
2004 SINGAPORE BUDGET COMMENTARY

Introduction

The Minister for Finance, Deputy Prime Minister (“Minister”) Lee Hsien Loong delivered his 2004 Budget Statement on 27 February 2004. The Minister commented that the Government must remake Singapore as a land of opportunity by having a globally competitive tax regime.

CORPORATE AND BUSINESS TAX

Corporate Income Tax Rate

The corporate tax rate will be reduced by 2% to 20% with effect from Year of Assessment (“YA”) 2005. The corporate exemption structure on the chargeable income of \$100,000 is still applicable.

Proposed Effective Date: **Year of Assessment 2005**

Full Tax Exemption Scheme for New Companies

To encourage and nurture entrepreneurship, the Minister has proposed a full tax exemption scheme for new companies. Qualifying new companies will be given full tax exemption on the first \$100,000 of their normal chargeable income (excluding Singapore dividend). This full tax exemption will be granted for the company’s first three consecutive Years of Assessment which falls within YA 2005 to YA 2009. The first YA of a qualifying company is the YA that relates to the basis period in which the company is incorporated.

To qualify for the consecutive full tax exemption for a relevant YA, all the following conditions must be met:

- (i) it is incorporated in Singapore;
- (ii) it is a tax resident of Singapore for that YA;
- (iii) it has no more than 20 shareholders throughout the basis period relating to that YA; and
- (iv) all its shareholders are individuals throughout the basis period relating to that YA.

Proposed Effective Date: **Year of Assessment 2005**

Withholding Taxes on Royalty Payments

The Minister has proposed that the withholding tax rate on royalty payments be reduced from 15% to 10%.

Proposed Effective Date: **1 January 2005**



Tax Incentives

Regional Headquarters Incentive

Currently, the Regional Headquarters (“RHQ”) Incentive provides a preferential tax rate of 15% on incremental qualifying profits for a period of 3 years. The Minister has proposed to extend the maximum tax relief period from 3 years to 5 years.

Proposed Effective Date: 27 February 2004

Enterprise Investment Incentive

Currently, investors awarded the Technopreneur Investment Incentive (“TII”) in respect of high-technology start-up companies will enjoy tax deductions for losses incurred if these companies fail, or from the sale of the qualifying shares of the start-up companies. The government has decided to expand the TII to include all forms of start-up companies and this incentive will be renamed Enterprise Investment Incentive.

Proposed Effective Date: 27 February 2004

Pioneer Incentives

Currently, a pioneer company is granted tax exemption on its profit derived from qualifying activities for a minimum period of 5 years and a maximum period of 10 years. The Minister has proposed to extend the maximum period of pioneer incentive from 10 to 15 years.

Proposed Effective Date: 27 February 2004

Approved International Shipping Enterprise Scheme

Currently under the Approved International Shipping Enterprise (“AISE”) Scheme, the onshore charter income of an AISE derived from the charter of any foreign ship is not tax-exempt except where the charter income is received from another AISE. The Minister has proposed to extend the AISE Scheme to cover all onshore charter income received by an AISE.

Proposed Effective Date: Year of Assessment 2005



Promoting Financial Services

To position Singapore as an international financial centre, various incentives were proposed as follows:

Processing Services Provided to Financial Institutions

Proposed Effective Date

To promote higher value-added processing services to financial institution, an approved company will enjoy a 5% concessionary tax rate on the qualifying income. Details will be released by the Monetary Authority of Singapore ("MAS") in May 2004.

27 February 2004 to
26 February 2009

Qualifying Debt Securities Scheme

To develop an active short-term debt market, the Qualifying Debt Securities ("QDS") Scheme will be expanded to include:

1. Tax exemption on discount income on any QDS, with tenure of 1 year or less, derived by any person:
 - (a) who is not a resident in Singapore and who does not have a permanent establishment in Singapore; or
 - (b) who is not a resident in Singapore and carries on any operation in Singapore through a permanent establishment in Singapore, where the funds used by that person to acquire the QDS are not obtained from the operation in Singapore.
2. Concessionary tax rate of 10% on discount income derived by companies and bodies of persons in Singapore from QDS, with tenure of 1 year or less.

QDS issued from
27 February 2004 to
31 December 2008

QDS issued from
27 February 2004 to
31 December 2008



Wealth Management Incentives

The tax exemption schemes for foreign investors and foreign trusts whose funds are managed by any fund manager or trustee company in Singapore will be enhanced to cover the following income:

27 February 2004

1. rental income derived from immovable properties outside Singapore and received in Singapore;
2. discount income derived from debt equities outside Singapore and received in Singapore;
3. income from QDS;
4. discount income from QDS (issued from 27/02/2004 to 31/12/2008), with tenure of 1 year or less ;
5. distributions from foreign unit trusts from outside Singapore and received in Singapore;
6. fees and compensatory payments from securities lending and repurchase arrangements with specified financial institutions in Singapore; and
7. fees and compensatory payments from securities lending and repurchase arrangements with persons outside Singapore.

The scope of income that will be exempted for Designated Unit Trusts will be expanded. The statutory income of Designated Unit Trusts will exclude the above income as well as gains arising from the disposal of debt securities issued by supranational bodies and income arising from foreign exchange and derivative transactions.

More details can be assessed at www.mas.gov.sg.

Asset Securitisation

Special Purpose Vehicles engaged in asset securitisation will be given a concessionary tax treatment. This is to mitigate the disadvantages due to mismatches in timing between the receipt of income and the payment of expenses.

27 February 2004

Details will be released by IRAS in May 2004.



Commodity Derivatives Trading

A 5% concessionary tax rate on qualifying income derived from trading in commodity derivatives will be introduced. 27 February 2004

Details will be released by MAS in April 2004.

Secondary Loans Trading

In order to simplify the existing tax incentives for financial sector, several existing incentives will be merged into a single umbrella Financial Sector Incentive Scheme. To be announced

Secondary loans trading will be included as a qualifying activity under the Financial Sector Incentive Scheme.

Details will be released by MAS in April 2004.

Withholding Tax Exemption on Payments on Over-The-Counter (“OTC”) Financial Derivatives

Payments on OTC financial derivative contracts made by financial institutions to non-residents, excluding permanent establishments in Singapore, will be exempted from tax. The exemption will apply to payments due and payable during the period from 27 February 2004 to 19 May 2007. 27 February 2004 to 19 May 2007

Details will be released by MAS.

Members of Singapore Exchange (“SGX”)

The current concessionary tax rates of 5% and 10 % applicable to SGX trading activities will be extended to products denominated in Singapore dollars. 27 February 2004

Additionally, the 5% concessionary tax rate on new products will be extended to any company that is a member of the SGX as long as it qualifies as one of the top 20 members, as determined by SGX in respect of the total volume of transactions in approved derivative products in the preceding year.

More details can be assessed at www.mas.gov.sg.



PERSONAL TAX

Personal Income Tax Rates

There is no change to the personal income tax rates and the top personal tax rate remains at 22% for YA 2005.

Tax Exemption for Individuals' Foreign-sourced Income

To encourage Singapore resident individuals to remit their foreign funds to Singapore, the Minister has proposed that all foreign-sourced income received in Singapore on or after 1 January 2004 will be tax exempt. This exemption will not be applicable if the foreign-sourced income is received through a partnership in Singapore.

Proposed Effective Date: **Year of Assessment 2005**

Tax Exemption of Singapore-Sourced Investment Income Derived by Individuals from Financial Instruments

The following investment income (income that is not considered as gains or profits from any trade, business or profession) from financial instruments derived on or after 1 January 2004 will be exempted from tax:

- (a) interest from debt securities;
- (b) discount income from debt securities with tenure of 1 year or less;
- (c) annuities;
- (d) all payments on life insurance policies, including interest from insurance benefits that have not been drawn and investment income on investment-linked policies (but excluding sums realised or interest from insurance benefits that have not been drawn under any insurance against loss of profits);
- (e) distributions from unit trusts and real estate investment trusts (excluding distributions out of franked dividends) to which trust holders are entitled on or after 1 January 2004; and
- (f) borrowing fees, loan rebate fees, price differential and compensatory payments arising from securities lending and repurchase arrangements.

This tax exemption will not be applicable if the above investment income is derived through a partnership in Singapore.

Proposed Effective Date: **Year of Assessment 2005**



CPF Cash Top-Up Relief

The Minister had proposed to increase the tax relief on cash top-ups from \$6,000 to \$7,000.

The tax relief will also be extended to individuals making cash top-ups to their non-working spouses who are at least 55 years old and who earned not more than \$2,000 in the preceding year.

Proposed Effective Date: Year of Assessment 2005

OTHER CHANGES

The other changes are briefly summarised below:

Estate Duty

To streamline the processing of Estate Duty ("ED"), the Minister has proposed that for deaths occurring on or after 1 January 2005, the first six months from the date of death will be an interest-free period. Administrators/executors are allowed a grace period of 30 days after issue of the Notice of Assessment to settle the ED payment with no penalty imposed.

Proposed Effective Date: 1 January 2005

Skills Development Levy

Currently, the employers are required to contribute skill development levy ("SDL") at 1% of the gross monthly salary of employee whose salary is \$1,500 or less.

The Minister has proposed to increase the gross salary ceiling from \$1,500 to \$1,800. The SDL rate will remain at 1%.

Proposed Effective Date: 1 July 2004

Foreign Workers Levy

As part of the changes to the foreign worker scheme for the construction sectors, the Minister of Manpower has proposed to raise the construction skilled worker levy from \$30 to \$50. The skilled worker levy rate in all other sectors will also be increased to \$50.

Proposed Effective Date: 1 July 2004



Employment Pass

The Ministry of Manpower will introduce a new category of work pass called ‘S’ pass to replace the current Q2 category. The main criteria for an ‘S’ pass are as follows:

- a minimum salary of \$1,800; and
- an acceptable tertiary qualification.

The ‘S’ pass will be subject to a quota, starting with 5% and an initial levy set at \$50 per month.

Proposed Effective Date: 1 July 2004

Medisave and Medifund Top-ups

The Minister has proposed to top up the Medisave Accounts of all Singapore citizens who are 50 years of age and above. The amount will range from \$50 to \$200, according to age and Medisave balances as at 1 January 2004 (refer to the table below).

Age	Medisave Balance (as at 1 January 2004)		
	< \$5,000	\$5,000 - < \$10,000	≥ \$10,000
50 - 59	\$150	\$100	\$50
≥ 60	\$200	\$150	\$100

Additionally, the Government will top up \$100 million into Medifund to help needy patients meet their medical expenses.

Motor Vehicle Taxes

With the proposed changes, the Additional Registration Fees (“ARF”) and Excise Duty (“ExD”) rates for taxis and cars are as follows:

	ARF	ExD	Total
Taxis/Cars	110% of OMV	20 % of OMV	130% of OMV



Liquor Duties

Currently, Singapore Customs assesses the duty on liquors based on standard sizes. To rationalise the liquor duties, the Minister has announced that the Singapore Customs will stop the practice of assessing liquor based on standard bottle sizes, instead the liquor duty will be assessed based on the exact volume.

Proposed Effective Date: 27 February 2004

Tobacco Duties

The excise duties on all tobacco products will be further raised to discourage smoking. Excise duty on cigarettes will be increased from \$255 per 1,000 sticks to \$293 per 1,000 sticks. The excise duties on other tobacco products will also be harmonised with that of cigarettes and the increase will range from 15% to 31%.

Proposed Effective Date: 27 February 2004

Important Note:

As the Budget proposals are yet to be legislated, this commentary should be used only as a guide. This commentary is prepared for clients and staff of MHC & Associates, DFK. It is not intended to be comprehensive. Whilst every effort has been made to ensure the accuracy of information contained in the commentary, no responsibility can be accepted for any errors or omissions. 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, Mrs Tang See Tha, or our Assistant Tax Manager, Ms 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.