

A people's budget with strategies for sustained growth

Budget Day 2008 saw the Singapore government announcing measures to help the man in the street cope with the spectre of record-high inflation. It was certainly heavily pro-individual, with a smattering of incentives to keep Singapore businesses competitive.

Delivering the annual Budget Speech on 15 February 2008, Finance Minister Tharman Shanmugaratnam announced a sharing of the huge surplus of an expected overall budget balance of \$6.4 billion for financial year 2007.

The 'lion's share of the pie' went, as expected, to helping lower-income earners and retirees cope with the escalating cost of living. The much-hoped-for cut in the personal income tax top rate to 18 per cent did not materialise, but it is intended that all resident tax payers would receive an income tax rebate of 20 per cent for the Year of Assessment 2008, capped at \$2,000.

In addition, all adult Singaporeans have been promised a Growth Dividend, an immediate follow-up to last year's GST credits scheme.

And the Minister finally announced the proposed scrapping of Estate Duty – a move that would not only benefit

individuals but at the same time would certainly serve to boost the development of Singapore as a wealth management hub.

Against a backdrop of a record-high inflation and a global economy threatened by an impending recession in the United States, the Gross domestic product (GDP), climbed a 7.7 percent for 2007, much higher than the government had expected. The strong economy last year also saw resident unemployment plunge to 2.3 per cent, the lowest level in 10 years.

A statement released by the Ministry of Trade and Industry, one day before the Budget announcement, showed that Singapore's economy expanded 5.4 percent year-on-year in the fourth quarter of last year, falling short of the advance estimate for 6.0 per cent growth. This was a clear sign of the impact of global economic turbulence in the past year. The slower growth comes after four successive years of robust expansion.

With an acknowledgment of the impact of inflation on Singapore and a warning of major downside risks to this year's forecast of growth, the Minister nonetheless trotted out a list of goodies for the individual and incentives for businesses.

FOR BUSINESSES

Push for R&D

The government announced three incentives to encourage enterprises to undertake R&D activities in Singapore.

1. Firstly, to help more companies move up the innovation ladder, tax deductions allowed for R&D undertaken in Singapore would be increased from 100 per cent to 150 per cent of the R&D expenses incurred.

This enhanced deduction means that for every \$100,000 of local R&D spending, a company would be able to deduct \$150,000 from its taxable income. Furthermore, the requirement that the R&D activities must be related to a company's existing business would be removed.

2. Secondly, a new broad-based R&D tax allowance would be introduced that would primarily benefit small and medium-sized enterprises ('SMEs'). Subject to certain conditions, there would be a tax deduction granted each year of up to 50 per cent of the first \$300,000 of a company's chargeable income. Any unutilised allowance may be carried forward for a maximum of three years. Furthermore, the allowance would be initially available for each year of assessment falling within the years of assessment 2009 to 2013.
3. There would also be a new R&D Incentive for Start-Up Enterprises (or RISE) to help high-tech business start-ups. Currently, such businesses may carry forward their tax losses subject to certain conditions. With the new incentive, start-ups can convert their losses into a maximum annual cash grant of \$20,250 where they meet at least \$150,000 of R&D expenditure in the basis period for the year of assessment of claim. The cash grants under RISE would initially be available for years of assessment 2009 to 2013.

More help for start-ups

The existing Start-up Tax Exemption scheme introduced in 2004 is to be liberalised. At present, for a start-up business to qualify for the scheme, all shareholders must be individuals. With the proposed change, tax exemption would be granted as long as there is at least one individual shareholder with at least a 10% shareholding. The change would also apply to existing companies that are within the first three years of assessment from the date of incorporation.

Tax credit for foreign-sourced income

The unilateral tax credit provisions would be extended with effect from year of assessment 2009 to cover all foreign-sourced income earned in countries with which Singapore has not yet concluded an agreement for avoidance of double taxation. This change would help to mitigate or reduce double taxation levied on Singapore companies that operate overseas and, at the same time, bring more certainty to the tax treatment of foreign-sourced income.

A fixtures and fittings incentive

A new incentive would be introduced to help businesses, especially SMEs, manage costs. Under the incentive, taxpayers would be given a special allowance for certain qualifying costs incurred on fixtures, fittings and installations which would not otherwise qualify for wear & tear allowances under the existing provisions of the law. The special allowances would be available for deduction over three years and would be limited to a cap of \$150,000 per entity every three years. The incentive would be available for qualifying expenditure incurred during the period 16 February 2008 to 15 February 2013.

This new allowance would be particularly helpful for SMEs in the services industries, which currently are unable to take advantage of the Industrial Buildings Allowance scheme currently available to manufacturing enterprises.

New financial initiatives

1. The government would introduce a 5 percent concessionary tax rate for income derived from qualifying Shariah-compliant activities, particularly in the areas of lending, fund management, insurance and reinsurance.

The tax exemption currently granted to non-residents and resident individuals on income from Qualifying Debt Securities would be extended to all investors of qualifying sukuks (Islamic bonds), including resident non-individual investors.

The above moves are aimed at encouraging more Shariah-compliant financial activities to be undertaken in Singapore.

2. A new tax-incentive scheme would be introduced to enable family-owned investment-holding companies to enjoy the same scope of exemptions that individuals now enjoy on Singapore and foreign-sourced investment income. This move should give a boost to Singapore's status as a wealth management hub.
3. Another new tax-incentive scheme would be introduced to encourage licensed insurance and re-insurance brokers to set up in Singapore. The incentive would provide qualifying brokers with a concessionary rate of 10 per cent on the income derived from offering insurance broking and advisory services to offshore clients.

FOR INDIVIDUALS

Further boost for the maritime sector

A concessionary tax rate of 5 or 10 per cent would be introduced for income from leasing of containers under the Maritime Finance Incentive with a view to tapping on new business opportunities created by a buoyant shipping market.

Relaxing the conditions for equity-based remuneration

The existing employee equity-based incentive schemes would be revamped under a single umbrella incentive scheme, the Equity Remuneration Incentive Scheme ('ERIS'). Under the ERIS (All Corporations) scheme, companies only need to issue stock options or share awards to at least 25% of their employees, instead of the 50% currently required. This change would make it easier for large companies to use equity remuneration to attract and retain key employees. This would take effect for stock options and share awards granted after 15 February 2008.

A new scheme would also be introduced for start-up enterprises, ERIS (Start-Ups) under which employees would be exempted from personal income tax on 75% of the gains derived from equity-based remuneration granted by qualifying start-up companies. ERIS (Start-Ups) would be available for stock options and share awards issued during the period 16 February 2008 to 15 February 2013 but only in respect of stock options and share awards issued by qualifying start-up companies during the first 3 years of incorporation.

Estate duty to be abolished

All good things come to those who wait. Many a heart was gladdened as the Minister announced the scrapping of Estate Duty, or a tax on death, with immediate effect, a move many feel is overdue as it is already abolished in many other jurisdictions.

All this time, estate duty has been payable with a low exemption limit of \$600,000 for moveable assets, compared to the much higher limit of \$9 million for immoveable assets.

Abolishing estate duty would remove the perceived impediment to the further development of Singapore as a wealth management hub. With estate duty gone, the remaining tax on wealth would be tax on property.

A 'no' and a bonus for personal income tax

To the disappointment of many, the government has decided to keep income tax unchanged, leaving the top personal rate at 20 per cent.

However, resident taxpayers would receive a bonus in the form of an income tax rebate of 20 per cent for Year of Assessment 2008. This rebate would be capped at \$2,000. It is estimated to cost the government a total sum of \$380 million.

Sharing the surplus with a growth dividend

As an extension of the GST benefits given out last year, the government is giving Growth Dividends to all adult Singaporeans, to be paid out in two instalments in April and October this year.

All those who have already signed up for their GST credits would automatically receive this Growth Dividend. The same format applies, where the needy would get more. For instance, a lower-income Singaporean living in a three-room HDB flat or smaller, would receive a sum of \$400 (on top of the \$250 in GST Credits that he would be

getting this year). The majority of Singaporeans, who live in other HDB flats and do not have high incomes, would receive a Growth Dividend of \$300 (on top of \$200 in GST credits he would get this year).

Older Singaporeans, those aged 60 and above, would also get more. Most would receive one and a half times what others would be getting.

Building the retirement nest egg

The government has spelt out more initiatives to help Singaporeans accumulate adequate savings for retirement.

It would be easier for Singaporeans to top up CPF accounts for themselves and their family members in order to meet the Minimum Sum. Also, employers would now be allowed to make top-ups to the Minimum Sum of staff.

Tax reliefs would also be broadened. Currently, there is a single \$7,000 tax relief for qualifying Minimum Sum top-ups for either the individual or his family members, provided the beneficiary is 55 and above. The government would now allow two separate tax reliefs – the first, up to \$7,000 for top-ups by the member or his employer to his own Minimum Sum; and the second, up to another \$7,000 for top-ups to his family members' Minimum Sum.

A tax relief would also be introduced for voluntary contributions that CPF members make directly to the Medisave Account. This is aimed at helping more Singaporeans to meet the Medisave Minimum Sum.

Apart from the CPF scheme, the Supplementary Retirement Scheme (SRS) provides another avenue for Singaporeans to save for retirement. All this while, only employees are allowed to contribute to SRS. Employers would now be allowed to contribute directly to SRS on behalf of their employees.



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The government would also introduce a LIFE Bonus for the first five cohorts of CPF members who sign on to CPF LIFE, the scheme recently announced to provide Singaporeans with a continued stream of income for as long as they live. This LIFE Bonus is targeted at the lower and middle-income groups. The amount given out would vary such that older and less well-off members would receive more.

Doing more for healthcare needs

The Medisave accounts of CPF members aged 51 and above would be topped up by up to \$450 this year. This exercise would cost the government \$220 million.

The criteria for employers to enjoy tax deductions up to the higher cap of 2 per cent of their wage bill would be relaxed to encourage them to provide portable medical benefits through Medisave and MediShield.

The ElderCare Fund would be topped up by \$400 million this year, bringing the total sum to \$1.5 billion. Medifund would also be topped up by \$200 million this year, bringing the fund size to \$1.6 billion.

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