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Dear Clients

2012 SINGAPORE BUDGET COMMENTARY

We are pleased to enclose our synopsis on the recent Budget announced by the Finance Minister for your information.

These notes have been summarised to highlight the Budget changes and serve as general information only and are not exhaustive treatment of such subjects. They do not purport nor are intended to be specific advice or services. The information is also not intended to be relied upon as the sole basis for any decision which may affect you or your business. For more detailed information or specific application of such information to your business circumstances, please contact us.

Whilst we use every reasonable effort to ensure that the information contained herein is accurate, no warranties are given whether express or implied, as to the reliability, accuracy or completeness of the information. We neither assume nor accept any responsibility or liability (including negligence) in relation to this information.

Yours faithfully

Tan Eng Sun

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CORPORATE TAX

CORPORATE INCOME TAX RATE

There is **no change** in the corporate tax rate of 17% and the partial tax exemption on the first $300,000 normal chargeable income is computed as follows:-

Chargeable Income	$	Percentage exempted	Amount exempted $	Tax @ 17% payable on $
For every $ of the first	10,000	75%	7,500	2,500
For every $ of the next	290,000	50%	145,000	145,000
	300,000		152,500	147,500

There is also **no change** in the full tax exemption for the first $100,000 normal chargeable income for the first 3 consecutive years of assessment for a newly incorporated Singapore tax resident company meeting the minimum 10% individual shareholder's requirement.

As before, the first $300,000 normal chargeable income for newly incorporated company is taxed as follows:-

Chargeable Income	$	Percentage exempted	Amount exempted $	Tax @ 17% payable on $
For every $ of the first	100,000	100%	100,000	-
For every $ of the next	200,000	50%	100,000	100,000
	300,000		200,000	100,000

SME CASH GRANT FOR COMPANIES

A one-off cash grant will again be given to companies for YA 2012. The cash grant is pegged at 5% of the company's revenue for YA 2012, **capped at S$5,000**. To enjoy the cash grant, the company must have made CPF contributions for at least one employee during the relevant accounting period for YA 2012. The employee must not be a shareholder of the company.

SIMPLIFYING CAPITAL ALLOWANCE CLAIMS FOR LOW-VALUE ASSETS

For ease of claiming capital allowances, the full cost of each asset to be written down over 1 year will be increased from S$1,000 to S$5,000. The change will take effect from YA 2013.

IRAS will release further details of the change by 30 June 2012.

ENHANCING THE RENOVATION AND REFURBISHMENT ("R&R") DEDUCTION SCHEME

The R&R deduction scheme will become a permanent feature of the tax system. With effect from YA 2013, the expenditure cap will be doubled to S$300,000 for each three-year period.

Further details will be released by IRAS by 30 June 2012.

ENHANCING THE MERGER AND ACQUISITION ("M&A") SCHEME

To support companies carrying out M&A, the scheme will be enhanced as follows:-

(i) 200% tax allowance will be granted on transaction costs incurred on qualifying M&A transactions subject to an expenditure cap of S$100,000 per YA.

Transaction costs include professional fees on due diligence (financial and tax), legal fees and valuation fees.

(ii) The acquiring company may acquire shares of the target company through multiple tiers of wholly-owned subsidiaries.

(iii) The relevant conditions that the target company has to satisfy may be satisfied by any of the multiple tiers of wholly-owned subsidiaries of the target company.

The M&A scheme will be available as an added feature for existing Headquarters incentive schemes, on a case-by-case basis. The condition that the acquiring company must be held by an ultimate holding company incorporated in, and a tax resident, of Singapore may be waived subject to conditions. The EDB will administer the waiver.

All existing terms and conditions of the scheme apply.

The changes will take effect for qualifying M&A transactions completed from 17 February 2012 to 31 March 2015.

IRAS and EDB will release further details by 30 June 2012.

INTRODUCING THE INTEGRATED INVESTMENT ALLOWANCE ("IIA") SCHEME

To keep pace with the evolving business environment, the IIA scheme is introduced to provide an additional allowance on fixed capital expenditure incurred for productive equipment placed overseas on approved projects.

The scheme is effective from YA 2013 and will be administered by EDB.

The existing Integrated Industrial Capital Allowance incentive will be withdrawn on 17 February 2012 following the introduction of the IIA scheme.

ENHANCED PRODUCTIVITY AND INNOVATION CREDIT (“PIC”) SCHEME

The PIC Scheme will be enhanced in the following 4 areas:-

(i) Cash payout

(a) The payout rate will be increased from 30% to 60%, capped at S$60,000 per year, on each qualifying expenditure from YA 2013 to YA 2015.

(b) Businesses may claim the cash payout any time after the end of each financial quarter (instead of at the end of their financial year), but no later than the due date for the filing of its income tax return for the relevant year.

(c) The first quarterly cash payout may be obtained from 1 July 2012 onwards.

(ii) Research & Development (“R&D”)

(a) R&D cost-sharing agreements

Expenditure incurred on R&D cost-sharing agreements may qualify as expenditure on R&D and enjoy PIC deduction. The qualifying expenditure will be deemed to be 60% of the shared costs. The R&D cost sharing expenditure claimed will count towards the expenditure cap for R&D activity.

(b) Software development

The multiple sales requirement (ie development, rented, leased, licensed or hired to 2 or more persons) will be removed to facilitate R&D in software development not intended for sale. However, the development of software for internal routine administration of businesses will not be considered as R & D.

(iii) Investments in automation equipment

Qualifying automation equipment which is acquired on hire purchase with a repayment schedule straddling two or more financial years will be eligible for cash payout option.

(iv) Training

(a) In-house training courses

- No certification is required for qualifying in-house training expenditure incurred up to S$10,000 per YA.
- In-house training in excess of S$10,000 may qualify for PIC benefits if the courses are accredited or approved or certified by the WDA or ITE.
- The total training expenditure eligible for tax deduction still remains at S$400,000.

(b) Training of agents

Expenditure incurred by a principal on the training of its agents may qualify for PIC subject to the following conditions:

- There is a regular working or contractual relationship between the principal and the agent.
- The principal does not charge or recover the training cost incurred from the agent.
- The agent must not claim the training expenses against his trade income or claimed as course fees relief.
- The principal shares the risks and rewards of the agent.

These changes will take effect from YA 2012. All other existing terms and conditions of the PIC scheme apply.

IRAS will release further details of the changes by 30 June 2012.

PROVIDING CERTAINTY OF NON-TAXATION OF COMPANIES' GAINS ON DISPOSAL OF EQUITY INVESTMENTS

Gains derived from the disposal of equity investments by companies will not be taxed if:-

(i) The divesting company holds a minimum shareholding of 20% in the company whose shares are being disposed; and

(ii) The divesting company maintains the minimum 20% shareholding for a minimum period of 24 months just prior to the disposal.

For share disposals in other scenarios, the tax treatment of the gains/losses arising from share disposals will continue to be determined based on the facts and circumstances of the case.

The scheme will apply to the disposal of shares on or after 1 June 2012 and will be reviewed after 5 years.

IRAS will release further details of the change by 1 June 2012.

WITHHOLDING TAX

EXTENSION OF TAX FILING AND PAYMENT DEADLINE FOR WITHHOLDING TAX

Prior to 1 July 2012, payment of withholding tax must be made to IRAS by the 15th of the following month from the date of payment to the non-resident.

With effect from 1 July 2012, the payer will be allowed one additional month to file and pay the tax, i.e. by the 15th of the second month following the date of payment to the non-resident.

For example, if the payer is liable to make interest payment to the non-resident on 10 August 2012, he has to pay the withholding tax to IRAS by 15 October 2012.

DOUBLE TAX DEDUCTION

ADMINISTRATIVE ENHANCEMENT FOR DOUBLE TAX DEDUCTION FOR INTERNATIONALISATION SCHEME

To qualify for double tax deduction on expenses incurred on qualifying market expansion and investment development activities, businesses must obtain prior approval from IE Singapore or Singapore Tourism Board before incurring the expenses and commencing the projects.

To reduce administrative burden, it is proposed that double tax deduction of up to $100,000 per YA be allowed on qualifying expenditure incurred on the following 4 qualifying activities without the prior approval:-

(i) Overseas business development trips/missions;
(ii) Overseas investment study trips/missions;
(iii) Participation in overseas trade fairs; and
(iv) Participation in approved local trade fairs.

The above will be applicable to qualifying expenditure incurred on or after **1 April 2012**.

More details will be released by IE Singapore and STB by 31 March 2012.

MARINE SECTOR INCENTIVE

TAX EXEMPTION ON VESSEL DISPOSAL GAINS

To bring Singapore's tax regime on par with other maritime nations and provide certainty to the maritime sector, qualifying ship operators and ship lessors under the Maritime Sector Incentive ("MSI") awards will be **granted tax exemption automatically, without the need to opt for the exemption**, on gains from the disposal of vessels.

The gains from the disposal of **vessels under construction and new building contracts** will also be exempt.

For ship lessors under the MSI-ML(Ship) award, the exemption applies to gains from the disposal of foreign vessels.

These changes will take effect retrospectively from **1 June 2011**.

Further details of the changes are available at Maritime and Port Authority of Singapore's website.

WITHHOLDING TAX EXEMPTION ON CHARTER FEES FOR SHIPS

To further enhance Singapore's competitiveness as an International Maritime Centre and reduce business costs for ship charterers, bareboat, voyage and time charter **payments made to non-residents** for the use of ships will be **exempted from withholding tax**.

This change will take effect for all payments that are due and payable on or after **17 February 2012**.

ENHANCING THE MARITIME SECTOR INCENTIVE

To further promote the growth of container leasing in Singapore, the following enhancements will be made to the MSI-ML(Container) award:-

(i) Interest and related payments, made on or after 17 February 2012, arising from loans taken to finance qualifying containers and intermodal equipment will be granted **automatic withholding tax exemption** upon satisfaction of certain conditions.

(ii) With effect from YA 2013, income derived from the leasing of intermodal equipment (e.g. trailers) which is incidental to the leasing of qualifying containers will also enjoy the concessionary tax rate of 5% or 10%.

(iii) With effect from YA 2013, qualifying containers will refer to containers that adhere to the standards defined by the ISO, IICL or **any other equivalent organisation**.

Further details are available at MPA's website.

AVIATION SECTOR INCENTIVE

EXTENDING AND ENHANCING THE AIRCRAFT LEASING SCHEME ("ALS")

To continue the promotion of aircraft leasing activities in Singapore, the ALS will be extended to **31 March 2017**.

In addition, to provide upfront tax certainty and reduce business costs, **withholding tax exemption will be granted automatically**, subject to conditions, on interest and qualifying payments.

The payments must be made on or after **1 May 2012** by existing and new ALS recipients in respect of qualifying foreign loans entered into on or before 31 March 2017. The loans are to finance the purchase of aircraft or aircraft engines.

EDB will release further details of the change by 30 April 2012.

FINANCIAL SECTOR INCENTIVE

ENHANCING THE DESIGNATED INVESTMENT AND SPECIFIC INCOME LISTS FOR FINANCIAL SECTOR TAX INCENTIVE SCHEME

To simplify the list of specified income and designated investments, and to keep up with industry development and changes, the list of specified income will be revised into an **exclusion list**.

The list of designated investments will be rationalised as follows:-

(i) Stocks and shares of any company;
(ii) All debt securities;
(iii) All other securities (not already covered under the list of designated investments31):
Issued by foreign governments in foreign currency;
Listed on any Exchange;
Issued by supranational bodies; or
Issued by any company; and
(iv) All financial derivatives that relate to any designated investment or financial index, subject to existing conditions and counterparty restrictions.

The designated investment list will also be expanded to cover:-

(i) Private trusts that invest wholly in designated investments;
(ii) Freight derivatives; and
(iii) Publicly-traded partnerships that do not carry on a trade, business, profession or vocation in Singapore.

These changes will take effect from 17 February 2012.

EXTENDING THE WITHHOLDING TAX EXEMPTION FOR OVER-THE-COUNTER ("OTC") FINANCIAL DERIVATIVES PAYMENTS

To encourage the growth of our derivatives market, the withholding tax exemption on all payments made on qualifying OTC financial derivatives will be **extended to 31 March 2021**.

MAS will release further details of the change by 30 April 2012.

EXTENDING THE TAX DEDUCTION FOR COLLECTIVE IMPAIRMENT PROVISIONS MADE UNDER MAS NOTICES

To encourage banks to maintain adequate levels of impairment allowances, the tax concessions will be **extended for a further three years till YA 2016 or YA 2017**.

All other existing terms and conditions of the scheme apply.

ENHANCING THE LIBERALISED WITHHOLDING TAX EXEMPTION REGIME FOR BANKS

In Budget 2011, the withholding tax exemption regime for banks was liberalized to allow specific entities like licensed banks and finance companies as well as other approved entities like those that are under the Securities and Futures Act enjoy withholding exemption on interest and other related payments made to non-residents **(except for permanent establishments ("PEs") in Singapore)**.

To enhance the withholding tax regime, the above specified entities will now no longer need to withhold tax on interest and other related payments made to **PEs in Singapore as well.**

The PEs in Singapore will be assessed to tax on the payments received and will be required to declare the payments received in their annual income tax returns, unless the payments are specifically exempt from tax. All other existing terms and conditions of the regime apply.

This change will take effect for:-

(i) payments to be made from 17 February 2012 to 31 March 2021 (for contracts already in force before 17 February 2012); and

(ii) all payments arising from contracts effective on or after 17 February 2012 to 31 March 2021.

LIBERALISING THE CASH DISTRIBUTION REQUIREMENT FOR TAX TRANSPARENCY FOR REAL ESTATE INVESTMENT TRUST ("REITs")

Currently, to enjoy tax transparency, REITs must distribute at least 90% of taxable income in the same financial year in which such income is derived. The distribution to the unit holders must be made **fully in cash**.

To enhance our tax regime for REITs, a REIT that makes distributions to unit holders **in the form of units** can continue to enjoy tax transparency. This is subject to the following conditions:-

(i) Before the distribution, the trustee of the REIT grants the unit holders the option to receive the distributions either in cash or units in that REIT; and

(ii) On the date of distribution, the trustee of the REIT must have sufficient cash to make the entire distribution fully in cash, if option had not been given to those unit holders to receive the distribution in units in that REIT.

Unit holders who elect to receive distributions in units under this scenario will be taxed in the same manner as if they had received the distribution in cash.

This change will take effect for distribution made on or after 1 April 2012.

Note : If tax transparency applies, the trustee of the REIT is not subject to tax on the specified income that is distributed to the unit holders. Instead, the distributions are taxed in the hands of the unit holders or exempted according to their tax personalities (e.g resident individuals, non-resident non-individuals, etc) accordingly.

STAMP DUTY

ENHANCEMENT OF STAMP DUTY RELIEF FOR QUALIFYING MERGER AND ACQUISITION (“M&A”)

As announced in Budget 2010, the transfer of shares for qualifying M&A deals will be eligible for Stamp Duty relief capped at $200,000 per year. This relief is available for qualifying M&A deals executed from 1 April 2010 to 31 March 2015.

The stamp duty relief for M&A deals completed between 17 February 2012 and 31 March 2015 will be further enhanced as follows:-

(i) Acquisition through subsidiaries

Prior to 17 February 2012, the acquiring company could acquire the shares of the target company either directly or through a directly and wholly-owned subsidiary.

With effect from 17 February 2012, the acquiring company may acquire shares of the target company through multiple tiers, instead of just one tier, of wholly-owned subsidiaries.

(ii) Conditions on Target Company

Prior to 17 February 2012, the conditions imposed on the target company could be satisfied by either the target company or by the subsidiary directly and wholly-owned by the target company.

With effect from 17 February 2012, the qualifying conditions imposed on the target company may be satisfied by any of the multiple tiers of wholly-owned subsidiaries of the target company.

(iii) Ultimate Holding Company

The acquiring company must be held by an ultimate holding company that is incorporated in Singapore and a tax resident of Singapore. From 17 February 2012, EDB may waive this requirement on a case-by-case basis, subject to conditions.

IRAS will release further details by 30 June 2012.

GOODS AND SERVICES TAX

GST EXEMPTION ON INVESTMENT-GRADE GOLD AND PRECIOUS METALS

Currently, investment-grade gold and precious metals such as silver and platinum are subject to GST if sold locally and zero-rated when exported overseas. However, effective 1 October 2012, they will be exempt from GST, similar to the supply of financial services.

IRAS will release further details of the changes by 1 September 2012.

EXTENSION OF GST TEMPORARY IMPORT PERIOD

Under the Temporary Import Scheme, goods (except for liquor and tobacco) are allowed to be imported without payment of duty and/or GST if they are to be re-exported within 3 months from the importation date. The goods must be imported for approved purposes, such as exhibitions, fairs, auctions, repairs, stage performances, testing, experiments and demonstration.

With effect from 1 April 2012, the temporary relief period of 3 months will be extended to 6 months. All other existing terms and conditions remain unchanged.

Singapore Customs will release further details by 26 March 2012.

EXTENSION OF GST TOURIST REFUND SCHEME ("TRS") TO TOURISTS DEPARTING BY INTERNATIONAL CRUISE

Currently, the GST TRS is only available to tourists departing Singapore via air from the Changi International Airport and Seletar Airport. With effect from 1 January 2013, the scheme will be extended to international cruise passengers (excluding cruises-to-nowhere, round-trip cruise and regional ferry passengers) departing from the Singapore Cruise Centre at Harbourfront and the International Cruise Terminal at Marina South.

IRAS, Singapore Customs and STB will release further details by 1 September 2012.

SIMPLIFYING GST IMPORT RELIEF FOR INCOMING TRAVELLERS

With effect from 1 April 2012, the GST import relief for new articles brought into Singapore by inbound tourists and residents returning from abroad will be simplified as follows :-

Time spent abroad	GST import relief
48 hours or more	$600
Less than 48 hours	$150

INDIVIDUALS

EARNED INCOME RELIEF

With effect from Year of Assessment ("YA") 2013, the amount of earned income relief ("EIR") and handicapped EIR for individuals will be increased to encourage elderly workers to stay in the workforce as well as to provide more support to the handicapped workers.

The revised relief amounts will be as follows:-

	EIR		Handicapped EIR	
Age group	**Up to YA 2012**	**From YA 2013**	**Up to YA 2012**	**From YA 2013**
Below 55	$1,000	$1,000	$2,000	$4,000
55 to 59	$3,000	$6,000	$5,000	$10,000
60 and above	$4,000	$8,000	$6,000	$12,000

MISCELLANEOUS

PERMANENT GST VOUCHER SCHEME

A permanent GST Voucher Scheme is introduced to help to defray the cost of living of Singaporeans.

The GST Voucher comprises three components, namely, cash, medisave top-ups and U-Save.

(i) Cash component

The cash component will be given based on the assessable income and annual value ("AV") of the homes of Singaporeans as shown below:-

Assessable income for YA 2011	AV of Home as at 31 December 2011	
	Up to $13,000 (All HDB flats)	$13,000 < AV ≤ $20,000 (lower-end private properties)
≤$24,000	$250	$100

(ii) Medisave top-ups component

This is an annual top-up made to the Medisave Accounts of older Singaporeans as follows:-

Age	AV of Home as at 31 December 2011	
	Up to $13,000 (All HDB flats)	$13,000 < AV ≤ $20,000 (lower-end private properties)
65-74	$250	$150
75-84	$350	$250
≥85	$450	$350

(iii) U-Save component

This is to help lower and middle income households to offset part of their utilities bills.

Housing Type	Annual U-Save
HDB 1- and 2-Room	$260
HDB 3- Room	$240
HDB 4-Room	$220
HDB 5-Room	$200
HDB Executive	$180