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KPMG Tax Services: Wishlist for Budget 2009

The information can be attributed to Mr Owi Kek Hean, Head of KPMG Tax Services in Singapore.

This upcoming Budget's wish list is about addressing three key pillars in Singapore's economy:

- 1) *Stimulating business demand in the economy*
- 2) *Putting more cash in the hands of individuals and businesses*
- 3) *Addressing concerns in two key sectors affected by the current down-turn:*
 - (i) *Real Estate*
 - (ii) *Financial Services*

Addressing business concerns

- 1 **Reduce the headline corporate tax rate from 18 percent to 17 percent** and provide a one-off corporate tax rebate of 10 percent to help businesses cope with the downturn.
- 2 **Extend the carry back of tax losses and capital allowances beyond one year** and removing the \$100,000 ceiling.
- 3 **Allow companies to remit offshore interest income tax-free by lifting the conditions imposed** on Singapore companies for the tax exemption of foreign-sourced income.
- 4 An **exemption or reduction of the tax on Singapore-source interest income** derived by corporate taxpayers.
- 5 **Extend the writing down allowance claim for intellectual property developed in-house.**
- 6 **Remove the five year maximum for the Not Ordinarily Resident (NOR) taxpayer scheme** to continue attracting foreign companies and talent.

Addressing individuals in need

- 7 **Provide a 10 percent (uncapped) tax rebate to individual tax payers.**
- 8 **Reduce the top marginal personal tax rate**, bringing it in line with the corporate tax rate.
- 9 **Increase the Earned Income Relief (EIR) and Handicapped EIR by \$1,000** for all age groups.
- 10 **Allow mortgage interest deduction** for owner-occupied homes.
- 11 **Allow individuals to claim relief for the premiums paid** for insurance policies.
- 12 **Expand the zero percent tax bracket** from \$20,000 to a higher level to help those at the lowest income level.
- 13 **Maintain the current seven percent Goods and Services Tax (GST) rate** but provide targeted GST assistance instead.

Real estate industry

- 14 **Provide a one-off property tax rebate of at least 30 percent** in 2009 for industrial and commercial properties.
- 15 **Reinstate stamp duty deferral** for properties under development.

- 16 **Exempt developers from paying property tax on vacant land slated for development** until the development is complete.

Financial services industry

- 17 **Provide Singapore-based funds using a Singapore-based fund manager** with (i) a particular fixed input tax recovery rate or (ii) allow full recovery of all GST incurred.
- 18 **Alter the basis of recognition for tax residency status of trusts.**
- 19 **Exempt interest payments from withholding tax for financial institutions.** This will enhance Singapore's status as a tax friendly financial centre in the region.
- 20 **Provide a blanket tax remission or concession for all Islamic financing transactions** so that they are accorded full tax symmetry with their conventional financing equivalents.
- 21 **Promote an interest in the trading of local equities by** expanding the scope of the current Financial Sector Incentive (FSI) with concessionary tax rates of 5 or 10 percent to include the trading of SGX-listed equities acquired by financial institutions in 2009.
- 22 **Temporarily lift the condition that lending by financial institutions must not be in Singapore dollars** before the interest income derived is taxed at the concessionary rate of 10 percent under the FSI scheme.

For more details of the above please see Annex A.

Note to editors:

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Annex A: Notes to KPMG Budget 2009 Wishlist

No.	Corporate Tax
2	Extending the carry back tax losses and capital allowances beyond one year while removing the \$100,000 ceiling would enable more companies to use their unabsorbed tax losses and capital allowances against the previous year's income. This may help ease some of the cash flow problems businesses face during times of economic slowdown.
3	Lifting the conditions imposed on Singapore companies for the tax exemption of foreign sourced income may encourage the continued internationalisation of the Singapore economy as well as create positive spin-off effects for our local economy. This would also help bring Singapore's foreign source income exemption rules in line with those of Hong Kong and Malaysia which operate full exemption systems for foreign source income.
4	Exempting or reducing taxes on Singapore-sourced interest income derived by corporate taxpayers may encourage more investments in the Singapore banking system. Under the current tax system, Singapore corporate taxpayers may prefer to retain their surplus cash outside Singapore, and Hong Kong has often been a beneficiary of this practice.
5	While tax incentives exist to encourage research and development, more is required to retain the intellectual property (IP) created arising from these incentives. Based on current law, only acquired IP qualifies for the writing-down allowance (WDA) claim. Extending this WDA to IP developed in-house (e.g. brand name, trademark) may help promote the creation and retention of IP related revenues in Singapore.
Individual tax	
6	For Singapore to continue attracting companies and foreign talent to relocate here, the five year maximum period should be removed . The time apportionment of income concession under the NOR taxpayer scheme requires an individual to travel overseas on business for at least 90 days in a year. This threshold should be reduced to 60 days to allow more individuals to qualify. With employers watching business travel costs more closely, it will be more difficult for individuals to achieve 90 days.
10	Allowing mortgage interest deduction for owner-occupied homes will help homeowners currently servicing a mortgage in these difficult times, as they balance the needs of living expenses and home ownership with cuts in income ever-looming and job security uncertain.
11	Allowing individuals to claim tax relief for the premiums paid for insurance policies and removing the current \$5,000 limitation tied to CPF contributions can help families provide for their longer term financial security even as they cope with the shorter term recession.
12	Expanding the zero percent tax bracket from the current threshold of \$20,000 can help marginal tax payers who may concurrently not be the larger beneficiaries of government assistance.
Goods and services tax (GST)	
13	The current seven percent GST rate should be maintained as any reduction in the GST rate is unlikely to benefit the needy significantly. Instead, the Government may consider providing a combination of income tax rebates and direct cash assistance to assist the needy during these difficult times. While there is talk of exempting certain 'essentials' from GST, this would also create operational and interpretational issues for suppliers of such essentials.

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17	<p>To attract funds to be based in Singapore, consider providing Singapore-based funds using a Singapore-based fund manager with (i) a particular fixed input tax recovery rate or (ii) allow full recovery of all GST incurred. Currently, GST registered fund companies are not usually entitled to recover all GST incurred if the fund makes exempt financial supplies or receives dividend income. As a result, some funds are choosing not to be based in Singapore.</p>
Real estate industry	
15	<p>Stamp duty on properties under development should be deferred until the Temporary Occupation Permit is obtained. This will help individuals who have signed an option to purchase property with their cash flow during this period of economic downturn.</p>
16	<p>Developers should be exempt from paying property tax on vacant land slated for development until completion. This may reduce the cost to developers of keeping the land vacant during this period of economic crisis until the market turns around and there is a demand for the properties to be developed.</p>
Financial services industry	
18	<p>Alter the recognition basis of tax residency status for trusts. Currently, this is based on the tax residency of its beneficiaries. It may be administratively simpler and more equitable to base the tax residency test of a trust on where the management and control of the trustee is exercised, as is the case of a business trusts in Singapore. More funds are then likely to be attracted into Singapore.</p>
20	<p>Islamic financing has now taken on added importance in the current economic climate as there is still ready and excess liquidity in the Islamic finance markets that Singapore companies can tap into.</p> <p>The government may wish to provide a blanket tax remission or concession on Islamic financing transactions blessed by the Islamic councils that they would be automatically granted tax symmetry with their conventional financing equivalents. This is similar to the practice in Malaysia.</p> <p>Currently, the existing income tax, stamp duty and GST remissions/incentives for the Islamic financing regime are only tailored to meet certain very specific financing scenarios and often do not cater to practical situations in the Islamic financing markets today.</p>
21	<p>The government can consider expanding the scope of the current Financial Sector Incentive's (FSI) 5 or 10 percent concessionary tax rates to include the trading of SGX-listed equities acquired by financial institutions in 2009, which is currently taxable at 18 percent. This may help promote interest in the trading of local equities which are currently depressed due to the economic turmoil.</p>
22	<p>It may be appropriate to temporarily lift the condition that lending must be in non-Singapore dollar denominated currencies before the interest income derived can be taxed at the concessionary rate of 10 percent under the FSI scheme.</p> <p>Currently, interest income derived by financial institutions enjoying the FSI scheme under Singapore dollar lending activities are taxed at the normal corporate rate of 18 percent. Lifting this condition may stimulate lending by financial institutions to local businesses tiding over the current economic crisis.</p>

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