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FOR CLIENTS' INFORMATION ONLY 24 March 2016

Dear Sirs

THE 2016 SINGAPORE BUDGET COMMENTARY

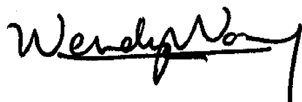
The Minister for Finance presented a budget with a focus to drive long term economic growth and development of Singapore to its next phase by setting aside $4.5 billion for firms and industries under the Industry Transformation Programme.

A new Business Grants Portal will be launched for small and medium sized enterprises to access grants from various Government agencies to assist them in their drive for capability building, automation and productivity growth, training and going international. The Business Grant Portal will include grants from IE Singapore, SPRING, Singapore Tourism Board and Design Singapore.

We are pleased to highlight in the following pages the tax and certain other changes as proposed in the 2016 Budget. It should be noted that the views expressed in this commentary are based on our interpretation of the Finance Minister's Budget Speech. Until the proposals are enacted, we cannot be definitive about the proposed changes.

Please do not hesitate to contact us should you require any assistance.

Yours faithfully



WENDY WONG
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Enc.

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2016

BUDGET

COMMENTARY

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A CORPORATE TAXATION

1. CORPORATE TAX RATE

Current : 17% from the Year of Assessment ("YA") 2010. Also, partial tax exemption is granted as follows on up to $300,000 of a company's chargeable income ("CI"):

(i) 75% of up to the first $10,000 CI; and
(ii) 50% of up to the next $290,000 CI.

The partial tax exemption does not apply to the following:

(i) CI of a company that is subject to tax at a concessionary tax rate;

(ii) Income earned by a non-resident company that is subject to a final withholding tax. Such income earned by a non-resident company, which includes interest and royalties, are taxed at the rates of 15% and 10% respectively or the reduced rate provided in a tax treaty; and

(iii) All dividends received from Singapore companies. With effect from 1 January 2008, all dividends paid by Singapore companies are already exempt from tax in the hands of shareholders.

Proposed : No change to the corporate tax rate of 17% and partial tax exemption on the first $300,000 of a company's chargeable income.

2. CORPORATE INCOME TAX REBATE

Current : A 30% corporate income tax rebate is granted subject to a cap of $20,000 per YA for the YAs 2016 and 2017.

Proposed : To raise the corporate income tax rebate from 30% to 50% for the YAs 2016 and 2017 but the cap of $20,000 per YA remains.

Commentary : The higher tax rebate is intended to help companies especially small and medium enterprises.

3. START-UP TAX EXEMPTION SCHEME

Current : Full tax exemption on the first $100,000 of CI and 50% tax exemption of up to the next $200,000 CI for qualifying new companies including companies limited by guarantee for the first 3 consecutive YA upon incorporation.

A qualifying new company must fulfil the following conditions:

(a) It is incorporated in Singapore;
(b) It is a tax resident of Singapore; and
(c) It has total share capital which is beneficially held directly by no more than 20 shareholders

    (i) all of whom are individuals; or
    (ii) at least one of whom is an individual holding at least 10% of the total number of issued ordinary shares of the company

    throughout the basis period relating to the YA of claim.

However, the start-up tax exemption scheme is no longer available to the following companies incorporated after 25 February 2013:-

(i) Property development companies that buy or lease land and arrange for a building to be built on the land in order to lease, manage or sell the building; and

(ii) Investment holding companies whose principal activity is that of investment holding and derive only investment income such as rental, dividend or interest income.

Property development and investment holding companies will still be able to enjoy the partial tax exemption available to all companies.

All existing conditions of the start-up tax exemption scheme remain unchanged.

Proposed : No change to the existing start-up exemption scheme.

4. INTRODUCING MANDATORY ELECTRONIC-FILING ("E-FILING") FOR CORPORATE INCOME TAX ("CIT") RETURNS

Current : Businesses may file their annual CIT returns via hardcopy or through the IRAS' e-Services platform. Such returns include the filing of Estimated Chargeable Income, Form C and Form C-S.

Proposed : In line with Government's direction for more effective delivery of public services and to be aligned with the Smart Nation vision to harness technology to enhance productivity, mandatory e-Filing of CIT returns will be implemented in stages as follows:

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

Effective : From YA 2018 by target groups

Commentary : The Government's vision is to build a Smart Nation with the development of information and communications technology sector. The public services also embark on e-Filing to support this vision and encourage utilisation of technology to increase productivity.

5. INTRODUCING MANDATORY E-FILING FOR PRODUCTIVITY AND INNOVATION CREDIT ("PIC") CASH PAYOUT APPLICATION

Current : Businesses are allowed the option to submit their applications for Productivity and Innovation ("PIC") cash payout via hardcopy or through IRAS' PIC cash payout e-Services.

Proposed : Mandatory e-Filing of PIC cash payout applications will be effective from 1 August 2016 to streamline and expedite processing of the applications.

Effective : From 1 August 2016

Commentary : This is aligned with the Smart Nation vision to harness technology to enhance productivity.

6. ALLOWING THE PIC SCHEME TO LAPSE

Current : The PIC Scheme is currently available to businesses on qualifying expenditure incurred during the basis periods for YAs 2011 to 2018 in any of the following 6 activities.

- Acquisition/leasing of information technology ("IT") and automation equipment
- Training of employees
- Acquisition/in-licensing of intellectual property rights ("IPRs")
- Registration of qualifying IPRs
- Research and development ("R&D") activities
- Design projects (approved by DesignSingapore Council)

Enhanced tax deduction or allowance is available at 400% of eligible expenditures on each of these activities, with a cap of $400,000 expenditure per activity per YA.

Businesses are allowed to combine their annual expenditure caps for YAs 2011 and 2012 into a ceiling of $800,000, YAs 2013 to 2015 into a ceiling of $1,200,000 and YAs 2016 to 2018 into a ceiling of $1,200,000.

PIC+ Scheme

The PIC+ Scheme is available from YA 2015 to YA 2018, where qualifying Small and Medium Enterprises ("SMEs") are allowed an additional $200,000 of qualifying expenditure incurred. This means that the expenditure cap will be raised from $400,000 to $600,000 per qualifying activity for YAs 2015 to 2018.

The higher expenditure cap for PIC+ is combined across the relevant 3 YAs as follows.

YAs (Combined)	Combined Expenditure Cap Per Qualifying Activity
2013 to 2015	$400,000 + $400,000 + $600,000 = $1,400,000[#]
2016 to 2018	$600,000 + $600,000 + $600,000 = $1,800,000

[#] The combined expenditure cap of $1,400,000 is only applicable for YA 2015 as the additional expenditure cap of $200,000 is not available for YAs 2013 and 2014

An entity is a qualifying SME if:

(a) its annual turnover is not more than S$100 million; or
(b) its employment size is not more than 200 workers.

This criterion will be applied at the group level if the entity is part of a group. Businesses will self-assess their eligibility for the PIC+ scheme to claim the relevant benefits similar to the current PIC application process.

Any unutilised trade loss and / or allowance arising from PIC that cannot be fully offset against the income of a business for the current year can be transferred under group relief, carried back or carried forward, subject to the relevant conditions being satisfied.

Proposed : The PIC Scheme will be allowed to expire after YA 2018.

Effective : From YA 2019

Commentary : The PIC Scheme was introduced in 2010 in line with the Government's commitment to support innovation and improvement in productivity in the economy, especially geared towards small and growing businesses.

The Minister announced in Budget 2016 the launch of the Industry Transformation Programme to transform enterprises, transform industries and transform through innovation.

With this move towards more targeted measures under the Industry Transformation Programme, broad-based support measures such as the PIC Scheme will be allowed to taper.

7. REDUCING THE PIC CASH PAYOUT RATE

Current : In YAs 2011 and 2012, businesses are allowed the option to convert 30% of the combined cap of $200,000 (ie $100,000 per YA) of qualifying expenditure into a non-taxable payout. The cash payout rate was enhanced in Budget 2012 to 60% for up to $100,000 of qualifying expenditure per YA from YAs 2013 to 2015.

In Budget 2014, the PIC Scheme was extended for 3 years until YA 2018. Accordingly, the PIC cash payout option was correspondingly extended.

To be eligible for the PIC cash payout, businesses must have:

(a) incurred PIC-qualifying expenditure (net of grant or subsidy by the Government or any statutory board) during the basis period for the YA in which the cash payout is claimed;

(b) active business operations in Singapore; and

(c) at least 3 local employees (Singapore citizens or Singapore permanent residents with CPF contributions) excluding sole-proprietors, partners under contract for service and shareholders who are directors of the company.

A business is considered to have met the 3-local-employees condition if it contributes CPF on the payroll of at least 3 local employees:

- YAs 2011 to 2015 - in the last month of the quarter or combined consecutive quarters.
- YAs 2016 to 2018 - in all 3 months of the quarter or the last 3 months of the combined consecutive quarters.

(d) put the PIC IT and Automation equipment to use (i.e. "in-use" condition) for PIC cash payout claims relating to YA 2016 onwards.

The minimum qualifying expenditure for each PIC cash payout application is $400.

Proposed : The Minister proposed that the cash payout rate will be lowered from 60% to 40% for qualifying expenditure incurred from 1 August 2016.

All other conditions of the scheme remain unchanged.

Effective : For qualifying expenditure incurred on or after 1 August 2016 (i.e. affecting YA 2017 and YA 2018).

Commentary : The lowering of the cash payout rate is in line with the tapering of broad-based support measures as more targeted measures under the Industry Transformation Programme is being introduced.

8. INVESTMENT ALLOWANCE (“IA”) UNDER AUTOMATION SUPPORT PACKAGE

Proposed : Qualifying projects may be eligible for an IA of 100% on the amount of approved capital expenditure, net of grants. The IA is in addition to the existing capital allowance for plant and machinery. The approved capital expenditure is capped at $10 million per project.

Together with the IA, SPRING will introduce the following:

(a) Support under SPRING’s Capability Development Grant (“CDG”)

SPRING’s CDG will be expanded to support the roll-out or scaling up of automation projects at up to 50% of the qualifying cost. The grant is capped at $1 million.

(b) Enhanced financing support

To improve access to loans for qualifying projects, the government will increase the risk-share with participating financial institutions (“PFIs”) under SPRING’s Local Enterprise Finance Scheme (“LEFS”) equipment loan, from 50% to 70% for qualifying projects undertaken by SMEs. The government will also expand LEFS to cover equipment loans for non-SMEs at 50% risk-share with PFIs.

(c) Access to overseas market

IE Singapore will work with SPRING where relevant to help businesses to access overseas markets.

Effective : The Ministry of Trade and Industry (“MTI”) will announce more details at the Committee of Supply.

Commentary : The automation support package is introduced by SPRING Singapore to support firms to scale-up their automation efforts.

9. EXTENDING UPFRONT CERTAINTY OF NON-TAXATION OF COMPANIES' GAINS ON DISPOSAL OF EQUITY INVESTMENTS UNDER SECTION 13Z OF THE INCOME TAX ACT ("ITA")

Current : Currently, under Section 13Z of the ITA, gains derived from the disposal of equity investments by companies will not be taxed if:

(i) The divesting company holds a minimum shareholding of 20% in the company whose shares are being disposed; and

(ii) The divesting company maintains the minimum 20% shareholding for a minimum period of 24 months just prior to the disposal.

The rule is applicable whether the investee company is: -

(i) Incorporated in Singapore or elsewhere;

(ii) Listed or non-listed.

The rule does not apply to: -

(a) A **divesting company** whose gains or profits form the disposal of shares are included as part of its income based on the provisions of Section 26 of the ITA.

(b) Disposals of shares in an unlisted **investee company** that is in the business of trading or holding Singapore immoveable properties (other than the business of property development).

For share disposals in other scenarios, the tax treatment of the gains / losses arising from share disposals will be determined based on the facts and circumstances of the case.

Section 13Z applies to companies' disposal of equity investments from 1 June 2012 to 31 May 2017.

Proposed : The Minister proposed to extend the scheme under Section 13Z till 31 May 2022 (to cover disposal of equity investments from 1 June 2017 to 31 May 2022).

All conditions of the scheme remain the same.

Effective : Extended from 1 June 2017 to 31 May 2022

Commentary : The extension of the scheme under Section 13Z is to provide upfront certainty to companies in their corporate restructuring.

10. PROVIDING FOR ALLOCATION OF EXPENSES UNDER SECTION 14U OF THE ITA AND PRE-COMMENCEMENT EXPENSES UNDER PART V OF THE ITA

Current : Section 14U deems the first day of the accounting year in which the business earns its first dollar of trade receipt as the date of business commencement. Under Section 14U, businesses can claim tax deduction on expenses up to 12 months before this date as well as revenue expenses incurred before the first dollar is earned (referred to as "Section 14U expenses").

If the business is awarded with an incentive that commences in the same accounting year in which the first dollar is earned, Section 14U does not require businesses to allocate the Section 14U expenses to the pre-incentive and incentive income. Similarly, pre-commencement expenses that have been granted deductions under Part V of the ITA are not required to be allocated to the pre-incentive and incentive income. Such provisions allow pre-commencement expenses relating to IP registration, R&D, renovation and refurbishment and design to be deemed as incurred on the actual date of commencement and hence tax deductible.

Proposed : The Minister has proposed to ensure fair allocation of Section 14U and pre-commencement expense to pre-incentive and incentive income derived by businesses enjoying tax incentives, and to provide certainty on the allocation method to be used:

(a) Section 14U and pre-commencement expenses that are directly incurred to derive pre-incentive income or incentive income will be specifically identified and set off against the relevant income; and

(b) For all remaining Section 14U and pre-commencement expenses, they will be allocated between the pre-incentive and incentive income based on income proportion (e.g. using turnover, gross profit).

IRAS will release further details of the change by June 2016.

Effective : From 25 March 2016

Commentary : This provision provides clarity and certainty in the tax treatment of the pre-commencement expenses and how they should be allocated to pre-incentive and incentive income.

11. ENHANCING THE LAND INTENSIFICATION ALLOWANCES ("LIA") SCHEME

Current : The LIA scheme was introduced in Budget 2010 and later enhanced in Budget 2014 to encourage intensification of industrial land to promote efficient use of land and more higher value activities.

The LIA scheme is open to businesses in the manufacturing sector that build on land that is zoned as Business 1 or Business 2 (excluding Business 1 White or Business 2 White) under the Urban Redevelopment Authority ("URA") Master Plan as at the date the development application is made to URA.

In 2014, the LIA scheme is also extended to the logistics sector, as well as businesses carrying out qualifying activities on airport and port land.

To qualify for the LIA scheme, the following conditions must be met upon completing the construction or renovation of the building or structure.

(a) The Gross Plot Ratio ("GPR") of the building or structure:

  (i) meets the GPR benchmark applicable for the qualifying trade or business; or

  (ii) is at least 10% more than its current GPR if the existing building or structure already meets or exceeds the GPR

(b) At least 80% of the total floor area of the relevant building or structure is utilised by a single user for undertaking the qualifying trade or business.

Approved LIA incentive recipients will enjoy an initial allowance of 25% and annual allowances of 5% on qualifying capital expenditure incurred for the construction or renovation / extension of a qualifying building or structure.

The LIA scheme is in place from 1 July 2010 to 30 June 2020.

Proposed : The Minister proposed to extend the LIA scheme to buildings used by a user or multiple users, who are related, for one or multiple qualifying trades or businesses, if certain conditions are met.

This change will take effect for LIA applications if:

(i) The application for LIA is made from 25 March 2016; and

(ii) The application for planning permission or conservation permission for the construction or renovation is made from 25 March 2016.

The qualifying capital expenditure for which an allowance may be made excludes any expenditure incurred before 25 March 2016.

The Minister also proposed to introduce a new criterion requiring LIA applicants to be related to the qualifying user or users of the building.

This change will take effect for LIA applications if:

(i) The application for LIA is made from 25 March 2016; and

(ii) The application for planning permission or conservation permission for the construction or renovation is made from 25 March 2016.

EDB will release further details of the change by July 2016.

Effective : The enhancements are effective for LIA applications made from 25 March 2016.

Commentary : This is to encourage co-location of activities and allow a more efficient value supply chain.

12. ENHANCING THE MERGERS & ACQUISITION ("M&A") SCHEME

Current : Under the Mergers & Acquisition ("M&A") scheme, a Singapore acquiring company making qualifying share acquisitions is eligible for the following tax benefits:

(a) M&A tax allowance of 25% of the value of acquisition, for up to $20 million of the purchase consideration paid for qualifying M&A deals per YA. This works out to a cap of $5 million of M&A tax allowance per YA;

(b) Stamp duty relief for qualifying M&A deals is capped at $20 million on the value of qualifying M&A deals. This works out to a cap of $40,000 of stamp duty per year; and

(c) Double tax deduction on transaction costs incurred on qualifying M&A deals subject to an expenditure cap of $100,000 per YA.

Proposed : The Minister proposed to double the existing cap for qualifying M&A deals from $20 million to $40 million, such that:

(a) M&A tax allowance of 25% will be granted for up to $40 million of the purchase consideration paid for qualifying M&A deals per YA; and

(b) Stamp duty relief will be granted for up to $40 million of the purchase consideration paid for qualifying M&A deals per financial year.

IRAS will release further details of the change by June 2016.

Effective : From 1 April 2016 to 31 March 2020

Commentary : With the proposed change, qualifying companies can enjoy up to $10 million (i.e. 25% x $40 million) of M&A tax allowance per YA and a stamp duty relief of up to $80,000 (i.e. 0.2% x $40 million) per financial year. The proposed change is meant to support more M&A.

13. PROVIDING ELECTION FOR WRITING-DOWN PERIOD FOR INTELLECTUAL PROPERTY RIGHTS ("IPRs")

Current : Under Section 19B of the ITA, companies or partnerships can claim writing-down allowance ("WDA") on the acquisition cost of qualifying IPRs over a period of five years.

Qualifying IPRs are patents, trademarks, registered designs, copyrights, geographical indications, lay-out designs of integrated circuits, trade secrets or information that has commercial value and plant varieties.

Proposed : The Minister has proposed that companies or partnerships may elect for their Section 19B WDA to be claimed over writing-down periods of 5, 10 or 15 years. The election which is irrevocable must be made at the point of submitting the tax return of the YA relating to the basis period in which the qualifying cost is first incurred.

Effective : Qualifying IPRs acquired in the basis period for YAs 2017 to 2020

Commentary : This is in line with the Government's effort to further recognize the complexities of IPRs' development to commercialisation cycle, and enhance Singapore's status as an IPR holding and operating hub. This flexibility allows the preservation of unutilized IPRs over a longer period which may otherwise be disallowed due to substantial ownership change as well as same trade test.

14. INTRODUCING ANTI-AVOIDANCE MECHANISM FOR IPR TRANSFERS

Current : There is no specific provision that specifically authorise the Comptroller to make adjustments to the transacted price for an IPR to ensure that it is reflective of the market value.

Proposed : In order to ensure that Section 19B WDA are granted based on transacted values that reflect open market value ("OMV") of an IPR, an anti-avoidance mechanism for IPR transfers has been included. This will empower the Comptroller to make adjustments to the transacted value, if the IPR is not transacted at OMV as follows:

(a) If the acquisition price of IPR is higher than the OMV, the Comptroller may substitute the acquisition price with OMV of the IPR and restrict WDA based on OMV of the IPR; and

(b) If the disposal price of IPR is lower than the OMV, the Comptroller may substitute the disposal price with the OMV of the IPR for the purpose of computing balancing charge.

Effective : Acquisition, sales, transfer or assignment of IPRs made from 25 March 2016

Commentary : IRAS is enforcing the requirement to ensure that transactions are conducted on arm's length basis that reflects the open market price. Therefore, taxpayers have to ensure that proper external valuations are put in place to support transactions involving IPR transfers.

15. ENHANCING THE DOUBLE TAX DEDUCTION FOR INTERNATIONALISATION SCHEME

Current : Under the double tax deduction for internationalisation scheme, businesses are allowed automatic double tax deduction, on up to $100,000 of qualifying expenses incurred on or before 31 March 2016 on the following qualifying activities:

(i) Overseas business development trips/missions;
(ii) Overseas investment study trips/missions;
(iii) Participation in overseas trade fairs; and
(iv) Participation in approved local trade fairs.

Approved businesses may also apply to International Enterprise ("IE") Singapore or Singapore Tourism Board ("STB") on qualifying expenditure that exceeds the above $100,000 cap, or on qualifying expenditure incurred on other qualifying activities, on a case-by-case basis.

The double tax deduction for internationalisation scheme is scheduled to lapse after 31 March 2016.

Proposed : The internationalisation scheme will be extended for another four years from 1 April 2016 to 31 March 2020.

The existing automatic double tax deduction on expenses up to $100,000 will also be extended to qualifying expenditure incurred during the same period (1 April 2016 to 31 March 2020).

All other conditions of the scheme remain the same.

IE Singapore will release further details of the change by June 2016.

Effective : Up to 31 March 2020

Commentary : The objective is to further encourage SMEs to venture abroad.

16. INTRODUCING THE BUSINESS AND INSTITUTIONS OF PUBLIC CHARACTER (“IPC”) PARTNERSHIP SCHEME (“BIPS”)

Current : Corporate Social Responsibility expenditure made by businesses is deductible as part of their business expenses as they receive benefits such as goodwill, branding and enhanced corporate image in return.

Proposed : The Minister proposed to introduce a pilot BIPS from 1 July 2016 to 31 December 2018.

Under BIPS, businesses will enjoy an additional 150% tax deduction on wages and incidental expenses when they send their employees to volunteer and provide services to IPCs, including secondments.

This will be subject to the receiving IPC’s agreement, with a yearly cap of $250,000 per business and $50,000 per IPC on the qualifying costs.

The qualifying expenditure includes:

(a) Basic wages, excluding employers' contributions to CPF, bonus, benefits-in-kind, allowances and other components of wage costs;

(b) Incidental expenses incurred directly in connection with the services provided to IPCs.

Owners of businesses, i.e. sole-proprietors, partners and shareholders who are also directors are excluded.

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

Effective : From 1 July 2016 to 31 December 2018

Commentary : The introduction of the scheme is to incentivise employee volunteerism through businesses.

17. EXTENDING AND ENHANCING THE FINANCE AND TREASURY CENTRE ("FTC") SCHEME

Current : The FTC scheme grants a 10% concessionary tax rate on qualifying income derived by approved FTCs from qualifying activities or services, and the funds must be obtained from approved offices and associated companies.

Tax exemption under Section 13(4) is also granted subject to conditions on prescribed payments made by the FTC to non-resident who are approved offices or associated companies.

The scheme is scheduled to lapse after 31 March 2016.

Proposed : The Minister has proposed to extend the FTC scheme till 31 March 2021 with the following enhancements:

(a) The concessionary tax rate will be reduced to 8% along with the requirement to increase the substantive requirements to qualify for the scheme;

(b) The FTCs will be allowed to obtain funds indirectly from approved offices and associated companies as well as safeguards will be put in place to address the round-tripping risks; and

(c) The scope of tax exemption under Section 13(4) will be expanded to cover interest payments on deposits placed with the FTC by its non-resident approved offices and associated companies, provided the funds are used for the conduct of qualifying activities or services.

EDB will release further details of the change by June 2016.

Effective : From 25 March 2016 till 31 March 2021

Commentary : The extension and enhancement to the FTC scheme is consistent with the Government's objective to ensure that Singapore remains competitive as a regional financial centre and treasury hub in particular compared with Hong Kong.

18. EXTENDING AND REFINING THE TAX INCENTIVE SCHEME FOR TRUSTEE COMPANIES

Current	:	Under the scheme, approved trustee companies are granted a concessionary tax rate of 10% on qualifying income derived from the provision of trustee and custodian services, as well as trust management or administration services. The scheme is scheduled to lapse after 31 March 2016.
Proposed	:	The Minister proposed to subsume the above scheme under the Financial Sector Incentive ("FSI") scheme from 1 April 2016. The scope of qualifying activities will be expanded to align with trustee activities covered under the Financial Sector Incentive-Standard Tier ("FSI-ST") scheme from 1 April 2016 for new and current incentive recipients. A concessionary tax rate of 12% will apply to new awards from 1 April 2016. The current incentive recipients will continue to enjoy existing benefits (i.e. a concessionary tax rate of 10%) till the expiry of their awards and may apply for renewal of their awards under the FSI scheme thereafter. MAS will release further details of the change by 2016.
Effective	:	From 1 April 2016
Commentary	:	The aim is to streamline and align the tax incentive scheme for trustee companies with those covered under FSI scheme.

19. EXTENDING AND REFINING THE TAX INCENTIVE SCHEMES FOR INSURANCE COMPANIES

Current : Approved general, life and composite insurers and reinsurers carrying on offshore insurance business enjoy a concessionary tax rate of 10% on qualifying income derived from qualifying insurance and reinsurance conducted from Singapore for a ten year period.

In Budget 2015, the scheme was renewed effective from 1 April 2015 and available until 31 March 2020. The renewed scheme was termed as the Insurance Business Development ("IBD") Incentive.

Tax incentives are also available to the following specialised lines of insurance.

(a) Marine Hull and Liability Insurance

The scheme provides tax exemption or a 5% concessionary tax rate on qualifying income derived from both onshore and offshore marine hull and liability insurance business. This complements other shipping incentives that promote Singapore as a regional shipping hub.

The scheme is scheduled to lapse after 31 March 2016.

(b) Specialised Insurance Business

Qualifying specialty insurance and reinsurance broking activities enjoy tax exemption on qualifying income derived in respect of specialised risks such as:

(i) Terrorism risks;
(ii) Political risks;
(iii) Energy risks;
(iv) Aviation and aerospace risks;
(v) Agricultural risks;
(vi) Catastrophe Excess of Loss risks.

The scheme is scheduled to lapse after 31 August 2016.

(c) Captive Insurance

Licenced captive insurers are allowed tax exemption in respect of their qualifying income derived from offshore insurance business to make Singapore an attractive alternative captive location.

The scheme is scheduled to lapse after 31 March 2018.

Proposed : The tax incentive schemes for Marine Hull and Liability Insurance, Specialised Insurance Business and Captive Insurance will be subsumed under the IBD umbrella scheme with the following changes.

(a) Marine Hull and Liability Insurance

The Marine Hull and Liability Insurance scheme will be subsumed under the IBD umbrella scheme from 1 April 2016. A concessionary tax rate of 10% will apply to new and renewal awards from 1 April 2016.

(b) Specialised Insurance Business

The Specialised Insurance Business scheme will be subsumed under the IBD umbrella scheme as an enhanced tier award from 1 September 2016, up till 31 August 2021.

A concessionary tax rate of 8% will apply to new awards from 1 September 2019. As a transitional measure, a concessionary tax rate of 5% will apply to new awards from 1 September 2016 to 31 August 2019. A concessionary tax rate of 10% will apply to renewal awards from 1 September 2016.

The scope of qualifying activities will be expanded to cover business of underwriting both onshore and offshore specialised risks from 1 September 2016 for new and current approved insurers.

(c) Captive Insurance

The Captive Insurance scheme will be subsumed under the IBD umbrella scheme from 1 April 2018. A concessionary tax rate of 10% will apply to new and renewal awards from 1 April 2018.

The current approved insurers will continue to enjoy benefits under their existing insurance awards till the expiry of their awards, and may apply for renewal under the IBD scheme thereafter.

MAS will release further details of the change by June 2016.

Commentary : This aims to streamline and simplify the tax incentives for the insurance sector, while ensuring the continued growth of high-value insurance activities in Singapore in order to strengthen its position as an Asian insurance and reinsurance hub.

20. ENHANCING THE GLOBAL TRADER PROGRAMME (STRUCTURED COMMODITY FINANCE) (“GTP(SCF)”)

Current : An approved GTP(SCF) company is granted a concessionary tax rate of 5% or 10% on its income from the following qualifying activities:

(a) Factoring;

(b) Forfeiting;

(c) Prepayment;

(d) Countertrade;

(e) Warehouse receipt financing;

(f) Export receivable financing;

(g) Project finance;

(h) Islamic trade finance;

(i) Transacting in derivatives to hedge against risks relating to any of the activities from (a) to (h); and

(j) Advisory services in relation to any of the activities from (a) to (h).

Proposed : The Minister proposed to enhance the GTP(SCF) scheme to include the following activities:

(a) Consolidation, management and distribution of funds for designated investments;

(b) Mergers & Acquisitions advisory services; and

(c) Streaming Financing.

IE Singapore will release further details of the change by June 2016.

Effective : From 25 March 2016

Commentary : The above enhancement is to strengthen Singapore’s trade finance capabilities and encourage more SCF activities to be done in Singapore.

21. ENHANCING THE MARITIME SECTOR INCENTIVE ("MSI")

Current : Ship operators and ship lessors can enjoy the following tax benefits under the MSI scheme:

For ship operators

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

Tax exemption on qualifying income derived from operating Singapore-flagged ships and foreign-flagged ships as well as the provision of specified ship management services under Section 13A of the ITA.

(b) MSI-Approved International Shipping Enterprise ("MSI-AIS") Award

Tax exemption on qualifying income derived from operating foreign-flagged ships as well as provision of specified ship management services under Section 13F of the ITA.

For ship lessors

MSI-Maritime Leasing (Ship) ("MSI-ML(Ship)") Award

Tax exemption on income derived from leasing of ships used for qualifying activities to qualifying counterparties for use outside the port limits of Singapore under Section 13S of the ITA.

Proposed : To further develop Singapore as an International Maritime Centre, the MSI will be enhanced as follows:

(a) The MSI-SRS and MSI-AIS award will cover income derived from operation of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activity relating to exploration or exploitation of offshore energy or offshore minerals.

(b) The MSI-ML(Ship) award will cover income derived from leasing of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activity relating to exploration or exploitation of offshore energy or offshore minerals.

(c) The restriction on the qualifying counterparty's requirement under MSI-ML(Ship) award will be removed. Therefore, tax exemption will be granted on income derived from leasing of ships used for qualifying activities to any counterparties for use outside the port limits of Singapore.

Effective : From 25 March 2016

The Maritime Port Authority of Singapore will release further details of the change in (a) and (b) by June 2016.

22. WITHDRAWING THE APPROVED INVESTMENT COMPANY SCHEME UNDER SECTION 10A OF THE ITA

Current : The Approved Investment Company scheme was introduced in 1988 to promote the investment management industry. It provides upfront certainty to an Approved Investment Company on the tax treatment of gains derived from the disposal of their securities.

The gains from disposal of securities are taxed according to a schedule based on the length of time that the securities were held and may be fully exempt from tax if the securities are held for more than a specified period.

Proposed : The scheme is assessed to be no longer relevant and will be withdrawn from YA 2018.

23. EXTENDING THE NOT-FOR-PROFIT ORGANISATION ("NPO") TAX INCENTIVE

Current : The NPO tax incentive was first introduced in 2007 to promote social, philanthropic, environmental and humanitarian causes in Singapore beyond economic considerations.

NPOs which can bring economic value to Singapore will be granted income tax exemption for an initial period of not more than 10 years under Section 13U of the ITA. The incentive is scheduled to lapse after 14 February 2017.

Proposed : The NPO tax incentive will be extended till 31 March 2022 to continue to promote Singapore as a hub for NPOs.

Effective : 14 February 2017 to 31 March 2022

24. WITHDRAWING THE TAX EXEMPTION ON INCOME DERIVED BY NON-RESIDENTS TRADING IN SINGAPORE IN SPECIFIED COMMODITIES VIA CONSIGNMENT ARRANGEMENTS

Current : Income derived by non-residents trading in Singapore through consignees in specified commodities produced outside Singapore is granted tax exemption.

The specified commodities are:

(a) Rubber;

(b) Copra;

(c) Pepper;

(d) Tin;

(e) Tin-ore;

(f) Gambier;

(g) Sago flour; and

(h) Cloves.

Proposed : The above scheme will be withdrawn.

Effective : From YA 2018

Commentary : As the scheme is assessed to be no longer relevant, the tax exemption for non-residents trading in Singapore in specified commodities via consignment arrangements will be withdrawn.

C INDIVIDUAL TAXATION

1. PERSONAL TAX RATES

Current : Residents are taxed at graduated rates from 0% to 20% (refer to attached **Appendix I)** from the YA 2012 to the YA 2016.

A new personal income tax rate structure for resident individual taxpayers is applicable with effect from the YA 2017. Residents will be taxed at revised graduated rates from 0% to 22% (refer to attached **Appendix I)** from the YA 2017.

A one-off personal income tax rebate of 50%, subject to a cap of $1,000 per taxpayer, is given to all resident individual taxpayers for the YA 2015.

Proposed : No change to the existing personal income tax rates. The one-off personal income tax rebate granted for the YA 2015 will not be granted for the YA 2016.

2. INTRODUCING A CAP OF $80,000 ON PERSONAL INCOME TAX RELIEFS

Current : There is currently no limit on the total amount of personal income tax reliefs an individual taxpayer can claim as long as the conditions of the reliefs are fulfilled.

Proposed : The total amount of personal income tax reliefs that an individual can claim will be capped at $80,000 per YA.

Effective : From YA 2018

Commentary : The cap of $80,000 on personal income tax reliefs is meant to enhance the progressivity of Singapore's personal income tax regime.

3. REMOVING THE TAX CONCESSION ON HOME LEAVE PASSAGES FOR EXPATRIATE EMPLOYEES

Current	:	As an administrative concession, home leave passages provided by an employer to foreign employees (up to one passage per year), their spouses (up to one passage per year) and children (up to two passages per child per year), are currently taxed in the hands of the employees at 20% of the value of the benefit. Subsequent home leave passages provided during the YA are taxable in full.
Proposed	:	The tax concession of taxing only 20% of the value of home leave passages for expatriate employees will be removed.
Effective	:	From YA 2018
Commentary	:	The proposed change will increase the taxable income of expatriates who are provided with home leave passages as part of their remuneration.

D OTHERS

1. ENHANCEMENT OF THE SPECIAL EMPLOYMENT CREDIT ("SEC")

Current : The SEC was first introduced as a Budget Initiative in 2011 and enhanced in 2012 to provide employers with support to hire older Singaporean workers aged above 50 years earning up to $4,000 a month by receiving SEC of up to 8% of the employee's monthly wage. The SEC is in place for 5 years (i.e. 2012 to 2016).

In Budget 2014, the SEC for 2015 was enhanced for one year to help employers cope with cost increases associated with the increase in CPF contribution rates. With the 2014 enhancement, employers who hired Singaporeans aged above 50 years (between 1 January 2015 and 31 December 2015) received an SEC of up to 8.5% of an employee's monthly wage.

The SEC was further enhanced in the 2015 Budget whereby employers who hire Singaporean workers aged 65 years and above earning up to $4,000 a month in 2015 will receive an additional offset of up to 3% of wages. With the 2015 enhancement, employers who hired such Singaporean workers between 1 January 2015 and 31 December 2015 received an SEC of up to 11.5% of an employee's monthly wage.

A lower SEC is provided for workers who earned between $3,000 and $4,000.

Proposed : The SEC will be extended for three years from 1 January 2017 to 31 December 2019.

Employers with Singaporean workers aged 65 and above will continue to receive a wage offset of up to 8%. This is in addition to the wage offset of 3% for the re-employment of workers aged 65 and above till the re-employment age is raised in 2017.

The SEC will be up to 5% for workers aged 60 to 64 and up to 3% for those aged 55 to 59.

Age of Worker	2017 to 2019
55 to 59	Up to 3% of monthly wage
60 to 64	Up to 5% of monthly wage
65 and above	Up to 8% of monthly wage (+ additional 3% until the re-employment age is raised)

Effective : From 1 January 2017 to 31 December 2019

Commentary : The above extension is aimed to encourage employers to voluntarily re-employ older workers aged 55 years and above.

APPENDIX I

RATES OF INCOME TAX
FOR RESIDENT INDIVIDUALS (SINGAPORE)

Tax Rates from YA 2012 to YA 2016				Tax Rates from YA 2017 onwards			
	Chargeable Income* ($)	Tax Rate (%)	Gross Tax Payable ($)		Chargeable Income* ($)	Tax Rate (%)	Gross Tax Payable ($)
On the first	20,000	0	0	On the first	20,000	0	0
On the next	10,000	2	200	On the next	10,000	2	200
On the first	30,000	-	200	On the first	30,000	-	200
On the next	10,000	3.5	350	On the next	10,000	3.5	350
On the first	40,000	-	550	On the first	40,000	-	550
On the next	40,000	7	2,800	On the next	40,000	7	2,800
On the first	80,000	-	3,350	On the first	80,000	-	3,350
On the next	40,000	11.5	4,600	On the next	40,000	11.5	4,600
On the first	120,000	-	7,950	On the first	120,000	-	7,950
On the next	40,000	15	6,000	On the next	40,000	15	6,000
On the first	160,000	-	13,950	On the first	160,000	-	13,950
On the next	40,000	17	6,800	On the next	40,000	18	7,200
On the first	200,000	-	20,750	On the first	200,000	-	21,150
On the next	120,000	18	21,600	On the next	40,000	19	7,600
On the first	320,000	-	42,350	On the first	240,000	-	28,750
In excess of	320,000	20		On the next	40,000	19.5	7,800
				On the first	280,000	-	36,550
				On the next	40,000	20	8,000
				On the first	320,000	-	44,550
				In excess of	320,000	22	

* Chargeable income = Income after tax reliefs

Note: For the Year of Assessment 2013, a one-off income tax rebate is granted to resident individual taxpayers. The amount of rebate granted depends on the age of the resident individual as at 31 December 2012, subject to a cap of $1,500:

(a) 30% for resident individuals aged below 60; and

(b) 50% for resident individuals aged 60 and above.

For the Year of Assessment 2015, a one-off tax rebate of 50% of tax payable, subject to a cap of $1,000, is granted to resident individual taxpayers.