TAX BULLETIN

To: Our Clients

SINGAPORE BUDGET 2013

The 2013 Budget was presented by Dr Tharman Shanmugaratnam, Dy Prime Minister and Minister for Finance in Parliament on 25 February 2013.

PART I – A. ECONOMIC PERFORMANCE AND OUTLOOK

Global Economy

2012

The World Bank Global Economic Prospects Report (#) –

(i) the world economy grew just 2.3 per cent in 2012. Developing countries were responsible for more than half of this growth. In contrast, developed countries, like Germany, Japan and the US had growth of only 1.3 per cent.

2013

(#) It picks up modestly to 2.4 per cent in 2013.

(#) The Report says that significant downside risks to global growth persist arising from stalled progress in solving the European debt crisis, fiscal uncertainty in the US, a decline in investments in China and the spiking oil prices.

Based on the IMF's global economic outlook, GDP forecasts (in per cent) for 2013:

China	-	8.2
India	-	5.9
US	-	2.0
Japan	-	1.2
Germany	-	0.6
UK	-	1.0

Singapore

2012

GDP growth of 1.3 per cent

Rising costs remain a concern for both businesses and households

Household incomes have risen over the past 6 years, but not for the many Singaporeans who worked at the lower rungs

Productivity dropped by 2.6 per cent (MTI)

Non-oil domestic exports rose by 0.5 per cent

Based on IE Singapore's Release –
- Pharmaceuticals exports increased by 10.3 per cent
- Specialised machinery grew 14.4 per cent
- Civil engineering equipment parts rose by 22.2 per cent
- Key electronics industry continued to struggle
- Uncertainties in global demand outlook continue to be blurred by economic uncertainties especially in developed countries

2013

IE Singapore forecasts -
- Singapore's trade prospects remain unclear
- Total trade growth to be 3 to 5 per cent and non-oil domestic exports growth to be 2 and 4 per cent

MTI projects GDP estimate to be within the range of 1 to 3 per cent against the macroeconomic backdrop of modest fiscal cutbacks in the US and no outright crisis in the euro-zone

Key external downside risks have receded

Asia is providing some lift to our economy

PART II - B. KEY INITIATIVES

B1 - A better Singapore – Quality Growth, an Inclusive Society

Common vision for the future –

- a strong Singaporean identity and sense of belonging
- a robust and vibrant economy
- strong families
- a caring society
- affordable living
- society with greater sense of togetherness

B2 - Immediate challenges - Housing and Transport

- To reduce the cost of housing
- To make improvements in public transport
- Expand rail network by more than 50% by 2021

B3 - An Economy and Society in Transition

- better quality of life over the medium to long term
- must make every effort to achieve quality growth (have not achieved the level of productivity and income of an advanced economy)
- higher productivity is the sustainable way to increase incomes
- facing pressures of widening income
- to reshaping policies and driving new initiatives
- to sustain social mobility and strengthen support for the elderly

B4 - Transforming our Economy for Better Jobs

- restructuring our economy
  - tightening foreign worker inflows
  - supporting enterprises to upgrade
  - investing in our workers
- help SMEs to revitalize

B5 - Building a fair and Inclusive Society

- to sustain social mobility at the pre-school and primary school to help children from poorer and less stable families to develop
- do more to mitigate inequality
- to enhance Workfare
- raising incomes for the lower-and middle income Singaporeans and helping older Singaporeans with medical costs
- raise the employer and employee CPF contribution rates for low-wage workers as from 1 January 2014
- significant investments to nurture the sports and arts

B6 - Restructuring for Quality Growth

B7 - Growing through Productivity

- intensify efforts to achieve quality growth

B8 - A New Phase of Economic Transformation

- need to catch up of our slow productivity growth - press ahead and upgrade technologies , skills and expertise across our economy

B9 - Foreign Workforce Growth

- increase slowed in 2012 - most growth in the construction and process industries and the services sector
- foreign workers now comprise 33.6% of our total workforce
- have to make further adjustments so as to moderate the growth
- make selective further dependency ratio ceiling cuts
  - increase levies
  - encourage pro-active development of talents, skills of our Singaporean workforce
- cannot cut off the flow of foreign workers abruptly but have to slow its growth
- businesses have to respond in new ways to the tight labour market

B10 - Quality Growth Programme

- helping businesses to upgrade, create better jobs and raise wages

- tightening foreign worker policies
  - raise foreign worker levies across the board in July 2014 and July 2015
  - moderate growth in the construction, process and marine sectors and the services sector

- strengthen Productivity Incentives Schemes

- develop capabilities for new growth industries

- S Pass – tighten qualification criteria
  - From 1 July 2013 – minimum qualifying monthly salary increased from \$2,000 to \$2,200

- Employment Pass
  - policy must ensure that firms are able to recruit the best (both locals and foreigners) to compete internationally
  - tighten eligibility requirements
  - firms give fair consideration to Singaporeans in their hiring practices

- 3 – Year Transition Support Package
  - wage credit scheme (cost Government \$3.6 billion)
    - Government to co-fund 40% of wage increase for Singaporean employees (up to gross monthly wage of \$4,000) in any year over the next 3 years between 2013 and 2015 over that in the preceding year
    - employed for at least 3 months in 2012
    - on payroll for at least 3 months in 2013
    - the credits will be automatically paid out to employers annually

- PIC Bonus (cost Government $450 million)
  - businesses investing a minimum of $5,000 per YA in qualifying expenditure will receive a $ for $ matching cash bonus up to $15,000 (overall) over 3 years of YAs 2013 to 2015 over and above the existing PIC benefits

- Corporate tax rebate (cost Government $1.3 billion)
  - from YA 2013 to 2015 tax rebate of 30% capped at $30,000 per YA

B11 - Cost Savings for Commercial Vehicles

- owners allowed the choice to renew their COEs for 5 years and then to extend further for another 5 years
- grant a one-year 30% road tax rebate for goods vehicles, buses and taxis effective 1 Jul 2013

B12 - Strengthening of Productivity Incentives ($500 million)

B13 - Initiatives for Industry-wide Collaboration

- collaborative industry projects ($100 million over 3 years)
- foster SME collaboration with large enterprises

B14 - Support for Individual Firms

- easier and faster for businesses to make PIC claims
- Land Productivity Grant ($60 million) to intensify use of land
- link up SMEs with public-sector research institutions and private sector technology providers
- set aside land for integrated construction and precast hubs

B15 - Training for Singaporeans at all Levels of the Workforce

- further boost to training
- enhance the Workfare Training Support
- launch SME Talent Programme
- top up the Lifelong Learning Endowment Fund by $ 500m

B16 - Improving Accessibility of Government Support Schemes for SMEs

B17 - Working with the Hospitality Industry

B18 - Capabilities for New Growth Industries to stay relevant and create higher values

B19 - Future of Manufacturing Plan

- $500 million to support a Future of manufacturing Plan
- $90 million Satellite Industry Development Fund

B20 - Seizing Growth in Services and in Asian Markets

PART III - C. BUDGET POSITION

FY 2012

Expects a higher surplus of $3.9 billion (1.1% of GDP)

FY 2013

Projects a surplus of $2.4 billion (0.7% of GDP)

PART IV - D. HIGHLIGHTS OF TAX AND REBATE CHANGES

D1 - Corporate Tax

(a) Tax Rebate of 30% capped at $30,000 per YA for YAs 2013 to 2015

(b) To help SME businesses, the PIC Scheme is enhanced to include Intellectual Property in-licensing of up to a combined cap of $400,000 per YA – effective for YA 2013 to YA 2015 (IRAS will release further details)

(c) Liberalising the scope of PIC Automation Equipment (from YA 2013)

- for equipment not on the prescribed list, IRAS will assess and approve based on: (which)

  (i) automates or mechanises in whole or in part the work processes
  (ii) enhances the productivity of the business
  (iii) if it is a basic tool - it increases productivity or not been used before

- the term "Automation equipment" changed to "IT and automation equipment"

(d) Extending and enhancing the Financial Sector Incentive Scheme (from 1 January 2014)

- The Scheme (excluding the FSI-IF award) will be extended till 31 December 2018. The FSI-IF award allowed to expire on 31 March 2013
- The Scheme will also be refined

(e) Extending & Refining the Qualifying Debt Securities and Qualifying Debt Securities Incentive Scheme

- extended till 31 December 2018
- for debt securities issued from 1 January 2014 to 31 December 2018,
  - ➢ requirement to be substantially arranged in Singapore to be rationalized to ease compliance

(f) Exemption on income derived by Primary Dealers from trading in Singapore Government Securities –

- extended till 31 December 2018

(g) Extending the Tax Incentive Scheme for Approved Special Purpose Vehicle engaged in securitisation transactions to help further develop the structured debt market in Singapore:
- extended till 31 December 2018

(h) Enhancing the Tax Exemption Scheme for the Underwriting of Offshore Specialised Insurance Risks -
- Tax exemption to be granted on qualifying income derived from offshore Catastrophe Excess of Loss reinsurance layers effective from 25 February 2013

(i) Extending and Enhancing the Tax Incentive Scheme for Offshore Insurance Broking Business -
- extended till 31 December 2013
- a new 5% concessionary tax rate on fees and commissions derived from the provision of qualifying speciality insurance broking advisory services effective from 1 April 2013

(j) Extending the Maximum Tenure of the Marine Sector Incentive – Approved International Shipping Enterprise Award
- the maximum tenure will be extended from 30 years to 40 years
- companies can be granted the Award for a 10-year period with renewal up to 40 years

(k) Rationalising the Start-Up Tax Exemption Scheme
- Investment holding companies and property development companies incorporated after 25 February 2013 to be excluded from the start-up tax exemption (on the first $100,000 and 50% on the next $200,000 of chargeable income)

(l) The Deduction Scheme for Upfront Land Premium will be allowed to expire for leases granted on or after 28 February 2013

(m) The Further Tax Deduction Scheme for Expenses incurred in Relocation or Recruitment of Overseas Talent will be allowed to expire on 30 September 2013 as the objective is no longer relevant

(n) The Offshore Insurance Business Scheme for Islamic Insurance and Reinsurance will be allowed to expire on 31 March 2013

(o) The Tax Incentive Scheme granting tax exemption on qualifying income for Family-Owned Investment Holding Companies will be allowed to expire on 31 March 2013 as the objective is no longer relevant

(p) The Overseas Enterprise Incentive Scheme will be withdrawn from 25 February 2013 as the Scheme is no longer relevant

(q) The Approved Cyber Trader Scheme will be withdrawn from 25 February 2013 as it no longer merits the incentive

D2 - Personal Income Tax

(a) With effect from YA 2015 employment perquisites in respect of housing and hotel benefits to be taxed based on the Annual Value of the property (less rental paid by the employee) and the actual cost of the hotel accommodation provided to the employee

(b) Tax Rebate for resident individuals for the YA 2013
- 50% rebate capped at $1,500 for those 60 years old and above as at 31 December 2012
- 30% rebate capped at $1,500 for those below 60 years old as at 31 December 2012

(c) The Equity Remuneration Incentive Schemes ("ERIS") to encourage companies to use equity-based remuneration –
- The ERIS (Start-ups) scheme which expired on 15 February 2013 will not be renewed
- The ERIS (All Corporations) and the ERIS (SMEs) schemes will expire on 1 January 2014

D3 - Property Tax

(a) Property Tax (from 1 January 2014)

(i) The progressivity of the tax structure for residential properties will be enhanced over 2 years whilst non-residential properties will continue to be subject to tax at 10% of annual value

The proposed changes for residential properties are:

➢ Owner-occupied

Annual Value	Progressive Tax Rate (%) from 1 January 2014	Progressive Tax Rate (%) from 1 January 2015
First $8,000	0	0
Next $47,000	4	4
Next $5,000	5	6
Next $10,000	6	6
Next $15,000	7	8
Next $15,000	9	10
Next $15,000	11	12
Next $15,000	13	14
Amount exceeding $130,000	15	16

➢ Non-owner-occupied

Annual Value	Progressive Tax Rate (%) From 1 January 2014	Progressive Tax Rate (%) From 1 January 2015
First $30,000	10	10
Next $15,000	11	12
Next $15,000	13	14
Next $15,000	15	16
Next $15,000	17	18
Amount exceeding $90,000	19	20

(ii) For vacant properties – the Government will remove the Refund Concession and streamline the tax treatment therefore as follows:

- unoccupied residential properties will be taxed at the same rates as for non-owner-occupied residential
- non-residential properties undergoing repairs will be taxed at the prevailing rate of 10% as for non-residential
- residential properties intended for owner-occupation which are undergoing repairs can be taxed at owner-occupied rates for residential properties up to a maximum of 2 years subject to IRAS approval and conditions
- vacant land undergoing residential development intended for owner-occupation can be taxed at the owner-occupied rates up to a maximum of 2 years subject to IRAS approval and conditions
- all other vacant land will continue to be taxed at 10% during development

D4 - Vehicle Tax

- A new tiered ARF structure will apply to vehicles registered with COEs obtained from the first COE bidding exercise in March 2013 as follows:

Tier	ARF Rates
First $20,000	100%
Next $30,000	140%
In excess of $50,000	180%

D5 – Foreign domestic worker levy -

- Reduced concessionary foreign domestic worker levy reduced to $120 per month for families with Singaporean dependants (children, elderly parents, family members with disabilities)

D6 - Top up the GST Voucher Fund by another $3 billion for the lower-income Singaporeans

D7 - Service & Conservancy Charges Rebates

HDB Flat Type	S&CC rebate (No. of months)
1-room	3.0 months
2-room	3.0 months
3-room	2.0 months
4-room	2.0 months
5-room	1.5 months
Executive	1.0 months

Note: These Notes are designed to update our Clients on 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 Tan (Asst Tax Manager)

28 February 2013