TAX BULLETIN

To: Our Clients

SINGAPORE BUDGET 2016

The 2016 Budget was presented by Mr Heng Swee Keat, Minister for Finance in Parliament on 24 March 2016.

PART I - ECONOMIC PERFORMANCE AND OUTLOOK

Global economy

2015

IMF estimated global growth at around 3.1 per cent

China's economy grew by 6.9 per cent

Malaysia 2015 growth down at 4.9 per cent from 6 per cent in 2014

2016

OECD projects global outlook to be mixed

The IMF World Economic Outlook Report projects a modest and uneven recovery for the advanced economies and expects to continue with growth in 2016 and hold steady in 2017. The picture for the emerging markets and developing economies is diverse and projects to increase from 4 per cent in 2015 to 4.3 per cent and 4.7 per cent in 2016 and 2017 respectively. Overall, the global growth is projected to pick up to 3.4 per cent in 2016 and 3.6 per cent in 2017

China is targeting its growth in 2016 at 6.5 per cent to 7 per cent and a “medium-high” growth over the next 5 years. An annual growth target of 6.5 per cent to 7 per cent range is necessary for it to meet its 2020 target - to be more balanced, more inclusive, and to build on the fundamentals of sustainability aspiring to double its per capital income by 2020

Malaysia’s economy is forecasted to grow at 3.6 per cent in 2016

China, India and ASEAN are expected to grow at around 6.3% per cent over the next 5 years

UK targeted its growth at 2 per cent in 2016

The world severe financial volatility factors may be summed up as -

1 Concerns for a hard landing of the China economy

2 Growth in US faltering

3 Fears of the Saudi-Iran conflicts

4 Plummeting of the oil and commodity prices

Singapore

2015

Singapore’s economy grew by 2 per cent

Singapore’s key exports dived as the downward spiral in external demand and oil prices continued

The weaker state of the economy resulted in fewer job openings

Faced with slowdowns in global demand and local labour supply, Singapore saw local employment grew at its slowest pace. Unemployment, however, stayed low at 1.9%

EDB – factory production in 2015 was 5.2 per cent lower than in 2014

2016

Economists expect Singapore’s GDP to expand by 1.9 per cent in 2016

MTI – warns of manufacturing woes and growing global risks but maintains that the manufacturing sector remains a key pillar of our economy

EDB projects fixed asset investments to dip to $8 billion to $10 billion range from $11.5 billion secured in 2015

Economists expect the manufacturing sector to shrink further by 2.7 percent in 2016. They viewed that chances of an easing in monetary policy are on the rise amid heightened economic uncertainty and financial volatility and muted inflation

There are growing signs that services growth may not hold up in the face of deepening manufacturing recessions. Trade related services are likely to face headwinds in the first half

Mr Heng Swee Keat, Singapore Finance Minister stressed three principles which are fundamental in pursuing our long-term growth –

* Market-oriented pro-trade policies
* An equitable distribution of wealth
* Develop resources that are timeless in value

The Government has set up a special Committee to chart out Singapore's Future Economy focused on principles as –

- Investments in people and knowledge – creates a knowledge base of skills, attitudes and values to capture opportunities

- Innovation – ensure that innovation is pervasive, and to build a value-creation economy

- Integration – leverage on existing strengths with a multidisciplinary approach to provide integrated solutions to the world

- Internationalization – overcome limitations of the small domestic market to enable companies, products, and services to travel globally

PART II - NEW CHALLENGES AND KEY INITIATIVES

A1 Our Priorities to Meet New Challenges

a. Renewing our economy

b. Fostering a more caring society

c. Transforming our urban landscape

d. Keeping Singapore safe and secure

e. Engaging and partnering with Singaporeans in nation building

A2 We need to grow our economy, invest collectively for the long-term in our people, our home and security

(i) We will invest in building stronger enterprises and nurturing innovative industries

(ii) We will invest in education and health

(iii) To invest for better livability and connectivity

(iv) To invest more in intelligence, operational capabilities, technology, and systems

(v) We need to plan ahead

A3 Develop a Spirit of Partnership for our New Chapter, where we can work together in new ways to transform our economy and strengthen our society

(i) As partners to transform our economy through enterprise and deeper innovation

(ii) To build a caring and resilient society

B(a) Transforming our Economy through Enterprise and Innovation

(i) Progress in restructuring has been promising.

(ii) Economic challenges

- Current business conditions are difficult and uncertain. Many of our enterprises are facing weaker growth, rising manpower costs and tighten financing

- Global economic recovery is uneven. Manufacturing continues to face subdued demand. However, domestic sectors such as retail, healthcare and education have remained stable; with construction being supported by a large expansion in public infrastructure and housing projects

(iii) Structural changes

- We need to be alert to major structural changes happening, as major economies are continuing to structure, and technological changes, robotics, automation, artificial intelligence and ICT are disrupting business models

- Faced with these challenges, the need to restructure our businesses is urgent & critical

(b) Our Approach Forward

(i) Three key thrusts to address our challenges:

- To address an expansionary fiscal stance to deal with the cyclical weakness

- Target resources to enable our firms to build deeper capabilities and to internationalise

  To launch the Industry Transformation Programme to strengthen our enterprises and industry with innovation drive

- Support our people through change

(c) To address our Near Term Concerns

- Provides continued support from Transition Support Package and Public Infrastructure Projects

- Extending Special Employment Credit for 3 years to end of 2019

- Employers with Singaporean workers aged 65 and above will continue to receive a wage offset of up to 8%, in addition to the wage offset of 3% for rehiring of these workers till 2017

(d) SME LOAN ASSISTANCE

- A SME Working Capital Loan scheme for loans of up to $300,000 per SME available for 3 years

(e) Enhancement of Scheme to Revitalise our heartland shops (MND)

(f) Foreign Worker Levy

- Defer Levy increases for one year for the Marine and Process sections

(g) Industry Transform Programme

- A new Industry Transformation Programme to help firms and industries to create new value and drive growth

(h) Automation Support Package

- A new Automation Support Package from SPRING for initial 3 years

(i) Financing & Tax Incentives to support Scale-Ups

- The SME Mezzanine Growth Fund will be increased from $100 million to $150 million.

- To support more Mergers and Acquisitions

(j) Support for Internationalisation

- IE Singapore will support more firms to seek new markets and growth opportunities overseas.

(k) Transport Industries

(i) To support industry-level transformation

- Develop a National Trade Platform
- Develop and deploy new technologies to solve problems
- Apply robotics technology

(ii) Increasing Outreach through TACs

- Drive transformation through our Trade Associations and Chambers
- Set up a $30 million fund over the next 5 years to support TAC

(l) Transforming through Innovation

(i) Deeping innovation capabilities

- Research, Innovation and Enterprise 2020 Plan ($4 billion)
- A top-up of $1.5 billion to the Natural Research Fund
- Strengthening Innovation and Enterprise Networks to promote start-ups in new & existing industries

C Supporting our People through change

(i) Support our people to overcome challenges and seize opportunities

- Firms to restructure
- Raise productivity
- New skills needed
- Skillsfuture our long-term plan

(ii) Helping our people to adjust

D Building a Caring and Resilient Society

(i) Building on strong foundations

(ii) Caring for our young

- A new Child Development Account Fund – grant for all Singaporeans

  Grant of $3,000 for eligible babies born from 24 March 2016

- Pilot a new KIDSTART initiative through government and community resources

- Fresh start housing scheme to help families with children in rental housing – grant of up to $35,000 to help such families

- Expand outdoor adventure education for all students
  (Natured Outdoor Adventure Education Master plan)

E Caring for our Low Wage Workers and Persons with Disabilities

(i) To enhance the Workfare Income Supplement scheme (WIS) for workers aged 35 and above through training and SkillsFuture from January 2017

(ii) Raise qualifying income ceiling from $1,000 per month to $2,000

(iii) Increases WIS payouts

(iv) Continued support for persons with disabilities who want to work

F Caring for our Seniors

- Increase retirement support

- Build strong communities for them

G Measures Affecting Households

(i) Increase in Public Assistance and Singapore Allowance

(ii) One-off GST Voucher – Cash Special Payment. Eligible households can receive up to $500 in GSTV – cash in 2016

PART III - BUDGET POSITION

FY 2015 Fiscal Position

- Expects a deficit of $4.9 billion (1.2% of GDP)

FY 2016 Fiscal Position

- Total spending expects to be $5.0 billion

PART IV – HIGHLIGHTS OF TAX CHANGES

Business

(a) Raise the corporate income tax rebate to 50% for YAs 2016 and 2017 capped at $20,000 per year of assessment

(b) New Automation Support Package to support companies over a 3-year period to automate, drive productivity and scale-up:

(i) Funding of up to 50% of the qualifying cost, but capped at $1 million

(ii) Investment allowance of 100% of the approved capital expenditure (net of grants), but capped at $10 million per qualifying project to be granted in addition to the normal capital allowance

(c) Enhancing the Mergers and Acquisition Scheme

(i) The cap for qualifying M & A deals will be increased from $20 million to $40 million

(ii) Tax allowance of 25% to be granted for up to $40 million of the purchase consideration paid for the qualifying deals per year of assessment

(iii) Stamp duty relief to be granted of up to $40 million of the purchase consideration paid for the qualifying deals per financial year

(iv) Effective 1 April 2016 – 31 March 2020

(d) Extending the upfront certainty of non-taxation of gains derived by companies on disposal of equity investments

(i) Scheme under 13Z to be extended till 31 May 2022 covering disposals from 1 June 2017 to 31 May 2022

(ii) Existing conditions – no change

(e) Extending the Double Taxation Deduction for Internationalisation Scheme

(i) The Scheme will be extended for another 4 years from 1 April 2016 to 31 March 2020

(ii) The existing DTD of expenses of up to $100,000 will also be extended to qualifying expenditure incurred from 1 April 2016 to 31 March 2020

(f) Extending the Land Intensification Allowance Scheme

(i) The Scheme will be extended to buildings used by a user or multiple users who are related, for one or multiple qualifying trades or businesses on certain conditions being satisfied

(ii) EDB will release further details by July 2016

(g) Providing an election for the writing-down period of intellectual property rights

(i) Companies or partnerships may now elect for their section 19B WDA to be claimed over a writing period of 5, 10 or 15 years

(ii) Election is to be made at the time of submitting the relevant Tax Return

(iii) Any election made is irrevocable

(h) Introducing an anti-avoidance mechanism for transfers of intellectual property rights

(i) To ensure that transfers made are reflective of the open market value of an IPR, an anti-avoidance provision will be introduced under section 19B of the Income Tax Act

(ii) Will apply to acquisitions, sales, transfers or assignments made from 25 March 2016

(i) Allowing the PIC scheme to lapse and lowering the cash payment rate

(i) The existing scheme is available from YA 2015 to YA 2018

(ii) The cash payment rate will be lowered from 60% to 40% for qualifying expenditure incurred from 1 August 2016

(j) Extending and Enhancing the Finance and Treasury Centre scheme

(i) Scheme extended till 31 March 2021

(ii) Concessionary tax rate to be lowered to 8%

(iii) Substantive requirements to qualify will be increased

(iv) The FTC will be allowed to obtain funds indirectly from approved network companies with safeguards in place

(v) Tax exemption granted under Section 13(4) to be expanded to cover interest payments on deposits placed with the FTC by the approved non-resident network companies

(vi) Effective from 25 March 2016

(k) Extending and refining the tax incentive scheme for trustee companies

(i) Scheme will be subsumed under the Financial Sector Scheme for 1 April 2016

(ii) Scope of qualifying activities will be expanded to align with trustee activities under the Financial Sector Incentive Standard Tier Scheme from 1 April 2016

(iii) A concessionary tax rate of 12% will apply to new awards from 1 April 2016

(iv) Change effective from 1 April 2016

(l) Extending and refining the tax incentive scheme for insurance companies

(i) The schemes for the Marine Hull and Liability Insurance, the Specialised Insurance Business and the Captive Insurance will be subsumed under the Insurance Business Development umbrella scheme

(ii) Current approved insurers will continue to enjoy their benefits until the expiry of their awards

(m) Enhancing the Global Trader Programme (Structured commodity Finance) scheme

(i) Scheme will be enhanced to include -

- Consolidation, management and distribution of funds for designated investments.

- M & A advisory services

- Streaming financing

(ii) Effective from 25 March 2016

(n) Enhancing the Maritime Sector Incentive

(i) The incentive will be enhanced to include:

- The MSI-SRS and MSI-AIS awards to cover income derived for the operation of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activities relating to exploration or exploitation of offshore energy or offshore minerals

- The MSI – ML (Ship) award to cover income derived from Leasing of ships used for exploration or exploitation of offshore energy or offshore minerals or ancillary activities relating to exploration or exploitation of offshore energy or offshore minerals.

- The restriction on the qualifying counterparty's requirement under the MSI-ML (Ship) award is to be removed. Tax exemption will be granted on income derived from leasing of ships used for qualifying activities to any counterparties outside the port limits of Singapore.

- Effective from 25 March 2016

Note: MSI-SRS – MSI-Shipping Enterprise

MSI-AIS – MSI - Approved International Shipping Enterprise

MSI-ML (Ship) – MSI- Maritime Leasing (Ship)

(o) Introducing the Business & IPC Partnership Scheme

(i) To incentivise employee volunteerism through businesses, a pilot Business and IPC Partnership Scheme to be introduced from 1 July 2016 to 31 December 2018

(ii) Under the Scheme businesses will enjoy an additional 150% tax deduction on wages and incidental expenses when their employees are sent to volunteer and provide services to IPCs including secondments

(iii) Subject to the receiving IPC's agreement, capped yearly at $250,000 per business and $50,000 per IPC on the qualify costs

(iv) MOF will release further details by June 2016

(p) Providing for fairer allocation of pre-commencement and pre-incentive expenses

(i) Section 14U and pre-commencement expenses which are directly incurred to derive the pre-incentive income or the incentive income to be specifically identified and set-off against each relevant income

(ii) The remaining Section 14U and pre-commencement expenses to be allocated between the pro-incentive income and the incentive income based on income proportion (e.g. turnover, gross profit)

(iii) Effective for expenses incurred from 25 march 2016

(q) Introducing mandatory electronic – filing of corporate income tax return and for PIC cash payout application

To harness technology to -

- Enhance productivity mandatory electronic filing (e-filing) will be introduced for filing corporate tax returns:

YA	Companies with
2018	Turnover of more than $10 million for YA 2017
2019	Turnover of more than $1 million for YA 2018
2020	All companies

- Mandatory e-filing also for PIC cash payment application, effective from 1 August 2016

(r) Withdrawing the Approved Investment Company Scheme under section 10A from YA 2018

(s) Extending the Not-for-Profit Organisation tax incentive under section 13U to 31 March 2022

(t) Withdrawing the tax exemption on income derived by non-residents trading in Singapore in specified commodities via consignment arrangements from YA 2018

Personal income tax

(a) Introducing a cap of $80,000 on personal income tax reliefs

- To enhance the progressivity of our Personal Income Tax Regime, the total amount of personal reliefs that an individual can claims to be capped at $80,000 per year of assessment, effective from YA 2018.

(b) Removing the tax concession on home leave passages for expatriate employees.

- The tax concession of taxing only 20% of the value of the home leave passages for expatriate employees to be removed from YA 2018.

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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