TAX BULLETIN

To: Our Clients

SINGAPORE BUDGET 2010

The 2010 Budget was presented by Dr Tharman Shanmugaratnam, Minister for Finance in Parliament on 22 February 2010 .

Part I - Economic Performance and Outlook

Global economy

2009

- The world suffered its worst and most wide-spread recession in 60 years
- Trade in goods and services fell sharply, especially in Asia

2010

- IMF projects world growth to switch from negative to 3.9%
- Path to recovery is not smooth, but prospects are good
- Greece's sovereign debt problems could be contagious
- Efforts by governments to reduce deficits will inhibit world growth over the short term

Singapore

2009

- Economy contracted 2%
- GDP contracted by 10%
- The Resilience Package helped Singapore avoid the worst of the global crisis
- Resident unemployment reached 5% in the third quarter but since fell back to 3%
- Labour market is still tight in many industries

* New bank loans picking up significantly since November

2010

* Barring major global financial problems, Singapore's growth is expected to be around 4.5% to 6.5%

* To guard against over-exuberance in our property market

Part II - Key Initiatives

A The decade ahead

(i) Building capabilities to sustain growth

- To gear up to sustain growth over the next 5 to 10 years

- To chart a new course for growth based on our skills, innovation and productivity

To pursue initiatives to make Singapore a vibrant and distinctive global city – and a home providing an outstanding quality of life for our people

B Towards an Advanced Economy

* Key goal to grow our productivity by 2% to 3 % per year

* To achieve higher wages, we need to our raise skills and productivity

* Government to commit its resources and energies to support this major uplift in productivity

* Requires a comprehensive national effort to attain superior skills in every vocation and at every level

(i) Major investment for the Future

* Government will launch a sustained initiative to help enterprises and workers (costing $5.5 billion over the next 5 years)

* To further support the growth of more globally competitive Singapore companies

* To help everyone in growth

C Raising Productivity

* To achieve 2% to 3% productivity growth per year for the next 10 years

* Requires a multi-faceted effort involving transformations at three levels to –

  - restructure our overall economy towards higher-value activities

  - upgrade individual industries and enterprises

  - raise the skills and creative potential of every worker

* Government will commit $1.1 billion a year over the next 5 years in tax benefits, grants and training subsidies

* To complement this basic approach, we must also manage our dependence on foreign workers - reducing our dependence will pay off in higher productivity over the long term, but there are real trade-offs in growth and incomes over the shorter term. Thus, we have to move forward in a balanced manner

* From 2004 to 2007, our workforce grew rapidly by 5% per year, with foreigners accounting for half the growth

* Government will establish a high-level National Productivity and Continuing Education Council drawing members from the Government, business community and labour movement

(i) **Investing in Continuing Education and Training**

- to spend $2.5 billion over the next 5 years. Government will help employers to invest in their workers to build on their knowhow and maximise their value in the workplace.

- Government will place additional emphasis on older, low-wage workers by providing them the needed support to enhance their skills and value in the workplace

- To introduce a 3 - year Workfare Training Scheme (WTS) to complement workfare Income Supplement Scheme (WIS) aimed at helping the older workers. From 2010, maximum payments for the WIS will be increased by between $150 and $400. This will cost an additional $100 million annually and will benefit some 400,000 low-wage workers

(ii) Supporting enterprise investments in innovation and productivity

* To support businesses which are re-engineering their work processes and re-designing their jobs, and to support their efforts to gain their competitiveness and to come up with new products and services to generate additional revenue

* To provide tax incentives for all business sectors to invest in upgrading their operations and create new value, and to extend substantial grants to specific industries

* To introduce a Productivity and Innovation Credit Scheme providing for tax deductions for investments in a broad range of activities specifically covering expenditure on -

- research & development
- registration of intellectual property including patents, trademarks and designs
- acquisition of intellectual property
- design activities
- automation through technology or software
- training of employees

The Scheme will cost the Government $480 million a year

(iii) National Productivity Fund

* The Government will create a National Productivity Fund targeted with $1 billion in 2010 to support the initiatives over the next 5 years for specific industries, clusters and enterprises to invest in innovation

Construction sector

* Our productivity level is about half of that of Australia and one-third of that of Japan. About $250 million out of the $1 billion under the National Productivity Fund will be allocated to raising the productivity in the construction sector

(iv) Raising Foreign Worker Levies

* To complement the support for enterprise innovation and upgrading,the foreign worker levies will be raised – modest increase in 2010 (between $10 and $30 for most Work Permit holders on 1 July 2010) and further increases over the next two years

* For the S Pass workers - the rates for the first and second tiers will be $100 and $120 in July 2010 up from a single rate of $50, and up till the rates reach $150 and $250 by July 2012

(v) Supporting Business Restructuring

* To encourage a continuous flow of start-ups and to allow others to grow, this restructuring is important in creating a dynamic and viable SME sector

* The economic recovery provides opportunities for growth through acquisitions, and the Government will facilitate mergers and acquisitions

* A one-off tax allowance will be introduced for 5 years to help of the acquisition costs subject to a cap of $5 million in a single Year of Assessment

(vi) Enhancing Land Productivity

* To make better use of land - to promote the intensification of industrial land use towards more land-efficient and higher value-added activities

* To distinguish between efficient and inefficient uses of industrial land, the industrial building allowance (IBA) under the Income Tax Act will be phased out whilst existing claimants can continue to claim their remaining IBA until the allowances are fully given

* A new Land Intensification Allowance (LIA) will be introduced

Business that meet or exceed the Gross Plot Ratio (GPR) benchmark set around the 75^{th} percentile of the actual GPRs for each sector will receive such generous allowances

D Growing globally competitive companies

(i) Internationalism

* More Singapore companies are emerging with significant competitive strengths and are expanding into international markets

* A major part of global growth in the next decade will come from emerging markets, especially Asia

* Rapid urbanization and increasing demand for higher-value services will give Singapore companies opportunities to expand into these markets in clean energy, waste and water management, healthcare, education and transport management

* There is a world of opportunities for our Singapore companies - in Asia, the emerging markets and the G3 (US, Europe, Japan)

(ii) Building Capabilities through Partnerships

- The MNCs are valuable potential partners to our local firms, helping them to plug into world markets whilst collaborating to develop new, cutting-edge competencies

- To nurture the next generation of business leaders, Government will help support the flow of talent to our SMEs, .and will commit $45 million over 5 years to enhance the SPRING's Business Leaders Initiative

(iii) Reaping Commercial Advantage from R & D

* Our Gross Expenditure on R & D stood at 1.9% of our GDP in 1990 and has grown to 2.8% in 2008. It is targeted to raise this to 3.5% of GDP over the next 5 years through increased private sector R & D expenditure

* $2.2 billion has been provided to the National Research Fund. Government will add another $1.5 billion therein

* Closer linkage between public and private sector R & D is imminent

* Government will sustain its commitment to public sector basic- and mission-oriented research at 1% of GDP. Private sector R & D is targeted to grow from 2% of GDP (current) to 2.5% over the next 5 years

* **Public-Private Co-Innovation Partnership**

  - Government will proactively and systematically help innovation-driven companies to turn their R & D into marketable solutions
  - Government will commit $450 million over 5 years to start a Public-Private Co-Innovation Partnership to work with private sector companies to co-develop innovative solutions for medium- to long term needs

(iv) Improving Access to Growth Finance

* Government will strengthen the availability of growth capital and financing to companies expanding overseas

* Attracting Investors to nurture start-ups

* To encourage more investors who can add value to start-ups, a new incentive will be introduced whereby an investor who commits a minimum of $100,000 of equity investment in a qualifying start-up in a given year can claim 50% tax deduction on his investment at the end of a 2-year holding period subject to a cap of $500,000 in each Year of assessment

* Government will help as a co-investor catalyse financing for companies which are looking to scale up after their initial success.

* Government will mobilize up to $1.5 billion of growth capital over 10 years with Government contributing up to 50% thereof

* Government will also strengthen the market for cross-border financing for Singapore companies, and is undertaken studies to evaluate how best to develop a market-based institution to support in this area

(v) Growing our Role as a Global Business Hub

* To grant tax incentive of 10% concessionary tax rate on incremental income to law practices providing international legal services

* To grant tax incentive for shipbroking businesses and expand the scope of GST zero-rating for the marine industry

* To renew and liberalise the rules of the Investment Allowance Scheme for the Maintenance, Repairs and Overhaul business

Other Tax Measures

* To enhance the Transport Technology Innovation Development Scheme for new green vehicles, and to expand the scope of the Green Vehicle Rebate scheme to include imported used green vehicles

* To attract more international performances, the withholding tax of non-resident public entertainers is to be reduced from 15% to 10% for 5 years

* To make several GST-related changes to reduce compliance costs for businesses

E Including all Singaporeans in Growth

* Opportunities for all

  - To build a society where every Singaporean shares in our Growth

  - With the new WIS scheme, a 55-year old worker earning $1,000 a month will receive an additional 18% top-up to his pay through WIS, but the important thing is to help them to boost their skills to be less dependent on the government.

* Shift to a Progressive Property Tax Regime

  - To shift from a flat property tax rate for owner-occupied residential properties to a progressive property tax rate based on the Annual Values

  - To replace the 1994 GST rebates with a simple and progressive tax for owner-occupied residential property

Part III - Budget Position

FY 2009

- The basic deficit is now estimated at $8.5 billion as compared to $14.9 billion that was expected due to a lesser contraction in our economy

- Taking into account our Net Investment Return Contribution and the budgeted top-ups to endowment and trust funds, a lower overall budget deficit of $2.9 billion (1.1% of GDP) is now estimated for FY 2009

FY 2010

- A basic deficit of $7.2 billion is expected (2.6% of GDP). After taking into account top-ups to the endowment and trust funds, the overall budget deficit is expected to be around $3.0 billion (1.1% of GDP)

<u>Part IV - Highlights of tax changes</u>

Corporate Tax

(a) Productivity & Innovation Credit for all businesses from YA 2011 to 2015

Tax deduction for -

(i) R & D expenditures on R & D done in Singapore

- 250% for the first $300,000 qualifying expenditure per YA
- 150% for the balance expenditure

(ii) Design investment on eligible activities done in Singapore

- 250% for the first $300,000 qualifying expenditure per YA
- 100% for balance expenditure

(iii) Acquisition of IP Rights (owned by taxpayer)

- 250% for the first $300,000 qualifying costs per YA
- 100% for balance expenditure

(iv) IP Rights Registration

- 250% for the first $300,000 qualifying costs of registering patents, trademarks, designs and plant varieties per YA

- 100% for balance expenditure

(v) Automation investment

- 250% for the first $300,000 on qualifying investments per YA
- 100% balance expenditure

(vi) Training

- 250% for the first $300,000 on qualifying expenditure for external training and WDA-certified in-house training per YA
- 100% for balance expenditure

Subject to certain conditions, taxpayers may convert their tax deductions into a non-taxable cash grant - up to $300,000 into $21,000 per YA

(b) Merger & Acquisition allowance for qualifying M & A executed from 1 April 2010 to 31 March 2015

(i) 5% of value of acquisition capped at $5 million per YA to be written down over 5 years

(ii) stamp duty to be remitted on unlisted shares but capped at $200,000 per year

(c) Industrial Building Allowance

(i) Qualifying expenditure incurred on or before 22 February 2010 will continue to qualify for existing IBA

(ii) No IBA for capital expenditures incurred after 22 February 2010 except in specified scenarios (Details to released by the Singapore Tax Authority)

(d) New Land Intensification Allowance

(i) on qualifying capital expenditure incurred on the construction of a qualifying building by a user engaged in pharmaceuticals, petrochemicals, petroleum, specialties, other chemicals, semi-conductor-wafer fabrication, aerospace, marine & offshore engineering and solar cell manufacturing provided the underlying land is zoned as Business 1 or Business 2 under the URA Master Plan

(ii) to be granted initial allowance (25%) and annual allowance (5%) on the qualifying capital expenditure

(iii) scheme in place for 5 years effective from 1 July 2010

(e) Incentive for International Legal Services (from 1 Apr 2010 to 31 Mar 2015)

(i) for law practices registered in Singapore or a branch of a foreign practice

(ii) 10% concessionary tax rate on incremental income from qualifying international legal services for 5 years

(f) Enhancement to Financial Sector Incentive

(i) From 1 Jan 2011, the Qualifying Base removed and the concessionary rate changed in tandem from 10% to 12% as a revenue neutral change

(g) Review of incentives for futures members of SGX and SICOM

(i) Existing incentives to be discontinued on 31 Dec 2010

(ii) From 1 Jan 2011, new applicants engaged in qualifying transactions will have to apply for the Financial Sector Incentive subject to economic commitments

(h) REIT concessions

(i) Existing income tax, stamp duty and GST concessions for listed REITs will be renewed to 31 Mar 2015

(i) Approved Start-up Fund Manager scheme

(i) Existing scheme to lapse after expiry on 17 Feb 2010

(j) Offshore insurance business

(i) From 1 Apr 2010 –

- Existing incentive subject to a sunset clause of 5 years till 31 Mar 2015
- New approval will be for a period of 10 years
- New headcount requirement

(k) Maritime Finance Incentive Scheme

- Expiry date extended to 31 March 2016

(l) Shipbrokers and Forward Freight Agreement Traders

- concessionary tax rate of 10% for a company solely carrying out shipbroking and FFA trading in Singapore for 5 years

(m) Shipping Enterprise

- ship management fees derived on or after 22 Feb 2010 from ship management services to related qualifying SPVs will be exempted under section 13A and the AIS scheme, subject to conditions

(n) Investment allowance for aircraft rotables

- scheme will be renewed for another 5 years to 31 Mar 2015

Goods Services Tax

GST zero-rating for marine industry (from 1 July 2010)

(i) scope expanded to include pleasure and recreational ships (including private yachts) wholly used for international travel

(ii) extended to all goods supplied for use on board or installation on a qualifying ship (whether in or outside Singapore)

(iii) extended to the transport of goods or passengers via a ship to or from international waters (whether in or outside Singapore)

(iv) extended to stores supplied to and merchandise for sale on board a qualifying aircraft

(v) The GST remission for listed Registered Business Trusts in infrastructure ship and aircraft leasing will be renewed to 31 Mar 2015

(vi) To allow approved GST-registered businesses to defer import GST payable on goods at entry point into Singapore for at least one month subject to qualifying conditions with effect from 1 Oct 2010

(vii) GST accounting rules to be simplified as from 1 Jan 2011 – at the earlier of when a tax invoice is issued or when payment is received

Property Tax

(i) review of existing property tax rebate for owner-occupied residential properties

- From January 2011 - property tax payable will be -

the first $6000 of AV	- 0%
the next $59,000 of AV	- 4%
exceeding $65,000 of AV	- 6%

(ii) Non-0wner-occupied residential and other properties - remains at 10%

Personal income tax

(a) Dependant Reliefs

(i) From YA 2010 parent relief increased to -

$7,000 if the taxpayer lives with the dependant

$4,500 if the taxpayer does not live with dependant

$11,000 if the taxpayer lives with handicapped dependant

$8,000 if the taxpayer does not live with handicapped dependant

(ii) Wife relief (now known as spouse relief)

From YA 2010 - expanded to female resident taxpayers who support their husbands – same income threshold condition applies

(iii) Income threshold condition for dependant-related reliefs as from YA 2010

- threshold increased to $4,000
- threshold for handicapped-dependant-related reliefs removed

  but for CPF Cash Top-up relief to CPF accounts of spouse or siblings the changes will be effective from YA 2011

(b) Course fees relief

- to be increased from $3,500 to $5,500 from YA 2011

(c) Tax deduction of donations (both individuals and companies)

- Tax deduction of 250% extended for another year for donations made from 1 Jan 2010 to 31 Dec 2010

(d) Tax deduction for angel individual investors in qualifying start-ups (from 1 Mar 2010 to 31 Mar 2015)

- needs to invest minimum $100,000
- deduction at 50% of investment at the end of second year of holding, but capped at $500,000 for each YA

(e) Non-resident public entertainers

- The withholding tax to be reduced from 15% to 10% on sums payable from 22 February 2010 to 31 March 2015

Note: These Notes are designed to update our Clients of the tax changes proposed. They are of a general nature and are not intended to be comprehensive. Our Clients are advised that before acting on any specific issue, they should discuss their particular factual situation with our Firm. No liability can be accepted for any action thereon without our prior consultation.

If you have any specific enquiry, please contact our Mr Yee Fook Hong (Tax Partner)or Ms Cheang Wai Mang (Tax Manager)