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# 2016 Singapore Budget

Singapore

Adding Value to Your Business


The Minister for Finance, Mr Heng Swee Keat, presented his Budget speech in Parliament on 24 March 2016.

Budget 2016 focuses on addressing the immediate challenges of small and medium-sized enterprises (SMEs) facing cyclical headwinds, while also supporting them in longer-term goals such as restructuring through innovation, internationalisation and transforming their business models. On the social front, the focus is on the young, the aged and building a caring and resilient society.

This circular aims to highlight certain announcements which may have impact for businesses and individuals.

# Tax Changes for Businesses and Corporations

## Corporate Income Tax ("CIT") Rebate

***Current***

A 30% CIT rebate, capped at $20,000 per Year of Assessment ("YA"), is granted to each tax-paying company for YA 2016 and 2017.

***Proposed***

For YA 2016 and 2017, the CIT rebate will be increased from 30% to 50% with the existing cap at S$20,000 per YA.

## Productivity and Innovation Credit ("PIC") Cash Payout

***Current***

Businesses may convert up to $100,000 of the qualifying expenditure in PIC activities in a YA into non-taxable cash payout at a rate of 60%, up to YA 2018.

***Proposed***

For PIC qualifying expenditure incurred on or after 1 August 2016, the cash payout rate will be reduced from 60% to 40%.

All other conditions of the PIC scheme remain unchanged and the scheme will expire after YA 2018.

## Extending the Double Tax Deduction ("DTD") for Internationalisation scheme

***Current***

The DTD provides up to 200% tax deduction on qualifying expenditure for supported market expansion and investment development activities as follow:-

- Automatic DTD on qualifying expenditure up to $100,000
- Approved DTD – Approval required from IE Singapore or Singapore Tourism Board on qualifying expenditure exceeding $100,000

The scheme is scheduled to lapse after 31 March 2016.

***Proposed***

The DTD for Internationalisation Scheme will be extended for another 4 years to 31 March 2020.

Details of the scheme extension will be announced by IE Singapore in June 2016.

## Enhancing the Mergers & Acquisition ("M&A") Scheme

***Current***

The M&A Scheme applies to qualifying share acquisitions in an active target company made during the period 1 April 2010 to 31 March 2020.

Benefits under the scheme include:-

- M&A allowance based on 25% of the acquisition value, capped at $5 million (i.e. maximum acquisition value of $20 million) for each YA.
- Stamp duty relief is granted for up to $20 million of acquisition value.
- 200% tax deduction of up to S$100,000 on transaction costs incurred

***Proposed***

The following enhancements will be effective for qualifying M&A deals from 1 April 2016 to 31 March 2020:-

- Increased M&A allowance cap of $10 million (i.e. maximum acquisition value of $40 million) for each YA, will be applicable.
- Stamp duty relief is granted for up to $40 million of acquisition value.

Further details will be released by the Inland Revenue Authority of Singapore (IRAS) by June 2016.

## Extending the Rule for Non-taxability of gains on disposal of equity investments

***Current***

To provide certainty to companies for corporate restructuring, the rule for non-taxability on gains on disposal of equity investments applies if, immediately before the disposal, the divesting company held at least 20% of the ordinary shares in the investee company for a continuous period of 24 months.

For other share disposal scenarios, the tax treatment of gains / losses is determined based on the facts of each case.

The above rule applies to disposals of equity investments during the period from 1 June 2012 to 31 May 2017.

***Proposed***

The scheme will be extended for 5 years to cover disposals of equity investments up to 31 May 2022.

## Introducing the Automation Support Package ("ASP")

ASP will be introduced for an initial period of 3 years, to support businesses to automate, drive productivity and scale up their growth.

Benefits under this package include:-

- Cash grant to fund up to 50% of qualifying automation project cost, capped at $1 million.

- 100% investment allowance (IA) on up to $10 million of approved capital expenditure (net of grant) for each automation project. This is in addition to the 100% capital allowance for plant and machinery.

- Improved access to loans with increased government risk-share with participating financial institutions under SPRING's Local Enterprise Finance Scheme equipment loan:-
    - o For SMEs – Risk share at 70% (up from 50%) for qualifying projects
    - o For non- SMEs – Risk share at 50%.

The Ministry of Trade and Industry will release further details.

## New Business Grants Portal

***Current***

There is a wide range of grants incentive schemes administered by various government agencies, serving enterprises of different sizes, across industries. This may prove a challenge for businesses to find the right schemes that meet their needs.

***Proposed***

In the 4th quarter of 2016, a new Business Grants Portal will be launched. The portal will be organised along core business needs e.g. training, international expansion, starting with grants from IE Singapore, SPRING, Singapore Tourism Board and Design Singapore.

## Writing-down Allowances ("WDA") of Intellectual Property Right ("IPR")

***Current***

For qualifying IPR acquisitions made in the basis periods for YA 2017 to 2020, businesses can claim WDA on the acquisition cost of qualifying IPRs over 5 years from the YA of acquisition i.e. WDA of 20% on the IPR cost for each YA.

IPRs include Patents;
- Copyrights;
- Trademarks;
- Registered designs;
- Geographical indications;
- Lay-out designs of integrated circuit;
- Trade secrets or information with commercial value; and
- Plant varieties.

***Proposed***

Business can make an irrevocable election to claim WDA on the acquisition cost over a period of 5,10 or 15 years. The election must be made when the tax return is submitted.

The IRAS will release further details by 30 April 2016.

## Introducing anti-avoidance mechanism for IPR acquisition/ sales/ transfers/ assignments

***Current***

There are no statutory provisions that specifically authorise the Comptroller to adjust the transacted price of an IPR to ensure that it is reflective of the open market value ("OMV").

***Proposed***

An anti-avoidance mechanism will be introduced in the Singapore Income Tax Act to empower the Comptroller to make the following adjustments to the IPR transaction price, if the IPR is not transacted at OMV:-

- If the acquisition price is higher than the OMV, to restrict WDA based on the OMV.

- If the disposal price is lower than the OMV, to substitute the disposal price with the OMV for computing the taxable balancing charge.

This will apply to IPR acquisition/ sales/ transfers/ assignments made on or after 25 March 2016.

## Introducing the Business and IPC Partnership Scheme ("BIPS") - 250% Tax Deduction

***Current***

Businesses that incur expenses on corporate social responsibility are granted a 100% tax deduction, as part of their business expenditure.

***Proposed***

To incentivise businesses that support their employees to volunteer their services (including secondments) to Institutions of Public Character ("IPCs"), a tax deduction of 250% (additional 150% deduction) will be granted on the volunteers' wages and incidental expenses incurred for the period 1 July 2016 to 31 December 2018. Wages of business owners and donation of goods do not qualify for the deduction. The tax deduction for the business will be subject to a yearly cap of $250,000 and $50,000 per IPC.

The Ministry of Finance and IRAS will release further details by June 2016.

## Mandatory e-filing for Corporate Income Tax ("CIT") returns

***Current***

Filing of annual CIT returns, including Form C/C-S and estimated chargeable income (ECI), via hardcopy or through IRAS' e-Services platform are acceptable.

***Proposed***

Mandatory e-filing of CIT returns will be implemented in stages as follows:

| YA | Target group |
|---|---|
| 2018 | Companies with turnover of more than $10 million in YA 2017 |
| 2019 | Companies with turnover of more than $1 million in YA 2018 |
| 2020 | All companies |

## Introducing mandatory e-filing for PIC cash payout application

***Current***

Submission of PIC cash payout applications via hardcopy or through IRAS' e- Services platform are acceptable.

***Proposed***

From 1 August 2016, it is mandatory to e-file all PIC cash payout applications.

## Enhancing Maritime Sector Incentive ("MSI") schemes

***Current***

Ship operators and ship lessors enjoy the following MSI tax incentives:-

a) **MSI-SRS -** MSI-Shipping Enterprise (Singapore Registry of Ships)

Tax exemption applies for various qualifying income derived mainly from Singapore-flagged ships

b) **MSI-AIS -** MSI-Approved International Shipping Enterprise Award

Tax exemption applies for various qualifying income derived from foreign-flagged ships

c) **MSI-ML (Ship)** - MSI-Maritime Leasing (Ship) Award

Tax exemption applies for various qualifying income derived from chartering or finance leasing of sea-going ships for use outside the port limits of Singapore, subject to the qualifying counterparties requirements as follows:-

o Income derived from chartering or finance leasing of sea-going Singapore ships registered with the Singapore Registry of Ships.

o Income derived from chartering or finance leasing of sea-going ships to:-

- a person who is neither resident in Singapore nor a permanent
- establishment in Singapore; or an MSI-AIS company.

***Proposed***

(a) Expanding the qualifying income of MSI-SRS, MSI-AIS and MSI-ML (Ship) award

From 25 March 2016, the scope of qualifying income will be expanded to cover income derived from the operation/finance leasing of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activity relating to such exploration or exploitation.

(b) Removing the qualifying-counterparty requirement under MSI-ML (Ship) award

From 25 March 2016, the restriction on the qualifying counterparty requirement for MSI-ML (Ship) award will be removed. Thus, income derived from chartering or finance leasing of sea-going ships to any party for use outside the port limits of Singapore will be tax exempt.

Further details will be released by the Maritime and Port Authority of Singapore (MPA).

## Extending and Refining the Marine Hull and Liability Insurance incentive

***Current***

Tax exemption or 5% concessionary tax rate applies to qualifying income derived from marine hull and liability insurance business. The incentive is scheduled to lapse after 31 March 2016.

***Proposed***

From 1 April 2016, the incentive will be subsumed under the Insurance Business Development ("IBD") umbrella scheme, where a 10% concessionary tax rate will apply to new and renewal awards. Current approved insurers will continue to enjoy benefits under their existing awards till expiry, and may apply for the renewal under IBD thereafter.

The Monetary Authority of Singapore will release further details by June 2016.

# Tax Changes for Individuals

## Personal income tax relief cap

***Current***

No limit on the total amount of personal income tax reliefs a Singapore tax resident can claim in a YA, as long as the conditions of the reliefs are fulfilled.

***Proposed***

With effect from YA 2018, the total personal income tax reliefs will be capped at S$80,000 per YA.

## Removing the tax concession on home leave passage for expatriate employees

***Current***

Under a tax concession for expatriate employees, only 20% of the cost of home leave passages (airfare) provided by the employer to visit their home countries is taxable in their hands. The concession applies for up to 1 passage each per year for the expatriate employee and his/her spouse, and up to 2 passages per year for each of the expatriate's children. Subsequent home leave passages are taxable in full.

***Proposed***

With effect from YA 2018, the tax concession will be removed. All leave passages provided by the employer will be taxed in full.

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# Contact Information

If you would like further information on any item within this publication, or information on our services please contact:

Mick Aw - Senior Partner and Head,
Corporate Finance and Corporate Restructuring
T +65 6329 2701
mickaw@moorestephens.com.sg

Chris Johnson - Partner and Head,
Shipping Group and IT Solutions
T +65 6329 2703
chrisjohnson@moorestephens.com.sg

Neo Keng Jin - Partner and Head,
Audit and Assurance and Initial Public Offerings
T +65 6329 2707
neo-kj@moorestephens.com.sg

Willy Ng - Partner and Head,
China Services
T +65 6329 2708
willyng@moorestephens.com.sg

Lao Mei Leng - Partner and Head,
Risk Management
T +65 6329 2706
laomeileng@moorestephens.com.sg

Poh Lay Choo - Partner and Head,
Training and Methodology
T +65 6329 2709
pohlaychoo@moorestephens.com.sg

Wong Koon Min - Partner and Head,
Professional Standards
T +65 6329 2723
wongkoonmin@moorestephens.com.sg

Chan Rouh Ting - Director,
Audit and Assurance
T +65 6329 2700
chanrt@moorestephens.com.sg

Koo Kah Yee - Director,
Audit and Assurance
T +65 6329 2771
kookahyee@moorestephens.com.sg

Choo Kwang Chee - Director,
IT Solutions
T +65 6329 2725
kwongchee@msconsult.com.sg

MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

10 Anson Road #29-15, International Plaza, Singapore 079903
T +65 6221 3771
F +65 6221 3815
E email@moorestephens.com.sg
www.moorestephens.com.sg