



# Expansion of Scope for Tax Exemption on Foreign Sourced Income

(compiled by Judy Yeo)

## Current Law

Under the law, income tax is levied on income accruing in or derived from Singapore (generally referred to as income sourced in Singapore), or on foreign sourced income received or deemed received in Singapore from outside Singapore.

However, foreign sourced dividends, branch profits and service income received or deemed received into Singapore by a resident company on or after 1 June 2003 or received by any individual resident in Singapore through a partnership in Singapore on or after 1 June 2004 shall be exempt from Singapore income tax, subject to the following conditions being satisfied.

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- (i) In the year the specified foreign income is received in Singapore, the headline tax rate (i.e. highest corporate tax rate) of the foreign jurisdiction must be at least 15%;
- (ii) The specified foreign income has been subject to tax in the foreign jurisdiction from which it has been received. For foreign-sourced dividend income, this includes the income tax paid by the dividend paying company on its income out of which the dividend is paid; and
- (iii) The IRAS is satisfied that the tax exemption would be beneficial to the person resident in Singapore.

Where these conditions are not or cannot be satisfied, the above foreign income will be subject to income tax when remitted to Singapore. Other foreign sourced income (such as foreign interest) are similarly subject to income tax as and when they are remitted to Singapore.

Individuals (except where the above foreign sourced income are received by resident partners of a partnership in Singapore) currently enjoy tax exemption on all foreign-sourced income received in Singapore on or after 1 January 2004.

### One Year Amnesty from 22 January 2009 to 21 January 2010

Given the current bleak economic conditions and to help ease the credit tightness by enabling Singapore resident companies to repatriate funds from their overseas investments and operations to meet business financing needs in Singapore without attracting further income tax, the Minister for Finance has proposed a one-year tax exemption on the remittance of all foreign sourced income by resident companies and resident partners of partnerships in Singapore.

The one-year tax exemption covers the remittance of all foreign sourced income earned or accrued outside Singapore on or before 21 January 2009 that is remitted to Singapore during 22 January 2009 to 21 January 2010 (both dates inclusive). Accordingly, the conditions required to be satisfied for the foreign sourced income to be exempt from tax when remitted will be lifted during this one-year amnesty period.

Singapore companies that have foreign sourced income earned or accrued on or before 21 January 2009 but maintained in offshore accounts in order not to attract income tax in Singapore would now be able to remit their foreign income free of Singapore tax during this one-year amnesty period. **BSL**

**“A goal without a plan is just a wish.”**

Antoine de Saint-Exupery



# Tax Changes On Personal Reliefs And Parenthood Tax Rebates

(compiled by Tan Phue San)

To date, the Government has, among a broader range of measures, introduced certain tax benefits in its efforts to foster an overall pro-family environment in Singapore.

On the tax front, existing tax benefits are substantially enhanced to provide greater financial support to parents in raising children. With effect from the Year of Assessment ("YA") 2009, the quantum of Qualifying Child Relief and Handicapped Child Relief will increase to \$4,000 and \$5,500 respectively for each qualifying child. Working mothers with qualifying Singaporean children will enjoy higher Working Mother's Child Relief. The Parenthood Tax Rebate currently available only for the second to fourth qualifying Singapore child in a family will be extended to the first child and beyond the fourth child.

We summarise below the changes made to the existing personal reliefs and parenthood tax rebates.

## 1. Qualifying Child Relief ("QCR") / Handicapped Child Relief ("HCR")

With effect from YA 2009, for parents with qualifying children, the QCR will increase from \$2,000 to \$4,000 per child and the HCR from \$3,500 to \$5,500 per child and the QCR is now extended to all qualifying children.

| Order of Qualifying Child | QCR (Per Child)                               |              | HCR (Per Child) |              |
|---------------------------|---|--------------|-----------------|--------------|
|                           | YA 2008 (\$)                                  | YA 2009 (\$) | YA 2008 (\$)    | YA 2009 (\$) |
| 1st child to 3rd child    | 2,000   | 4,000        | 3,500           | 5,500        |
| 4th child                 | 2,000 (child born on or after 1 January 1988) | 4,000        | 3,500           | 5,500        |
| 5th and subsequent child  | 0   | 4,000        | 3,500           | 5,500        |

(con't on pg 4)

(con't from pg 3)

## 2. Working Mother's Child Relief ("WMCR")

Currently, the WMCR for the first, second, third and fourth child are 5%, 15%, 20% and 25% of the working mother's earned income respectively. With effect from YA2009, WMCR will increase to 15% and 20% of the working mother's earned income for the first and second child respectively and 25% per child for the third and subsequent child. The WMCR will be subject to an overall cap of 100% of the working mother's earned income for all her qualifying children.

| Order of Qualifying Child | WMCR (Per Child)  |  |
|---------------------------|---|--|
|                           | YA 2008   | YA 2009  |
| 1st child                 | 5% of earned income   | 15% of earned income   |
| 2nd child                 | 15% of earned income  | 20% of earned income   |
| 3rd child                 | 20% of earned income  | 25% of earned income   |
| 4th child                 | 25% of earned income (child born in or after 1987 but excludes child adopted before 1 January 2004) | 25% of earned income   |
| 5th and subsequent child  | 0%  | 25% of earned income   |
| Maximum claim allowable   | QCR/HCR plus WMCR is capped at \$25,000 per child   | QCR/HCR plus WMCR is capped at \$50,000 per child (Cumulative WMCR percentages are capped at 100% of the working mother's earned income) |

## 3. Parenthood Tax Rebate ("PTR")

PTR is a lump sum rebate that can be used to offset the income tax payable of married Singapore tax residents and may be shared between spouses based on the apportionment agreed by both parties. Unutilised PTR can be carried forward to offset future income tax payable until it is fully utilised.

### YA 2008

Parents can claim PTR if he/she is a married Singapore tax resident (including divorced and widowed individuals) and the qualifying child is

#### (a) A 2nd, 3rd or 4th legitimate child

- born to his/her family on or after 1 January 2004; and
- becomes a Singapore citizen at the time of birth or within 12 months thereafter.

#### (b) A 2nd, 3rd or 4th illegitimate child

- born on or after 1 January 2004 and whose birth occurs before the marriage of the natural parents; and
- whose natural parents become lawfully married before he reaches 6 years old; and
- becomes a Singapore citizen at the time of marriage of his natural parents or within 12 months thereafter.

#### (c) A 2nd, 3rd or 4th child

- legally adopted on or after 1 January 2004 but before 1 January 2006; or
- legally adopted on or after 1 January 2006 but before he reaches 6 years old; and
- becomes a Singapore citizen at the time of legal adoption or within 12 months thereafter.

(con't on pg 5)

(con't from pg 4)

The amount of PTR allowable is as follows.

| Order of Qualifying Child | PTR Allowable (Per Child)<br>\$ |
|---------------------------|---------------------------------|
| 1st child                 | 0                               |
| 2nd child                 | 10,000                          |
| 3rd child                 | 20,000                          |
| 4th child                 | 20,000                          |
| 5th and subsequent child  | 0                               |

### YA 2009

With effect from YA 2009, parents can claim PTR if he/she is a married Singapore tax resident (including divorced and widowed individuals) and the qualifying child is

**(a) A legitimate child**

- born to his/her family on or after 1 January 2008; and
- becomes a Singapore citizen at the time of birth or within 12 months thereafter.

**(b) An illegitimate child**

- born on or after 1 January 2008 and whose birth occurs before the marriage of the natural parents; and
- whose natural parents become lawfully married before he reaches 6 years old; and
- becomes a Singapore citizen at the time of marriage of his natural parents or within 12 months thereafter.

**(c) A child**

- legally adopted on or after 1 January 2008 but before he reaches 6 years old; and
- becomes a Singapore citizen at the time of legal adoption or within 12 months thereafter.

The amount of PTR allowable is as follows.

| Order of Qualifying Child | PTR Allowable (Per Child)<br>\$ |
|---------------------------|---------------------------------|
| 1st child                 | 5,000                           |
| 2nd child                 | 10,000                          |
| 3rd child                 | 20,000                          |
| 4th child                 | 20,000                          |
| 5th and subsequent child  | 20,000                          |

Since PTR is to be claimed in the Year of Assessment immediately following

- the year of birth for legitimate child;
- the year of adoption for legally adopted child; or
- the year of marriage of the natural parents for illegitimate child,

the above enhanced PTR will only be allowable to parents of qualifying children born or legally adopted on or after 1 January 2008. **BSL**

# Did You Know?

(compiled by Sian Wee Nee)

## Lowering the Minimum Contractual age from 21 to 18 years old

### (I) Lowering Minimum Contractual Age with effect from 1 March 2009

With effect from 1 March 2009, the minimum age to be a director of a company or a manager of a limited liability partnership ("LLP") will be lowered from 21 to 18 years. This means that any person who is 18 years old and above can register a business name, be a company director and form a company or LLP. Following this development, contracts entered into by a minor who has attained the age of 18 years (the "**specified minor**") will be given the same effect as if the contracts were entered into by a person of full age. A specified minor may also bring certain legal proceedings in his own name and without a litigation representative, as if he were of full age.

### (II) Exceptions

However, there are **exceptions** to the above. The following contracts, if entered into by a specified minor **will not have effect** as if he were of full age (the age of contractual capacity for these contracts continues to be 21 years):

- contracts for sale, purchase, mortgage, assignment or settlement of any land, other than a contract for a lease of land not exceeding 3 years;
- contracts for a lease of land for more than 3 years;
- contracts for sale, transfer or pledge of a minor's beneficial interest under a trust;
- contracts for settlement of any legal proceedings or action in respect of which the minor is, pursuant to any written law, considered to be a person under disability on account of his age, or of any claim from which any such legal proceedings or action may arise; and
- contracts whereby a trust is extinguished or the terms of the trust are varied.

### (III) Amendments to other Statutes

With the above change, the following statutes will also be amended with effect from 1 March 2009 to facilitate specified minors engaging in certain commercial activities:

- **Bills of Exchange Act**  
To allow for a bill of exchange that is drawn or indorsed by a specified minor to be enforced against him.
- **Companies Act**  
To allow a specified minor to be a director of a company.
- **Conveyancing and Law of Property Act**  
To provide that a lease not exceeding three years that is executed by a specified minor as a principal will not be deemed to be a settled estate within the Settled Estates Act.
- **Employment Act**  
To provide that a minor below the age of 18 years is competent to enter into a contract of service and to enable a contract of service to be enforced against a specified minor.
- **Limited Liability Partnerships Act**  
To enable a specified minor to act as a manager of a limited liability partnership. **BSL**

#### Writer's Caveat

These articles have merely attempted to provide a broad overview on the subject matters. It is not in any way intended to be comprehensive and no specific action should be taken on the basis of the above without consulting your professional advisors.

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