
2001 SINGAPORE BUDGET COMMENTARY

The Minister for Finance, Dr Richard Hu, presented the FY2001 Budget on 23 February 2001.

Singapore has emerged from the Asian economic crisis stronger and achieved growth of 9.9% for 2000. The Minister believes that the overall outlook for the year 2001 remains fair. However, Singapore must be prepared for slower growth in view of the external economic environment. This year's budget will continue to facilitate upgrading and restructuring of our economy.

PERSONAL TAX

Income tax rates

The Minister has proposed a new personal tax rate structure which will lower personal tax liability. Resident individuals would not be taxed on the first \$7,500 of their chargeable income and chargeable income in excess of \$7,500 will be taxed at graduated rates ranging from 3% to 26% (Appendix I).

Proposed Effective Date : Year of Assessment 2002

Goods and Services Tax ("GST") rebate

Currently, the GST rebate of \$500 is granted to resident individuals. The Minister has proposed to reduce the GST rebate to \$250.

Proposed Effective Date : Year of Assessment 2002



One-off 10% tax rebate

The Minister has proposed a one-off 10% tax rebate on tax payable by resident individuals. This rebate is given after deduction of any unilateral tax relief or double taxation relief but before set off of tax deducted at source.

Proposed Effective Date : Year of Assessment 2001 only

Tax deduction for Central Provident Fund ("CPF") contributions by self-employed

Currently, a self-employed individual can claim tax relief for CPF contributions, inclusive of compulsory Medisave contributions subject to a limit of 20% of his assessable income derived from business, profession or vocation or \$14,400 whichever is lower.

The Minister has proposed that a self-employed individual will get tax relief for CPF contributions amounting to 36% of that income or \$25,920, whichever is lower.

Proposed Effective Date : Year of Assessment 2002

Tax deduction for shares donations

Currently, donations made by an individual in the form of approved gifts to an approved museum, gifts of money to the government or any institution of a public character in Singapore, and approved gifts of computer and related products to a prescribed educational or research institution in Singapore are deductible against his statutory income.

The Minister has proposed to allow tax deduction to individuals for donation of shares to institutions of a public character. The shares are those listed on the Singapore Exchange ("SGX") and unit trusts which are readily tradeable in Singapore. The deduction will apply to donations made from January 2001.

Proposed Effective Date : From January 2001



Company Stock Option Scheme ("CSOP")

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

In October 1999, the Minister, implemented the Qualified Employee Stock Option ("ESOP") Scheme. This scheme allows the tax payment on such gains or profits to be deferred for up to 5 years with interest chargeable.

In May 2000, the Minister announced the Entrepreneurial Employee Stock Option Scheme ("EESOP") scheme to further encourage technopreneurship. Under the EESOP scheme, an employee can enjoy tax exemption of 50% of EESOP gains up to \$10 million over a 10-year period, if certain criteria are met.

To encourage more established companies to adopt performance-linked compensation scheme, the Minister has introduced the CSOP Scheme. Under the CSOP scheme, up to \$1 million of gains from the exercise of CSOP over a 10-year period will be granted tax exemption as follows:

- . 100% of the first \$2,000 gains per year; and
- . 25% of the remaining annual gains.

The 10-year period commences from the year the employee first exercises the CSOPs.

The CSOP Scheme is available to all stock options granted with effect from 1 April 2001 by any company which meet certain criteria yet to be announced. However, one key requirement is that the company must offer CSOPs to at least 50% of the employees in the company.

The tax exemption is also extended to CSOP on shares of an overseas holding company.

The CSOP scheme will be subject to review by the Minister after 5 years and further details will be announced by the Comptroller of Income Tax before 1 April 2001.

Proposed Effective Date : CSOPs granted on or after 1 April 2001



CORPORATE & BUSINESS TAX

Corporate tax rate

The corporate tax rate will be reduced by 1% to 24.5%. Additionally, the Minister has proposed a corporate tax exemption structure as follows:-

<u>Chargeable income ("CI")</u>	<u>Portion of CI exempt from tax</u>	<u>Portion of CI subject to tax at 24.5%</u>
For first \$10,000	75%	25%
For next \$90,000	50%	50%
Exceeding \$100,000	-	100%

The above tax exemption will not apply to Singapore dividends which will be taxed at 24.5%. Further details will be released by the Comptroller of Income Tax regarding the new corporate tax regime.

Proposed Effective Date : Year of Assessment 2002

Withholding tax exemption on software payments

Currently, payments for the licence to use software are generally treated as royalty payments. Withholding tax must be accounted for if the royalty payments are made to non-residents of Singapore.

The Minister has proposed to exempt from withholding tax payments to non-residents for the following categories of software:

- (a) site licences;
- (b) software downloaded from the internet by end-users; and
- (c) software bundled with hardware.

Proposed Effective Date : 23 February 2001



Writing down allowances for intellectual property

Currently, a person can claim writing down allowances, on a straight-line method over 5 years, in respect of capital expenditure incurred to acquire any approved know-how or any approved patent rights for use in his manufacturing trade or business.

The Minister has proposed to extend writing down allowances to the following categories of intellectual property:

- . Patents;
- . Copyrights and Related Rights;
- . Trade Marks;
- . Registered Designs;
- . Geographical Indications;
- . Layout Designs of Integrated Circuits; and
- . Protection of Confidential Information.

This enhanced scheme will cover a wider range of industries and not just the manufacturing industry.

The scheme will be administered by the Economic Development Board ("EDB") and Infocomm Development Authority ("IDA") of Singapore. Further details will be released by the EDB and IDA.

Proposed Effective Date : 23 February 2001



PROPERTY TAX

The property tax rate will be reduced from 12% to 10% for commercial, industrial and rented-out residential properties. However, the rate for owner-occupied residential properties remains unchanged at 4%. The current 25% property tax rebate for commercial and industrial properties will end on 30 June 2001.

Proposed Effective Date : 1 July 2001

Important Note: As the Budget proposals are yet to be legislated, this commentary should be used only as a guide for clients and staff of MH Cheong & Associates. It is not intended to be comprehensive. Readers are advised that the contents of this article should not be relied on or acted upon without professional advice. If you need any further clarification or advice, please contact the partners, our tax manager Tang See Tha, or our tax supervisor, Esther Choo. No liability can be accepted for any action taken as a result of reading this article without prior consultation with regard to all relevant factors.

Appendix I

**PROPOSED RATES OF INCOME TAX FOR RESIDENT INDIVIDUALS
FROM YEAR OF ASSESSMENT 2002**

	Chargeable income \$	Tax Rate \$	Tax* \$
On the first	7,500	0	0
On the next	12,500	3	375
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On the first	20,000		375
On the next	15,000	6	900
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On the first	35,000		1,275
On the next	15,000	9	1,350
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On the first	50,000		2,625
On the next	25,000	12	3,000
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On the first	75,000		5,625
On the next	25,000	15	3,750
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On the first	100,000		9,375
On the next	50,000	18	9,000
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On the first	150,000		18,375
On the next	50,000	21	10,500
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On the first	200,000		28,875
On the next	200,000	24	48,000
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On the first	400,000		76,875
Excess over	400,000	26	

* Resident individual taxpayers are entitled to the GST rebate of \$250