
2002 SINGAPORE BUDGET COMMENTARY

The Minister for Finance, Deputy Prime Minister ("Minister") Lee Hsien Loong delivered his 2002 Budget Statement on 3 May 2002.

This year's tax package includes cuts in corporate and individual tax rates, introduction of group relief and a one-tier corporate taxation system as well as other tax incentives with the aims of ensuring growth and job creation for Singaporean.

CORPORATE AND BUSINESS TAX

Corporate Income Tax Rate

The Minister has proposed that the corporate tax rate will be reduced by 2.5% to 22% with effect from Year of Assessment 2003. The corporate tax exemption structure shown below will still be applicable.

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

The corporate tax rate will be reduced further to 20% by Year of Assessment 2005.

Proposed Effective Date : **Year of Assessment 2003**



One-Tier Corporate Taxation System

Currently, Singapore adopts the imputation system for all dividends, except exempt dividends, paid by a Singapore resident company. Essentially, corporate tax is a pre-payment of the individual's tax liability. Individual shareholders get taxed only when dividends are distributed to them.

The individual shareholder will pay additional tax or get a refund, based on the difference between the corporate tax rate and the individual's personal tax rate.

Illustration on existing imputation system:

Company level

	\$
Corporate profits	100.00
Corporate tax	(24.50)
	75.50
Available for distribution	75.50

Individual shareholder level

Dividend received (net)	75.50
Imputation credit	24.50
	100.00
	100.00
Tax @ say 15%	15.00
Imputation credit	(24.50)
	(9.50)
Repayment of tax	(9.50)

Under the new one-tier corporate taxation system, tax will only be imposed at the corporate level. Singapore dividends will be tax exempt to its shareholders. The flow through of tax exempt dividends will be available to all tiers of shareholders and no minimum shareholding is required.



The Minister has proposed a 5-year transitional period from 1 January 2003 to 31 December 2007 to allow companies to pay franked dividends out of the unutilised Section 44 balance (unutilised franking credits) as at 31 December 2002. Shareholders will still be receiving dividends with credits attached.

Proposed Effective Date : 1 January 2003

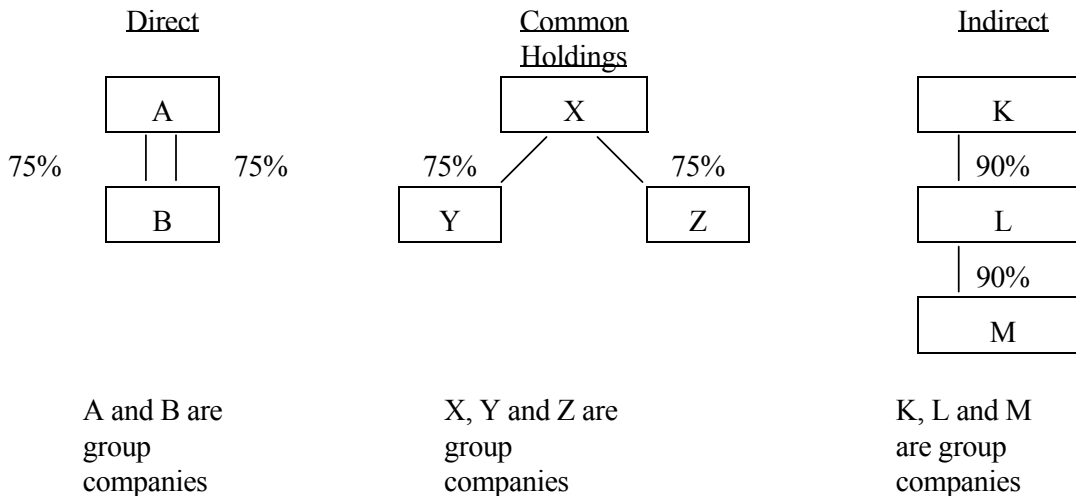
Group Relief

Currently, the Singapore income tax system recognises each company as a separate taxable entity. Therefore, tax losses of one company cannot be set-off against taxable profit of another company in the same group.

The Minister has proposed the introduction of loss-transfer system of group relief which will allow current year tax losses and unabsorbed capital allowances to be offset against the taxable profit of another company in the same group. Investment allowances and foreign losses are ignored for the group relief.

For the purposes of group relief, a group means a Singapore incorporated parent company and all its Singapore incorporated subsidiaries. Two Singapore incorporated companies would be considered members of the same group if one is at least 75% owned by the other or if both are at least 75% owned by another Singapore incorporated company.

Example:



Proposed Effective Date: Year of Assessment 2003



Tax Incentives

Certain existing tax incentives are enhanced to promote enterprise development. These incentives are summarised below:

- . **Development and Expansion Incentive ("DEI")** - Reduction of tax rate under DEI from 10% to 5% with immediate effect.
- . **Enhanced Deduction for Research and Development Expenditure ("R&D")** - With effect from Year of Assessment ("YA") 2003, single tax deduction will be granted for expenses incurred on R&D expenditure outsourced to any R&D organisation, local or overseas. The current further tax deduction for R&D expenses will also be extended to all service companies.
- . **Enhanced Approved International Shipping Enterprise Scheme ("AIS")** - The key proposed enhancements to the AIS scheme will be implemented with effect from YA 2003. Firstly, the scope of qualifying ships has been expanded to include towage vessels, salvage ships, dredgers, seismic vessels and semi-submersible oil rigs. Secondly, the manpower requirement for operators of Floating Production Storage Offloading vessels and Floating Storage Offloading vessels under the AIS scheme will be lifted. Finally, the requirement for qualifying shipowners to have at least 10% of their fleet registered under the Singapore flag will be lifted with effect from 3 May 2002.

Others

- . Unilateral Tax Credit Scheme for services income will cover all services income remitted from all non-treaty countries with effect from YA 2003.
- . Payments to international arbitrators will be exempt from withholding tax with immediate effect.



Tax Incentives for the Financial Sector

Certain existing incentives for the Financial Sector are streamlined to ensure that they are useful and effective. They are summarised as follows:

Fund Management Industry

- Extend tax exemption to qualifying investment income derived by foreign investors from funds managed by all fund managers in Singapore with effect from YA 2003.
- Merge the Approved Fund Manager ("AFM") and Approved Boutique Fund Manager ("ABFM") into a single AFM Scheme. Concessionary tax of 10% on fee income will be extended to ABFM. This will be effective from YA 2003.

Enhanced Approved Trustee Company ("ATC") Scheme

- Extend the exemption on income from foreign trusts administered by an ATC to include income derived through an eligible investment holding company with effect from YA 2003.

Concessionary Tax Rates for Equity Capital Market

- Grant a concessionary tax rate of 10% to Approved Securities Companies ("ASCs") for 5 years on income derived from financial advisory services to persons outside Singapore. This will be effective from YA 2003 to 2007.
- Grant a concessionary tax rate of 5% for 5 years to ASCs and Asian Currency Units ("ACUs") on income derived from managing of Initial Public Offering of securities of foreign companies for listing on the Singapore Exchange ("SGX"). The 5% tax rate will also apply to income derived from the sale of such foreign securities and related services such as brokerage and custodian services. This will be effective from YA 2003 to 2007.
- Grant a concessionary tax rate of 5% for each approved new derivative product denominated in any foreign currency derived by top 20 corporate SGX members. This will be effective for such transactions on SGX for the period 1 January 2002 to 31 December 2006.

Treasury Industry

- Grant a concessionary tax rate of 5% on income derived by ACUs of financial institutions or ASCs in respect of over-the-counter financial derivatives denominated in foreign currency. Payments to non-residents on such derivatives transactions will also be exempted from withholding tax. This will be effective for 5 years from 20 May 2002.



Financial Sector Incentive Scheme ("FSI")

- Merge several existing financial sector incentives into a single umbrella scheme. Under the FSI scheme, concessionary tax rate of 5% for qualifying high growth and high value-added activities and 10% for mature activities will be granted. This will be effective from YA 2004.

Concessionary Tax Rate For Interest Income From Qualifying Debt Securities

- Extend the concessionary tax rate of 10% on interest income derived from qualifying debt securities to clubs, management corporations, town councils and trade and industry associations with effect from YA 2003.

Tax Deduction For Special Reserves of General Insurance Companies

- Allow tax deduction on special reserves set aside for certain offshore risks with effect from YA 2003.

PERSONAL TAX

Personal Income Tax Rates

The Minister has proposed a new personal tax rate structure which will lower personal income tax liability. The Goods and Services Tax ("GST") rebate of \$250 and the personal relief of \$3,000 will be incorporated into the personal income tax structure. Resident individuals would not be taxed on the first \$20,000 of their chargeable income and chargeable income in excess of \$20,000 will be taxed at graduated rates ranging from 4% to 22% (Refer to Appendix I). The top personal tax rate will be reduced to 20% by year 2004.

Proposed Effective Date : Year of Assessment 2003

Not Ordinarily Resident ("NOR") Taxpayer Scheme

The Minister has proposed to introduce a new class of taxpayers known as NOR. To qualify as NOR, an individual must fulfil the following conditions:

- he must not be a Singapore tax resident in the 3 years of assessment before the year he first qualifies for the NOR taxpayer scheme; and
- he must be a tax resident for the year of assessment in which he wishes to qualify for the NOR taxpayer scheme.

An NOR will enjoy the following favourable tax benefits for a period of 5 years of assessment:



tax exemption on remittance of income earned prior to his relocation to Singapore; and

tax exemption on employer's contribution to overseas pension funds, subject to the same ceiling as the employer's statutory contributions to Central Provident Fund ("CPF").

In addition, if an NOR spends more than 90 days in a calendar year outside Singapore on business, he will enjoy the benefit of time apportionment of income. In this case, he pays income tax only on a portion of his employment income computed based on the number of days he is present in Singapore in a calendar year. However, the income tax payable is subject to a minimum floor rate of 10% on his total employment income.

Proposed Effective Date : Year of Assessment 2003

Stock Option Schemes

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. The gain that is subject to tax is the difference between the market value of the shares at the date of exercise and the exercise price.

The Minister has proposed that gains from stock options granted in respect of non -Singapore employment which are exercised on or after 1 January 2002 will be tax exempt even if the options are exercised in Singapore. This is a reversal from the current practice by the Inland Revenue Authority of Singapore ("IRAS").

To be consistent, gains from stock options granted for Singapore employment which are exercised on or after 1 August 2002 will be taxed in Singapore regardless of where the stock options are exercised, even after cessation of the Singapore employment.

Singapore employers would be required to collect taxes on such gains from employees who exercise their stock options after leaving Singapore.

In respect of stock options and share awards granted on or after 1 August 2002 where there is a moratorium on these shares, the gains will only be taxed at the end of the moratorium period.

**Proposed Effective Date : Details will be released by IRAS within 3 months
(ie by 3 August 2002)**



Personal Reliefs

NSmen Relief

The Minister has proposed to increase the NSmen relief as follows:

	<u>Existing relief</u>	<u>New relief</u>
Active NSmen	\$2,000	\$3,000
Inactive NSmen	\$1,000	\$1,500
Wife and parents of NSmen	\$500	\$750

Proposed Effective Date : Year of Assessment 2003

Procreation Tax Rebate

Currently, the procreation tax rebate is granted to a married couple who has children as follows:

- (a) 2nd child born on or after 1 January 1990

<u>Age of mother at the time of delivery</u>	<u>Rebate</u>
Less than 28 years old	\$20,000
Less than 29 years old	\$15,000
Less than 30 years old	\$10,000
Less than 31 years old	\$5,000

- (b) 3rd child born on or after 1 January 1987 \$20,000

- (c) 4th child born on or after 1 January 1998 \$20,000

The Minister has proposed that divorcees can now continue to claim their procreation tax rebates. Divorcees whose procreation tax rebates have already been terminated can apply for reinstatement of their rebates if their periods of claim have not expired.

Proposed Effective Date : Year of Assessment 2003



Double Child Relief

Currently, this relief is available where an unmarried child is receiving full-time education in a university or equivalent institution outside Singapore after being unable to gain admission to a similar institution in Singapore or is pursuing a course of study not available in Singapore. The deduction is double the normal child relief.

The Minister has proposed to reduce the relief to \$3,000 for Year of Assessment 2003 and withdraw the double child relief from Year of Assessment 2004.

Proposed Effective Dates : Year of Assessment 2003 and 2004

Handicapped Parent Relief

Currently, the parent relief granted to resident individuals is as follows:

If the dependent is living in the same household
as the taxpayer: \$5,000 per dependent

If otherwise and the taxpayer has incurred
at least \$2,000 a year for the maintenance
of the dependent: \$3,500 per dependent

The Minister has proposed a handicapped parent relief of \$3,000 on top of the existing parent relief. For those who maintained their handicapped parents and stay with them, the handicapped parent relief will be \$8,000 per parent. For those who maintained their handicapped parents but do not stay with them, the handicapped parent relief will be \$6,500 per parent.

Proposed Effective Date : Year of Assessment 2003

Withholding Tax Rate for Non-Resident Professionals

Currently, income accrued or derived by non-resident professionals from services rendered in Singapore is subject to Singapore tax at 24.5%.

The Minister has proposed that payments to non-resident professionals will be subject to a final withholding tax at 15% on the gross income received.

Proposed Effective Date : 3 May 2002



Allowance for Members of Parliament ("MPs")

Currently, MPs enjoy a tax remission on the MP allowances.

The Minister has proposed to withdraw the tax remission on the MP allowance.

Proposed Effective Date : Year of Assessment 2003

GOODS AND SERVICES TAX ("GST")

GST was introduced in Singapore on 1 April 1994 and the standard rate was pegged at 3%.

The Minister has proposed to raise the standard rate of GST from 3% to 5% with effect from 1 January 2003.

A comprehensive GST offset package was announced to help Singaporeans adjust to the rate hike. Some of these offsets are:

- . Provide Economic Restructuring Shares to all adult Singaporean;
- . Extend rebates for Service & Conservancy charges and rental;
- . Increase grant and subsidy to offset GST on subsidised healthcare and public education;
- . Increase public assistance rates and pensions allowances;
- . Introduce Citizens' Consultative Committee Assistance Scheme; and
- . Reactivate committee to combat profiteering.

ESTATE DUTY

Exemption From Estate Duty for Movable Assets of Non-Domiciles

Currently, a person who at the time of death was not domiciled in Singapore will be liable to estate duty on movable and immovable assets in Singapore.

The Minister has proposed to exempt from estate duty all movable assets of such a person.

Proposed Effective Date : Death occurring on or after 1 January 2002



Exemption from Estate Duty for Donation Made By Estates

Currently, only donations to Institutions of Public Character ("IPCs") specified in the deceased's will are exempt from estate duty.

The Minister has proposed that all donations from estates to any IPCs will be exempt from estate duty.

Proposed Effective Date : 1 January 2002

OTHER CHANGES

The other tax changes are briefly summarised below:

Approved Double Tax Deduction For Approved Donation

- . Double tax deduction allowed for cash donations made to any IPCs on or after 1 January 2002;
- . Individuals and corporations will be allowed to carry forward for 5 years all unutilised tax deductions granted for donations made to IPCs or after 1 January 2002;
- . Donors are allowed a single tax deduction for donations to IPCs for naming rights made on or after 1 January 2002; and
- . IPC status will be awarded to qualifying charitable private foundations with effect from 3 May 2002.

Taxes on Car Ownership

- . Additional Registration Fee ("ARF") for cars and taxis will be reduced from 140% to 130% of the Open Market Value ("OMV"). This will apply to Certificates of Entitlement ("COE") obtained with effect from the May 2002 bidding exercise;
- . Preferential Additional Registration Fee ("PARF") rebate will be pegged to the actual ARF paid on each car instead of the OMV. This will apply to COE obtained with effect from the May 2002 bidding exercise;
- . Excise Duty for cars will be cut from 31% of the OMV to 20% with effect from 4 May 2002;



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- . Increase in Excise Duty for taxis from 7% to 10% of the OMV with effect from 4 May 2002;
 - . Road tax for cars (except for taxis) will be lowered by 20% with effect from September 2002; and
 - . Car park charges to be revised. Details will be announced in due course.

Liquor and Tobacco Taxes

- . Excise duty on different types of liquors will be raised with effect from 3 May 2002.
- . Excise duty on cigarettes will go up from \$180 per kg to \$210 per kg with effect from 3 May 2002.

Foreign Worker Levy

- . Extend the foreign worker levy concession for another six months to 31 December 2002.

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 MHC & Associates, DFK. It is not intended to be comprehensive. Readers are advised that the contents of this commentary should not be relied on or acted upon without professional advice. If you need any 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.

**PROPOSED RATES OF INCOME TAX FOR RESIDENT INDIVIDUALS
FROM YEAR OF ASSESSMENT 2003**

	Chargeable income \$	Tax Rate \$	Tax \$
On the first	20,000	0	0
On the next	10,000	4	400
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On the first	30,000		400
On the next	10,000	6	600
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On the first	40,000		1,000
On the next	40,000	9	3,600
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On the first	80,000		4,600
On the next	80,000	15	12,000
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On the first	160,000		16,600
On the next	160,000	19	30,400
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On the first	320,000		47,000
Excess over	320,000	22	