NG·LEE & ASSOCIATES DFK

TAX BULLETIN

SINGAPORE BUDGET 2012

The 2012 Budget was presented by Dr Tharman Shanmugaratnam, Dy Prime Minister and Minister for Finance in Parliament on 17 February 2012 .

PART I - ECONOMIC PERFORMANCE AND OUTLOOK

Global economy

2011

In US, the recovery was weighed down by public spending cuts and continued weakness in the housing markets

In the EURO Zone, the economy may enter into a recession as " fiscal consolidation and bank deleveraging dampen private demand "

2012

The prospect of a rebound remains fuzzy in the light of the uncertainty in the West

Asia expects slower growth

Singapore

2011

Overall, the economy bottomed out and grew 4.9 per cent but indicators do not suggest an imminent recession

2012

MTI maintains its growth forecast of 1 to 3 percent but the outlook remains " subdued and clouded with significant uncertainties "

Asia is providing some lift to our economy

PART II - KEY INITIATIVES

Mission

To build an inclusive society and a stronger Singapore

To address Singapore's longer - term challenges and building a better future

A Sustaining Economic Growth

To upgrade and restructure our economy

To achieve productivity growth of 2% to 3% per year

To reduce our dependence on foreign labour and to build an economy driven by higher skills, innovation and productivity. A continued rapid infusion will affect the Singapore character of our society and will reduce the incentives of our companies to upgrade and raise productivity

Government will extend special help to our SMEs

B Fair and inclusive society

To create more opportunities for the lower and middle income Singaporeans

To step up support for the 3 groups of Singaporeans

a Support for the elderly

- help them to stay in work
- provide greater security in retirement

- **raise CPF contribution rates**

  New Rates from 1 September 2012

Age	Employer	Employee
Above 50-55	14	18.5
Above 55 – 60	10.5	13
Above 60 – 65	7	7.5

- **new Silver Housing bonus scheme**

  - $20,000 for selling of existing flats and purchase of 3-room or smaller HDB flats

  - enhance lease buyback scheme from $10,000 to $20,000

- health care expenditure to double over next 5 years to $8 billion

b **Lower income groups**

* GST vouchers to be introduced

* more pre-school subsidies for their children

- Edusave and Comcare Endowment Funds each topped up by $200 million

c **Middle-income groups**

* higher subsidies for lower and middle income for intermediate and long-term care

* more households can qualify for increased subsidies for nursing homes and community care

d Permanent absorption of GST for subsidied patients

e $600 million top-up to the Medifund

f One-off Medisave top-up for Singapore citizens to set-off increase in Medishield premiums in 2012

g Double the Earned Income Relief for those aged 55 and above

C Restructuring to sustain Growth

a Provide more help for companies to restructure and upgrade

b Managing our Dependence on foreign labour

Introduce a calibrated reduction in Dependency Ratio Ceilings (DRCs) for the manufacturing and services sectors

From 1 July 2012 to reduce

- Manufacturing DRC from 65% to 60%
- Services DRC from 50% to 45%
- S Passes from 25% to 20%

c Provide significant assistance to help SMEs to adjust

d Helping companies to attract local workers –

- Special employment credit (SEC) for Singaporean workers above 50 and earning up to $3,000 per month – 8% of wages for the next 5 years (2012 to 2016)

* A lower SEC for workers with monthly wage of $3,000 to $4,000

e SME cash grant

- Provide a one-off cash grant to help set-off higher business costs pegged at 5% of revenues for YA2012 and capped at $5,000 Condition - made CPF contributions for at least one employee

f Transforming through Productivity and Innovation

- Enhance the Productivity and Innovation Scheme (PIC) to provide a 60% cash payout of up to $100,000 on companies' PIC expenditures.

* A faster cash payout from 1 July 2012 on a quarterly basis

- Make it easier for companies to claim PIC on in-house training by removing the requirement of certification by WDA or ITE limited up to $10,000 per year

* Set aside $2 billion for the National Productivity Fund (NPF)

- Investing significantly in Continuing Education and Training (CET) to help workers

* Enhance training support for SMES

  - Similar training benefits for the self-employed – through WDA

  * Grants to support SME upgrading and productivity

  - Increase grants for capability development for SMEs from 50% to 70% subsidy rate for the next 3 years (SPRING and IE)

g Renovation and Refurbishment Deduction

  * The tax deduction scheme to be made permanent

  * Amount of claim increased from $150,000 to $300,000

h Mergers and Acquisitions

  * To provide further support to SMES – a 200% tax allowance on the transaction
    costs incurred - capped at $100,000

i Internationalisation

  * To establish a specialized project finance institution (PFC) to facilitate for larger and long-tenure project overseas

  * Trade Financing and Political Risk Insurance

    - To help companies secure insurance coverage for political risks for projects overseas

  * Tax Deduction for internationalization

  * To simplify claim for double tax deduction

j Developing New Competitive strengths

  * Tourism - to inject additional $905 million into the Tourism Development Fund

  * Simplify GST relief for goods brought in

  * Marine and Offshore

  * $150 million to be allocated from the National Research Fund to help our companies to build R & D capabilities to develop solutions for deepwater oil production

* Gold Trading Hub

  - Investment-grade gold and other precious metals to be exempt from GST

* **Providing Tax Certainty on gains on equity disposal**

* Enhancing our Transport System

* Revisions to the Vehicles Tax Regime

  - To replace the Green Vehicle Rebate Scheme with a Carbon Emissions-based Vehicle Scheme

  - Special diesel tax for Euro V Vehicles

  - Removal of Additional Transfer Fee

PART III - BUDGET POSITION

FY 2011

Overall budget surplus of about $2.3 billion (0.7% of GDP)

FY 2012

Projects a small basic surplus of $1.3 billion (0.4% of GDP)

PART IV - HIGHLIGHTS OF TAX CHANGES

Corporate Tax

(a) Productivity and Innovation Credit

(i) Effective from YA 2013, the cash payout rate to be increased from 30% to 60% up to $100,000 (Scheme extended to YA 2015)

Cannot be combined on expenditure across the 3 YAs

(ii) In-house Training -certification not required for qualifying training expenditure incurred up to $10,000 per YA. Total cap remains at $400,000. Expenditure in excess of the $10,000 cap may still qualify if approved by WDA or ITE. Cannot be combined across YAs

Training of Agents may qualify subject to –

* there is a regular working contractual relationship between the Principal and the Agent
* Principal bears the training expenses
* Not claimed by the Agent as his expenses
* Principal shares the Agent's risks and rewards

(iii) R & D Expenditure

R & D cost-sharing agreements may qualify for PIC deduction

* deemed to be 60% of shared costs
* claim will count towards the expenditure cap of R & D activity

Software development

* multiple sales requirement removed
* development for internal routine administration of businesses will not be considered

(iv) Automation Equipment

* As from YA 2012 qualifying equipment acquired on hire purchase with repayment straddling over 2 or more financial years will be eligible for the cash payout option

(b) Renovation and Refurbishment Deduction

* Expenditure cap doubled to $300,000 for each 3-year period as from YA 2013

(c) Merger and Acquisition Scheme

- 200% tax allowance for transaction costs incurred on qualifying M & A capped at $100,000 per YA. The allowance will be written down in 1 year

- Qualifying M & A

  - Acquiring company may acquire shares of target company through multiple tiers

  - The conditions that target company has to satisfy may be done by any of the multiple tiers of wholly-owned subsidiaries

  - The scheme will be available as an added feature for existing HQ incentives on a case and case basis

  - Changes for qualifying M & A completed from 17 February 2012 to 31 March 2015

(d) Simplifying capital allowance for low-value assets

  * Full cost of each asset to be written down in 1 year increased to $5,000 as from YA 2013

(e) Introducing the Integrated Investment Allowance Scheme

  * The scheme will provide an additional allowance on fixed capital expenditure incurred on productive equipment placed overseas on approved projects (EDB)

  * Take effect from YA 2013 for qualifying expenditure incurred on or after 17 February 2012 and runs for 5 years

  * The existing incentive to be withdrawn on 17 February 2012

(f) Double Tax Deduction for internationalization Scheme

  * Tax deduction of up to 200% may be allowed on qualifying expenditure up to $100,000 per YA without the need of approval from IE or STB for:

    - overseas business development trips/missions

    - overseas investment study trips/missions

    - participation in overseas trade fairs

    - participation in approved local trade fairs

Claim in excess will continue to be approved by IE or STB

Take effect for expenditure incurred on or after 1 April 2012

(g) Providing certainty of companies' gains on disposal of equity investments

- Gains derived from disposal will not be taxed if the divesting company holds a minimum shareholding of 20% in the other relevant company and the minimum 20% shareholding was held for at least 24 months prior to the disposal

- For other scenarios, the tax treatment will be based on the surrounding facts and circumstances

Take effect for disposal on or after 1 June 2012

(h) Filing and payment deadline for withholding tax

* Payer will be allowed one additional month to file and pay the tax by the 15^{th} of the second month following the date of payment to the non-resident

Change for payments made on or after 1 July 2012

(i) Exempting vessel disposal gains derived by qualifying ship operators and ship lesssors from tax with effect from the commencement of the Maritime Sector Incentive on 1 June 2011

(j) Exempting charter fees for ships from withholding tax for payments made on or after 17 February 2012

(k) Enhancing the Maritime Sector Incentive - maritime Leasing (Container) Award

* interest and related payments made on or after 17 February 2012 from loans taken to finance qualifying containers and iutermodal equipment will be exempt from withholding tax

* As from YA 2013, income derived from the leasing of intermodal equipment incidental to the leasing of qualifying containers will enjoy concessionary tax rate of 5% or 10%

(l) Extending and enhancing the Aircraft Leasing Scheme

* Extended to 31 March 2017

* Withholding tax exemption granted automatically

Payments must be made on or after 1 May 2012 in respect of qualifying foreign loans entered into on or before 31 March 2017

(m) Enhancing the liberalized withholding tax tax exemption for banks

* No need to withhold tax on interest and other payments made to PEs in Singapore, but the PEs will be required to declare and be assessed on the payments received. Change to take effect for payments made from 17 February 2012 to 31 March 2021 for contracts already in force before 17 February 2012

(n) The withholding tax exemption for Over-The- Counter financial derivatives payments to be extended to 31 March 2021

(o) Tax deduction for collective impairment provisions made under the MAS Notices to be extended till YA 2016 or YA 2017

(p) The designated investment and specified income lists for financial sector tax incentive schemes to be revised to an exclusion list as from 17 February 2012

(q) REIT that makes distributions to unit holders in the form of units can continue to enjoy tax transparency subject to

- trustee of the REIT grants the unit holders the option to receive the distributions either in cash or units in the REIT, and

- On distribution date, the trustee must have sufficient cash to make the entire distribution fully in cash and no option had been given to those unit holders to receive in units

- Change take effect for distributions made on or after 1 April 2012

Goods & Services Tax

- Granting GST exemption on investment-grade gold and other precious metals with effect from 1 October 2012

* Extending the GST Temporary Import Period from 3 to 6 months as from 1 April 2012

- Extending the GST Tourist Refund System to tourists departing by international cruise as from January 2013

* The GST import relief for new articles brought in by inbound to be simplified as from 1 April 2012

Personal Income Tax

Earned Income Relief for elderly and handicapped workers

* The amount of EIR will be increased as from YA 2013 –

Age Group	EIR	Handicapped EIR
Below 55	$1,000	$4,000
55 to 59	$6,000	$10,000
60 and above	$8,000	$12,000

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), Ms Cheang Wai Mang (Tax Manager) or Ms Stella Tang (Asst Tax Manager)

22 February 2012