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Singapore Budget 2011

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1. SINGAPORE BUDGET 2011 INTRODUCTION

The Finance Minister, Mr Tharman Shanmugaratnam, presented Budget 2011 in Parliament on 18 February 2011.

Singapore has recovered strongly from the economic crisis that hit global economies in 2008, with Gross Domestic Product that grew 14.5% in 2010 and expected to grow between 4%-6% in 2011.

With the developed countries still on the road to recovery, political upheavals in some Middle Eastern countries and inflationary pressures caused by high oil and commodities prices, the Budget sought to strengthen the Singapore economy and society in the future by focusing on raising productivity and implementing tax measures for sustainable long term economic growth.

The following are highlights of some of the measures announced in Budget 2011. This brief will cover changes made to the following areas:-

- Businesses and corporations;
- Individuals;
- Goods and Services Tax;
- Others.

2. BUSINESSES AND CORPORATIONS

2.1 One-off Corporate Income Tax Rebate or SME Cash Grants

A set of one-off support measures is provided for companies as follows:

- a) An income tax rebate of 20% of income tax payable, capped at \$10,000, will be granted for Year of Assessment (YA) 2011;

or

- b) One-off SME Cash Grant based on 5% of the company's revenue for YA 2011, subject to a cap of \$5,000. To enjoy the grant, companies must have made CPF contributions in YA 2011.

Companies will automatically receive the higher of the tax rebate or the grant when the Inland Revenue Authority of Singapore (IRAS) assesses the YA 2011 corporate income tax returns.

2.2 Enhancement of the Productive and Innovation Credit (PIC) Scheme

PIC is a five-year scheme introduced in the Budget 2010. The PIC scheme allows a 250% tax deduction or allowance for the first \$300,000 of qualifying expenses incurred on each of the following six qualifying activities:-

- R&D expenditures
- Investments in approved designs projects
- Acquisition of intellectual properties
- Registration of patents, trademarks, designs and plant varieties
- Investments in automation
- Employee trainings.

Currently, the scheme allows a combined expenditure cap of \$600,000 for each of the qualifying activity for YA 2011 and YA 2012. Businesses can also elect to convert up to \$300,000 qualifying tax deductions or allowances into cash payout of up to \$21,000 for each YA.

New treatment:

The PIC scheme has been enhanced in Budget 2011, to further encourage innovations and to raise productivity efforts, as follows:

- a) Tax deductions/allowances:
- The quantum of tax deduction or allowance has been increased to 400% of expenditure (up from the current 250%) for the first \$400,000 spent on each qualifying activity (up from the current \$300,000)
 - The PIC benefits will be extended to all R&D done abroad and not just restricted to R&D done in Singapore.
Businesses can still enjoy the combined cap for each of the qualifying activity. Changes to the combined expenditure cap are as follow:
 - \$800,000 for YA 2011 and YA 2012
 - \$1,200,000 for YA 2013 to YA 2015 for each qualifying activity.
- b) Cash Conversion Option:
Businesses can elect to convert 30% of up to \$100,000 of qualifying expenditures into a non-taxable cash payout per YA. The maximum cash payout is \$30,000 for each YA. This is made available from YA 2011 to YA 2013. Businesses can opt for a combined cash payout of up to \$60,000 for YA 2011 to YA 2012 and a cash payout out of up to \$30,000 in YA 2013.

The IRAS will release further details by end June 2011.

2.3 Foreign Tax Credit (FTC) Pooling System

At present, under Section 50 of the Income Tax Act, the FTC granted is capped at the lower of the foreign tax paid and the Singapore tax payable on the particular stream of remitted Foreign Income (FI). Any excess of foreign tax paid over the Singapore tax payable for the specific stream of income cannot be used to reduce the Singapore tax payable on other streams of remitted income.

New treatment:

Budget 2011 introduced FTC pooling to encourage companies to remit their FI to their Singapore bases. Under the new system, the FTC will be computed on a pooled basis, rather than on a source-by-source and country-by-country basis for each particular stream of income. The amount of FTC to be granted will be based on the lower of the pooled foreign taxes paid and the pooled Singapore tax payable on such FIs.

This will take effect from YA 2012. The IRAS will release further details by end June 2011.

2.4 Streamlining of Sections 14B and 14K Tax Deduction Schemes

Currently, Sections 14B and 14K of the Income Tax Act allow approved firms a double or further tax deductions on eligible expenses incurred for qualifying market development activities and qualifying investment development activities respectively. These tax deduction schemes do not have a sunset clause.

New treatment:

Sections 14B and 14K Tax Deduction Schemes will be merged into a single simplified scheme. The newly introduced sunset clause for this scheme will be 31 March 2016. These changes will apply to applications submitted and approved on or after 1 April 2011.

International Enterprise (IE) Singapore will release further details by end March 2011.

2.5 Enhancement of the Claim of Pre-commencement Expenses

Expenses incurred prior to the date on which a business commences operation are not allowable for tax purposes. However, as a concession to ease compliance and to provide certainty, the first day of the accounting year in which a business earns its first dollar of trade receipts is deemed as the date on which the business commences operations.

New treatment:

To facilitate the business start ups, businesses will be allowed to claim pre-commencement revenue expenses incurred in the accounting year immediately preceding the accounting year in which they earn the first dollar of trade receipts. Thus, businesses can claim pre-commencement revenue expenses incurred from accounting year 2010 if the first dollar of trade receipts is earned in or after accounting year 2011.

The change is effective from YA 2012. The IRAS will release further details by end June 2011.

2.6 Extended Tax Deduction to Cover Cost of Parent Company's Shares Acquired Through a Special Purpose Vehicle (SPV)

Currently, no tax deduction is allowed on the costs recharged to a company by its parent company, in respect of its parent company's newly issued shares to fulfil the company's Employee Equity-Based Remuneration obligations.

New treatment:

Firms that purchase their parent company's shares as a way to reward their employees will be eligible for tax deductions. To qualify for the deductions, the purchase of the shares will have to be done through a SPV that was set up solely to administer the scheme for companies within the group. The SPV must buy the parent company's shares from the parent company or the market and hold them in trust for the employees of the group.

The tax deduction is based on the lower of:

- The amount paid by the company to the SPV for the parent company's shares; and
- The cost incurred by the SPV to acquire the parent company's shares,

less any amount recovered from the company's employees for the parent company's shares.

This will take effect from the YA 2012. The IRAS will release further details by end June 2011.

2.7 Maritime Sector Incentive (MSI)

The GDP contribution of the marine sector has increased from 5% to over 7.5% in the past decade. Singapore currently has a range of tax incentives targeted at ship operators, maritime lessors and providers of certain supporting shipping services.

In addition, withholding tax exemption is granted on a case-by-case basis on qualifying payments made in respect of qualifying foreign loans taken to finance the construction or purchase of ships.

New treatment:

To further promote growth, Budget 2011 introduced the new MSI with effect from 1 June 2011. This scheme will streamline and enhance existing maritime incentives. Existing incentive recipients will transit automatically to the MSI from 1 June 2011. These changes aim to simplify and enhance tax incentives for the maritime sector, and to promote Singapore as an International Maritime Centre.

There are three broad categories under the MSI:

- International Shipping Operations
- Maritime (Ship or Container) Leasing; and
- Supporting Shipping Services.

International Shipping Operations

This category aims to attract ship operators to base their operations in Singapore and encourage the registration of ships with the Singapore Registry of Ships. Existing entities enjoying tax benefits under Section 13A of the Income Tax Act and Approved International Shipping Enterprise (AIS) scheme will transit to this category of the MSI.

Entities under this scheme will, subject to conditions, enjoy automatic withholding tax (WHT) exemption on qualifying payments made in respect of qualifying foreign loans taken to finance the purchase or construction of both Singapore-flagged and foreign-flagged ships.

A new award will be introduced for qualifying entry players. Entities approved under this award will be granted similar tax benefits as the current AIS scheme but for a non-renewable tenure of 5 years. The sunset clause for this new award will be 31 May 2016.

Maritime (Ship or Container) Leasing

This category aims to promote the growth and development of ship and container financing in Singapore. Existing entities enjoying benefits under the current Maritime Finance Incentive (MFI) scheme will transit to this category of the MSI and enjoy the same tax benefits. The sunset clause for this category is 31 May 2016.

As an enhancement to the existing scheme, approved ship lessors will, subject to conditions, enjoy automatic WHT exemption on qualifying payments made in respect of qualifying foreign loans taken to finance the purchase or construction of both Singapore-flagged and foreign-flagged ships.

Supporting Shipping Services

This category aims to encourage supporting shipping service providers to base their operations in Singapore and to encourage more shipping conglomerates to conduct their ancillary activities here. Under this category, a new 5-year award will offer 10% concessionary tax rate on incremental qualifying incomes derived from the provision of qualifying supporting shipping services. Qualifying supporting shipping services include:

- a) Ship management, ship agency and shipping freight/logistic services currently covered under the Approved Shipping & Logistics (ASL) scheme
- b) Ship broking and Forward Freight Agreement (FFA) trading currently covered under the ship broking and FFA trading incentive; and
- c) Qualifying corporate services.

The sunset clause for this category of MSI award will be 31 May 2016. The Maritime and Port Authority of Singapore (MPA) will release further details by end May 2011.

2.8 Enhancement of the Global Trader Programme (GTP)

Currently, an approved GTP company is granted a concessionary rate of 5% or 10% on its income from qualifying trades in the following qualifying derivative instruments:

- a) Exchange-traded and over-the-counter (OTC) commodity derivatives in a commodity which is in the approved GTP company's list of approved commodities; and
- b) Exchange-traded and OTC freight derivatives.

Derivative instruments such as interest-rate swaps and forex derivatives are not covered under the GTP. The current GTP scheme also does not have a sunset clause and the various enhancements to the GTP scheme have sunset clauses ending at different times.

New treatment:

To facilitate better risk management amongst GTP companies, the existing list of qualifying derivative instruments under the GTP will be expanded to include all derivative instruments. This enhancement will apply to income from qualifying trades in the new qualifying derivative instruments, derived by a GTP company from YA 2012.

A sunset clause in the GTP scheme will be 31 March 2021. IE Singapore will release further details by end April 2011.

2.9 Changes to Financial Incentives

Currently, funds from non bank sources such as hedge funds and insurers which are not covered under the inter bank interest withholding tax exemption. To help banks access more diversified funds and resources for their lending business and strengthen Singapore as a regional financial centre, Budget 2011 introduced the liberalisation of the withholding tax exemption regime for banks. All interest payments made by banks and similar financial institutions will be exempted from withholding tax.

Other changes in the financial incentives include:

- Extension of Captive Insurance Tax Incentive Scheme
- Extension of Marine Hull and Liability Insurance Tax Incentive Scheme
- Extension and Enhancement of Specialised Insurance Tax Incentive Scheme
- Extension of Tax Incentive Schemes for project finance
- Enhancement to the Tax Incentive Scheme for trustee companies
- Renewal of Tax Exemption Scheme for income derived from structured products
- Withdrawal of Withholding Tax Exemption scheme for financial guaranty insurers
- Enhancement of the Finance and Treasury Centre Incentive

2.10 Foreign Worker Levies and S Passes

There will be further levy increases for all sectors. The additional increases follow the progressive rise that came into effect last year and will be fully implemented by 2013.

- For the manufacturing sector, the levy would be increased by an average of another \$60 on top of an earlier increase of \$100 announced earlier.
- For the services sector, the average levy would go up by a further \$180 on top of an earlier increase of about \$100 announced earlier.
- For the construction sector, the average levy rates would go up by a further \$200 on top of an earlier increase of about \$130 announced earlier.
- For the S Pass holders, the levy rates would be increased to between \$300 and \$450, from the \$50 prior to July last year.

The overall dependency ratios for all categories of foreign workers, either work permit or S pass holders will remain unchanged.

2.11 Increase in Employer's CPF Contribution Rate and Salary Ceiling Cap

With effect from 1 September 2011, the employer's compulsory CPF contribution rate will be increased to 16%, and the CPF monthly salary ceiling will be increased to \$5,000 from the current \$4,500.

2.12 Tax Benefits for Voluntary CPF Medisave Contributions by Eligible Companies to Self-employed Persons (SEPs)

Eligible companies that make voluntary contributions to SEPs' CPF Medisave Accounts from 1 January 2011 will be given tax deduction.

For a SEP who is concurrently an employee, he can enjoy tax exemption on voluntary Medisave contributions up to a maximum of \$1,500 per calendar year made by his employer through the Additional Medisave Contribution Scheme, as well as by the eligible companies.

2.13 Special Employment Credit

Employers will be provided with a one-off Special Employment Credit to encourage employers to attract and keep older Singapore workers who are covered by the Workfare scheme.

Employers will receive a Special Employment Credit of up to 50% of employer CPF contributions for workers aged 55 to 59. A higher credit of up to 80% of employer CPF contributions for workers aged 60 and above.

The credits will be paid out over three years.

2.14 Tax Deduction of 2.5 times the amount of donation

The tax deduction of 2.5 times the amount of donation will be extended for another five years for donations made from 1 January 2011 to 31 December 2015. All existing criteria to qualify for tax deduction remain unchanged.

The above is also available to individual taxpayers.

3. INDIVIDUALS

3.1 One-off Personal Income Tax Rebate

All resident individual taxpayers will be given a one-off personal income tax rebate of 20%, capped at \$2,000 per taxpayer, for the tax payable for YA 2011.

3.2 Changes to Personal Income Tax Rate Structure

With effect from YA 2012, there will be changes to Personal Income Tax Rate Structure for individual resident taxpayers. All taxpayers will pay less personal income tax on the same income under the new Personal Income Tax Rate Structure.

Current Tax Structure				Tax Structure with effect from YA 2012			
	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	3.5	350	On the next	10,000	2	200
On the first	30,000	-	350	On the first	30,000	-	200
On the next	10,000	5.5	550	On the next	10,000	3.5	350
On the first	40,000	-	900	On the first	40,000	-	550
On the next	40,000	8.5	3,400	On the next	40,000	7	2,800
On the first	80,000	-	4,300	On the first	80,000	-	3,350
On the next	80,000	14	11,200	On the next	40,000	11.5	4,600
				On the next	40,000	15	6,000
On the first	160,000	-	15,500	On the first	160,000	-	13,950
On the next	160,000	17	27,200	On the next	40,000	17	6,800
				On the next	120,000	18	21,600
On the first	320,000	-	42,700	On the first	320,000	-	42,350
In excess of	320,000	20		In excess of	320,000	20	

* Chargeable income = Income after tax reliefs

3.3 Supplementary Retirement Scheme (SRS)

With effect from 1 September 2011, the annual SRS contribution cap will be increased to \$12,750 for Singaporeans/Singapore Permanent Residents and \$29,750 for foreigners.

3.4 Tax Exemption on Alimony and Maintenance Payments

Exclusion of Ex-spouses from claiming Spouse/Handicapped Spouse Relief

With effect from YA 2012:

- Alimony or maintenance payments are tax-exempt in the hands of female taxpayers; and
- Spouse relief and handicapped spouse relief will no longer be granted to male taxpayers for maintaining their former spouses.

3.5 Medisave Top-up for Singaporeans Aged 45 & Over

The CPF Medisave accounts of all Singaporeans aged 45 and above will get a top-up, ranging from \$300 to \$700, depending on the Annual Value of Residence as at 31 December 2010 and assessable income for the YA 2010.

4. GOODS AND SERVICES TAX (GST)

4.1 GST Measures for Marine Related Supplies

The following GST changes will take effect from 1 October 2011:

- New GST scheme to allow 'approved marine customers' to buy or rent goods without having to pay GST, as long as the goods are for use or installation on a commercial ship that is wholly for international travel; and
- Expanding the scope of zero-rating of repair and maintenance services for ship parts or components under Section 21(3)(p).

4.2 Import GST Relief of Clinical Trial Materials (CTMs) and Approved Contract Manufacturer and Trader Scheme (ACMT)

The following GST changes will take effect from 1 October 2011:

- New GST relief for CTMs imported into Singapore
- Enhancement of the ACMT scheme for contract manufacturers

4.3 Zero-rating of Specialised Storage and Other Value-Added Services

A new GST scheme will be introduced for specialised warehouses used in the business of storing certain high-value collectible items (e.g. art, antiques).

With effect from 1 October 2011, GST-registered businesses may zero-rate the supply of prescribed services performed on high-value collectible items stored in specialised warehouses approved under the scheme.

5. STAMP DUTY AND OTHER CHANGES

5.1 Stamp duty Relief for the Transfer of Assets Upon Conversion of an Existing Company to a Limited Liability Partnership (LLP)

To provide businesses with the flexibility in organisational restructuring, a company converting to a LLP on or after 19 February 2011 will enjoy stamp duty relief for the transfer of assets, subject to certain conditions to be met.

5.2 Extension of Stamp Duty Remission in Excess of \$50 to Cover Aborted Lease Contracts

The amount of stamp duty to be paid, upon granting of remission, on leases aborted on and after 19 February 2011 will be \$50. This is an extension of the current stamp duty remission in excess of \$50 for aborted Sale and Purchase agreements.

5.3 Removal of Most Nominal/Fixed Stamp Duties

To reduce the compliance costs for taxpayers, the following stamp duties will be removed on documents executed on or after 19 February 2011:

- Fixed and nominal stamp duties on prescribed documents
- \$10 duty payable where remission is given under Stamp Duties (Transfer of HDB Flat within Family) (Remission) Rules 2007.

The fixed duty of \$10 on Declarations of Trust, where beneficial ownership does not pass, will be retained.

5.4 Extension of Stamp Duties Remission for Project Finance

The remission of stamp duty payable on the instrument relating to the transfer of qualifying infrastructure projects/assets to qualifying entities listed or to be listed on the SGX will be extended from 1 January 2012 to 31 March 2017 (both dates inclusive).

5.5 Radio and Television Licence Fees

The annual licence fee for television and vehicle radio of \$110 and \$27 respectively will be removed permanently with effect from January 2011.

5.6 Excise Taxes

Excise taxes on two classes of non – cigarette tobacco products will be raised by between 5% and 10% with immediate effect on 18 February 2011.

Contact Us

Complete Corporate Services Pte Ltd

10 Anson Road #15-07

International Plaza

Singapore 079903

T 6226 2555

F 6221 9265

www.complete-corp.com.sg

The Management team of Complete Corporate Services Pte Ltd comprises:

Directors	Lim Peng Huat	phlim@complete-corp.com.sg
	Shirley Lim	shirleylim@complete-corp.com.sg
Senior Managers	Sri Rahyu Suratman	sriahyu@complete-corp.com.sg
	Kevin Cho	kevincho@complete-corp.com.sg
	Jacqueline Ng	jacquelineng@complete-corp.com.sg
Managers	Tan Eng Hock	tan_eh@complete-corp.com.sg
	Shirley Tay	shirleytay@complete-corp.com.sg
	Shellen Tay	shellentay@complete-corp.com.sg