentives to effectively narrow the cost differential between green vehicles and conventional vehicles. The scheme expires on 31 December 2011. Only brand new green vehicles qualify for the rebate.

Proposed

The green vehicle rebate scheme will be extended to include imported used green vehicles with effect from 1 July 2010.

This extension is not applicable to imported used CNG vehicles and vehicles which are required to be brand new at point of registration, e.g. taxis.

The NEA and the LTA will release details by March 2010.

Comments

- ▶ As part of its efforts to maintain a clean environment in Singapore, the Government has continued to encourage the ownership of green vehicles.
- ▶ In this respect, the Government may wish to consider further reducing or abolishing all taxes on vehicles with zero or near-zero emissions.
- ▶ Taxes could be levied based on the level of pollutants emitted by a vehicle as this would encourage Singaporeans to choose green vehicles over conventional ones.
- ▶ The Government continues to exclude modern diesel vehicles from such initiatives, although some studies have shown that the greenhouse gas emissions from modern diesel engines and CNG vehicles are about the same.
- ▶ It is unclear whether a maximum age of a used vehicle will apply to the above proposal. It is hoped that the details to be released in March 2010 would clarify this.
- ▶ It is hoped that the Government will extend the scheme beyond 31 December 2011.

Miscellaneous

Increase in foreign worker levy

To complement the Government's support for enterprise innovation and upgrading, and to encourage reduced reliance on lower skilled foreign workers, foreign worker levies will be raised.

- ▶ Foreign worker levies will be raised gradually and levy tiers that are based on the proportion of the foreign workers in a company's workforce will be tightened.
- ▶ There will be an initial increase of between S\$10 and S\$30 for most Work Permit holders on 1 July 2010. Further, the Government will phase in adjustments to the levy rates and tiers in 2011 and 2012.
- ▶ From 2010 to 2012, there will be an average total increase of about S\$100 per worker in the manufacturing and services sectors. For workers in the construction sector, the increase will be larger as there is considered to be better scope for productivity improvements in that sector.
- ▶ For S Pass workers, two levy tiers will replace the current single tier levy. The rates for the first and second tier will be S\$100 and S\$120 in July 2010, up from the current single tier rate of S\$50. Further adjustments will then be phased in until the rates reach S\$150 and S\$250 by July 2012.
- ▶ There is no reduction in quotas applicable to foreign workers.
- ▶ Operating in conjunction with incentives such as the Productivity and Innovation Credit, the National Productivity Fund and training subsidies, the increase to foreign worker levies is designed to incentivise companies to restructure and upgrade their operations and rely less on lower skilled foreign workers.
- ▶ The MOM and MND will release more details of the changes to the foreign worker levy soon.

Miscellaneous

Liquor duties

Current

Duties are applicable on the importation of intoxicating liquor into Singapore. However, travellers 18 years of age or older arriving in Singapore from countries other than Malaysia who have spent 48 hours or more outside Singapore immediately before arrival are eligible to obtain duty-free concessions on liquor at the following maximum quantities:

- ▶ one litre of spirits (brandy, whisky, gin, rum, vodka, etc.);
- ▶ one litre of wine; and
- ▶ one litre of beer or stout or ale or porter.

Proposed

Starting from 1 April 2010, travellers will have the option to purchase one additional litre of duty-free wine or beer in lieu of one litre of duty-free spirits.

Comments

- ▶ Under the new proposal, a traveller arriving in Singapore will be able to purchase a total of two litres of wine and one litre of beer, two litres of beer and one litre of wine or one litre each of spirits, wine and beer, duty-free.
- ▶ The proposed change will provide greater flexibility for travellers to take advantage of duty concessions on liquor purchases on arrival in Singapore from overseas.

Miscellaneous

Seller's stamp duty

Current

There is no seller's stamp duty payable on the sale of residential properties.

Proposed

The Government announced on 19 February 2010, i.e. before the 2010 Budget announcement, that, unless otherwise exempted, seller's stamp duty will be payable by sellers of residential properties which are acquired on or after 20 February 2010 and disposed of within one year from the date of acquisition.

Comments

- ▶ In 2003, the Government abolished the seller's stamp duty payable on residential properties sold within three years of purchase. This measure, introduced in May 1996, was suspended in November 1997 when the property market cooled down.
- ▶ The new measure applies to residential properties disposed of within one year of acquisition. It is part of a broader package designed to curb property speculation and stabilise the property market. In addition to the introduction of seller's stamp duty, the Loan-to-Value limit has been reduced to 80% for all housing loans for private residential properties provided by financial institutions regulated by the MAS.
- ▶ These measures are in addition to changes announced in September 2009 to temper the exuberance in the private residential property market. These include the removal of the Interest Absorption Scheme and Interest-Only housing loans and non-extension of property-related measures announced in the 2009 Budget that expired in January 2010.
- ▶ It is possible that further measures may be introduced if the property market continues to heat up.

Glossary of terms

The following definitions apply throughout this budget synopsis unless otherwise stated:

AIS	- Approved international shipping enterprise	SICOM	- Singapore Commodity Exchange Limited
CNG	- Compressed natural gas	SME	- Small and medium enterprise
CPF	- Central Provident Fund	SPV	- Special purpose vehicle
DEI	- Development and Expansion Incentive	URA	- Urban Redevelopment Authority
DTA	- Avoidance of double taxation agreement	VAT	- Value added tax
EDB	- Singapore Economic Development Board	WDA	- Writing down allowances
ESC	- Economics Strategies Committee	YA	- Year of assessment
FFA	- Forward Freight Agreement		
FSI	- Financial Sector Incentive		
FSI-DM (CDT)	- Financial Sector Incentive - Derivatives Market (Commodity Derivatives Trading)		
FSI-ET	- Financial Sector Incentive - Enhanced Tier		
FSI-ST	- Financial Sector Incentive - Standard Tier		
FSIE	- Foreign-sourced income exemption		
Government	- Government of Singapore		
GST	- Goods and services tax		
IA	- Investment allowance		
IBA	- Industrial building allowance		
IP	- Intellectual property		
IPC	- Institution of public character		
IRAS	- Inland Revenue Authority of Singapore		
JTC	- Jurong Town Corporation		
ITA	- Income Tax Act		
LIA	- Land intensification allowance		
LTA	- Land Transport Authority		
M&A	- Merger and acquisition		
MAS	- Monetary Authority of Singapore		
MFI	- Maritime finance incentive		
Minister	- Minister for Finance		
MND	- Ministry of National Development		
MOM	- Ministry of Manpower		
MPA	- Maritime and Port Authority of Singapore		
NEA	- National Environment Agency		
NOR	- Not ordinarily resident		
OMV	- Open market value		
QB	- Qualifying base		
QDS	- Qualifying debt securities		
R&D	- Research and development		
RBT	- Registered business trust		
REIT	- Real estate investment trust		
SGX	- Singapore Exchange		

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About our tax services

Our tax professionals in Singapore provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. We draw on our global insight and perspectives to build proactive, truly integrated direct and indirect tax strategies that help you recognize the potential of business change and build sustainable growth, in Singapore and wherever else you are in the world.

We draw on extensive accounting and compliance experience and tried-and-tested methodologies that allow you to manage your direct and indirect tax compliance and reporting obligations effectively. We help you assess, improve and monitor your tax function's processes, controls and risk management and maintain effective relationships with the tax authorities.

Our talented people, consistent methodologies and unwavering commitment to quality service help you to build the strong compliance and reporting foundations and sustainable tax strategies that help your business achieve its ambitions. It's how we make a difference.

Business Tax Services

Our Business Tax Services in Singapore are designed to meet your business tax compliance and advisory needs. Our tax professionals draw on their diverse perspectives and skills to give you a seamless service through all the challenges of planning, financial accounting, tax compliance and maintaining effective relationships with the tax authorities. Our holistic approach:

- ▶ Builds sustainable tax strategies based on technical, practical, commercial and industry knowledge
- ▶ Provides the deep accounting and compliance knowledge and tried-and-tested methodologies you need for efficient reporting
- ▶ Helps you assess, improve and monitor your tax function's processes, controls and risk management
- ▶ Supports you in managing your relationships with tax authorities effectively

International Tax Services

Our dedicated international tax professionals assist our clients with their cross-border tax structuring, planning, reporting and risk management. We work with you to build proactive and truly integrated global tax strategies that address the tax risks of today's businesses and achieve sustainable growth.

GST Services

Goods and services tax (GST) affects the supply chain and the financial system. Our network of dedicated indirect tax professionals combines technical knowledge with industry understanding and access to technologically advanced tools and methodologies. We identify

risk areas and sustainable planning opportunities for indirect taxes throughout the tax life cycle, helping you meet your compliance obligations and your business goals around the world. Our globally integrated teams give you the perspective and support you need to manage indirect taxes effectively.

Human Capital Services

Our global mobility team advises many of the world's largest global employers – as well as those just venturing into their first foreign country. Our performance and reward professionals help you design compensation programs and equity incentives that really engage your key people. We help you meet your executive tax compliance obligations, stay on top of regulatory change, manage your global talent effectively and improve your function's strategic alignment.

Customs and International Trade

We bring you a global perspective on Customs and International Trade (CIT). Our CIT professionals can help you develop strategies to manage your costs, speed your supply chain and reduce the risks of international trade. We can help to increase trade compliance, improve import and export operations, reduce customs and excise duties and enhance supply chain security. We help you to address the challenges of doing business in today's global environment to help your business achieve its potential.

Notes

Tax thought leadership

Ernst & Young Solutions LLP's Tax practice aims to give you insights on the tax issues that matter in today's fast-changing business environment. To find out how these tax issues impact your business, read *You and the Taxman*.



You and the Taxman
January/February 2010



You and the Taxman
November/December 2009



You and the Taxman
September/October 2009



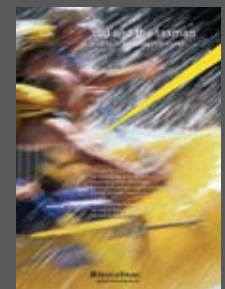
You and the Taxman
July/August 2009



You and the Taxman
May/June 2009



You and the Taxman
March/April 2009



You and the Taxman
January/February 2009



You and the Taxman
November/December 2008



You and the Taxman
September/October 2008



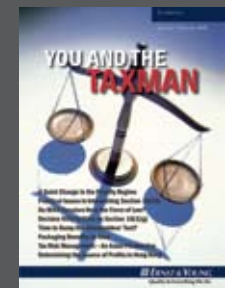
You and the Taxman
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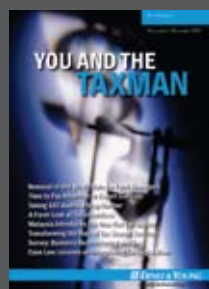
You and the Taxman
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