



2000 SINGAPORE BUDGET COMMENTARY

The Minister for Finance, Dr Richard Hu, presented the 2000 Budget Statement on 25 February 2000.

Singapore has emerged from the Asian economic crisis remarkably well and posted a 5.4% growth for 1999. The Minister believes that the prospects for the year 2000 are bright. However, rapid technological change and globalisation are intensifying competition. This poses new challenges for our Singapore economy. Limited tax benefits were hand out this year but tax concessions were introduced to develop the securities, bond and swap markets.

PERSONAL TAX

Income tax rates and rebate

The personal tax rates for Year of Assessment 2000 remain the same. A 5% tax rebate will be given for the Year of Assessment 2000. The rebate is in addition to the GST rebate of \$500 granted on the 2000 tax payable. Both rebates are available to resident taxpayers only.

Proposed Effective Date : Year of Assessment 2000 Only

Personal reliefs

Tax Relief for CPF Cash Top-Up for Grandparent's Retirement Accounts

Currently, a resident individual who is a Singapore citizen or permanent resident may use cash to top-up his own or his parents' retirement accounts under the CPF Minimum Sum Scheme. Such cash top-ups, to the amount that is approved by the CPF Board and subject to a maximum of \$6,000 per year, are allowed as personal tax relief to the resident individuals.

The Minister has proposed to extend this tax relief to cover cash top-ups for grandparents with effect from Year of Assessment 2001. More details will be released by CPF Board in due course.

Proposed Effective Date : Year of Assessment 2001



Increase In Dependant Relief

Currently, resident individual who support his or her spouse's parents, grandparents or great-grandparents (dependants) who are living in Singapore and not less than 55 years of age or who are not able to maintain themselves due to physical or mental infirmity will be allowed to claim relief as follows:

- a) a deduction of \$4,500, where the dependant was living with him in the same household; or
- b) a deduction of \$3,500, where the dependant was not living with him in the same household but incurred a sum of not less than \$2,000 for maintaining the dependant.

The above relief is allowed for a maximum of two dependants and each dependant must not have income exceeding \$2,000 per annum.

The Minister has proposed to increase the relief from \$4,500 to \$5,000 for those who maintain their aged parents and stay with them. For those who maintain their aged parents but do not stay with them, the relief will remain at \$3,500.

Proposed Effective Date : Year of Assessment 2000

Tax incentive for authors and composers

Currently, income received by authors and composers from publishers in Singapore for the assignment of or the right to use the copyright in any literary, dramatic, musical or artistic work is subject to tax on 10% of the gross royalties or gross amount less allowable deductions and capital allowances, whichever is the lower. This tax concession is also applicable to a company in which the authors or composers beneficially owned all the issued share capital. The Minister has proposed that the royalties received by an author or a composer from recording, film or drama companies in Singapore will also qualify for the above incentive.

Proposed Effective Date : Year of Assessment 2001



Tax incentive for inventors and innovators

Currently, royalties income derived by a Singapore citizen or permanent resident for the assignment of or for the rights in approved inventions or innovations that are manufacturing related is subject to tax on 10% of the gross royalties or gross amount less allowable deductions and capital allowances, whichever is the lower.

The Minister has proposed to extend the tax incentive for inventors and innovators to cover approved inventions or innovations from the non-manufacturing sectors as well as inventions and innovations of foreign inventors and innovators provided these are substantially carried out in Singapore.

To qualify for the incentive, the inventions or innovations must be protectable. This scheme will be administered by the Economic Development Board. The proposed incentive will be granted for a period of five years.

Proposed Effective Date : Year of Assessment 2001

Supplementary retirement scheme ("SRS")

To encourage employees to save more for their retirement, the government will introduce a SRS which allows Singaporeans to contribute voluntarily over and above their normal CPF contributions. Voluntary SRS contributions will be allowed as tax deductions to the SRS participants but withdrawals would be taxable.

The voluntary SRS contributions can only be made by employees, subject to a percentage cap based on their salary. Non-Singaporean employees who are working in Singapore may also be allowed to participate in the SRS. In order not to increase the cost of business, employers will not be required to contribute to the SRS.

Details of the SRS are being worked out by the government.

Expected Implementation Date : Year 2001



Enhanced tax treatment for stock options

Under Section 10(5) of the Income Tax Act, stock option gain is deemed to be income where the right or benefit is obtained pursuant to an office or employment.

To encourage technopreneurship in Singapore, a qualified Employee Stock Option Plan ("ESOP") scheme was introduced by the Government last year. This scheme allows the tax payment for the gains to be deferred for up to 5 years.

To make ESOP more attractive especially for the high-tech start-ups, the tax treatment of ESOP will be enhanced. As this may have significant impact on the Singapore tax system, more time is needed for a comprehensive study. Accordingly, the enhanced scheme for high-tech start-ups would only be announced by the end of May 2000.

Proposed Effective Date : To Be Announced Later

Tax treatment for CPF savings beyond the Minimum Sum

Currently, the Minimum Sum may be left with the CPF Board, deposited with an approved bank or used to purchase an annuity. Annuities bought with the Minimum Sum and the interest income arising from deposits of the Minimum Sum with approved banks are tax exempt.

To encourage more prudent financial planning with CPF savings, the Minister has proposed that current tax exemption be extended to annuities bought with CPF savings beyond the Minimum Sum. Similarly, tax exemption will also apply to interest income arising from the deposits of CPF savings beyond the Minimum Sum deposited with approved banks.

More details will be released by CPF Board in due course.

CORPORATE TAX

Corporate tax rate

The corporate tax rate will be reduced by 0.5% to 25.5% with effect from Year of Assessment 2001. However, the one-off 10% rebate given on the corporate tax payable for the Year of Assessment 1999 will not be extended

Proposed Effective Date : Year of Assessment 2001



INCENTIVES FOR THE FINANCIAL SECTOR

Various tax incentives and tax exemption were proposed to further promote the growth and development of the financial sector in Singapore. A summary of the tax incentives and exemption are as follows:-

Proposed Effective Dates

Financial Guarantee Insurance Contracts

Withholding tax exemption on claim payments made by approved financial guarantee insurers to non-residents under financial guarantee insurance policies.

25 February 2000

Tax Concession for Swap Trading

Income derived by any financial institution from trading in interest rate and currency swaps is taxed at 10% concessionary tax rate. This concession will be effective from the Year of Assessment 2001 until 27 February 2003.

Year of Assessment 2001

Withholding Tax Exemption on Interest Rate and Currency Swaps

Withholding tax exemption for swap transactions to all bona fide interest rate and currency swap payments made by financial institutions beside ACUs of financial institutions.

25 February 2000

Extension of ACU Scheme to All Offshore Financial Derivatives

Income derived by ACUs of financial institutions from all other offshore derivative transactions in non-Singapore dollars is taxed at 10% concessionary tax rate for a period of 5 years from Year of Assessment 2001.

Year of Assessment 2001



GOODS AND SERVICES TAX ("GST")

GST tax rate

The GST tax rate for standard-rated supplies remains at 3%.

GST on trustee services provided to a trust with non-resident settlors and beneficiaries

A GST-registered trustee in Singapore that provides trust administration services will be required to charge 3% GST on the value of such services rendered even though the settlors and/or beneficiaries of the trust may be persons belonging outside Singapore.

The Minister has proposed to zero-rate trustee services where at least 80% of the settlors and beneficiaries are non-Singapore resident, and at least 80% of the assets of the trust were originally contributed by settlors who are non-Singapore resident.

Proposed Effective Date : **To Be Announced Later**

ESTATE DUTY

Estate duty exemption rules for residential properties

Currently, estate duty exemption is given, to the extent of \$9 million of the aggregate value of the deceased's interest in a dwelling-house or dwelling-houses, whether occupied by the deceased or not. Any dwelling house used wholly or partly for the purposes of any trade, business, profession or vocation by any person at the time of death of the deceased does not qualify for estate duty exemption.

To support Technopreneur Home Office Scheme, the Minister has proposed that a Singapore residential property used for business activity will qualify for the \$9 million estate duty exemption as long as the residential character of the property is not materially affected. The proposed change will apply to persons dying on or after 25 February 2000.

Proposed Effective Date : **25 February 2000**



PROPERTY TAX AND STAMP DUTY

Property tax rebate

Effective from 1 July 2000, the property tax rebate on commercial and industrial properties will be 25% and this rebate will be for another year to 30 June 2001.

Proposed Effective Date : 1 July 2000

Property tax exemption for land under development

Property tax exemption for land under development was given in the 1998 Budget. The Minister has proposed to withdraw this exemption with immediate affect. Projects which have been given tax exemption will continue to enjoy the concession for a maximum period of 5 years or until completion, whichever is earlier.

Proposed Effective Date : 25 February 2000

Abolition of stamp duty on contract notes

The stamp duty on contract notes for share transactions was suspended from 1 July 1998 to 29 June 2000. To further enhance the competitiveness of the Singapore Exchange, the Minister has proposed to abolish the stamp duty on contract notes for share transactions with effect from 30 June 2000.

Proposed Effective Date : 30 June 2000



Further stamp duty relief for corporate restructuring and merger

Section 15 of the Stamp Duties Act provides stamp duty relief for corporate restructuring and mergers if certain qualifying conditions are met.

At present for any transfer of assets to qualify, not less than 90% of the consideration must be in the form of shares issued by the acquiring company. Where shares are to be transferred, the transfer must involve at least 90% of the issued share capital of the target company. The acquisition would not qualify for stamp duty relief if either of these conditions is not met.

The Minister has proposed to lift the two conditions above for the transfers of assets between associated companies. "Associated companies" are defined as ones owning 75% or more of another company or a third company owning at least 75% of both companies.

Furthermore, the Minister is of the opinion that publicly-listed companies and companies which intend to list their shares after the restructuring or merger are often not able to meet the conditions relating to the 2-year moratorium on changes in the beneficial ownership of the shares.

The Minister has proposed to lift the 2-year moratorium on the consideration shares held by public shareholders and also to allow companies to float a portion of their issued share capital up to the minimum listing threshold required by the Singapore Exchange for its mainboard listing. The current minimum listing threshold is 25%.

More details will be announced by the Inland Revenue Authority of Singapore.

Proposed Effective Date : To Be Announced Later



OTHERS

SPECIAL CPF TOP-UP

The Government will make a special CPF top-up of \$250 to the Ordinary Account of every Singaporean CPF member aged 21 years and above as at 31 December 1999. To be eligible for the \$250 top-up, the Singaporean CPF members must have made at least one CPF contribution within the period 1 January 1998 to 31 December 1999. The top-up will be credited into the Ordinary Account in March 2000.

More details will be released by the CPF Board.

Proposed Effective Date : March 2000

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