



SINGAPORE

# Budget 2008

TAX

Effective tax planning and advice can give businesses a significant competitive advantage.

The Budget proposals and other tax changes are summarised on the following pages. The proposals may, however, be amended significantly before enactment. The content of this summary is intended to provide a general guide to the subject matter and should not be regarded as a basis for ascertaining liability to tax or determining investment strategy in specific circumstances. In such cases specialist advice should be taken.

# Contents

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## Corporate Tax

- 01 Enhanced Deduction For Research And Development Expenses
  - 03 Research And Development Tax Allowance
  - 05 R&D Incentive For Start-Up Enterprises
  - 07 Start-Up Tax Exemption Scheme
  - 08 Tax Incentive For Fixtures And Fittings
  - 09 Extension Of Unilateral Tax Credit
  - 10 Extension To Financial Sector Incentive Scheme
  - 11 Enhancement To FSI Scheme Re: Islamic Finance
  - 12 Enhancement To FSI Scheme Re: Bond Market
  - 13 Enhancement To FSI Scheme Re: Derivatives Market
  - 14 Enhancement To The Offshore Insurance Business Incentive Scheme
  - 15 Extension And Enhancement Of The Qualifying Debts Securities Incentive
  - 16 Extension Of Tax Exemption On Income Derived By Primary Dealers From Trading In Singapore Government Securities
  - 17 Extension And Enhancement Of Approved Special Purpose Vehicle Scheme
  - 18 Tax Incentive Scheme For Insurance And Reinsurance Brokers
  - 19 Extension And Enhancement To The Tax Incentives To Promote Project Financing
  - 21 Tax Exemption For Family-Owned Investment Holding Companies
  - 22 Enhancements To The Maritime Finance Incentive Scheme
  - 23 Tax Certainty On Treatment Of Gains From Sale Of Vessels
  - 24 Enhancement To Shipping Incentives
  - 25 Further Tax Deduction For Overseas Talent Recruitment Scheme
  - 26 Tax Deduction For Portable Medical Benefits
- 



## Personal Tax

- 27 Personal Income Tax Rebate
  - 28 Not-Ordinarily-Resident Scheme – Enhancement And Refinement Of Administrative Features
  - 29 Equity Remuneration Incentive Scheme
  - 31 Course Fee Relief
- 



## Estate Duty

- 32 Abolition Of Estate Duty



---

#### Goods and Services Tax

33 GST Claimable By Singapore-Listed REITs And Registered Business Trusts

---



#### Central Provident Fund

34 CPF Minimum Sum Topping-Up Scheme

35 Voluntary Contributions To Medisave Account

36 Supplementary Retirement Scheme

37 LIFE Bonus

38 Medisave Top-Ups

---



#### Others

39 Growth Dividends

40 Skills Development Levy

41 Revised Special Tax Structure For Euro-IV Private Diesel Cars

42 Rationalisation Of Liquor Duties

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#### Appendices

I. Singapore GDP Growth Rate

II. Collection Of Income Tax, Goods & Services Tax, Stamp Duty, Property Tax And Estate Duty

III. Comparison Of Effective Corporate Tax Rates Of Selected Countries In Asia Pacific

IV. Comparison Of Effective Personal Tax Rates Of Selected Countries In Asia Pacific

V. Survey Of Indirect Taxes Levied In Selected Countries In Asia Pacific

VI. Global Corporate Tax Rates

VII. Incentives For Companies Going Overseas Under The Economic Expansion Incentives (Relief From Income Tax) Act

VIII. Incentives For Companies Going Overseas Under The Singapore Income Tax Act

IX. Tax Incentives For Intellectual Property

X. Financial Sector Incentive Scheme

XI. Glossary

## Enhanced Deduction For Research And Development Expenses

**Present Position** Any taxpayer carrying on a manufacturing trade or business or a trade or business for the provision of any services is currently allowed a tax deduction on expenditure incurred on Research & Development (R&D) under Section 14D of the SITA, regardless of whether the R&D is undertaken directly by him or by a R&D organisation on his behalf in Singapore or abroad (where the taxpayer undertakes that the benefits of the R&D carried out accrues to himself) in relation to his trade or business. A further deduction is also available under Section 14E for a taxpayer or a R&D organisation who incurs expenditure on approved R&D projects carried out in Singapore.

The underlying premise for tax deductions under Sections 14D and 14E is that the R&D undertaken is related to the trade or business of the taxpayer.

“R&D” is defined as any systematic or intensive study carried out in the field of science or technology with the object of using the results of the study for the production or improvement of materials, devices, products, produce, or processes, but does not include:

- Quality control or routine testing of materials, devices or products;
- Research in the social sciences or the humanities;
- Routine data collection;
- Efficiency surveys or management studies; or
- Market research or sales promotion.

**Proposed Change**

- a. Taxpayers that incur expenses in respect of R&D activities undertaken in Singapore would qualify for a tax deduction of 150% of the amount of R&D expenses incurred. This higher tax deduction would be granted to R&D carried out by the taxpayer himself in Singapore or outsourced to an R&D organisation in Singapore; and
- b. For tax deductions under Sections 14D and 14E, taxpayers who incur expenses on R&D in Singapore are no longer required to fulfill the “related to existing trade or business” premise. In other words, R&D expenses incurred on activities unrelated to the taxpayer’s current trade activities would be allowed tax deductions under both Sections 14D and 14E so long as the R&D activities are performed in Singapore either by the taxpayer himself or by a R&D organisation in Singapore on his behalf.

**Effective** The above proposed changes are effective from the Year of Assessment 2009, and would be available for the Years of Assessment 2009 to 2013.

**Comments** The above proposed tax changes are part of the Government's continuing efforts to encourage research and spur innovation in Singapore. For R&D work carried on outside Singapore, a single deduction would be available if the R&D done is related to the trade or business of the taxpayer.

It remains to be seen whether the proposed higher tax deduction and the further tax deduction under Section 14E would be applied concurrently or they would be mutually exclusive.

## Research And Development Tax Allowance

**Present Position** There is currently no Research & Development (R&D) tax allowance available for claim by Singapore companies against their chargeable income.

**Proposed Change** Singapore companies that have chargeable income would be granted R&D tax allowance for each year of assessment falling within the Years of Assessment 2009 to 2013. The R&D tax allowance granted could be claimed against the company's chargeable income for the three years of assessment following the year of assessment that it is granted. Any R&D tax allowance remaining unutilised at the end of the three years of assessment would be disregarded.

The R&D tax allowance to be granted for each qualifying year of assessment is computed based on 50% of the company's chargeable income (after R&D tax allowance utilized (if any), start-up exemption (where applicable) and partial tax exemption), and is capped at \$150,000 for each year.

In order that R&D tax allowance may be utilised in a particular year of assessment, the company must incur in the basis period of that year of assessment, qualifying R&D expenditure in excess of a base amount (i.e. the incremental R&D expenditure incurred over the base amount). The base amount is set at the level of the company's qualifying R&D expenditure incurred for the base year. For existing companies, the base year is the basis period for the Year of Assessment 2008.

Notwithstanding the R&D tax allowance granted, the amount of R&D tax allowance that may actually be utilised in each year of assessment is capped at the lower of the amount of R&D tax allowance brought forward, or the incremental R&D expenditure amount incurred over the base amount.

Qualifying R&D expenditure is R&D expenditure that qualifies for deduction under Section 14D of the Income Tax Act and also expenditure which the company incurs in respect of R&D activities undertaken in-house by the company in Singapore. For the purpose of computing the amount of qualifying R&D expenditure, Government grants (if any) and R&D expenses which the company incurs for all outsourced R&D (whether to Singapore or abroad) are disregarded.

R&D tax allowance could not be transferred among related companies under group relief.

**Effective** R&D tax allowance is granted for each year of assessment falling within the Years of Assessment 2009 to 2013.

**Comments** This incentive is aimed at moving companies up the innovation ladder, and is meant to encourage companies to undertake more R&D activities in Singapore so as to enhance their competitiveness in the global market. With the quantum of the R&D tax allowance capped at \$150,000 for each year of assessment, it would appear that the incentive is more attractive for SMEs.

Also, with the amount of the R&D tax allowance claim capped at the lower of the R&D tax allowance brought forward and the incremental R&D expenditure over the base amount, it would appear that the incentive is aimed at encouraging incremental R&D spending.

## R&D Incentive For Start-Up Enterprises

**Present Position** Start-up companies that are research intensive usually do not generate taxable profits in the initial years of business. For tax purposes, these companies are allowed to carry forward their tax losses for set off against future taxable profits subject to the shareholders' comparison test.

**Proposed Change** A new incentive called the R&D Incentive for Start-up Enterprises (RISE) would be introduced to allow R&D-incentive start-up companies to convert up to \$225,000 of its tax losses into cash. This is subject to meeting the qualifying conditions.

To qualify for the RISE scheme, the start-up company:

- a. is incorporated in Singapore;
- b. is a tax resident of Singapore;
- c. has total share capital which is beneficially held by no more than 20 persons, all of whom are individuals or of which at least one is an individual shareholder holding at least 10% of total number of issued ordinary shares throughout the basis period relating to the years of assessment of claim;
- d. has its first three years of assessment fall within the Years of Assessment 2009 to 2013;
- e. does not have taxable profits in all preceding years prior to the year of assessment of claim;
- f. incurs at least \$150,000 qualifying expenditure on R&D in Singapore in the basis period for the year of assessment of claim.

The qualifying expenditure on R&D in this case would mean:

- a. Expenditure which the company incurs on R&D that the company undertakes directly (in-house) in Singapore; and
- b. The R&D concerned must still be on-going at the time of claim.

Please note that expenditure on R&D that is funded by Government grants or incurred for R&D outsourced to a R&D organisation will not be considered as qualifying expenditure on R&D.

Under the RISE scheme, the amount of cash grant that a qualifying start-up company could claim for a year of assessment is based on a prescribed formula. Based on the prescribed formula, the maximum amount of cash grant available would be \$20,250 for each year of assessment of claim.

Where a start-up company chooses to convert its tax losses to cash under the RISE scheme instead of carrying forward the tax losses, the tax losses of the start-up to be carried forward would be correspondingly reduced by the amount of the converted losses.

**Effective** Years of Assessment 2009 to 2013

**Comments** The RISE scheme is available to all companies that are R&D intensive. It is intended to provide Government grants to help defray some of the R&D expenses incurred by start-up companies carrying out R&D activities in Singapore to develop their products. This would provide immediate assistance to ease the cashflow challenges faced by these start-up companies in the initial years of business.

IRAS would release further details of the above incentive by September 2008.

## Start-Up Tax Exemption Scheme

<b>Present Position</b>	<p>The start-up exemption scheme allows the following tax exemption to an eligible start-up company during the first 3 years of assessment of its incorporation:</p> <ol style="list-style-type: none"> <li>a. Full tax exemption on the first \$100,000 of normal chargeable income; and</li> <li>b. Partial tax exemption on 50% of the next \$200,000 of normal chargeable income.</li> </ol> <p>An eligible start-up is a company that meets the following conditions:</p> <ol style="list-style-type: none"> <li>a. It is incorporated in Singapore;</li> <li>b. It is a tax resident of Singapore; and</li> <li>c. Its total share capital is beneficially held, directly or indirectly, by no more than 20 persons all of whom are individuals throughout the basis period for that year of assessment.</li> </ol>
<b>Proposed Change</b>	<p>The condition (c) for the eligible start-up company would be amended to allow non-individual shareholders provided that at least one shareholder is an individual holding not less than 10% of total number of issued ordinary shares throughout the basis period for that year of assessment. Existing companies whose first year of assessment is 2007 would qualify for this exemption for year of assessment 2009. Similarly, existing companies whose first year of assessment is 2008 would qualify for this exemption for years of assessment 2009 and 2010.</p>
<b>Effective</b>	Year of Assessment 2009
<b>Comments</b>	<p>This proposed change sends a strong signal of the Government's continued efforts to support entrepreneurship. The change would to a certain extent encourage more entrepreneurship as the individuals would now have more avenues to raise funds for their start-up companies e.g. through collaboration with corporations such as venture capitalists.</p> <p>We await any condition to be released by the IRAS on the non-individual shareholders.</p>

## Tax Incentive For Fixtures And Fittings

**Present Position** Currently, renovation costs comprising fixtures, fittings and installations that are immovable and regarded as part of the business premises do not qualify as “plant and machinery” for capital allowances purposes. Such fixtures, fittings and installations are generally considered capital in nature and thus, do not qualify for tax deduction.

**Proposed Change** A special allowance for fixtures, fittings and installations would be introduced to allow businesses to claim a write-off of qualifying expenditure incurred over three years, subject to a cap of \$150,000 every three years for each business entity. Expenses relating to structural works and expansion of space, however, would not qualify under this incentive.

**Effective** Qualifying expenditure on fixtures, fittings and installations incurred during the period from 16 February 2008 to 15 February 2013

**Comments** The tax relief from the proposed change would help to defray the costs of renovations incurred by businesses. However, it would only be attractive to small businesses as the qualifying costs are low.

Further details are expected on the criteria for the items to qualify for the tax relief.

## Extension Of Unilateral Tax Credit

- Present Position** In order to avoid double taxation of foreign-sourced income, unilateral tax credit (UTC) is granted on the following foreign-sourced income which has been subject to tax in countries which Singapore has yet to conclude Avoidance of Double Taxation Agreements (DTA):
- Income from the provision of professional, consultancy and other services performed in the other country;
  - Royalty where it is not borne directly or indirectly by a Singapore resident or permanent establishment in Singapore or deductible against income accruing in or derived from Singapore;
  - Dividends;
  - Employment income; and
  - Profits of an overseas branch of a Singapore resident company.

**Proposed Change** UTC will be granted on all foreign-sourced income received in Singapore by Singapore tax residents from non-DTA countries.

**Effective** Year of Assessment 2009

**Comments** The extension of the UTC to all foreign-sourced income will have a significant effect on one commonly derived foreign-sourced income – foreign interest income.

The proposed change would provide businesses the flexibility to fund their overseas investments in non-DTA countries by way of loan as opposed to equity. It should also encourage Singapore companies to repatriate their foreign-sourced interest income earned from non-DTA countries especially if the foreign interest has been subject to income tax in the other country at a rate that is equal or higher than the prevailing Singapore corporate tax rate.

## Extension To Financial Sector Incentive Scheme

**Present Position** The Financial Sector Incentive (FSI) scheme was implemented with effect from 1 January 2004. It sought to amalgamate and rationalise several tax incentives which then existed for the financial services industry, thereby reducing the compliance and administrative burden for taxpayers. The scheme allows FSI-qualifying companies to enjoy a two-tier concessionary tax rate structure as follows:-

- A 5% FSI-Enhanced Tier (FSI-ET) for income derived from qualifying high-growth and high value-added financial activities; and
- A 10% FSI-Standard Tier (FSI-ST) for income derived from other qualifying financial activities that are important to the growth of Singapore as a regional financial hub.

Whilst approval for a fresh FSI-ST award can be given for an initial period of up to 10 years (with renewals allowed up to a maximum of another 10-year period), the FSI-ET incentive is due to expire on 31 December 2008.

**Proposed Change** It is proposed that the FSI-ET incentive be extended for a period of five years from 1 January 2009 to 31 December 2013 (both dates inclusive).

**Effective** 1 January 2009

**Comments** The above proposal would serve to alleviate any discrepancy between the tenures enjoyed by companies on the FSI-ET scheme vis-a-vis those on the FSI-ST award. Further details would be announced by the MAS by May 2008.

## Enhancement To FSI Scheme Re: Islamic Finance

**Present Position** Currently, the FSI scheme offers a concessionary tax rate of 5% under the Enhanced-Tier awards on income from qualifying high growth and high value-added activities and of 10% under the Standard-Tier award on income from qualifying financial activities such as lending and related activities, fund management and other investment advisory activities.

There are currently no specific FSI awards for Islamic finance and banking activities, except for Islamic debt securities.

**Proposed Change** It is proposed that a new Enhanced-Tier award [FSI-Islamic Finance (FSI-IF)] would be introduced to grant a concessionary tax rate of 5% on the qualifying income derived from the following qualifying Shariah-compliant activities, subject to meeting conditions:

- a. lending and related activities; and
- b. fund management and other investment advisory activities.

**Effective** The approval period for this FSI-IF award is from 1 April 2008 to 31 March 2013. The award is for a period of 5 years.

**Comments** The proposed enhancement seeks to cover the Islamic financial and banking activities in addition to conventional financial activities carried out by non-Islamic banks under the FSI Scheme. With the proposed change, it would encourage more Shariah-compliant financial activities to be carried out in Singapore. This would further promote growth and opportunities in the banking industry.

The MAS is expected to provide further details on the above proposal by end May 2008.

## Enhancement To FSI Scheme Re: Bond Market

**Present Position** The FSI-Bond Market (FSI-BM) and FSI-Project Finance (FSI-PF) incentives accord (subject to certain conditions) a 5% concessionary tax rate for income derived by qualifying companies from the arrangement, underwriting and distribution of any Qualifying Debt Securities (QDS) and/or Qualifying Project Debt Securities (QPDS). However, the incentives are not extended to income from the trading of such debt securities.

**Proposed Change** It is proposed that trading income derived by qualifying companies from the trading of QDS and/or QPDS be accorded the 5% concessionary tax rate under the FSI-BM incentive.

**Effective** 16 February 2008

**Comments** In view of the increasing sophistication of the Singapore bond market, it is now becoming more prevalent that bond market players may need to undergo vertical business integration (i.e. perform both "upstream" bond services such as primary arrangement and underwriting services, together with "downstream" activities such as market-making and secondary bond trading) in order to stay competitive. The proposed change would serve to incentivise both qualifying service and trading income of the bond market players, thus further enhancing the vibrancy and depth of the local bond market.

Further details would be announced by the MAS by end May 2008.

## Enhancement To FSI Scheme Re: Derivatives Market

**Present Position** The FSI-Derivatives Market (FSI-DM) incentive provides for a 5% concessionary tax on trading in or providing services as an intermediary in connection with “qualifying derivatives”. “Qualifying derivatives” refer to financial derivatives whose payoffs are linked to the payoffs or performance of any financial assets, securities, instruments or indices (but excludes commodity derivatives). More importantly, the definition of “qualifying derivatives” currently only covers financial derivatives that are traded “over-the-counter”(OTC), but not those that are exchange-traded.

In addition, tax exemption under Section 13(4) of the SITA is also extended to payments made by a financial institution on qualifying derivatives to a person that is neither a Singapore resident nor a permanent establishment here.

**Proposed Change** It is proposed that the FSI-DM incentive be expanded to include any income derived from the trading of exchange-traded financial derivatives.

**Effective** 16 February 2008

**Comments** From a Singapore tax perspective, the proposed change seeks to level the playing field between OTC financial derivatives vis-a-vis exchange-traded financial derivatives. Notwithstanding, it remains unclear as to:-

- Whether the latest extension in tax concession would cover service income derived from exchange-traded financial derivatives; and
- Whether the Section 13(4) tax exemption would be expanded to cover payments made to non-residents on exchange-traded financial derivatives.

The MAS is expected to provide further details on the above proposal by end May 2008.

## Enhancement To The Offshore Insurance Business Incentive Scheme

- Present Position** Currently, an approved insurance company (other than a captive insurer, a marine and hull liability insurer or an insurer underwriting specialized insurance risks) enjoys a 10% concessionary tax rate on qualifying income derived from underwriting offshore risks and reinsuring offshore risks.
- Proposed Change** To encourage the development of Islamic insurance underwriting activities in Singapore, an approved insurance company (other than a captive insurer, a marine and hull liability insurer or an insurer underwriting specialized insurance risks) would be entitled to a 5% concessionary tax rate on income derived from underwriting offshore Islamic insurance (takaful) or reinsurance (retakaful) business, subject to certain conditions. The incentive duration is for a maximum period of 5 years.
- Effective** The approval period for this incentive is from 1 April 2008 to 31 March 2013. There would be no extension of the approval period beyond 31 March 2013 or incentive tenure beyond 5 years. Details would be released by the MAS by end of May 2008.
- Comments** Currently, there are tax incentives extended to insurance and reinsurance companies in Singapore for the traditional insurance transactions. As there is potentially a sizeable market for Islamic insurance in the region, it is timely to introduce the above tax incentive scheme to encourage and promote Islamic insurance activities in Singapore. It is perceived that elements of uncertainty, gambling and interest are inherent in a conventional insurance arrangement, which runs counter to Islamic law. The takaful or retakaful type of insurance eliminates these non-compliant elements. In the conventional sense, takaful is akin to cooperative insurance. Generally, members contribute a certain sum of money to a common fund to support one another and to cover expected claims; the takaful company and the policyholders could share in the surplus and the direct investment income generated.

The proposed change which promotes Islamic financing and Islamic insurance provides an added dimension to the insurance industry in Singapore, thereby strengthening its position as a leading insurance hub in the region.

## Extension And Enhancement Of The Qualifying Debts Securities Incentive

- Present Position** The Qualifying Debts Securities (QDS) scheme accords the following tax benefits to investors:-
- a. Tax exemption on qualifying income derived by qualifying non-residents and qualifying individuals;
  - b. 10% concessionary tax rate on qualifying income derived by companies and bodies of persons in Singapore.

'Qualifying income' refers to interest, discount, prepayment fees, redemption premiums and break costs.

The QDS scheme is due to expire on 31 December 2008.

- Proposed Change** It is proposed that the QDS scheme be extended for a period of five years to 31 December 2013.

In addition, the scheme would be enhanced to exempt all investors from income tax on qualifying income derived from QDS that are:-

- a. debt securities with a tenure of at least 10 years; or
- b. Islamic bonds or *sukuks*, subject to the condition that any amount payable by the issuer to the investors of *sukuks* is not deductible against any income of the issuer accruing in or derived from Singapore, and the proceeds from the issuance are used outside Singapore.

Notwithstanding, all other conditions under QDS scheme remain applicable.

- Effective**
- a. Extension of QDS scheme – 1 January 2009 to 31 December 2013 (both dates inclusive).
  - b. Enhancement of QDS scheme – 16 February 2008 to 31 December 2013 (both dates inclusive).

- Comments** The QDS scheme was first introduced in 1998 and over the years, it has been enhanced to ensure that it is relevant to the existing market trends and business environment.

This proposal is in line with the Government's efforts to encourage further growth and development of an active debt market in Singapore. However, if the extension of the incentive could be made available to debt securities with a tenure of less than 10 years, it would have been much preferred by investors.

Further details pertaining to the proposed changes would be released by the MAS by end of May 2008.

## Extension Of Tax Exemption On Income Derived By Primary Dealers From Trading In Singapore Government Securities

- Present Position** Income derived by primary dealers from trading in Singapore Government Securities during the period from 28 February 2003 to 27 February 2008 is exempt from tax.
- Proposed Change** It is proposed that the tax exemption period on income derived by primary dealers from trading in Singapore Government Securities be extended to 31 December 2013.
- Effective** 28 February 2008 to 31 December 2013 (both dates inclusive).
- Comments** This proposal is part of the Government's effort to encourage further trading in Singapore Government Securities.

## Extension And Enhancement Of Approved Special Purpose Vehicle Scheme

- Present Position** The following tax concessions are granted to an Approved Special Purpose Vehicle (ASPV) engaged in approved asset securitisation transactions:
- a. Tax exemption on income from transactions entered into during the period from 27 February 2004 to 31 December 2008;
  - b. GST recovery on its business expenses incurred during the incentive period at a fixed rate of 76%;
  - c. Remission of stamp duties on the instrument of transfer of assets to the ASPV; and
  - d. Tax exemption on payments made during the period from 27 February 2004 to 31 December 2008 (both dates inclusive) to qualifying non-resident on over-the-counter financial derivatives in connection with an asset securitisation transaction. Where the OTC financial derivatives contract took effect, renewed or extended during the period from 15 February 2007 to 31 December 2008 (both dates inclusive), any qualifying payment made to qualifying non-resident under such contract is tax exempt.

To qualify for the ASPV status, one of the conditions is that all the debt securities issued by the ASPV are QDS and the size of the issuance should not be less than S\$20,000,000 unless otherwise approved by the Minister.

- Proposed Change** The ASPV scheme would be extended for a further period of five years to 31 December 2013. In addition, the existing condition which requires all debt securities issued by the ASPV to be QDS would be lifted.

**Effective** The extension of the ASPV scheme commences from 1 January 2008. The removal of the QDS condition would take effect from 16 February 2008 to 31 December 2013.

**Comments** The extension of the ASPV scheme underlines the Government's efforts to develop Singapore's structured debt market. The removal of the condition would allow ASPV greater flexibility and innovation when issuing debt securities.

The MAS would release further details by end May 2008.

## Tax Incentive Scheme For Insurance And Reinsurance Brokers

**Present Position** Currently, income derived from the provision of broking and advisory services by insurance and reinsurance brokers is subject to tax at normal corporate tax rate of 18%.

**Proposed Change** Fees and commissions derived from the provision of insurance broking and advisory services by qualifying licensed direct insurance and reinsurance brokers to non-Singapore-based clients would be entitled to a 10% concessionary tax rate.

**Effective** The window period for approval is from 1 April 2008 to 31 March 2013. The incentive would be for a period of up to 10 years. Details would be released by the MAS by end of May 2008.

**Comments** The insurer or reinsurer broker functions as an intermediary between the insurer/reinsurer and the insured/reinsured. The insurance broker is considered as an agent of the insured. Its traditional role has been to facilitate insurance placements for its clients for which it receives a commission from the insurer or reinsurer. The sophistication of its role has evolved with growing business complexities and typically the broker's expertise would now include assisting clients in the identification and assessment of risks, advising in the risk coverages and options available, developing and designing insurance and other risk management products, processing and facilitating claims settlement etc. Insurance and reinsurance broking activities are an integral part of the insurance industry and the proposed change would further enhance and position Singapore as a leading offshore insurance and risk management hub in the region.

## Extension And Enhancement To The Tax Incentives To Promote Project Financing

- Present Position** The following package of tax incentives was introduced in 2006 to catalyse the growth of the project finance industry through Singapore's capital markets:-
- a. Tax exemption on qualifying income derived by investors from qualifying project debt securities;
  - b. Tax exemption on foreign-sourced interest income received by qualifying entities on the SGX from offshore qualifying infrastructure projects/assets;
  - c. Remission of stamp duties payable on the instrument of transfer relating to qualifying infrastructure projects/assets to entities listed or to be listed on the SGX; and
  - d. 5% concessionary tax rate on income derived by a Financial Sector Incentive (project finance) company from arranging, underwriting and distributing any qualifying project debt security/loan and from provision of project finance advisory services related to a qualifying infrastructure project.

The above tax incentives are due to expire on 31 December 2008.

- Proposed Change** It is proposed that the package of tax incentives be extended for another 3 years to 31 December 2011.

In addition, a new tax incentive would be introduced to grant a 10% concessionary tax rate for a period of up to 10 years on income derived by a company from the provision of management services to business trusts and funds that own offshore infrastructure assets and list in Singapore.

- Effective** The extension of the tax incentive scheme would commence from 1 January 2009.

The tax incentive for the provision of management services would be valid from 1 April 2008 to 31 March 2011 (both dates inclusive).

- Comments** The proposed extension of the tax incentive is in line with the Government's efforts to further promote the project finance industry through Singapore's capital market.

As the project finance industry needs to be supported by a comprehensive range of services, the introduction of the above new tax incentive is certainly a positive

step to provide the appropriate impetus to the development of the project finance industry.

No details are currently available on the definition of “management services” that would qualify for the 10% concessionary tax rate. One question is on whether trustee services would be regarded as “management services” for the purpose of the new incentive.

Further details pertaining to the proposed changes would be released by the MAS by end of May 2008.

## Tax Exemption For Family-Owned Investment Holding Companies

<b>Present Position</b>	<p>The following investment income, amongst others, derived by an investment holding company is subject to tax at the prevailing corporate tax rate:-</p> <ul style="list-style-type: none"> <li>• <b>Locally-sourced</b> <ol style="list-style-type: none"> <li>a. interest derived from the deposit of moneys and debt securities;</li> <li>b. discount from debt securities;</li> <li>c. distribution made by any collective investment scheme constituted as a unit trust;</li> <li>d. fee or compensatory payment from securities lending or repurchase arrangements;</li> <li>e. amount payable from Islamic debt securities;</li> <li>f. distribution made by a real estate investment trust;</li> <li>g. distribution made by any restricted authorised scheme; and</li> <li>h. income derived from structured product.</li> </ol> </li> <li>• <b>Foreign-sourced</b> <ol style="list-style-type: none"> <li>a. income arising from sources outside Singapore and received in Singapore (other than specified foreign income which is exempt from tax).</li> </ol> </li> </ul>
<b>Proposed Change</b>	<p>A new family-owned investment holding company (FIHC) incentive scheme would be introduced. Under this new scheme, the FIHC would enjoy tax exemption on all its locally-sourced investment income and all its foreign-sourced income.</p>
<b>Effective</b>	<p>1 April 2008 to 31 March 2013 (both dates inclusive).</p>
<b>Comments</b>	<p>This proposal is in line with the Government's aim to strengthen Singapore as a wealth management hub.</p>

With the proposed change, certain locally sourced investment income and foreign-sourced income derived by the FIHC would enjoy the same tax exemption status as that currently accorded to such income derived by individual taxpayers. The levelling of the playing field would provide a further impetus to the development of the wealth management industry in Singapore.

Further details pertaining to the new FIHC incentive scheme would be released by the MAS by end of May 2008.

## Enhancements To The Maritime Finance Incentive Scheme

**Present Position** Under the existing Maritime Finance Incentive (MFI) scheme which was introduced in 2006, an approved shipping investment enterprise enjoys full tax exemption on income derived from qualifying ship chartering/ship finance leasing activities; and an approved shipping investment manager enjoys a 10% concessionary tax rate on its qualifying income from managing an approved shipping investment enterprise.

The existing MFI scheme applies only to companies incorporated and resident in Singapore or registered business trusts. Further, MFI scheme does not presently cover container leasing activities.

**Proposed Change** The MFI scheme would be enhanced to include income from container leasing activity, where qualifying onshore and offshore container leasing income derived by an approved container investment enterprise would be taxed at a concessionary tax rate of 5% or 10%, depending on the level of local business spending and headcount commitments. In addition, an approved container investment manager would also enjoy a 10% concessionary tax rate on its qualifying management fee income.

Further, MFI would be extended to partnerships.

Further details would be announced by the MPA by May 2008.

**Effective** 1 April 2008 to 28 February 2011 and for a period not exceeding 10 years.

**Comments** The proposed change aims at strengthening the connectivity in the maritime industry, which is key to positioning Singapore as Asia's premier International Maritime Centre. As the maritime industry needs to be supported by a comprehensive range of services, the expansion of the MFI scheme is certainly a positive step.

No details are currently available on the conditions to be fulfilled for a concessionary tax rate of 5% or 10%.

## Tax Certainty On Treatment Of Gains From Sale Of Vessels

**Present Position** For a period of five years from Year of Assessment 2005 to Year of Assessment 2009, gains from the disposal of vessels registered with the Singapore Registry of Ships or owned by companies granted Approved International Shipping Enterprise (AIS) status are exempt from Singapore income tax, under a special administrative concession granted to provide tax certainty to vessel owners that such gains are regarded as capital in nature and hence not taxable.

Presently, vessels concerned must be put into qualifying operations prior to their disposal, in order for the gains from the disposal to qualify for the special administrative concession.

**Proposed Change** The period of concession would be extended for a further period of five years, from Year of Assessment 2010 to Year of Assessment 2014. In addition, the scope of this special administrative concession would also be expanded to include gains from the sale of ships which are subsequently leased back as well as gains from the sale of shares in a Special Purpose Company which owns ships.

Further details would be announced by the MPA by May 2008.

**Effective** Year of Assessment 2010 to Year of Assessment 2014

**Comments** The proposed change which aims at granting tax certainty to the shipping industry is certainly a welcoming move since vessels are expensive assets and the burden of proving that they are capital assets is typically not easily discharged.

It is expected that the current condition that vessels concerned must be put into qualifying operations prior to their disposal would likely to continue to apply.

The extension of the concession to include gains from the sale of ships which are subsequently leased back would be a boost for ship financing activities, signaling the Government's strong commitment to continue to position Singapore as an attractive maritime hub.

However, what constitutes a Special Purpose Company and details of any qualifying criteria to be met are currently not available.

## Enhancement To Shipping Incentives

**Present Position** Gains from risk management activities carried out by shipping companies in connection with their Singapore registered vessels or vessels owned by companies granted Approved International Shipping Enterprise (AIS) status are exempt from Singapore income tax under an administrative concession granted for a period of 5 years from Year of Assessment 2006 to Year of Assessment 2010.

**Proposed Change** Foreign exchange gains and gains from risk management activities that are in connection with and incidental to core shipping operations would be treated as qualifying income under the Section 13A of SITA, AIS and MFI schemes. Therefore, such income would be exempt from Singapore income tax. The proposed tax exemption would not apply to shipping companies engaging in derivatives trading activities.

Further details would be announced by the MPA by May 2008.

**Effective** Year of Assessment 2009

**Comments** The proposed change is necessary with the growing importance of risk management, which is an important value-added maritime ancillary activity.

However, no details are currently available as to what type of risk management activities would be regarded as in connection with and incidental to core shipping operations.

## Further Tax Deduction For Overseas Talent Recruitment Scheme

**Present Position** Employers enjoy further tax deduction on the recruitment and relocation expenses incurred in the hiring of top global talents which include P-pass holders and returning Singapore citizens or permanent residents of equivalent standing.

This scheme, which was introduced in 1998, expires in 2008.

**Proposed Change** The scheme would be further extended for 5 years till 2013.

**Effective** 15 February 2008

**Comments** The extension of the scheme would help Singapore companies to cushion costs in their search and recruitment of talents outside Singapore.

## Tax Deduction For Portable Medical Benefits

**Present Position** Currently, the tax deduction limit for costs of medical benefits incurred by employers for their employees is restricted to 1% of the employees' remuneration. Companies which have implemented the Portable Medical Benefits Scheme or Transferable Medical Insurance Scheme can qualify for tax deduction of medical expenses up to 2% of the employees' remuneration.

**Proposed Change** Tax deduction of medical expenses, at the higher cap of 2% of the employees' remuneration, would be extended to employers who provide their employees with inpatient medical insurance benefits in the form of portable medical shield plans. The medical insurance benefits to be provided can be in the form of either:

- Paying the insurance premiums on behalf of their employees to the insurance companies directly or by reimbursing the premiums into employees' Medisave accounts; or
- Ad-hoc contribution to their employees' Medisave account but subject to a cap of \$1,500 per employee per year.

More details would be released by the Ministry of Manpower by March 2008.

**Effective** Year of Assessment 2008

**Comments** In line with the Government's move to ensure that employees are prepared for their medical needs, these measures would encourage employers to voluntarily contribute to their employees' Medisave accounts, so that they are adequately covered in times of need.

## Personal Income Tax Rebate

**Present Position** There has been no income tax rebate since Year of Assessment 2002.

**Proposed Change** Resident taxpayers would receive an income tax rebate of 20%, capped at \$2,000.

**Effective** Year of Assessment 2008 only

**Comments** The Minister for Finance did not propose any reduction to the personal income tax rates. With the top marginal rate remaining at 20%, Singapore's personal income tax rates are still highly competitive. The Government has indicated that it would continue to monitor the competition and consider lowering the personal income tax rates in the future should it become necessary.

Based on our analysis, a resident taxpayer would derive the maximum benefit of the \$2,000 income tax rebate at chargeable income of \$120,714. For chargeable income above this amount, the capping of the tax rebate to \$2,000 results in a lower effective rate, i.e. less than 20%.

## Not-Ordinarily-Resident Scheme – Enhancement And Refinement Of Administrative Features

- Present Position**
- To qualify for time apportionment concession, the Not-Ordinarily-Resident (NOR) taxpayer's effective tax rate (ETR) must be at least 10%.
  - Time apportionment concession does not cover certain benefits-in-kind, leave pay or director's fees.
  - To qualify for tax exemption of employer's contributions to non-mandatory overseas pension schemes, NOR taxpayer must not be a Singapore citizen or a Singapore permanent resident.
  - For NOR taxpayers enjoying the tax exemption on employer's contributions to non-mandatory overseas pension scheme, the employer is allowed to claim a corporate tax deduction for the contributions.

- Proposed Change**
- The 10% minimum ETR condition would be replaced by a new condition – i.e. taxpayer's Singapore employment income threshold must be at least \$160,000.
  - The scope of time apportionment concession would be expanded to include benefits-in-kind and leave pay but director's fees would continue to be excluded from the scope of time apportionment.
  - NOR taxpayer must now derive a minimum Singapore employment income of \$160,000 to enjoy tax exemption of employer's contributions to non-mandatory overseas pension schemes.
  - To enjoy tax exemption on employer's contributions to non-mandatory overseas pension funds, NOR taxpayers would be subject to a new condition that the employer must not claim corporate tax deduction for the contributions.

**Effective** Year of Assessment 2009

- Comments** The impact of the proposed changes would be as follows:
- There would be further tax savings since benefits-in-kind and leave pay which were previously not eligible, now qualify for time apportionment.
  - A NOR taxpayer whose Singapore employment income is less than \$160,000 would not be able to enjoy the tax exemption of employer's contributions to non-mandatory overseas pension funds and the time apportionment concession.
  - A NOR taxpayer would not be eligible for tax exemption on the employer's contributions to non-mandatory overseas pension funds if the employer claims a corporate tax deduction for the contributions. However, the employer's cost would increase by not claiming a corporate tax deduction to enable the employee to enjoy the tax exemption.

## Equity Remuneration Incentive Scheme

**Present Position** Currently, gains from the exercise of employee stock option (ESOP) or employee share award (ESOW) plans enjoy concessionary tax treatment if the ESOPs or ESOWs were granted under the following employee equity-based incentive schemes:

a. Company Employee Equity-based Remuneration (CEEBR) Scheme

Employees of qualifying companies can enjoy a full tax exemption on the first \$2,000 of their gains from ESOPs or ESOWs, and 25% tax exemption on subsequent gains, if certain criteria are met. The full or partial exemption will apply to \$1 million of gains arising over ten years. One of the qualifying conditions is that the company is required to issue stock options or share awards to at least 50% of its employees.

b. Entrepreneurial Employee Equity-based Remuneration (EEEBR) Scheme

Employees of companies with a gross asset value of \$100 million or less can enjoy a tax exemption on 50% of up to \$10 million of gains over a period of ten years, if certain conditions are met.

**Proposed Change** The various employee equity-based incentive schemes would be consolidated under a new umbrella incentive scheme, namely the Equity Remuneration Incentive Scheme (ERIS). Under ERIS, there would be three tiers of incentives as follows:

a. ERIS (All Corporations)

The CEEBR Scheme would be re-named as ERIS (All Corporations). To qualify for ERIS (All Corporations), the company would be required to issue stock options or share awards to at least 25% of its employees, down from 50% under the current CEEBR Scheme.

b. ERIS (Small and Medium Enterprises)

The EEEBR Scheme would be re-named as ERIS (SMEs). The qualifying conditions remain unchanged.

c. ERIS (Start-Ups)

A new incentive tier would be introduced for start-ups, known as ERIS (Start-Ups). ERIS (Start-Ups) would allow qualifying employees of qualifying start-up companies (same conditions as current EEEBR Scheme) to enjoy a personal income tax exemption on 75% of qualifying gains from ESOP or ESOW Plans, up to \$10 million qualifying gains over ten years. To qualify for ERIS (Start-Ups), the start-up company must

- (1) have at least one individual shareholder owning not less than 10% of the company;
- (2) be a Singapore incorporated company carrying on business in Singapore;

and

- (3) have a market value of its gross assets at the time of grant of stock options or share awards of less than \$100 million.

Gains derived by employees of a qualifying company from qualifying ESOPs or ESOWs would be incentivised under only one tier of ERIS, and the company would have to satisfy the qualifying conditions applicable for the tier.

**Effective** ERIS would take effect for stock options or share awards granted after 15 February 2008. IRAS would release a circular on the revised ERIS (All Corporations) by April 2008.

The change for ERIS (Start-Ups) would be effective for ESOPs and ESOWs issued during 16 February 2008 to 15 February 2013 in the first three years of incorporation by qualifying start-up companies. IRAS would release details of the ERIS (Start-Ups) by March 2008.

**Comments** The restructuring of the employee equity-based incentive schemes aims to help companies attract and retain talented employees. The ERIS (Start-ups) provides employees of start-ups with a larger exemption from tax on gains from stock options or share awards in recognition of the greater risks taken in their entrepreneurial pursuits.

## Course Fee Relief

**Present Position** A resident individual could claim tax relief of up to \$3,500 for course fees paid if he studied a course leading to approved academic and professional qualifications or vocational qualifications relevant to his current trade, business, profession, vocation or employment or he makes a career switch within two years after completion of the course.

**Proposed Change** For approved vocational qualifications, a resident individual could claim tax relief regardless of whether the course is relevant to his current trade, business, profession, vocation or employment.

For courses leading to approved academic, professional or vocational qualifications, the claim for tax relief could be made within two years of assessment from the year of assessment relating to the year in which he completes the course. Taxpayers should claim the tax relief as soon as he has assessable income above \$22,000, within the two years of assessment from the year of assessment relating to the year in which he completes the course.

**Effective** Year of Assessment 2009

**Comments** This change is to encourage individuals to continue upgrading their skills throughout their working years.

## Abolition Of Estate Duty

**Present Position** Under the Singapore Estate Duty Act, with the exception of overseas immovable property, any movable and immovable property which passes on the death of an individual domiciled in Singapore is subject to estate duty. For deaths occurring on or after 1 January 2002 of an individual not domiciled in Singapore at the time of death, only his/her immovable properties (above the statutory exemption limits) situated in Singapore are subject to estate duty. Certain assets up to the statutory values are exempt from estate duty in Singapore, as shown in the table below:

Asset type	Statutory exemption values
Residential properties (in Singapore)	\$9 million
All movable assets (e.g. cash, shares, etc.)	\$600,000 *

\* CPF balances in excess of the \$600,000 threshold are eligible for further relief from estate duty.

The excess of the market value of the estate over the applicable statutory exemptions are subject to estate duty as shown below:

Taxable value**	Tax rate
first \$12,000,000	5%
over \$12,000,000	10%

\*\*over and above the statutory exemption values

**Proposed Change** The Minister for Finance has proposed to abolish estate duty.

**Effective** For deaths occurring on and after 15 February 2008.

**Comments** The removal of estate duty would make Singapore an attractive place for wealth to be invested and built up, whether by Singaporeans or foreigners who bring their assets to Singapore. It could potentially boost the wealth management industry as well as attract families to come and make Singapore their home.

## GST Claimable By Singapore-Listed REITs And Registered Business Trusts

- Present Position** Generally, GST-registered Singapore-listed REITs (S-REITs) and Registered Business Trusts are allowed to claim the input GST incurred in their business of making taxable supplies. In addition, GST-registered S-REITs are also allowed to recover, by remission, the input GST on the following expenses, subject to certain qualifying conditions:
- a. The structuring and setting up of the various tiers of special purpose vehicles (SPVs) to hold overseas non-residential properties; and
  - b. The acquisition of overseas non-residential properties and the operation of the SPVs.
- Proposed Change** The tax remission would be enhanced to allow S-REITs and Registered Business Trusts deriving non-taxable supplies such as dividend/distribution income to claim the input GST incurred on their business expenses. To qualify, these S-REITs and Registered Business Trusts should be involved in infrastructure business, ship leasing and aircraft leasing, regardless of whether they hold the underlying assets directly or indirectly through multi-tiered structures such as SPVs /sub-trusts.
- Effective** For GST incurred during the period from 17 February 2006 to 17 February 2010 (both dates inclusive).
- Comments** This proposed change would lower business cost of S-REITs and Registered Business Trusts and would further enhance Singapore's position as the preferred listing location for REITs/Registered Business Trusts. Details would be released by the IRAS by end February 2008.

## CPF Minimum Sum Topping-Up Scheme

**Present Position** Individuals can claim tax relief for cash top-ups to their own Minimum Sum and top-ups to siblings', spouse's, parents' and grandparents' Minimum Sums, provided that the recipients are aged 55 and above. Total tax relief for self top-ups and family top-ups is capped at \$7,000 per year of assessment. Employers cannot make Minimum Sum cash top-ups for their employees.

**Proposed Change** Individuals could claim tax relief for top-ups by themselves or their employers to their own Minimum Sum and top-ups to siblings', spouse's, parents' and grandparents' Minimum Sums, regardless of the age of the recipients. Tax relief for top-ups by the member and his employer is capped at \$7,000 per year of assessment. There would also be a separate tax relief for family top-ups, which is capped at another \$7,000 per year of assessment. Employers could make Minimum Sum cash top-ups for their employees and receive a tax deduction on the entire top-up. Employees are taxable on the employer's top-ups to their Minimum Sum. However, the employees may claim tax relief for the employer top-ups. Total tax relief for employer top-ups and self top-ups is capped at \$7,000 per year of assessment.

**Effective** Year of Assessment 2009

**Comments** The changes to the Minimum Sum Topping-Up Scheme would encourage Singaporeans to save more for their retirement needs. The removal of the age threshold would allow saving from an earlier age. Allowing employers to participate in employee's top-ups would also help to alleviate the current wage capping restrictions on CPF contributions.

## Voluntary Contributions To Medisave Account

**Present Position** Individuals cannot claim tax relief for voluntary contributions specifically directed to their own Medisave Account.

**Proposed Change** Individuals could claim tax relief for voluntary contributions that they make specifically to their own Medisave Account up to a cap (\$26,393 less mandatory contributions) per year of assessment.

This amount of \$26,393 is based on  $\$4,500 \times 17 \text{ months} \times 34.5\%$  which is the capping for contributions to CPF by self-employed persons.

**Effective** Year of Assessment 2009

**Comments** The tax relief for voluntary contributions is meant to encourage Singaporeans to set aside funds to meet their medical expenditure during their old age.

## Supplementary Retirement Scheme

**Present Position** The Supplementary Retirement Scheme (SRS) is a voluntary scheme to help employees and self-employed individuals save for their retirement. Currently, employers cannot make SRS contributions on behalf of their employees. Individuals without any earned employment income in the previous year cannot contribute to SRS in the current year.

Singapore citizens, Singapore Permanent Residents and foreigners who are at least 21 years old but below the current statutory retirement age of 62 can open an SRS account. Participants can withdraw their SRS monies over 10 years from the prevailing statutory retirement age.

**Proposed Change** Employers could now make contributions to their employees' SRS accounts subject to current contribution limits of \$11,475 per annum for Singapore citizens and Singapore Permanent Residents, and \$26,775 per annum for foreigners for each employee. Employers would be entitled to a full corporate tax deduction for contributions made to their employees' SRS accounts.

Individuals would be subject to tax on the employer's SRS contributions but could claim relief for his or the employer's contributions up to the applicable SRS cap.

Individuals without any earned employment income in the previous year could now contribute to the SRS in the current year.

SRS participants could contribute beyond the prevailing statutory retirement age, up to the point of their first penalty-free withdrawal. SRS monies could be withdrawn over 10 years from the point of their first penalty-free withdrawal.

**Effective** Year of Assessment 2009

**Comments** Private company pension plans could be costly to administer and this change provides a low cost alternative for providing employees with retirement benefits. With the removal of the age limit for making contributions, individuals could now continue to build their nest egg beyond the statutory retirement age.

## LIFE Bonus

The CPF LIFE scheme would be introduced to assure Singaporeans of a stream of income for as long as they live. Singaporeans who turn age 55 in or after 2013 and who have at least \$40,000 in their CPF Minimum Sum would be automatically included in the scheme. Older Singaporeans and those with less in their Minimum Sum could opt in.

To encourage Singaporeans to enrol in the CPF LIFE scheme, the Government would provide a sign-on bonus called the LIFE Bonus (L-Bonus) for the first five cohorts who join CPF LIFE scheme and who are aged 46 to 50 in 2008, with up to \$54,000 Assessable Income (AI) and live in a property of up to \$11,000 Annual Value (AV) at the time of enrolment. It would be given to members when they enrol in the CPF LIFE scheme at age 55.

The amount of the L-Bonus would vary such that older and less well-off members would receive more. Please refer to the table below for details.

L-Bonus for those aged 55 and older in 2013 (i.e. those aged at least 50 in 2008)

	Annual Value (AV)	
Assessable Income (AI)	Up to \$6,000	More than \$6,000 and up to \$11,000
\$24,000 or less	\$4,000	\$3,200
More than \$24,000 and up to \$54,000	\$3,200	\$2,200

For members with less than \$40,000 in their Minimum Sum, but want to participate in the CPF LIFE scheme, the Government would help them to do so and give them the L-Bonus as long as they are willing to make a reasonable contribution to their balances and accept lower monthly payouts.

The L-Bonus would encourage lower and middle income Singaporeans to enrol in the CPF Life Scheme and help fund their retirement.

## Medisave Top-Ups

The Government would provide a one-off top-up in the second half of 2008 to the Medisave Accounts of Singaporeans aged 51 and above in 2008 as follows:

Age	Medisave Top-up Amount
51 to 60	\$150
61 to 70	\$250
71 to 75	\$350
76 and above	\$450

The top-ups would enable older Singaporeans pay for their medical bills and increased Medishield premiums.

## Growth Dividends

The Government would distribute Growth Dividends (GD) to Singaporeans to share surpluses from over the past year. All living Singapore citizens aged 21 and above in 2008 would automatically receive their GD if they have signed up for their GST Credits in 2007. Otherwise, they would have to sign up in 2008 in order to receive their GD. The GD would be paid out in two instalments in April and October 2008.

The amount of GD that a Singaporean would receive depends on the Annual Value of his home, his Assessable Income, his age and NS status; and is summarised in the table as follows:

		Annual Value (AV) of Home in 2007		
		\$5,000 or less  (1-3R HDB flats)	More than \$5,000 and up to \$10,000  (4R, 5R HDB flats, exec flats and some less expensive private properties)	More than \$10,000  (more expensive private properties)
Annual Assessable Income in 2007	\$24,000 or less	\$400  For those 60 years old and above: +\$200	\$300  For those 60 years old and above: +\$150	\$150  For those 60 years old and above: +\$75
	More than \$24,000 and up to \$100,000			
	More than \$100,000	\$100		
NSmen, ex-NSmen and NSF		+\$100		

(AV criteria for GD are based on the 2007 AVs.)

## Skills Development Levy

**Present Position** Under the Skills Development Levy (SDL) Act, it is a statutory requirement for employers to make SDL contributions for employees who fall within the salary ceiling for levy contributions. The current monthly salary ceiling is \$2,000 and the levy rate is 1% and a minimum of \$2 is payable where the remuneration is less than \$200.

The SDL is payable for all employees whose gross remuneration is less than or equal to the salary ceiling. The SDL is also payable for employees such as casual, part-time, temporary and foreign workers rendering services wholly or partly in Singapore.

**Proposed Change** SDL would be applicable to all employees and payable up to an employee's first \$4,500 of gross monthly remuneration at a rate of 0.25% or \$2, whichever is higher.

**Effective** 1 October 2008

**Comments** The change would reduce the overall burden on smaller companies and employers of lower-wage workers and broaden the base as SDL contributions are required for all employees.

## Revised Special Tax Structure For Euro-IV Private Diesel Cars

**Present Position** An owner of a Euro-IV private diesel car pays both a road tax and a special tax, whereas an owner of a petrol car pays only road tax. The special tax for a Euro-IV private diesel car is 4 times the road tax of an equivalent petrol car.

**Proposed Change** The special tax for Euro-IV private diesel cars would be revised from the current 4 times the road tax to an absolute-dollar tax based on the engine capacity of the car, at the rate of \$1.25 per cubic centimeters of engine capacity, subject to a minimum payment of \$1,250.

**Effective** 1 July 2008

**Comments** The revision to the special tax structure for Euro-IV private diesel cars is made in recognition of the improved emissions of Euro-IV private diesel cars with respect to both particulate matters and carbon dioxide, and the fuel efficiency of diesel engines as compared to non Euro-IV private diesel cars. The new special tax structure seeks to narrow the difference in the cost of fuel consumption (including petrol duty) between a Euro-IV private diesel car and a petrol car.

## Rationalisation Of Liquor Duties

**Present Position** Liquors are taxed based on their alcoholic content or volume.

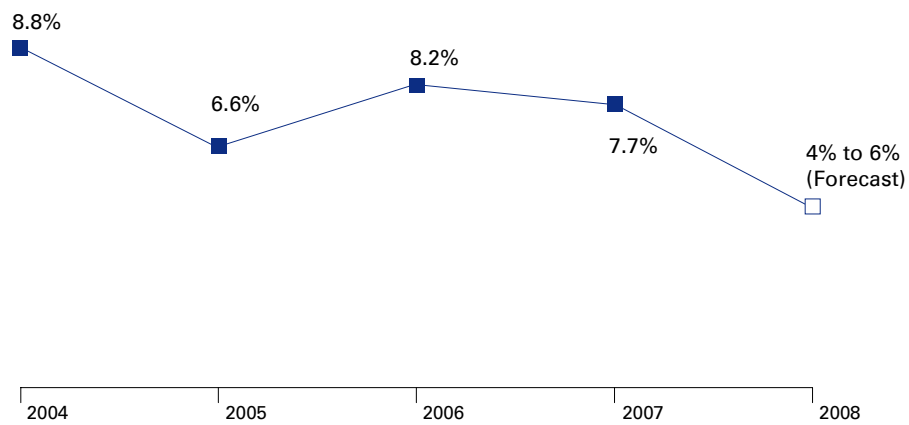
**Proposed Change** Duties on all liquors would be based on their alcoholic content.

**Effective** 15 February 2008

**Comments** The Government had intended to progressively move towards taxing liquors based on their alcoholic content rather than volume. It was announced in Budget 2007 that beer and stout would be taxed based on their alcoholic content with effect from 1 January 2008, adding to the list of liquors that are already taxed based on their alcoholic content such as sake. In Budget 2008, this basis of taxing liquors is extended to all other liquors including wine.

Most liquors would see a slight reduction in duty rates. For example, before the proposed change, wines are taxed at \$9.50 per litre. With the proposed change, wines are taxed at \$70 per litre of alcohol. For a 0.75 litre of wine with an alcoholic content of 12.5%, the duty would be \$6.56, which is approximately 60 cents lower than the current duty of \$7.13.

## Singapore GDP Growth Rate

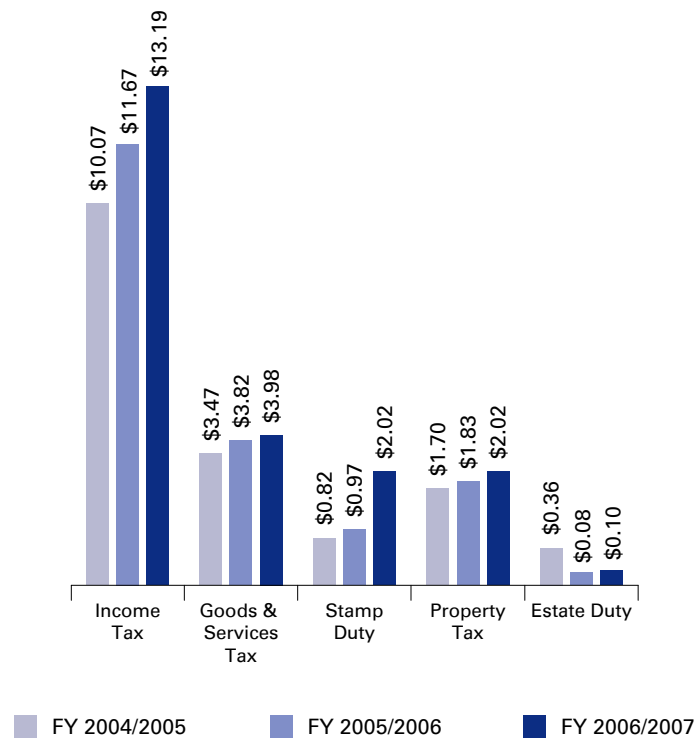


### GDP by Industries

	2004	2005	2006	2007
Manufacturing	13.8%	9.5%	11.9%	5.8%
Construction	-5.5%	0.7%	3.6%	20.3%
Wholesale and Retail Trade	17.4%	9.6%	10.4%	7.3%
Hotels and Restaurants	11.7%	4.3%	4.8%	4.4%
Transport and Storage	10.4%	4.2%	4.7%	5.1%
Information and Communications	6.0%	5.5%	4.6%	6.3%
Financial Services	4.4%	7.6%	10.6%	16.9%
Business Services	1.0%	5.9%	6.9%	7.8%

Source: Singapore Department of Statistics

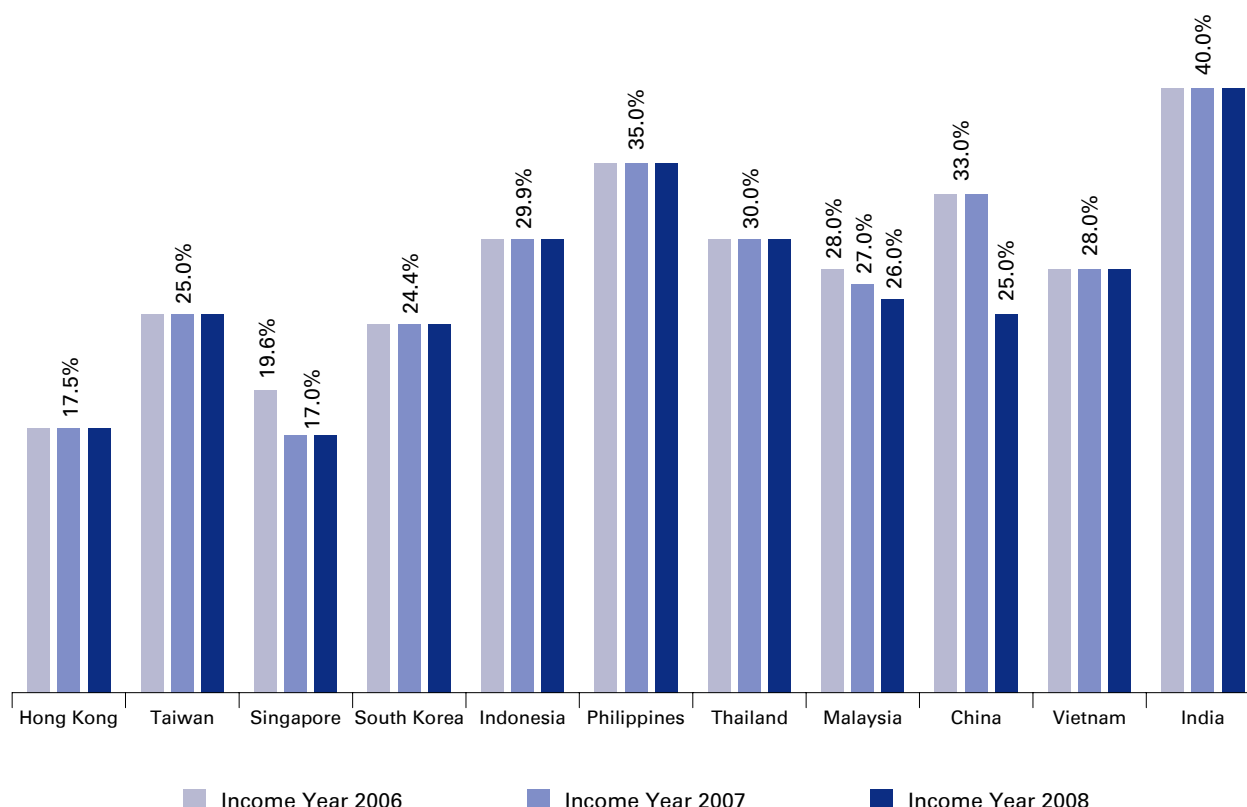
## Collection Of Income Tax, Goods & Services Tax, Stamp Duty, Property Tax And Estate Duty



**Note:**

- All figures are in billion SGD.

## Comparison Of Effective Corporate Tax Rates Of Selected Countries In Asia Pacific



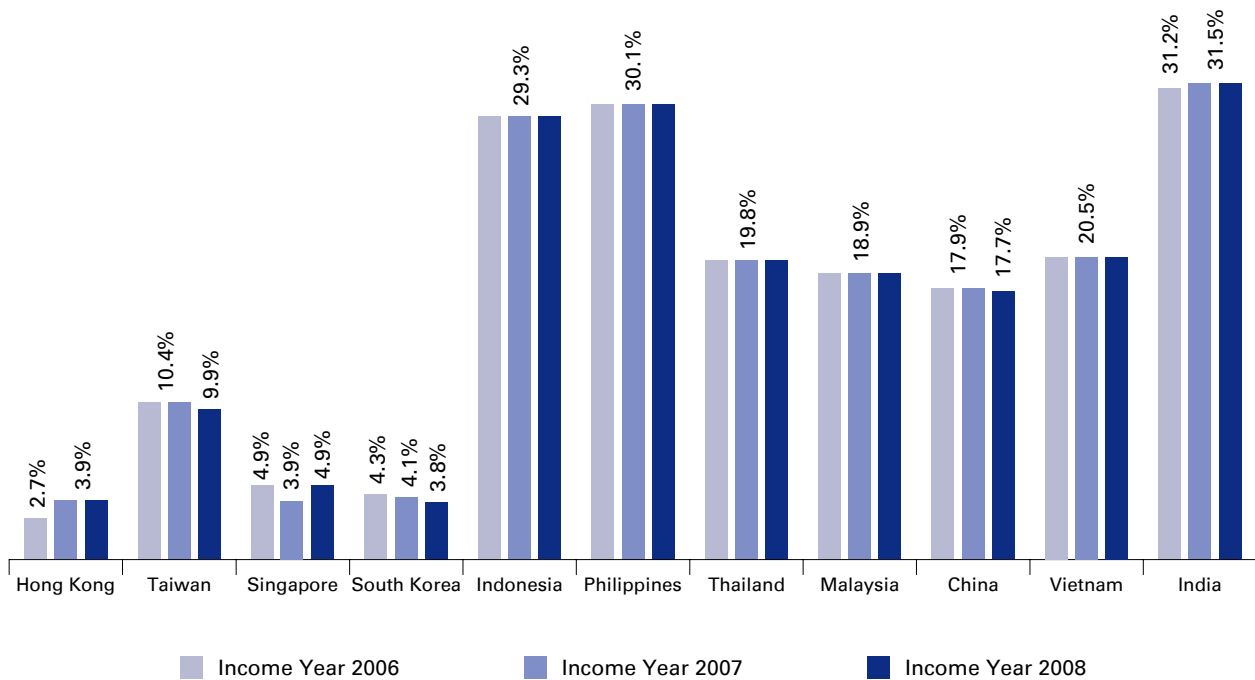
### Assumed data:

- Based on chargeable income of US\$2 million.

### Notes:

- For Hong Kong, a reduction in corporation profits tax rate to 16.5% for the income year 2008 is expected to be announced in its forthcoming 2008/2009 Budget Statement.
- In the case of Taiwan, the retained earnings tax is excluded.
- In the case of Singapore, the above effective rates take into consideration the partial income exemption for the stated income years:
  - 2006 S\$52,500
  - 2007 and 2008 S\$152,500
 Moreover, newly incorporated Singapore companies may, subject to certain conditions, enjoy tax exemption on the first S\$100,000 of its normal chargeable income.
- For South Korea and India, the above exclude the surtax/surcharge on tax. India also has additional education cess that has been excluded.
- For Thailand, the corporate tax rate is on a graduated scale from 15% to 30% for companies having registered paid-up capital of less than Thai Baht 5 million on balance sheet date.
- As for Malaysia, with effect from income year 2003, corporate tax rate is reduced to 20% on chargeable income of up to RM500,000 for companies with paid-up capital of RM2.5 million and below. The normal corporate tax rate that is applied on any remaining chargeable income is as follows for the stated income years:
  - 2006 28%
  - 2007 27%
  - 2008 26%
- In China, a reduced Enterprise Income Tax rate of 20% applies to small-scale enterprises with low profitability that meet certain conditions.
- Unlike other countries, Hong Kong, Malaysia and Singapore do not impose a withholding tax on dividends in addition to corporate tax.

## Comparison Of Effective Personal Tax Rates Of Selected Countries In Asia Pacific



### Assumed data:

- Gross Salary: US\$60,000 p.a. (converted to the respective local currencies using the published exchange rates as at 31 December 2007 for purpose of this comparison. Note that some of the Asia Pacific countries may have official exchange rates that must be used).
- Employee is an expatriate married with 2 children (qualifying for child relief claim) and is not entitled to any benefits-in-kind.
- He makes no contribution to any approved pension fund in the country of employment.
- In the case of Philippines, it is further assumed that the expatriate is a resident alien.

### Notes:

1. For Hong Kong, the above effective rates were computed on progressive rates basis as the tax charge is lower than that determined on the standard rate basis. A reduction in the standard rate for individuals from 16% to 15% is expected to be announced in the forthcoming 2008/2009 Budget Statement.
2. Singapore effective tax rate of 3.9% for income year 2007 is after deducting the 20% tax rebate announced in the Budget Speech.
3. For South Korea, Indonesia and Thailand, the National Health/Social Insurance taxes are not included in determining the above effective tax rates.
4. For India, the surcharge on tax and education cess are excluded.

## Survey Of Indirect Taxes Levied In Selected Countries In Asia Pacific

Country	Taxation System	Rates (%)
Australia	GST	10.00
Bangladesh	VAT	15.00
Brunei Darussalam	None	-
Cambodia	VAT	10.00
China	VAT – goods	17.00
	Business Tax – services	3.00 – 20.00
	Consumption Tax	3.00 – 45.00 and/or based on quantity <sup>Note 1</sup>
Hong Kong	None	-
India	VAT (on intra-state sales)	12.50 <sup>Note 2 to 5</sup>
	Central Sales Tax (on inter-state sales)	3.00 <sup>Note 6</sup>
	Service Tax	12.36
Indonesia	VAT	10.00
	Luxury Goods Tax	10.00 – 75.00
Japan	Consumption Tax	5.00
Korea	VAT	10.00
Malaysia	Sales Tax – goods	10.00 <sup>Note 7</sup>
	Service Tax – taxable services	5.00
Myanmar	Commercial Tax – prescribed services	5.00 – 30.00
	Commercial Tax – goods	5.00 – 200.00
New Zealand	GST	12.50
Philippines	VAT	12.00
Singapore	GST	7.00
Taiwan	VAT	5.00
Thailand	VAT	7.00 <sup>Note 8</sup>
Vietnam	VAT	10.00 <sup>Note 9</sup>

### Notes:

- Depending on its type, the product may be subject to Consumption Tax on an ad valorem basis with the tax rate ranging from 3% to 45%, on a unit/volume basis, or on a hybrid of the former bases.
- The rates of VAT vary from State to State.
- Certain items of basic necessity, agricultural items etc. are exempt from VAT. 1% VAT is generally applicable to products such as gold and silver.
- 4% rate is generally applicable on goods of local importance, industrial inputs and specified IT products.
- Petroleum products, liquor etc. are usually subject to VAT at 20% or such higher rates as may be prescribed in the respective State. They are liable to a special VAT regime.
- The Central Sales Tax rates are as follows:
  - 3% or local VAT rate, whichever is lower if the purchaser is able to issue a prescribed declaration form provided the goods are used for specified purposes;
  - Any other situation: VAT rate in seller's State
- There are also specific sales tax rates imposed on certain classes of petroleum products.
- The VAT rate of 7% is applicable until 30 September 2008. The VAT rate will be 10% thereafter unless otherwise announced.
- 5% VAT generally applies to areas of the economy concerned with the provision of essential goods and services such as the supplies of clean water, pesticide and growth stimulants, special medical equipment, teaching and study aids, etc. Other local supplies of goods and services are subject to 10% VAT.

## Global Corporate Tax Rates

Country	1 January 2006 (%)	1 January 2007 (%)
Albania	20	20
Argentina	35	35
Aruba	35	28
Australia	30	30
Austria	25	25
Bahrain	0	0
Bangladesh	30	30
Barbados	25	25
Belgium	33.99	33.99
Bolivia	25	25
Botswana	25	25
Brazil	34	34
Bulgaria	15	10
Canada	36.1	36.1
Cayman Islands	0	0
Chile	17	17
China	33	33
Colombia	35	34
Costa Rica	30	30
Croatia	20.32	20
Cyprus	10	10
Czech Republic	24	24
Denmark	28	28
Dominican Republic	30	29
Ecuador	25/15	25/15 <sup>Note 1</sup>
Egypt	20	20
Estonia	0/23 <sup>Note 2</sup>	0/22 <sup>Note 3</sup>
Fiji	31	31
Finland	26	26
France	33.33	33.33
Germany	38.34	38.36
Greece	22/29 <sup>Note 4</sup>	20/25 <sup>Note 5</sup>
Honduras	30	30

### Notes:

1. 15% rate applies to reinvested profits.
2. 23% rate applies to distributed profits and 0% tax applies to undistributed profits.
3. 22% rate applies to distributed profits and 0% tax applies to undistributed profits.
4. 22% rate applies to general and limited partnerships. 29% rate applies to listed corporations and unlisted domestic corporations, limited liability companies and branches of foreign entities.
5. 20% rate applies to general and limited partnerships. 25% rate applies to listed corporations and unlisted domestic corporations, limited liability companies and branches of foreign entities.

Country	1 January 2006 (%)	1 January 2007 (%)
Hong Kong	17.5	17.5
Hungary	16	16
Iceland	18	18
India	33.66	33.99
Indonesia	30	30
Ireland	12.5	12.5
Israel	31	29
Italy	37.25	37.25
Jamaica	33.33	33.33
Japan	40.69	40.69
Kazakhstan	30	30
Korea, Republic of	27.5	27.4
Kuwait		5/55 <sup>Note 6</sup>
Latvia	15	15
Lithuania	15/13	15/13 <sup>Note 7</sup>
Luxembourg	29.63	29.63
Macau	12	12
Malaysia	28	27
Malta	35	35
Mauritius	25/15	22.5/15 <sup>Note 8</sup>
Mexico	29	28
Mozambique	32	32
Netherlands	25.5 <sup>Note 9</sup> /29.6	20/23.5/25.5 <sup>Note 10</sup>
Netherlands Antilles	34.5	34.5
New Zealand	33	33
Norway	28	28
Oman	12	12
Pakistan	35	35
Panama	30	30
Papua New Guinea	30	30
Paraguay		10
Peru	30	30
Philippines	35	35

## Notes:

6. Corporate tax rates range from 5% to 55% on the net profit earned from carrying on a trade or business in Kuwait.
7. Standard corporate tax rate is 15%. A rate of 13% applies if the average number of employees of an entity does not exceed 10 and if the income does not exceed LTL 500,000 (app. EUR 144,800).
8. 15% rate applies to companies qualifying for a tax incentive.
9. 25.5% rate applies to the first EUR 22,689 of taxable profits.
10. 20% on taxable profits of up to EUR 25,000; 23.5% on profits between EUR 25,000 and EUR 60,000; 25.5% on profits over EUR 60,000

Country	1 January 2006 (%)	1 January 2007 (%)
Poland	19	19
Portugal	27.5	25
Qatar		35
Romania	16	16
Russia	24	24
Singapore	20	20
Slovak Republic	19	19
Slovenia	25	23
South Africa	36.9	36.9
Spain	35	32.5
Sri Lanka	32.5	35
Sweden	28	28
Switzerland	21.3	21.3 <sup>Note 11</sup>
Taiwan	25	25
Thailand	30	30
Tunisia	35	30
Turkey	30	20
Ukraine	25	25
United Arab Emirates	20/55	20/55 <sup>Note 12</sup>
United Kingdom	30	30
United States	40	40
Uruguay	30	30
Venezuela	34	34
Vietnam	28	28
Zambia	35	35

## Notes:

11. Tax rates varying from 13.12% to 25.7% apply to different cantons and the tax rate for corporation in canton and city of Zurich is 21.3%.
12. 20% tax rate applies to branches of foreign banks and the 55% rate generally applies to the operating profits of oil companies.

## Incentives For Companies Going Overseas Under The Economic Expansion Incentives (Relief From Income Tax) Act

Tax Incentives	Qualifying Activities	Minimum Requirements	Tax Concessions
<b>Overseas Enterprise Incentive</b>	Approved overseas investments and projects	The overseas enterprise must be a Singapore incorporated company that is at least 50% owned by Singapore citizens or Singapore permanent residents and is tax resident in Singapore.	Qualifying dividend income and income from prescribed activities may be tax exempt for up to 10 years.
<b>Integrated Industrial Capital Allowances</b>	Approved project carried on by an overseas subsidiary in manufacturing or the provision of specialised or technical services	The Singapore resident holding company must fully own the plant and machinery which must be recorded in its accounts and used by the wholly owned overseas subsidiary for carrying on the qualifying activities. The Singapore holding company must sell the products manufactured by the overseas subsidiary and undertake knowledge intensive activities in Singapore.	The Singapore holding company would be allowed to claim capital allowances on the plant and machinery incurred during the qualifying period.

## Incentives For Companies Going Overseas Under The Singapore Income Tax Act

Section	Qualifying Activities/Income	Incentive Beneficiaries	Tax Concessions
13(8) of SITA	Remittance of specified foreign income	Resident taxpayer	Tax exemption on foreign-sourced dividend, foreign branch profits and foreign-sourced service income, subject to meeting certain conditions.
13(12) of SITA	Remittance of approved foreign income	Resident taxpayer	Tax exemption or concessionary tax rate on qualifying foreign income received in Singapore.
13H of SITA	Specified income derived from approved investments	Approved venture company	Tax exemption or concessionary tax rate of not more than 10% on qualifying income derived from approved investments for a period not exceeding 10 years with possible extension for further period not exceeding 5 years at any one time except that the tax relief period shall not in aggregate exceed 15 years.
14B of SITA	Promoting the trading of goods or provision of services or the provision of services in connection with the use of any right under a master franchise or master intellectual property licence where the approved company or firm is the holder of the franchise or license	Approved companies or firms, which are resident in or having a permanent establishment in Singapore.	Further deduction of qualifying expenses incurred in approved trade fairs, exhibitions, trade missions and trade promotion activities; or the maintenance of approved overseas trade office; or approved marketing project.
14K of SITA	Carrying out of an approved investment project overseas or maintenance of an approved overseas project development office	Approved firms or resident companies carrying on business in Singapore.	Further or double deduction on qualifying expenditure.

## Tax Incentives For Intellectual Property

Section	Tax Incentives	Requirements	Tax Benefits
14A of SITA	Tax deduction for patenting costs	The patent must be legally registered in Singapore and owned by Singapore companies and businesses. In addition, the companies and businesses claiming deduction for the patenting costs must not receive reimbursement from the Patent Application Fund Plus.	Tax deduction for qualifying patenting costs incurred from 1 June 2003 to 31 May 2013.
14D of SITA	Deduction for expenditure on R&D	Expenses must be in respect of a R&D project undertaken in-house or outsourced to a R&D organisation. If the R&D organisation is outside Singapore, the benefit from the R&D project must accrue to the Singapore company.	Tax deduction on expenditure incurred for R&D activities undertaken in-house or outsourced to R&D organisation.
14E of SITA	Further deduction for expenditure on R&D project *	The R&D project must be approved by the Minister and be carried out in Singapore.	Further deduction allowed on expenses incurred on approved R&D project in Singapore undertaken in-house or outsourced to R&D organisation.
14J of SITA	Further deduction for specified expenditure on R&D of new financial activities	The specified R&D expenses must be incurred by approved financial institutions in researching and developing any approved new financial activity.	Further deduction on qualifying expenses incurred, subject to a capping of 30% of statutory income of the financial institution before the further deduction.
19B of SITA	Writing-down allowance for intellectual property rights	Intellectual property rights are acquired for use in the company's business. The company is an assignee of the intellectual property rights unless approval is granted for such requirement to be waived. *	Writing-down allowances over 5 year period on capital expenditure incurred from 1 November 2003 to 31 October 2013 in acquiring the intellectual property rights.
19C of SITA	Writing-down allowance for approved cost-sharing agreement for R&D activities *	Approved cost-sharing agreement in respect of R&D activities for the purpose of the trade.	Writing-down allowance of 100% may be claimed on approved R&D expenditure incurred for cost-sharing agreement entered into and approved on or after 17 February 2006.
97ZF of EEIA	Tax exemption of foreign-sourced royalties or interest received in Singapore *	The foreign-sourced royalties and foreign-sourced interest must be used to fund R&D activities and the resulting intellectual property must be owned and commercialised by the Singapore-based companies.	Tax exemption on remittance of foreign-sourced royalties and foreign-sourced interest made within a period of 5 financial years. Unless extended by the Minister, the approval period will expire on 31 May 2008.

Note:

\* Administered by EDB

## Financial Sector Incentive Scheme

FSI Scheme	Qualifying Activities	Tax Rate	Tenure of Scheme
Standard Tier	Lending and related activities Debt capital market Equity capital market Treasury Fund management, trustee and custodian services	10%	5, 7 or 10 years
Fund Management	Fund management	10%	5, 7 or 10 years
Headquarters Services	Headquarters services	10%	5, 7 or 10 years
Bond Market	Arranging, underwriting and distributing any Qualifying Debt Securities	5%	5, 7 or 10 years
Credit Facilities Syndication	Arranging, underwriting and participating in syndicated offshore credit or guarantee facilities, where the loan is used outside Singapore.  In the case of a bank or merchant bank, trading in secondary loans under syndicated offshore credit or guarantee facility.	5%	5, 7 or 10 years
Derivatives Market	Trading and service income derived in connection with transactions relating to qualifying financial derivatives.	5%	5, 7 or 10 years
Equity Market	Trading and service income derived in connection with equity and debt securities listed on SGX that are issued by foreign companies.  Arranging, underwriting, management and placement of Initial Public Offerings of equity and debt securities issued by foreign companies for the purpose of listing on SGX.	5%	5, 7 or 10 years
Project Finance	Arranging, underwriting and distributing any qualifying project bond, qualifying project loan and providing project finance advisory services relating to a qualifying infrastructure project.	5%	5 years

## Glossary

<b>AIS</b>	Approved International Shipping Enterprise
<b>ASPV</b>	Approved Special Purpose Vehicle
<b>AV</b>	Annual Value
<b>CEEBR</b>	Company Employee Equity-based Remuneration
<b>CPF</b>	Central Provident Fund
<b>DTA</b>	Double Taxation Agreement
<b>EDB</b>	Economic Development Board
<b>EEEBR</b>	Entrepreneurial Employee Equity-based Remuneration
<b>EEIA</b>	Economic Expansion Incentives (Relief from Income Tax) Act
<b>ERIS</b>	Equity Remuneration Incentive Scheme
<b>ESOP</b>	Employee Stock Option Plan
<b>ESOW</b>	Employee Share Ownership
<b>ETR</b>	Effective Tax Rate
<b>FIHC</b>	Family-owned Investment Holding Company
<b>FSI</b>	Financial Sector Incentive
<b>FSI-BM</b>	Financial Sector Incentive – Bond Market
<b>FSI-DM</b>	Financial Sector Incentive – Derivatives Market
<b>FSI-ET</b>	Financial Sector Incentive – Enhanced Tier
<b>FSI-IF</b>	Financial Sector Incentive – Islamic Finance
<b>FSI-PF</b>	Financial Sector Incentive – Project Finance
<b>FSI-ST</b>	Financial Sector Incentive – Standard Tier
<b>GD</b>	Growth Dividends
<b>GST</b>	Goods and Services Tax
<b>IRAS</b>	Inland Revenue Authority of Singapore
<b>L-Bonus</b>	Life Bonus
<b>MAS</b>	Monetary Authority of Singapore
<b>MFI</b>	Maritime Finance Incentive
<b>MPA</b>	Maritime and Port Authority of Singapore
<b>NOR</b>	Not-Ordinarily-Resident
<b>OTC</b>	Over-The-Counter
<b>QDS</b>	Qualifying Debt Securities
<b>QPDS</b>	Qualifying Project Debt Securities
<b>R&amp;D</b>	Research and Development
<b>REIT</b>	Real Estate Investment Trust
<b>RISE</b>	R&D Incentive for Start-Up Enterprises
<b>SDL</b>	Skills Development Levy

<b>SGX</b>	Singapore Exchange Limited
<b>SITA</b>	Singapore Income Tax Act
<b>SME</b>	Small and Medium Enterprise
<b>SPV</b>	Special Purpose Vehicle
<b>SRS</b>	Supplementary Retirement Scheme
<b>UTC</b>	Unilateral Tax Credit
<b>VAT</b>	Value Added Tax

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