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Dear Clients

## 2013 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.

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Yours faithfully  
**Robert Tan & Co.**



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## BUSINESS 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	Amount assessable
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	Amount assessable
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

### CORPORATE INCOME TAX REBATE

A rebate based on 30% of the tax payable but capped at \$30,000 per year will be given for Years of Assessment 2013 to 2015.

## **PRODUCTIVITY AND INNOVATION CREDIT (“PIC”) SCHEME**

### *Intellectual Property (“IP”) in-licensing*

For YA 2013 to 2015, cost incurred on IP in-licensing is eligible for PIC benefits.

The current PIC qualifying activity of “Acquisition of Intellectual Property” will be renamed to “Acquisition and In-Licensing of Intellectual Property” to reflect the change.

Further details will be released by IRAS by April 2013.

### *Introduction of the Productivity and Innovation Credit Bonus*

Eligible businesses that spend a minimum of \$5,000 per YA in qualifying activities under the PIC scheme will receive a dollar-for-dollar matching cash bonus for YA 2013 to 2015 in addition to the existing PIC benefits. The PIC bonus is subject to an overall cap of \$15,000 for the above 3 combined YAs.

Conditions for the claim are:

- (i) Active business operations in Singapore;
- (ii) Have at least 3 local employees (exclude sole-proprietors, partners and shareholders who are directors of the company) paying CPF contributions; and
- (iii) Have claimed for the 400% tax deductions/allowance and/or PIC cash payout.

The PIC bonus is taxable.

### *Liberalisation of the Scope of Productivity and Innovation Credit Automation Equipment*

To allow more types of equipment to qualify for PIC benefits, the following changes will take place with effect from YA 2013:

- a. For equipment that is not on the prescribed list, IRAS will assess and approve the PIC benefits based on the following liberalised conditions:
  - (i) The equipment automates or mechanises, whether in whole or in part, the work processes, whether core or non-core of the business and it enhances the productivity of the business;
  - (ii) The equipment that is a basic tool will be allowed as long as it increases productivity compared to the existing equipment or it has not been used in the business before.
- b. The term “automation equipment” is changed to “IT and automation equipment” as PIC scheme already supports IT-related software besides automation equipment;
- c. The prescribed list will be updated regularly to take into account feedback from businesses.

## **INCENTIVE SCHEMES**

### **EXTENDING AND ENHANCING THE FINANCIAL SECTOR INCENTIVE (“FSI”) SCHEME**

To continue the growth of financial sector activities in Singapore, the FSI scheme (excluding the FSI-Islamic Finance award) will be extended for five years to **31 December 2018**.

The FSI scheme will be refined as follows:

- (i) The five separate FSI-Derivatives Market (“FSI-DM”) sub-awards will be merged to form a single FSI-DM award;
- (ii) The FSI-Bond Market (“FSI-BM”) and FSI-Equity Market (“FSI-EM”) awards will be merged to form a single FSI-Capital Markets (“FSI-CM”) award;
- (iii) Withholding tax exemption will be granted automatically to FSI-Headquarter Service (“FSI-HQ”) award recipients on interest payments made during the period of their FSI-HQ award for qualifying loans. This will take effect from 25 February 2013;
- (iv) The range of incentivised activities and financial instruments will be broadened for the FSI-Standard Tier (“FSI-ST”), FSI-Capital Market (“FSI-CM”) and FSI-Credit Facilities Syndication (“FSI-CFS”) awards; and
- (v) The FSI-Islamic Finance (“FSI-IF”) award will be allowed to expire on 31 March 2013. The existing qualifying Islamic Finance activities will be incentivised under the FSI-ST award.

Unless otherwise specified, the changes will take effect from 1 January 2014. Existing award recipients can continue with their awards till the end of their award tenures.

The Monetary Authority of Singapore (“MAS”) will release further details by end June 2013.

**EXTENDING THE TAX EXEMPTION ON INCOME DERIVED BY PRIMARY DEALERS FROM TRADING IN SINGAPORE GOVERNMENT SECURITIES**

To continue encouraging trading in Singapore Government Securities, the tax exemption on income derived by primary dealers from trading in Singapore Government Securities will be extended for five years to **31 December 2018**.

**EXTENDING AND REFINING THE QUALIFYING DEBT SECURITIES (“QDS”) and QUALIFYING DEBT SECURITIES PLUS (“QDS+”) INCENTIVE SCHEME**

To further promote Singapore’s debt market, the QDS scheme will be extended for five years to **31 December 2018**.

For debt securities issued during the period 1 January 2014 to 31 December 2018, the requirement that the QDS has to be substantially arranged in Singapore will be rationalised to ease compliance for issuers.

The QDS+ scheme will also be extended for five years to **31 December 2018**. The QDS+ scheme will be refined to allow debt securities with standard early termination clauses to qualify for the QDS+ scheme, subject to conditions.

The other existing conditions of the schemes remain unchanged.

MAS will release further details by end June 2013.

**EXTENDING THE TAX INCENTIVE SCHEME FOR APPROVED SPECIAL PURPOSE VEHICLE (“ASPV”) ENGAGED IN SECURITISATION TRANSACTIONS (“ASPV S”)**

To continue developing the structured debt market, the ASPV scheme will be extended for five years to **31 December 2018**.

All existing conditions of the scheme remain unchanged.

MAS will release further details by end May 2013.

### **ENHANCING THE TAX EXEMPTION SCHEME FOR THE UNDERWRITING OF OFFSHORE SPECIALISED INSURANCE RISKS**

To encourage the underwriting of severe and volatile catastrophe risks from Singapore, tax exemption will be granted on qualifying income derived from offshore Catastrophe Excess of Loss (“CAT-XOL”) reinsurance layers. All existing conditions of the scheme remain unchanged.

This change will take effect from **25 February 2013**.

MAS will release further details by end April 2013.

### **RATIONALISING THE START-UP TAX EXEMPTION (“SUTE”) SCHEME**

SUTE will no longer be available to the following companies:

- (i) Property Developer – a company that buys or leases land and arranges for a building to be built on the land in order to lease, manage or sell the building; and
- (ii) Investment Holding Company – a company whose principal activity is that of investment holding. It derives only investment income such as rental, dividend, or interest income.

Investment holding companies derive only passive incomes, while the real estate industry typically incorporates a new company for each new property development. The start-up tax exemption for encouraging entrepreneurship is not intended for such companies.

Property developers and investment holding companies will still be able to enjoy the partial tax exemption generally available to all companies.

All existing conditions of the SUTE scheme remain unchanged.

This change will take effect for start-ups incorporated from **26 February 2013**.

### **EXTENDING THE MAXIMUM TENURE OF THE MARITIME SECTOR INCENTIVE – APPROVED INTERNATIONAL SHIPPING ENTERPRISE (“MSI-AIS”) AWARD**

To promote the growth of our maritime industry, the maximum tenure of the MSI-AIS award will be increased from **30 years to 40 years**. Companies can be granted the MSI-AIS award for a 10-year period, with the possibility of renewal up to a maximum tenure of 40 years, subject to conditions.



#### **EXTENDING AND ENHANCING THE TAX INCENTIVE SCHEME FOR OFFSHORE INSURANCE BROKING BUSINESS**

To support Singapore's position as a major regional insurance and reinsurance hub, the scheme will be extended for five years to **31 March 2018**.

Insurance broking activities will be incentivised if the risks being insured or reinsured are offshore risks. Advisory services will continue to be incentivised for services provided to clients that are not based in Singapore.

To accelerate the development of the specialty insurance cluster in Singapore, a new 5%-tier award for the offshore specialty insurance broking business will be introduced. Insurance and reinsurance brokers who are granted the new award can enjoy a 5% concessionary tax rate on fees and commissions derived from the provision of qualifying specialty insurance broking and advisory services.

These changes will take effect from **1 April 2013**.

MAS will release further details by end April 2013.

#### **ALLOWING THE DEDUCTION SCHEME FOR UPFRONT LAND PREMIUM TO EXPIRE**

This scheme was introduced in 1998 to assist lessees who pay upfront land premium in respect of leases of industrial land to encourage industrialisation.

The Government has assessed the scheme to be no longer relevant. As such, the scheme will be allowed to **expire for leases granted on or after 28 February 2013**.

#### **ALLOWING THE FURTHER TAX DEDUCTION SCHEME FOR EXPENSES INCURRED IN RELOCATION OR RECRUITMENT OF OVERSEAS TALENT TO EXPIRE**

As the objective of the scheme no longer merits a tax incentive, the scheme will be allowed to **expire on 30 September 2013**.

**ALLOWING THE OFFSHORE INSURANCE BUSINESS SCHEME FOR ISLAMIC INSURANCE AND REINSURANCE TO EXPIRE**

As the objective of the scheme no longer merits a tax incentive, the scheme will be allowed to **expire on 31 March 2013**. Insurers which conduct offshore Islamic insurance and reinsurance activities may apply to MAS for the existing 10% Offshore Insurance Business Scheme.

**ALLOWING THE TAX INCENTIVE FOR FAMILY-OWNED INVESTMENT HOLDING COMPANIES TO EXPIRE**

As the objective of the scheme no longer merits a tax incentive, the scheme will be allowed to **expire on 31 March 2013**.

**WITHDRAWING THE OVERSEAS ENTERPRISE INCENTIVE (“OEI”) SCHEME**

With broad-based changes to our tax regime for foreign-sourced income in past years, the scheme is assessed to be no longer relevant. The OEI scheme will be **withdrawn from 25 February 2013**.

**WITHDRAWING THE APPROVED CYBER TRADER (“ACT”) SCHEME**

As the objective of the scheme no longer merits a tax incentive, the ACT scheme will be **withdrawn from 25 February 2013**.

# INDIVIDUAL TAX

## PERSONAL INCOME TAX RATES AND TAX REBATE FOR YA 2013

There is no change to the tax rates for YA 2013 as follows:-

Tax rates structure with effect from YA 2013				
	Chargeable income \$	Tax rate	Gross tax payable \$	Effective tax rate
On the first	20,000	0%	0	
On the next	10,000	2%	200	
On the first	30,000	3.5%	200	0.7%
On the next	10,000		350	
On the first	40,000	7%	550	1.4%
On the next	40,000		2,800	
On the first	80,000	11.5%	3,350	4.2%
On the next	40,000		4,600	
On the first	120,000	15%	7,950	6.6%
On the next	40,000		6,000	
On the first	160,000	17%	13,950	8.7%
On the next	40,000		6,800	
On the first	200,000	18%	20,750	10.4%
On the next	120,000		21,600	
On the first in excess of	320,000 320,000	20%	42,350	13.2%

All resident-individual taxpayers will be given a tax rebate for YA 2013.

The amount of tax rebate given will depend on the age of the individuals as follows:-

- i. 30% tax rebate for individuals below 60 years old, capped at \$1,500; and
- ii. 50% tax rebate for individuals aged 60 and above, capped at \$1,500.

### TAXATION OF ACCOMMODATION BENEFITS

With effect from YA 2015, housing and hotel accommodation benefits provided to employees (including directors) will be taxed based on the annual value of the property and actual cost incurred on the hotel stay respectively.

IRAS will release further details of the changes by October 2013.

### **PHASING OUT THE EQUITY REMUNERATION INCENTIVE SCHEMES (ERIS)**

The ERIS for Start-Ups has expired on 15 February 2013 while the ERIS for all corporations and SMEs will expire on 31 December 2013. Both ERIS will not be renewed upon expiration.

However, employees will continue to enjoy partial tax exemption on the gains derived on or before 31 December 2023, from stock options/shares granted before the above-mentioned expiry dates.

### **REMOVAL OF PROPERTY TAX REFUND CONCESSION FOR VACANT PROPERTIES**

With effect from 1 January 2014, all vacant properties will no longer be eligible for property tax refund claim. All vacant properties will be taxed at the prevailing property tax rates. Tax treatments of vacant properties will also be streamlined as follows:-

- (i) Unoccupied residential buildings will be taxed at the same property tax rates as non-owner-occupied residential buildings notwithstanding that reasonable efforts were put in by the owners to find a tenant;
- (ii) Non-residential buildings that are either vacant or undergoing repairs for occupation purpose will be taxed at the prevailing tax rate of 10% for non-residential buildings notwithstanding that reasonable efforts were put in by the owners to find a tenant;
- (iii) Residential buildings that are undergoing repairs or building works for the purpose of rendering them fit for owner-occupation can be taxed at the owner-occupier tax rates for residential buildings during the duration of the repairs or building works (up to a maximum of 2 years), on the condition that the buildings must be owner-occupied for at least 1 year after the completion of the repairs or building works; and
- (iv) Vacant land that are undergoing housing development with the intention of owner-occupation can be taxed at the owner-occupier tax rates for residential buildings for the duration of the housing development (up to a maximum of 2 years). The house must be owner-occupied for at least 1 year after the completion of the house. All the other vacant land will continue to be taxed at 10% during the development period.

The above changes will be effective on 1 January 2014 and the concessionary owner-occupier property tax rates applicable to residential properties under (iii) and (iv) above is available by application to IRAS.

## **OTHERS**

### **WAGE CREDIT SCHEME (WCS)**

The WCS was introduced to defray employers' wage costs for a period of 3 years (from year 2013 to 2015). The government will fund 40% of wage increases to Singaporean employees with gross monthly wage of up to \$4,000.

The first WCS payout will be made in the second quarter of 2014 and the last payout in 2016. Eligible employers need not apply for the payout as it will be given to them automatically and annually.

The WCS payout is taxable.

### **Footnotes**

1. Employer must have paid the employee CPF contributions for at least 3 months in year 2013. Owners of companies (shareholders) or businesses (sole-proprietors and partners) do not qualify as employees even if they pay themselves CPF contributions.
2. Government-related entities and entities not registered in Singapore are excluded from receiving the wage credit.
3. Gross monthly wage is the total wages paid by the employer to the employee in the calendar year divided by the number of months in which CPF contributions were made.

Total wages paid to an employee is computed from the CPF contributions that the employer makes for the employee in the year.

Total wages include basic salary and additional wages such as overtime pay and bonuses, but exclude employer's CPF contributions.

More information will be released in June 2013.

### **SME TALENT PROGRAMME**

SPRING Singapore together with the industry chambers and trade associations will launch the SME Talent Programme which provides awards to encourage polytechnic and ITE students to join SMEs upon graduation.

### **ENHANCED TRAINING SUPPORT FOR SMEs**

The current training support schemes are enhanced to help SMEs to upgrade the skills of their workers.

Firstly, SMEs which upgrade their workers through courses certified by WDA will receive a 90% course subsidy.

Secondly, the Government will step up grants to help SMEs to transform their business operations and increase productivity.

Thirdly, the Government will increase its subsidy rate from 50% to 70% for capability development among SMEs for the next 3 years.

These schemes will be managed by SPRING and IE Singapore.