TAX BULLETIN

To: Our Clients

SINGAPORE BUDGET 2014

The 2014 Budget was presented by Dr Tharman Shanmugaratnam, Dy Prime Minister and Minister for Finance in Parliament on 21 February 2014.

PART I – A ECONOMIC PERFORMANCE AND OUTLOOK

Global economy

2013

World trade grew at 3.1 per cent.

2014

Global outlook is uncertain

The Organisation for Economic Co-operation and Development (OECD) cautioned about the domination of downside risks and recommended policy actions to counter these.

Global growth forecasts at 3.6% for 2014 and that it should pick up to 3.9 % in 2015.

Under the Global Outlook, the growth for Brazil, India, Indonesia, Russia and South Africa is set to drop from 5.1% to 4.8%. China's growth at 7.6 for 2013 is, however, forecast to expand by 7.4 per cent in 2014.

The slowdown in emerging economies is likely to exert some modest drag on activities in the advanced economies.

Global activity and trade are projected to strengthen gradually in 2014 and 2015 but the recovery is likely to remain modest and uneven. The World Bank estimates world trade to grow 4.6 per cent this year. The US economy is slated to improve as fiscal cutbacks ease, and private consumption and investments rise.

The OECD's indicator shows that the outlook for advanced economies is gaining momentum. The Germany economy will pick up speed this year. The German central bank upgraded its forecast to 1.7 per cent. In the United States growth continues to firm.

Singapore

2013

Economy grew by 4.1 per cent

While the impact of rising labour and property costs on businesses was of concern, worry has been expressed over industry competition, currency volatility and the interest rate environment

A leading indicator shows that manufacturing output in December points to slow activity. The decline in the overall PMI was due to slower new orders, new export orders and a drop in production output

Productivity stood still in 2013.

Based on an MTI study, labour, rental and utilities account for 78% of manufacturing SMEs' total business costs and 85% of large manufacturing enterprises

2014

MTI's official growth forecast at 2 - 4 per cent

Based on a Survey in 2013, many firms believe that the general environment over the next 12 months is positive, whilst some say that the more apparent problem is the manpower crunch, and to meet this challenge enterprises are trying to work to retain talent, providing more training to employees, improving and streamlining work flow and automating

Growth for labour-intensive, domestic sectors may be constrained by tight labour market conditions.

PART II - B KEY INITIATIVES

B – Opportunities for the Future

- Quality growth based on innovation and deeper capabilities
- A fair, equitable and inclusive society

B1 – Changing our Social Norms

- A workplace culture where employees' views and contributions are valued
- A culture of mastery of the job
- Change our habits as consumers

B2 – Building a fair and equitable society

- Disparities between different income groups a great concern

B3 – Uplifting the Lower-Income

- Must have a competitive and vibrant economy in order to have good jobs and rising incomes
- Mitigating wage disparities
- Tackle problem of cheap-sourcing - intervention solution

B4 – Pioneer Generation

- Accord special recognition

B5 – Transforming our Economy

- Progressive tightening of foreign worker policies
- Create higher-value industries and quality jobs
- Raise incomes
- Raise productivity
- Develop advanced country capabilities
- Provide enterprises with strong support for “productivity improving” investments

B6 – Raising the Game in Restructuring

- Extend support for businesses to invest in innovation and skills
- Give specific push to the piloting and scaling-up of ICT solutions to help transform whole sectors
- Catalyse investments in growth enterprises
- Support companies to internationalise
- Help the construction sector to raise its productivity

B7 – Supporting Innovation and Skills

- Extend the PIC Scheme till YA 2018
- Introduce the PIC+ scheme for SMEs
- Extend the 50% additional tax deduction on qualifying R & D expenditure till YA2025
- Industry Transformation
- Create new industrial spaces which cluster companies within the same industry
- Extend the Land Intensification Allowance till 30 June 2020
- Promoting Continuing Education and Training to support the up-skilling of our workers
- Adopting ICT Solutions to raise Productivity
    - To launch an ICT for Productivity and Growth (IPG) Programme
- Piloting of Emerging Solutions
    - Support 80% of the qualified costs capped at $1 million per participating firm (over the next 3 years)
- Enabling High-Speed Connectivity for Businesses (cloud computing and data analysis solutions)
- Subsidise SMEs’ fibre broadband subscription plans of least 100 Mbps and provide support to implement Wireless @ SG services
- Subsidise building owners of up to 80% of the costs of new in-building infrastructure capped at $200,000 per building

B8 – Catalysing Investment in Growth Enterprises

- Catalyse financing for companies at various stages
  - Co- Investment Programme
- Micro-Loan Programme
  - Government to take on more risk – from 50% to 70%
- Studying potential for Crowdfunding for start-ups
- Make targeted enhancements to further assist companies in seizing growth opportunities overseas
  - Raise maximum loan under the Internationalisation Finance Scheme from $15 million to $30 million
- Building Capabilities for Internationalisation
  - Enhance the Global Company Partnership (GCP) Programme
    - ➢ Raise support level for pilot and test-bedding projects from 50% to 70% and support for staff attachments overseas

B9 – Construction Sector

- More intensive efforts to upgrade the sector
- For selected Government Land Sales sites – mandate the use of productive technologies
- Incentivise developers
- Targeted Foreign Worker Policies for Construction
  - Levy for Basic Skilled or R2 Work Permit Holders to be increased from $600 to $700 in July 2016
  - Levy for Higher Skilled or R1 Work Permit Holders remains unchanged
  - Introduce a new Market-Based Skills Recognition Framework to help retain workers with better skills
  - Extend the maximum period of Employment for R1 Work Permit Holders from non-traditional sources and the PRC from 18 to 22 years

B10 – A Fair and Equitable Society

- Enable every Singaporean to contribute to a better society
- Enhance retirement adequacy
- Addressing Healthcare concerns
  - Reshape our healthcare system to control costs
  - Right incentives for hospitals, and staffing of doctors and nurses
  - Developing quality people for the social sector
- Promoting Social Mobility
  - Strengthen opportunities for the lower – and middle-income students
  - Provide more fee assistance for Pre-school Education (more households in the lowest income group will now pay just $3 a month)
  - Bursaries at Institutes of Higher Learning
    - ➢ Enable more students to qualify by raising the monthly household income from $1,700 to $1,800
    - ➢ For university undergraduates - increase to $3,600 a year for those in the lowest households and to $2,600 a year for those in the middle-income
  - Polytechnic and ITE students from the middle-income will receive increased support whilst those in the lower-income will continue to receive substantial support

B11 – Enhance Healthcare Affordability

- Introducing subsidies for MediShield Life, and expanding subsidies at Specialist Outpatient Clinics (SOC)

Enhanced Subsidy for SOC services

Household income per capita	**Annual value of home (for those without income)**	**Current**	**Revised**
Up to $1,100	Up to $13,000	50%	70%
$1,101 to $1,800	$13,001 to $21,000		60%
More than $1,800	More than $21,000		50%

B12 – CPF Medisave Contribution Rate

- Raise the CPF employer contribution rate by 1 percentage point for all workers from January 2015
- For older workers, the increase is:

Employee Age	**New Contribution rates from Jan 2015 (% of wage) (rate increase in bracket)**		
	Employer	Employee	Total
Above 50 – 55	16 (+2)	19 (+0.5)	35 (+2.5)
Above 55 – 60	12 (+1.5)	13	25 (+1.5)
Above 60 – 65	8.5 (+1.5)	7.5	16 (1.5)
Above 65	7.5 (+1)	5	12.5 (+1)

B13 – Honouring the Pioneer Generation

- At least 16 years old in 1965 or who became citizens before 1987
- Package Benefits
  - Outpatient care & MediShield Life subsidies
  - Medisave Top-ups

Age in 2014 (Birth Cohort)	Annual Medisave Top-up
65 – 69 (1945 – 1949)	$200
70 – 74 (1940 – 1944)	$400
75 – 79 (1935 – 1939)	$600
80+ (1934 and earlier)	$800

- Those not eligible for the Pioneer Generation Package
  - A Medisave top-up of $100 - $200 annually over the next 5 years

5 – Year CPF Medisave Top-up

Annual value of Home as at 31 Dec 2013	Up to $13,000	Above $13,000 or owns more than 1 property
Citizens born in 1959 and earlier who do not enjoy Pioneer Generation benefits	$200/year	$100/year

B14 – Enhance Parent Relief

- Enhance income tax reliefs for individuals supporting their parents and grandparents
- Enhance Handicapped Dependant Reliefs

B15 – Greater Support for the Disabled

- For early intervention for infants and children
- Transport subsidies

B16 – Additional Support for Singaporean Households

- For the lower-income groups and retirees
- One-off GST Voucher – Cash- Seniors' Bonus
- One-off GST Voucher – U-Save Special Payment
- One-off Service and Conservancy Charges Rebates
  S & CC Rebates

HDB Flat Type	S&CC Rebates (months)
1-Room	3
2-Room	3
3-Room	2
4-Room	2

PART III – C BUDGET POSITION

FY 2013

Overall budget expects an overall surplus of $3.9 billion (1.1% of GDP)

FY 2014

Projects a deficit of $1.2 billion (0.3% of GDP)

PART IV – D HIGHLIGHTS OF INCOME TAX & STAMP DUTY CHANGES

Corporate Tax

(a) Extending the Productivity & Innovation Credit (PIC) Scheme till YA 2018

For enhanced deductions, the expenditure cap of $400,000 of qualifying expenditure per activity are to be combined across YA2016 to YA2018 (i.e. $1.2 million per qualifying activity). The expenditure cap of $100,000 for PIC cash payout cannot be combined across the three YAs.

(b) Introducing PIC+ for SMEs

To provide support to SMEs in making more substantial investments to transform their businesses.

The expenditure cap for qualifying SMES will be increased from $400,000 to $600,000 per qualifying activity per YA, i.e. SMEs which invest beyond the current combined expenditure cap of $1.2 million for each qualifying activity can claim 400% enhanced tax deduction on an additional $200,000 of qualifying expenditure per qualifying activity per YA.

Effective for expenditure incurred in the basis periods for YA 2015 to YA2018

The combined expenditure cap will be –
- Up to $1.4 million for YA 2015
- Up to $1.8 million for YA 2016 to YA 2018

The expenditure cap for PIC cash payout remains at $100,000 of qualifying expenditure per YA

(c) Extending PIC benefits to training of individuals hired under centralized hiring arrangements

- Effective from YA 2014

(d) Refining the three-local-employees condition for PIC cash payout

Effective for cash payout applications from YA 2016, businesses will have to meet the three-local-employees condition for a consecutive period of at least three months prior to claiming the cash payout

(e) Allowing the Tax Deferral Option under the PIC Scheme to lapse

- The tax Deferral option will lapse effective from YA 2015

(f) Extending the Research & Development (R & D) Tax Measures

The additional 50% tax deduction under section 14DA(1) will be extended till YA 2025

To attract businesses to conduct large R & D projects in Singapore, the further tax deduction under section 14E will be extended till 31 March 2020

Businesses can also continue to claim a further deduction of up to 300% on qualifying R & D expenditure of up to $400,000 under the PIC scheme now extended till YA 2018

(g) Extending and Refining the section 19B Writing Down Allowance

To build Singapore as an IP hub, the section 19B WDA will be extended till YA 2020.

The accelerated WDA for MDE companies will be extended till YA 2018

A negative list will be legislated to expressly exclude “Customer-based intangibles” and “Documentation of work processes”

(h) Extending the section 14A Tax Deduction Scheme for Registration Costs of Intellectual Property

To encourage businesses to protect their intellectual property, the 100% tax deduction will be extended till YA 2020

Businesses can also continue to claim a further 300% deduction on up to $400,000 of such qualifying costs under the PIC Scheme

(i) Extending and Enhancing the Land Intensification Allowance Scheme

Extended till YA30 June 2020

Extended to the logistics sector and also to businesses carrying out qualifying activities on airport and port land

A new condition is introduced requiring existing buildings which have already met or exceeded the GPR benchmark to meet a minimum incremental GPR criterion of 10%

The enhancements are effective for LIA approvals granted, and capital expenditure incurred on or after 22 February 2014

(j) Waiving the Withholding Requirement for Payments made to branches in Singapore

No longer required to withhold tax on payments under sections 12(6) and 12(7) made on or after 21 February 2014 to PEs in Singapore of non-resident companies. Such payments have to be declared in their annual tax returns.

(k) Treating Basel III Additional Tier 1 Instruments as Debt for Tax Purposes

To provide tax certainty and maintain a level-playing field for Singapore-incorporated banks which issue Basel III Additional Tier 1 instruments, such instruments (other than shares) will be treated as debt for tax purposes. Subject to existing rules, distributions on such instruments will be deductible for issurers and taxable in the hands of the investors.

This tax treatment will apply to distributions accrued in the basis periods from YA 2015 (excluding their foreign branches) which are subject to MAS Notice 637

(l) Extending and Refining Tax Incentive Schemes for Qualifying Funds

To anchor and support Singapore's asset management industry

The schemes under sections 13CA, 13R and 13X will be extended till 31 March 2019. These schemes will be refined thus:

(i) The section 13CA scheme will be expanded to include trust funds with resident trustees with effect from 1 April 2014

(ii) Effective from 1 April 2014, the investor ownership levels for the sections 13CA and 13R schemes will be computed based on the prevailing market value of the issued securities on that day instead of the historical value

(iii) The list of designated investments will be expanded to include loans to qualifying offshore trusts, interest in certain limited liability companies and bankers acceptance, applying to income derived on or after 21 February 2014

(iv) The Scheme under section 13C will lapse after 31 March 2014

(m) Recovery of GST for Qualifying Funds

To further develop Singapore as a centre for fund management, the concession will be extended till 31 March 2019

(n) Enhancing the Foreign-Sourced Income Exemption Scheme for Listed Infrastructure Registered Business Trusts

To provide greater tax certainty, the Scheme will be enhanced thus:

(i) The specified scenarios under section 13(12) will be expanded to cover dividend income originating from foreign-sourced interest income relating to the qualifying offshore infrastructure project or asset

(ii) Interest income derived from a qualifying offshore infrastructure project or asset will automatically qualify for exemption under section 13(12). The Comptroller will verify whether the qualifying conditions are met

(o) Refining the Designated Unit Trust Scheme

The Scheme will be rationalized thus:

(i) To limit to unit trusts offered to retail investors effective from 21 February 2014

(ii) Existing non-retail unit trusts previously approved under the Scheme may continue to retain their OUT status

(iii) From 1 September 2014, subject to the fulfilment of certain conditions, unit trusts do not have to apply for the Scheme to enjoy the benefits thereof

(p) Allowing the Investment Allowance Scheme for Aircraft Rotables to lapse

- The Scheme will lapse after 31 March 2015

Personal Income Tax

(a) Enhancing the Parent and Handicapped Parent Reliefs

To provide greater encouragement to individuals supporting their / spouses' parents, effective from YA 2015, the reliefs available to resident individuals are:

Type of Relief	**Relief Quantum With Effect From YA2015**
Parent Relief (Individual staying with dependant)	$9,000
Parent Relief (Individual not staying with dependant)	$5,500
Handicapped Parent Relief (Individual staying with dependant)	$14,000
Handicapped Parent Relief (Individual not staying with dependant)	$10,000

Claimants will be able to share the relief according to their agreed proportion. If not, the Comptroller will apportion equally.

(b) Enhancing the Handicapped Spouse, Handicapped Sibling and Handicapped Child Reliefs

With effect from YA2015, the amount if reliefs will be increased thus:

- Handicapped spouse relief $5,500
- Handicapped sibling relief $5,500
- Handicapped child relief $7,500

(c) Removing Transfers of Qualifying Deductions and Deficits Between Spouses

To simplify the tax system, married couples can no longer transfer qualifying deductions and deficits between each other, including the loss carry-back scheme with effect from YA 2016.

As a transitional concession, qualifying deductions and deficits incurred in and before YA 2015 will still be allowed for transfers up till YA 2017 under existing rules.

(d) Removing section 40 Relief with effect from YA 2016

Stamp Duty

(a) Streamlining the Stamp Duty Rate Structure

The following categories of stamp duty will not be subject to an ad valorem or percentage based rate structure (those executed on or after 22 February 2014) –

Land Premiums and Purchase of Property

Purchase Price or Market Value (whichever is higher)	**Buyer's Stamp Duty Rates**
First $180,000	1%
Next $180,000	2%
Remainder	3%

Lease duty

Lease Period	**Stamp Duty Rates**
Up to four years	0.4% of the total rent for the entire period of the lease
Exceeding four years or for any indefinite term	0.4% of four times of the average annual rent for the entire period of the lease

Share transfer duty / Mortgage duty

Types of Instruments	**Stamp Duty Rates**
Transfer of stock or shares	0.2% of the purchase price or market value of the stock or shares transferred, whichever is higher
Mortgage instruments	0.2% or 0.4% of the relevant amount (depending on the type of mortgage instrument) subject to maximum duty of $500

These Notes 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 us at Tel: 62943022 (Fax: 62942722)

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