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Dear Clients

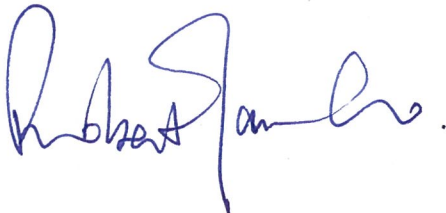
## 2015 SINGAPORE BUDGET COMMENTARY

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 on the first \$100,000 normal chargeable income for the first 3 consecutive years of assessment (“YAs”) for a newly incorporated Singapore tax resident company meeting the minimum 10% individual shareholder’s requirement.

However, the full tax exemption scheme for newly incorporated Singapore resident companies will not be extended to investment holding companies and companies engaged in property development activities that are incorporated after 25 February 2013. Instead, partial exemption will be applicable to these companies.

As before, the first \$300,000 normal chargeable income for a 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 tax rebate based on 30% of the tax payable but capped at \$20,000 per year will be given to companies for YAs 2016 and 2017.

### PRODUCTIVITY AND INNOVATION CREDIT (“PIC”) BONUS

The above scheme expires in YA 2015 with no further extension.

## **DONATIONS**

Donations made to Institutions of a Public Character (“IPC”) and other approved recipients are able to obtain tax deduction of up to 3 times of the qualifying donations made. This applies to qualifying donations made from 1 January to 31 December 2015.

Currently, the 2.5 times tax deduction for qualifying donations will be extended for another 3 years from 1 January 2016 to 31 December 2018.

## **MARITIME SECTOR INCENTIVE (“MSI”)**

To further develop Singapore as an International Maritime Centre, the MSI will be enhanced as follows:

1. The automatic withholding tax exemption regime will now cover finance leases, hire-purchase arrangements and loans used to finance equity injection into wholly-owned SPVs or intercompany loans to wholly-owned SPVs for the SPVs’ purchase/construction of vessels, containers and intermodal equipment;
2. The definition of qualifying ship management activities for the purpose of the MSI-Singapore Registered Ships (“SRS”), MSI-Approved International Shipping (“AIS”) award and MSI-Shipping-related Support Services (“SSS”) award will be updated to keep pace with industry changes;
3. The MSI-SRS and MSI-AIS award will now cover mobilisation fees, demobilisation fees, holding fees and incidental container rental income that are derived in the course of qualifying shipping operations;
4. Exemption will be granted to qualifying profits remitted from approved foreign branches of MSI-ASI entities;
5. Existing MSI-SSS award recipients can renew their award tenure for another five years, subject to qualifying conditions and higher economic commitments; and
6. The MSI-Maritime Leasing (“ML”) award will now cover income derived from finance leases treated as sale.

The enhancements to the MSI will take effect for existing and new award recipients from 24 February 2015.

The approval window to award MS-AIS for qualifying entry players, MSI-ML (Ship), MSI-ML (Container) and MSI-SSS will be extended till 31 May 2021. In addition, automatic withholding tax exemption will be extended to qualifying payments made on qualifying loans taken on or before 31 May 2021.

Further details will be released by the Maritime Port Authority of Singapore by May 2015.

## **GOODS & SERVICES TAX**

### Pre-registration GST claim for GST Registered businesses

Input tax incurred on purchases of goods and services prior to GST registration is claimable if certain conditions are met. To ease compliance, the claiming of pre-registration GST will be simplified to allow a newly GST-registered business to claim pre-registration GST in full on the following goods and services that are acquired within six months before the GST registration date:-

1. Goods held by the business at the point of GST registration; and
2. Property rental, utilities and services which are not directly attributable to any supply made by the business before GST registration.

With the above changes, businesses no longer have to apportion the pre-registration GST on the above goods and services even if these goods and services have been used to make supplies straddling GST registration or these goods have been partially consumed before GST registration. This is provided the aforesaid goods and services are for the making of taxable supplies and not exempt supplies.

For other purchases of goods and services incurred prior to GST registration, including those acquired more than six months before GST registration, the existing pre-registration GST claim rules continue to apply.

The change takes effect for business that are GST registered from 1 July 2015.

Further details will be released by IRAS by June 2015.

## **INCENTIVE SCHEMES**

### **REFINING THE TAX INCENTIVES FOR VENTURE CAPITAL FUNDS AND VENTURE CAPITAL MANAGEMENT**

Currently, approved venture capital funds may be granted tax exemption under Section 13H of the Income Tax Act on the following specified income:-

1. Gains arising from the divestment of approved portfolio holdings;
2. Dividend income from approved foreign portfolio companies; and
3. Interest income arising from approved foreign convertible loan stock.

In recognition of the importance of venture capital activity in supporting entrepreneurship, a 5% concessionary tax rate will be accorded to approved venture capital fund management companies managing Section 13H funds on their specified income.

The approval window will be from 1 April 2015 to 31 March 2020.

With the introduction of this new incentive, the Pioneer Service incentive for venture capital fund management companies will be withdrawn from 1 April 2015 given that venture capital is no longer a pioneering activity in Singapore.

### **EXTENDING AND ENHANCING THE MERGER AND ACQUISITIONS (“M&A”) SCHEME**

To further encourage companies to merge, the M&A scheme will be extended till 31 March 2020 with the following changes:-

1. Revised tax benefits under M&A scheme
  - i. The M&A allowance rate will be revised to 25% (up from 5%);
  - ii. The cap on the value of qualifying acquisition for the M&A allowance will be lowered to \$20 million (down from \$100 million);
  - iii. Stamp duty relief on the transfer of unlisted shares will correspondingly be capped at \$20 million (instead of \$100 million) on the value of qualifying acquisition, which works out to be \$40,000 of stamp duty per financial year; and
  - iv. No change to the allowable tax deduction amount on transaction costs incurred on qualifying M&A, which will remain at 200% subject to an expenditure cap of \$100,000 per YA. The deduction of the transaction costs will be allowed in the YA in which M&A allowance, in respect of the qualifying share acquisition, is claimed.

## 2. Revised shareholding eligibility tiers

The acquiring company must acquire ordinary shares in the target company whether directly or indirectly, that results in the acquiring company holding:-

- i. At least 20% ordinary shareholding in the target company (if the acquiring company's original shareholding in the target company was less than 20%), subject to conditions; or
- ii. More than 50% ordinary shareholding in the target company (if the acquiring company's original shareholding in the target company was 50% or less) (status quo).

The existing 75% shareholding eligibility tier will be removed. Acquisitions of ordinary shares that result in the acquiring company owning at least 75% ordinary shareholding (if the acquiring company's original shareholding was more than 50% but less than 75% at the beginning of the basis period for a YA or FY) will no longer qualify under the M&A scheme.

## 3. Removal of the "12-month look-back period" for step acquisitions that straddle across FYs

The 12-month look-back period for consolidation of step acquisitions will be removed to simplify the scheme.

The above changes will take effect for qualifying acquisitions made from 1 April 2015.

More details will be released by IRAS by May 2015.

## **ENHANCING THE DOUBLE TAX DEDUCTION ("DTD") FOR INTERNATIONALISATION SCHEME**

The scope of qualifying expenditure qualifying for 200% tax deduction will be enhanced to include qualifying manpower expenses incurred for Singaporeans posted to new overseas entities. This will provide greater support to businesses expanding overseas as well as create more skilled jobs and opportunities for Singaporeans to work overseas.

The amount of qualifying manpower expenses to be allowed DTD under the scheme will be capped at \$1 million per approved entity per year, subject to conditions. This change will apply to qualifying manpower expenses incurred from 1 July 2015 to 31 March 2020.

Businesses will have to apply to IE Singapore to enjoy the DTD on qualifying manpower expenses. Currently, basic salary of the person representing the Overseas Trade Office who is a Singapore citizen or PR is considered as qualifying expenses. At this point in time, no further information is available on what type of expenses will be enhanced and be treated as "qualifying enhanced manpower expenses".

IE Singapore will release further details by May 2015.



### **INTERNATIONAL GROWTH SCHEME (“IGS”)**

To provide greater and more targeted support for larger Singapore companies in their internationalisation efforts, the Government will introduce a new International Growth Scheme (“IGS”). The aim is to support high potential companies in their growth overseas, while they continue to anchor their key functions in Singapore.

Under the IGS, qualifying Singapore companies will enjoy a concessionary tax rate of 10% for a period not exceeding 5 years on their incremental income from qualifying activities. Such companies will be expected to engage in internationalisation activities and provide opportunities for Singaporeans to gain greater international exposure.

The approval window for the new scheme will be from 1 April 2015 to 31 March 2020.

IE Singapore will administer this new scheme and more details will be provided by May 2015.

### **EXTENDING THE TIME PERIOD FOR DEVELOPMENT AND EXPANSION INCENTIVE FOR INTERNATIONAL LEGAL SERVICES (“DEI-Legal”) SCHEME**

Currently, approved law practices that are incorporated as companies are eligible for 10% concessionary tax rate on incremental income derived from provision of qualifying international legal services for 5 years. This incentive will lapse after 31 March 2015.

To continue encouraging law corporations to do more international legal services work from Singapore, the DEI-Legal scheme will be extended till 31 March 2020. All other conditions of the scheme remain the same.

### **INTRODUCING A REVIEW FOR THE APPROVED ROYALTY INCENTIVE (“ARI”)**

The ARI was introduced to encourage companies to access cutting-edge technology and know-how for substantive activities in Singapore. Under the scheme, tax exemption or a concessionary tax rate may be granted on approved royalties, technical assistance fees or contributions to research and development costs made to a non-tax resident for providing cutting-edge technology and know-how to a company for the purpose of its substantive activities in Singapore.

A review date of 31 December 2023 will be legislated for this scheme to ensure that the relevance of the scheme is periodically reviewed.

### **INTRODUCING A REVIEW DATE FOR THE APPROVED FOREIGN LOAN INCENTIVE (“AFL”)**

The AFL incentive was introduced to encourage companies to invest in productive equipment for the purposes of carrying on substantive activities in Singapore. Under the scheme, tax exemption or a concessionary tax rate may be granted on interest payments made by companies in Singapore to a non-tax resident for foreign inbound loans to the company to purchase productive equipment. To qualify as AFL, the loan must be at least \$200,000. The Minister of Trade & Industry has the discretion to approve an application for a foreign loan of a lesser amount.

In addition, the minimum loan quantum under the AFL incentive will be increased to \$20 million (or any lower amount which is approved by the Minister for Trade and Industry) from 24 February 2015.

A review date of 31 December 2023 will be legislated for this scheme to ensure that the relevance of the scheme is periodically reviewed.

### **WITHDRAWAL OF THE APPROVED HEADQUARTERS INCENTIVE (“AHQI”)**

The AHQI was introduced to encourage companies to use Singapore as a base to conduct head quarter management services. The incentive confers tax exemption or concessionary tax rate of 10% on income derived from:-

1. The provision of qualifying headquarter services to qualifying network companies; or
2. Qualifying treasury, investment or financial activities.

With the objective of simplifying our tax incentive regime, the AHQI will be withdrawn from 1 October 2015.

Companies performing qualifying headquarters activities or services in Singapore to network companies may qualify for the Development and Expansion Incentive, subject to meeting of conditions.

# INDIVIDUAL TAX

## TAX REBATE AND CHANGES TO PERSONAL INCOME TAX RATES

For Year of Assessment (“YA”) 2015, a personal income tax rebate of 50% of net tax payable, capped at \$1,000, is given to all tax resident individuals.

With effect from YA 2017, tax resident individuals with chargeable income of more than \$160,000 will have to pay higher income tax due to an increase in their income tax rate.

The tables below show the personal income tax rates for YAs 2012 to 2016 and YA 2017 onwards. The income tax rates for those tax resident individuals with chargeable income of \$30,000 to \$160,000 remain unchanged:-

### From YA 2012 to YA 2016

Chargeable Income	Rate (%)	Gross Tax Payable (\$)
First \$20,000	0	0
Next \$10,000	2	200
First \$30,000	-	200
Next \$10,000	3.50	350
First \$40,000	-	550
Next \$40,000	7	2,800
First \$80,000	-	3,350
Next \$40,000	11.5	4,600
First \$120,000	-	7,950
Next \$40,000	15	6,000
First \$160,000	-	13,950
Next \$40,000	17	6,800
First \$200,000	-	20,750
Next \$120,000	18	21,600
First \$320,000	-	42,350
Above \$320,000	20	

From YA 2017 onwards

Chargeable Income	Rate (%)	Gross Tax Payable (\$)
On the first \$20,000	0	0
On the next \$10,000	2	200
On the first \$30,000	-	200
On the next \$10,000	3.50	350
On the first \$40,000	-	550
On the next \$40,000	7	2,800
On the first \$80,000	-	3,350
On the next \$40,000	11.5	4,600
On the first \$120,000	-	7,950
On the next \$40,000	15	6,000
On the first \$160,000	-	13,950
On the next \$40,000	18	7,200
On the first \$200,000	-	21,150
On the next \$40,000	19	7,600
On the first \$240,000	-	28,750
On the next \$40,000	19.5	7,800
On the first \$280,000	-	36,550
On the next \$40,000	20	8,000
On the first \$320,000	-	44,550
In excess of \$320,000	22	

**SIMPLIFIED CLAIM FOR RENTAL EXPENSES**

With effect from YA 2016, property owners may opt to claim rental expenses equivalent to 15% of the gross rental income in lieu of the actual amount of deductible rental expenses incurred (excluding interest expense). In addition to the 15%, you may claim interest paid on the loan taken to purchase the let-out property.

However, the above option is not applicable to individuals who received rental income from:-

1. A partnership;
2. Tenanted property held under trust;
3. Commercial or industrial properties; or
4. Carrying on a trade or business of renting out properties.

IRAS will release further details by May 2015.

**INCREASE IN SALARY CEILING AND SELF-EMPLOYED TAX RELIEF CAP**

With effect from 1 January 2016, the monthly salary ceiling for CPF contributions will be raised from \$5,000 to \$6,000.

Hence, the tax relief cap for the self-employed will also be raised from \$31,450 ( $\$5,000 \times 17$  months  $\times 37\%$ ) to \$37,740 ( $\$6,000 \times 17$  months  $\times 37\%$ ) from YA 2017 onwards.

**INCREASE IN SUPPLEMENTARY RETIRMENT SCHEME (“SRS”) CONTRIBUTION CAP**

With effect from YA 2017, all tax resident individuals may claim SRS tax relief capped at the following respective amount:-

1. Singapore Citizens or Permanent Residents

\$15,300 (15%  $\times$  \$102,000)

2. Foreigners

\$35,700 (35%  $\times$  \$102,000)

**TAX EXEMPTION FOR NON-TAX RESIDENT MEDIATORS**

From 1 April 2015 to 31 March 2020, the income derived by a non-tax resident mediator for mediation work carried out in Singapore will be exempt from tax, subject to the following conditions:-

1. The mediator is a Singapore non-tax resident for income tax purposes;
2. The mediator is either a mediator certified under an approved certification scheme or a mediator conducting any mediation administered by a designated mediation service provider; and
3. The mediation case is undertaken in Singapore or was originally planned to be undertaken in Singapore but was settled before the mediation hearing.

For the purposes of this tax exemption, the Singapore International Mediation Institute (“SIMI”) and the Singapore International Mediation Center (“SIMC”) will assist in determining whether a non-resident individual is eligible for the tax exemption.

The Ministry of Law will provide the details by March 2015.

### **TAX EXEMPTION FOR NON-TAX RESIDENT ARBITRATORS**

Currently, the income derived by a non-tax resident arbitrator for arbitration work carried out in Singapore is exempt from tax.

The tax exemption is applicable to all non-resident arbitrators who are appointed for any arbitration which is governed by the Arbitration Act or the International Arbitration Act or would have been governed by either of those Acts had the place of arbitration been in Singapore.

For the purposes of this tax exemption, Singapore International Arbitration Centre (“SIAC”) will assist in determining whether a non-resident individual is an arbitrator engaged in arbitration work in Singapore. For enquiries, please call SIAC at Tel: 6334 1277.

The above tax exemption is legislated for review on 31 March 2020.

### **EXTENSION AND ENHANCEMENT OF ANGEL INVESTORS TAX DEDUCTION (“AITD”) SCHEME**

AITD is a tax incentive scheme implemented on 1 March 2010 to encourage individuals to invest in start-up companies and help the companies to grow through their management expertise, business networks, etc.

The scheme has been extended till 31 March 2020 and investments made on or after 24 February 2015 and supported by SPRING Start-up Enterprise Development Scheme (“SEEDS”) and Business Angel Scheme (BAS) will be qualified for AITD.

SPRING Singapore administers the AITD and individuals must be approved as an angel investor before he is eligible to enjoy the tax incentive.

## RECENT DEVELOPMENTS

### TRANSFER PRICING (“TP”) GUIDELINES

The TP guidelines issued by IRAS previously have been consolidated and updated on 6 January 2015. Named as Transfer Pricing Guidelines (2<sup>nd</sup> edition), it consolidates the following previously issued transfer pricing tax guides:-

- i. Transfer Pricing Guidelines (First edition) issued on 23 February 2006;
- ii. Transfer Pricing Consultation issued on 30 July 2008;
- iii. Supplementary administrative guidance on advance pricing agreement guideline issued on 20 October 2008; and
- iv. Transfer Pricing Guidelines for related party loans and related party services on 23 February 2009.

Besides consolidating the above TP guidelines, there are also certain salient points that have been highlighted and emphasised:-

#### 1. Arm’s Length Principles

IRAS endorses the arm’s length principle as the standard to guide TP. The arm’s length principle is the internationally accepted standard adopted by many OECD members and non-OECD member countries.

Although Singapore’s tax legislation does not contain a specific provision stipulating the use of arm’s length principle for related party transactions, various provisions of the Singapore Income Tax Act (such as Sections 32 and 53) imply or refer to the concept or use of arm’s length principle. In addition, this principle is also found in all of Singapore’s comprehensive Double Tax Agreements.

In the 2<sup>nd</sup> edition of the TP guidelines (Point 3.2 onwards), more guidance on applying the arm’s length principle is given. Broadly, these include:-

- i. Factors to consider in conducting a comparability analysis;
- ii. How to choose the most appropriate TP method and tested party; and
- iii. How to determine the result and the use of an arm’s length range.

2. TP documentation as part of the record keeping requirements of the company

IRAS has reinforced its position that taxpayers are to maintain contemporaneous TP documentation as part of the record keeping duties of the company.

The main objective of preparing and maintaining documentation is to place the taxpayer in a position where it can readily demonstrate that it has exerted reasonable efforts to ensure that its transfer prices are consistent with the arm's length principle. Therefore, adequate documentation will facilitate reviews by tax authorities on taxpayer's transfer pricing analyses and hence assist in resolving any transfer pricing issues that may arise.

IRAS has indicated that it does not impose a penalty specifically for the lack or insufficiency of documentation. Taxpayers would not be penalised solely on the basis that the documentation is insufficient or timely. However, if the taxpayer violates the record keeping requirements under Sections 65, 65A and 65B of the Singapore Income Tax Act which require proper record keeping, IRAS would not in any way be precluded from enforcing these relevant provisions.

3. Threshold where TP documentation should be prepared

For practical purposes, IRAS has introduced these thresholds for which TP documentation are required:-

Category of related party transactions	Threshold per FY
1. Purchase of goods from all related parties	S\$15 million
2. Sale of goods to all related parties	S\$15 million
3. Loans owed to all related parties	S\$15 million
4. Loans owed by all related parties	S\$15 million
5. All other categories of related party transactions Examples:-	
• service income	S\$ 1 million
• service payment	S\$ 1 million
• royalty income	S\$ 1 million
• royalty expenses	S\$ 1 million
• rental income	S\$ 1 million
• rental expenses	S\$ 1 million

Transactions that have reached or exceeded the stated threshold limit have to prepare detailed TP documentation based on the guidelines provided by IRAS. For transactions below the threshold, TP documentation are still required albeit at a lower magnitude to justify that arm's length principles have been adhered to.



#### 4. Mutual Agreement Procedures (“MAP”) and Advance Pricing Arrangement (“APA”)

Singapore currently has a network of at least 50 comprehensive DTAs in force. All these DTAs provide for the MAPs to resolve instances of double taxation. In transactions between related parties located in 2 tax jurisdictions, where a tax authority makes adjustments to the transfer prices of the transactions between the related parties, double taxation would arise unless the tax authority of the other jurisdiction makes the corresponding adjustments to the income of the party located in its jurisdiction. In such a case, taxpayers may apply to the competent authorities (of the jurisdiction of which they are residents) to invoke the MAP, in order to eliminate the double taxation that arises from the transfer pricing adjustments made.

An APA, on the other hand, determines in advance, an appropriate set of criteria to ascertain the transfer prices of specified related parties’ transactions over a specified period of time. A bilateral or multilateral APA involves agreement between Singapore tax authority and one or more of its tax treaty partners in other jurisdictions.

A unilateral APA only involves the taxpayer and IRAS. A unilateral APA may not achieve the same level of certainty for taxpayers as in a bilateral/multilateral APA, since the other competent authorities or tax authorities may dispute the unilateral APA given that it is reached in the absence of their agreement. Notwithstanding, a taxpayer is free to choose between requesting for a unilateral or bilateral/multilateral APA.

IRAS has provided a section in the 2<sup>nd</sup> edition of the TP guidelines to explain in more detail its position on the MAP process and gave guidance on how taxpayers may apply for the MAP with respect to transfer pricing adjustments. Another section is also provided to elaborate IRAS’ positions on the bilateral/multilateral APA process as well as to provide guidance on the application of such APA process.

#### 5. Definitions

A ‘related party’, in relation to any entity, means any other entity who, directly or indirectly, controls that entity, or is controlled, directly or indirectly, by that entity, or where both entities, directly or indirectly, are under the common control of a common entity.