Complete Corporate Services Pte Ltd

February 2015

Singapore Budget 2015

1. INTRODUCTION

The Finance Minister, Mr Tharman Shanmugaratnam, presented Budget 2015 in Parliament on 23 February 2015.

Budget 2015 focuses on building Singapore's future and strengthening social security. To take our economy to the next level, firms are encouraged to be driven by innovation and internationalisation, and for individuals, to achieve higher incomes from deep skillsets and expertise to be acquired in an environment for lifelong learning.

This circular aims to highlight certain Budget changes which will have an impact for businesses and individuals.

2. BUSINESSES AND CORPORATIONS

2.1 Corporate Income Tax ("CIT") Rebate

Current

A 30% CIT rebate, capped at $30,000, is granted to each tax-paying company from YA 2013 to 2015.

Proposed

The 30% CIT rebate will be extended to YA 2016 and 2017. However, the cap will be reduced to $20,000 per YA.

2.2 Productivity and Innovation Credit ("PIC") Bonus

Current

Businesses that spend a minimum of $5,000 in qualifying PIC investments in a YA will receive a dollar-for-dollar matching cash bonus of up to $15,000 over YA 2013 to 2015.

Proposed

The PIC Bonus will be allowed to lapse after YA 2015. However, the main PIC / PIC+ schemes will continue till YA 2018, as previously announced.

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2.3 Enhancing the Double Tax Deduction ("DTD") for Internationalisation scheme

Current

The DTD scheme allows companies to deduct 200% of the qualifying expenditure against their taxable income.

Proposed

The scope of qualifying expenditure will be enhanced to include qualifying manpower expenses incurred from 1 July 2015 to 31 March 2020, with the DTD claim capped at $1 million per year.

IE will release further details by May 2015.

2.4 Mergers & Acquisition ("M&A") Scheme

Current

The M&A Scheme was introduced in 2010 to encourage Singapore-based acquiring company to consider M&A as a strategy for growth and internationalisation.

The scheme applies to qualifying share acquisitions in an active target company made during the period 1 April 2010 to 31 March 2015.

Benefits under the scheme include:-

- M&A allowance based on 5% of the acquisition value, capped at $5 million for each YA i.e. for qualifying acquisitions of value up to $100 million.
- Stamp duty relief on the transfer of unlisted shares acquired, capped at $100 million of acquisition value.
- 200% tax allowance on transaction costs incurred

Certain shareholding eligibility criteria apply, and the acquiring company can elect for acquisitions made during a 12 month period to be consolidated ("12-month look-back period") for step acquisitions that straddle across financial years.

Proposed

The scheme will be extended till 31 March 2020, with the following notable changes:-

- M&A allowance rate will be increased to 25%, with the cap remaining at $5 million for each YA i.e. the cap on the value of qualifying acquisitions will be reduced to $20 million.
- Stamp duty relief on the transfer of unlisted shares will be capped at a reduced $20 million of acquisition value.
- Relaxation of criteria for the shareholding eligibility tiers and removal of "12-month look-back period".

IRAS will release details by May 2015.

2.5 Introducing the International Growth Scheme ("IGS")

IGS will be introduced to support larger high potential Singapore companies in their growth overseas, while they continue to anchor their key functions in Singapore.

Qualifying Singapore companies will enjoy a concessionary tax rate of 10% on their incremental income from qualifying activities such as HQ functions and specific business lines, for a period not exceeding five years.

IE will release further details by May 2015.

2.6 Refining the tax incentives for Approved Venture Capital Funds ("AVCF") and AVCF management companies

Current

AVCFs are granted tax exemption on gains from divestment of their approved portfolio holdings, dividends from their approved foreign portfolio companies and interest from their approved foreign convertible loan stock.

AVCF management companies are granted tax exemption under the Pioneer Service Incentive on their qualifying fund management fees and performance bonus.

2.6 Refining the tax incentives for Approved Venture Capital Funds ("AVCF") and AVCF management companies (cont'd)

Proposed

The Pioneer Service Incentive for AVCF management companies will be withdrawn from 1 April 2015. Instead, a 5% concessionary tax rate will be accorded to AVCF management companies on their specified income. The approval window for this new incentive will be from 1 April 2015 to 31 March 2020.

Further, a review date of 31 March 2020 will be legislated to review the relevance of the scheme.

2.7 Review dates for certain incentives and schemes

To ensure that the relevance of certain incentives and schemes are periodically reviewed, the government will legislate the review dates for the following incentives / scheme:-

Incentive / Scheme	Review Date
• Approved Foreign Loan ("AFL")*	31 December 2023
• Approved Royalties Incentive ("ARI")*	31 December 2023
• Writing Down Allowance Scheme ("WDA") on acquisition of an indefeasible rights to use ("IRU") of any international telecommunications submarine cable system	31 December 2020

* Under AFL and ARI, the withholding tax is exempt or applied at a lower rate on approved interest and royalty payments made to non-resident. These incentives are granted with the "main tax incentive" e.g. Pioneer incentive, Development Expansion Incentive (DEI) status accorded to companies, with the terms and conditions tied to those of the main incentive.

2.8 Withdrawal of the Approved Headquarters ("AHQ") incentive

Current

The AHQ incentive was introduced to encourage companies to use Singapore as a base to conduct headquarter management activities. Income derived from the following is exempt or taxed at a concessionary tax rate of 10%:

- Provision of qualifying headquarter services to qualifying network companies; or
- Qualifying treasury, investment or financial activities.

Proposed

To simplify our tax regime, this incentive 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 ("DEI"), subject to certain conditions met.

2.9 Extending and enhancing Maritime Sector Incentive ("MSI")

Current

Singapore has a range of MSI tax incentives summarised as follows:-

For ship operators
• **MSI-SRS** - MSI-Shipping Enterprise (Singapore Registry of Ships)
- Tax exemption on qualifying income derived mainly from Singapore-flagged ships

• **MSI-AIS** - MSI-Approved International Shipping Enterprise Award
- Tax exemption on qualifying income derived from foreign-flagged ships

For maritime lessors
• **MSI-ML (ship)** - MSI-Maritime Leasing (Ship) Award
- Tax exemption on qualifying leasing income
- 10% concessionary tax rate on qualifying income from managing an approved shipping investment enterprise

• **MSI-ML (container)** - MSI-Maritime Leasing (Container) Award
- 5% / 10% concessionary tax rate on qualifying leasing income
- 10% concessionary tax rate on qualifying income from managing an approved container investment enterprise

For providers of certain shipping-related support services
• **MSI-SSS** - MSI-Shipping-related Support Services Award
- 10% concessionary tax rate on incremental qualifying income from providing approved shipping-related support services
- Available for the period from 1 June 2011 to 31 May 2016

2.9 Extending and enhancing Maritime Sector Incentive ("MSI") (cont'd)

• **Automatic withholding tax ("WHT") exemption**
- Available for qualifying loans entered into on or before 31 May 2016
- Upon submission of a self-declaration form to the Maritime Port Authority of Singapore ("MPA"), qualifying payments made to non-residents in respect of qualifying loans to finance the construction or purchase of qualifying ships, containers, etc. are automatically exempt from Singapore WHT.

• **Qualifying entry players - MSI-AIS, MSI-ML(ship), MSI-ML(container) and MSI-SSS**
- Under the current award for qualifying entry players, the above MSI incentives are awarded for a non-renewable tenure of 5 years.
- The approval window for MPA to award the incentive is up to 31 May 2016.

Proposed

2.9.1 Expanding the qualifying income of MSI-SRS and MSI-AIS

From 24 February 2015, the scope of qualifying income will be expanded to cover mobilisation fees, demobilisation fees, holding fees and incidental container rental income which are derived in the course of qualifying shipping operations.

2.9.2 Extending and enhancing the automatic WHT exemption

The WHT exemption will be extended for 5 years to cover qualifying loans entered into on or before 31 May 2021.

From 24 February 2015, the following additional items will be covered under the automatic WHT exemption regime:-

• Finance leases
• Hire-purchase arrangements
• Loan used to finance equity injection into wholly-owned SPVs
• Intercompany loans to wholly-owned SPVs for acquiring/constructing vessels, containers and intermodal equipment.

2.9.3 Enhancing MSI-ML

From 24 February 2015, the scope of MSI-ML qualifying income will be expanded to cover income derived from finance lease treated as sale.

2.9.4 Extending MSI-SSS

MSI-SSS will be extended till 31 May 2021. Existing MSI-SSS recipients can renew their award for another 5 years, subject to qualifying conditions and higher economic commitment.

2.9.5 Extending Qualifying entry player - MSI-AIS, MSI-ML(ship), MSI-ML(container) and MSI-SSS

The approval window for MPA to award the incentive is extended for 5 years, till 31 May 2021.

2.9.6 Other enhancements for Maritime Industry

• From 24 February 2015, tax exemption will be granted on qualifying profits remitted from approved foreign branches by the MSI-AIS entities

• Definition of qualifying ship management activities under MSI-SRS, MSI-AIS and MSI-SSS will be updated accordingly to match the shipping industry changes

MPA will release details for all the MSI enhancements by 31 May 2015.

GST Changes

2.10 Simplifying pre-registration GST claim rules for GST-registered businesses

Current

Pre-registration GST is allowed only to the extent that the goods or services acquired are used or to be used for taxable supplies made after GST registration.

2.10 Simplifying pre-registration GST claim rules for GST-registered businesses (cont'd)

If the services or goods acquired are used to make supplies straddling GST registration period, or the goods are partially consumed before GST registration, it is a requirement to apportion the GST incurred. Only the portion of GST that is attributable to taxable supplies made after registration is claimable.

Proposed

The claiming of pre-registration GST will be simplified to allow full GST claim on the following goods and services that are acquired within 6 months before the business' GST registration date:

• Goods held at the point of GST registration; and

• Property rental, utilities and services, which are not directly attributable to any supply made by the business before GST registration.

The changes will apply to businesses that are registered for GST from 1 July 2015. IRAS will release further details by June 2015.

3. INDIVIDUALS

3.1 Personal income tax rebate

A personal income tax rebate of 50%, capped at $1,000, will be granted to all tax resident individuals for YA 2015.

3.2 Increase in personal income tax rate for chargeable incomes $160,000 & above

To enhance the progressivity of personal income tax structure, the personal income tax rates for tax resident individuals earning chargeable incomes ("CI") of $160,000 and above will be increased. The current highest marginal tax rate of 20% is increased to 22% from YA 2017.

The progressive tax rates for resident individuals are summarized as follows:-

	Current		YA 2017		Change	
Chargeable Income	Tax Rate (%)	Gross Tax Payable ($)	Tax Rate (%)	Gross Tax Payable ($)	Tax Rate (%)	Gross Tax Payable ($)
First $160,000 Next $ 40,000	- 17	13,950 6,800	- 18	13,950 7,200	- 1	0 400
First $200,000 Next $ 40,000	- 18	20,750 7,200	- 19	21,150 7,600	- 1	400 400
First $240,000 Next $ 40,000	- 18	27,950 7,200	- 19.5	28,750 7,800	- 1.5	800 600
First $280,000 Next $ 40,000	- 18	35,150 7,200	- 20	36,550 8,000	- 2	1,400 800
First $320,000 In excess of $ 320,000	- 20	42,350 -	- 22	44,550 -	- 2	2,200 -

3.3 Simplifying deduction claim of rental expenses for residential properties in Singapore

Current

An individual who derives passive rental income from a residential property in Singapore can claim a deduction of actual expenses incurred in producing such income. To substantiate the claim, he is required to keep records for at least 5 years e.g. up to 31 December 2019 for YA 2015 claims.

Proposed

From YA 2016, the individual can, in lieu of claiming actual deductible expenses incurred (excluding interest expenses), claim a specified amount of expenses arrived at based on 15% of gross rental income derived from that residential property. The individual can continue to deduct actual interest expense incurred to finance the residential property.

This tax change does not apply to any rental income derived:
• by an individual through a partnership in Singapore; and
• from a trust property.

IRAS will provide more details by May 2015.

4. OTHERS

4.1 CPF Changes

4.1.1 Higher CPF salary ceiling and Supplementary Retirement Scheme ("SRS") Contribution Cap

From 1 January 2016, the CPF salary ceiling for ordinary wages will be raised from $5,000 to $6,000. Consequently, the SRS annual contribution cap will also be raised as follows:

	Current Annual SRS Contribution Cap	From 1 January 2016
Singaporean / Singapore Permanent Resident	$12,750	$15,300
Foreigner	$29,750	$35,700

4.1.2 Increase in CPF Contribution rates for older workers

From 1 January 2016, the CPF contribution rates for workers aged above 50 to 65 years will be increased as follows:-

Employee Age	Contribution Rate (% of wage)		
	Employer Contribution	Employee Contribution	Total
35 and below	17	20	37
Above 35 to 45			
Above 45 to 50			
Above 50 to 55	17 (16+**1**)	20 (19+**1**)	37 (35+**2**)
Above 55 to 60	13 (12+**1**)	13	26 (25+**1**)
Above 60 to 65	9 (8.5+**0.5**)	7.5	16.5 (16+**0.5**)
Above 65	7.5	5	12.5

4.1.3 Enhancing progressivity through extra CPF interest

With effect from 1 January 2016, CPF members aged 55 and above will earn an additional 1% interest on the first $30,000 of their CPF balances. The CPF interest rates for this age group are summarised as follows:-

CPF Balances	Interest rate
First $30,000	6%
Next $30,000	5%
Above S$60,000	4%

To help employers manage the salary costs increases associated with the CPF changes and employing older workers, enhancements will be made to the Temporary Employment Credit (TEC) and Special Employment Credit (SEC) schemes.

4.2 Wage Credit Scheme ("WCS")

Current

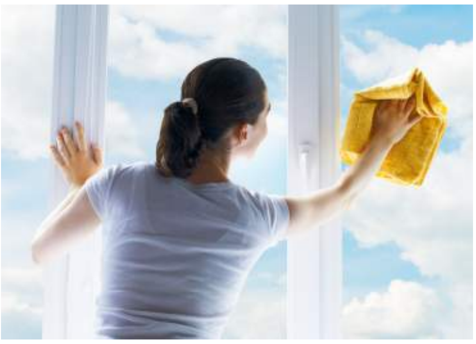
Under the WCS applicable for 2013 to 2015, the Government co-funds 40% of wage increases given by employers to Singaporean employees earning up to a gross monthly wage of $4,000.

Proposed

The WCS will be extended another 2 years to 2017. However, the Government will co-fund 20% (down from the current 40%) of the wage increases, and this reduced rate applies to the previous increases in 2015/2016 which are sustained in 2016/2017.

4.3 Foreign Worker Levies (FWL) changes

4.3.1 Reduction of Foreign Domestic Worker Concessionary Levy ("FDWCL")



Current

The FDWCL is currently $120 per month and one of the criteria to enjoying this concessionary levy is that the employer must have a child/grandchild who is a Singapore citizen below12 years old.

Proposed

With effect from 1 May 2015, the FDWCL will further be reduced to S$60 a month (translating to incremental cash savings of S$720 per year). This concessionary levy will be extended to an employer with a Singapore citizen child aged below 16, up from the current "below-12" limit.

4.3.2 Deferment of 2015 increases of Foreign Worker Levies (FWL)

FWL for Work Permits and S Passes holders that were previously scheduled to be increased from July 2015, will be deferred by 1 year, to July 2016, with exceptions for the following sectors:-

- Manufacturing Sector – FWL increases deferred by 2 years, to July 2017
- Construction Sector – Specific FWL increase adjustments to incentivise hiring of higher skilled workers

4.4 Approved Donations for Individuals and Businesses

Current

For approved donations made from 1 January 2009 to 31 December 2015, donors are eligible to a 250% tax deduction.

Proposed

For donations made in year 2015, the tax deduction is increased from 250% to 300%.

The 250% tax deduction is extended for another 3 years for donations made from 1 January 2016 to 31 December 2018.

Complete Corporate Services Pte Ltd

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- Payroll Administration

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- Acting as Corporate Secretaries and Secretarial Agents for private or public limited companies
- Registration of a Business Name, Limited Liability Partnership and Representative offices
- Liquidation

Executive Search Division

We can assist in the search for suitable candidates to hold executive positions in client companies.

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