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FOR CLIENTS' INFORMATION ONLY 18 February 2019

Dear Sirs

THE 2019 SINGAPORE BUDGET COMMENTARY

The Minister for Finance presented a feel good budget that provided for $8 billion Merdeka Generation package along with $1.1 billion Bicentennial Bonus to help Singaporeans to defray the costs of healthcare, GST vouchers and top-ups to CPF, Edusave and post-secondary Edusave accounts amongst many other social benefits.

On the economic front, $4.6 billion will be spent over the next three years to support Singapore workers to transform amid industry and technological changes and to help firms build deep enterprise capabilities.

Furthermore, 30% of total expenditure has been allocated to total defence to protect the sovereignty and well-being of Singaporeans.

We are pleased to highlight in the following pages the tax and certain other changes as proposed in the 2019 Budget. It should be noted that the views expressed in this commentary are based on our interpretation of the Finance Minister's Budget Speech. Until the proposals are enacted, we cannot be definitive about the proposed changes.

Please do not hesitate to contact us should you require any assistance.

Yours faithfully

WENDY WONG
DIRECTOR OF TAXES

Enc.

2019

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A CORPORATE TAXATION

1. CORPORATE TAX RATE

Current : 17% since the Year of Assessment ("YA") 2010. Also, partial tax exemption is granted as follows on up to $300,000 of a company's normal chargeable income ("CI") from YA 2008 to YA 2019:

(i) 75% exemption on the first $10,000 CI; and
(ii) 50% exemption on the next $290,000 CI.

From YA 2020, the partial tax exemption is granted on up to $200,000 of a company's CI as follows:

(i) 75% exemption on the first $10,000 CI; and
(ii) 50% exemption on the next $190,000 CI.

The partial tax exemption does not apply to the following:

(i) CI of a company that is subject to tax at a concessionary tax rate;

(ii) Income earned by a non-resident company that is subject to a final withholding tax. Such income earned by a non-resident company, which includes interest and royalties, are taxed at the rates of 15% and 10% respectively or the reduced rate provided in a tax treaty; and

(iii) All dividends received from Singapore companies. With effect from 1 January 2008, all dividends paid by Singapore companies are already exempt from tax in the hands of shareholders.

Proposed : No change to the corporate tax rate of 17% and partial tax exemption ceiling.

Commentary : The reduction in the ceiling on the partial tax exemption scheme from $300,000 to $200,000 was announced in Budget 2018.

2. CORPORATE INCOME TAX REBATE

Current : A 40% corporate tax rebate capped at $15,000 for the YA 2018 and a tax rebate of 20% capped at $10,000 for the YA 2019.

Commentary : No corporate tax rebate is announced for YA 2020 onwards.

3. START-UP TAX EXEMPTION SCHEME

Current : Full tax exemption on the first $100,000 of CI and 50% tax exemption of up to the next $200,000 CI for qualifying new companies including companies limited by guarantee for the first 3 consecutive YA upon incorporation from YA 2008 to YA 2019.

A qualifying new company must fulfil the following conditions:

(a) It is incorporated in Singapore;
(b) It is a tax resident of Singapore; and
(c) It has total share capital which is beneficially held directly by no more than 20 shareholders

  (i) all of whom are individuals; or
  (ii) at least one of whom is an individual holding at least 10% of the total number of issued ordinary shares of the company

throughout the basis period relating to the YA of claim.

From YA 2020, the start-up tax exemption scheme has been replaced by a partial tax exemption for new qualifying companies. From YA 2020, partial tax exemption is granted on up to $200,000 of a qualifying new company's CI for the first 3 consecutive YA upon incorporation as follows:

(i) 75% exemption on the first $100,000 CI; and
(ii) 50% exemption on the next $100,000 CI.

All existing conditions of the start-up tax exemption scheme remain unchanged.

However, the start-up tax exemption scheme is no longer available to the following companies incorporated after 25 February 2013:-

(i) Property development companies that buy or lease land and arrange for a building to be built on the land in order to lease, manage or sell the building; and

(ii) Investment holding companies whose principal activity is that of investment holding and derive only investment income such as rental, dividend or interest income.

Property development and investment holding companies will still be able to enjoy the partial tax exemption available to all companies.

Where a new qualifying company's first YA is 2019, the start-up tax exemption for YA 2019 will apply while the new parameters will apply in YAs 2020 and 2021.

Proposed : No change to the start-up exemption scheme.

Commentary : The reduction in the ceiling on the start-up exemption scheme from $300,000 to $200,000 was announced in Budget 2018.

4. EXTENDING THE 100% INVESTMENT ALLOWANCE ("IA") UNDER THE AUTOMATION SUPPORT PACKAGE

Current : Qualifying projects may be eligible for an IA of 100% on the amount of approved capital expenditure, net of grants. The IA is in addition to the existing capital allowance for plant and machinery. The approved capital expenditure is capped at $10 million per project.

Together with the IA, the following were introduced by Enterprise Singapore:

(a) Support under Enterprise Singapore's Enterprise Development Grant ("EDG")

Enterprise Singapore's EDG is expanded to support the roll-out or scaling up of automation projects at up to 50% of the qualifying cost. The grant is capped at $1 million.

(b) Enhanced financing support

To improve access to loans for qualifying projects, the government will increase the risk-share with participating financial institutions ("PFIs") under Enterprise Singapore's Local Enterprise Finance Scheme ("LEFS") equipment loan, from 50% to 70% for qualifying projects undertaken by SMEs. The government will also expand LEFS to cover equipment loans for non-SMEs at 50% risk-share with PFIs.

(c) Access to overseas market

Enterprise Singapore will seek to help businesses to access overseas markets.

The Automation Support Package was introduced by Enterprise Singapore to support firms to scale-up their automation efforts. This was announced in Budget 2016 on projects approved by Enterprise Singapore during the period 1 April 2016 to 31 March 2019.

Proposed : To maintain support to companies in their automation, productivity and scale-up efforts, the Minister proposed that the 100% IA measure under the Automation Support Package will be extended by two years for projects approved by Enterprise Singapore from 1 April 2019 to 31 March 2021. The approved capital expenditure will remain capped at $10 million per project.

5. EXTENDING THE WRITING DOWN ALLOWANCE ("WDA") FOR ACQUISITION OF QUALIFYING INTELLECTUAL PROPERTY RIGHTS ("IPR")

Current : WDAs are granted to companies and partnerships under section 19B of the Income Tax Act ("ITA") on capital expenditure incurred in acquiring qualifying IPRs for use in its trade or business. The WDA are claimed over five, ten or fifteen years.

The qualifying IPRs are patents, trademarks, registered designs, copyrights, geographical indications, layout designs of integrated circuits, trade secrets or information that has commercial value, and grant of protection of plant varieties.

The WDA is available for capital expenditure incurred in respect of qualifying IPRs acquired on or before the last day of the basis period for YA 2020.

Proposed : WDA under section 19B will be extended to cover the capital expenditure incurred in respect of qualifying IPRs acquired on or before the last day of the basis period for YA 2025.

Commentary : The Government recognises the importance that IPRs create value in the digital and knowledge based economy.

6. EXTENDING THE INCOME TAX CONCESSIONS FOR SINGAPORE-LISTED REAL ESTATE INVESTMENT TRUSTS ("S-REITs")

Current : S-REITs are granted tax transparency if their trustees distribute at least 90% of their taxable income to unitholders in the same year in which the income is derived by the trustee.

The following income tax concessions are granted to S-REITs:

(a) Tax exemption on S-REITs distributions received by individuals, excluding individuals who derive any distribution:

(i) through a partnership in Singapore; or
(ii) from the carrying on of a trade, business or profession;

(b) Concessionary income tax rate of 10% for S-REITs distributions received by non-resident non-individual investors; and

(c) Tax exemption on qualifying foreign-sourced income (i.e. foreign-sourced dividend income, interest income, trust distributions and branch profits) received by S-REITs and wholly-owned Singapore resident subsidiary companies of S-REITs, that is paid out of qualifying income or gains in respect of overseas property acquired on or before 31 March 2020 by the trustee of the S-REITs or its wholly-owned Singapore resident subsidiary company.

The income tax concessions (a) to (c) are scheduled to lapse after 31 March 2020.

Proposed	:	The Minister proposed to extend the existing income tax concessions available to S-REITs till 31 December 2025. All other conditions for the income tax concessions remain the same.
Effective	:	Up to 31 December 2025.
Proposed	:	The Minister also proposed to remove the sunset clause for the tax exemption on S-REITs distributions received by individuals.
Commentary	:	The proposed changes are in line with the objective to continue to promote the listing of REITs in Singapore and to strengthen Singapore's position as a REITs hub in Asia. MAS will provide further details of the change by May 2019.

7. EXTENDING THE INCOME TAX CONCESSIONS FOR SINGAPORE-LISTED REAL ESTATE INVESTMENT TRUSTS EXCHANGE-TRADED FUNDS ("REITs ETFs")

Current	:	REITs ETFs are granted the following income tax concessions: (a) Tax transparency treatment on the distributions received by REITs ETFs from S-REITs, which are made out of the latter's specified income; (b) Tax exemption on such REITs ETFs distributions received by individuals, excluding individuals who derive any distribution: (i) through a partnership in Singapore; or (ii) from the carrying on of a trade, business or profession; and (c) 10% concessionary tax rate on such REITs ETFs distributions received by qualifying non-resident non-individuals. The income tax concessions are scheduled to lapse after 31 March 2020.
Proposed	:	The Minister proposed that the existing tax treatment accorded to REITs ETFs will be extended till 31 December 2025. All other conditions for the income tax concessions remain the same.
Effective	:	Up to 31 December 2025.
Proposed	:	The Minister also proposed that the sunset clause be removed for the tax exemption on REITs ETFs distributions received by individuals.
Commentary	:	This is to continue to promote the listing of REITs ETFs in Singapore. MAS will release further details of the change by May 2019.

8. EXTENDING THE GST REMISSION FOR S-REITs AND SINGAPORE-LISTED REGISTERED BUSINESS TRUSTS ("RBTs") IN THE INFRASTRUCTURE BUSINESS, SHIP LEASING AND AIRCRAFT LEASING SECTORS

Current : GST remission is granted to S-REITs and RBTs in the infrastructure business, ship leasing and aircraft leasing sectors, to allow them to claim GST on the following, subject to conditions:

(a) their business expenses, regardless of whether they hold underlying assets directly or indirectly through multi-tiered structures such as special purpose vehicles ("SPVs") or sub-trusts;

(b) their business expenses incurred to set up SPVs that are used solely to raise funds for the S-REITs or RBTs, and that do not hold qualifying assets of the S-REITs or RBTs, directly or indirectly; and

(c) business expenses of financing SPVs mentioned in (b).

The GST remission is scheduled to lapse after 31 March 2020.

Proposed : The Minister proposed to extend the existing GST remission till 31 December 2025.

All conditions for the GST remission remain the same.

MAS will provide further details of the change by May 2019.

Commentary : The above aims to continue facilitating the listing of S-REITs and RBTs in the infrastructure business, ship leasing and aircraft leasing in Singapore.

9. EXTENDING AND REFINING TAX INCENTIVE SCHEMES FOR FUNDS MANAGED BY SINGAPORE BASED FUND MANAGERS ("QUALIFYING FUNDS")

Current : Qualifying Funds comprise:

(a) Basic tier funds (sections 13CA and 13R schemes); and
(b) Enhanced tier funds (section 13X scheme).

Qualifying Funds are granted the following tax concessions, subject to conditions:

(a) Tax exemption on specified income ("SI") derived from designated investments ("DI"); and
(b) Withholding tax exemption on interest and other qualifying payments made to non-resident persons (excluding permanent establishments in Singapore).

To qualify as a basic tier fund, a fund has to meet certain conditions, including not having 100% of the value of its issued securities beneficially owned, directly or indirectly, by Singapore persons. "Singapore persons" is defined to include persons who are Singapore citizens, residents of Singapore or permanent establishments in Singapore.

For enhanced tier funds approved as a collective structure, the master fund in the approved structure can have up to two tiers of SPVs. Such SPVs must be wholly owned (directly or indirectly) by the master fund and can only take the form of companies.

Separately, for real estate, infrastructure and private equity funds applying to be enhanced tier funds, the minimum fund size requirement to be met at the point of application may be determined based on the amount of committed capital ("committed capital concession").

The schemes for Qualifying Funds are scheduled to lapse after 31 March 2019.

Proposed : Tax concessions relating to Qualifying Funds will be extended till 31 December 2024.

Sections 13CA, 13R and 13X schemes will be refined as follows:

(a) The condition that a basic tier fund must not have 100% of the value of its issued securities beneficially owned, directly or indirectly, by Singapore persons will be removed;

(b) The enhanced tier fund scheme will be enhanced to:

(i) Include co-investments, non-company SPVs and more than two tiers of SPVs;
(ii) Allow debt and credit funds to access the "committed capital concession"; and

(iii) Include managed accounts which are dedicated investment accounts where an investor places funds directly with a fund manager without using separate fund vehicles;

(c) The list of DI will be expanded by removing the counter-party and currency restrictions, and including investments such as credit facilities and advances, and Islamic financial products that are commercial equivalents of DI. The condition for unit trusts to wholly invest in DI will be removed;

(d) The list of SI will be enhanced to include income in the form of payments that fall within the ambit of section 12(6) of the ITA; and

(e) Qualifying non-resident funds under sections 13CA and 13X will be able to avail themselves of the 10% concessionary tax rate applicable to qualifying non-resident non-individuals when investing in S-REITs and REITs ETFs.

MAS will release further details of the extension by May 2019.

Effective : The removal of condition in (a) will be effective from YA 2020.

The enhancement in (b) will apply on and after 19 February 2019.

The enhancements in (c) and (d) will apply to income derived on and after 19 February 2019.

The enhancement in (e) will apply to S-REITs and REITs ETFs distributions made during the period from 1 July 2019 to 31 December 2025.

Commentary : The Singapore Government is continuing to keep the schemes relevant and to ease compliance in order to deepen and enhance Singapore as a wealth management hub.

10. ALLOWING THE DESIGNATED UNIT TRUST (“DUT”) SCHEME TO LAPSE

Current : Under the DUT scheme, specified income derived by a unit trust with the DUT status is not taxed at the trustee level but is taxed upon distribution in the hands of the investors.

Qualifying foreign investors and individuals (unless such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession) are exempt from tax on distributions made by a DUT.

The DUT scheme is scheduled to lapse after 31 March 2019.

Proposed : The scheme will be allowed to lapse after 31 March 2019.

Funds in the form of unit trusts may apply for other tax incentives for funds.

Existing DUTs will continue to receive the tax deferral benefits under the DUT scheme on and after 1 April 2019, if they continue to meet all the conditions.

Effective : The DUT scheme will lapse after 31 March 2019.

Commentary : This scheme is allowed to lapse as it is assessed to be no longer relevant.

11. ALLOWING THE APPROVED UNIT TRUST ("AUT") SCHEME TO LAPSE

Current : Under the AUT scheme, the trustee is taxed on its investment income as well as 10% of the gains derived from the disposal of securities.

The remaining 90% of the gains from disposal of securities are instead taxed in the hands of the unit holders when distributed.

Tax exemption is allowed on such distribution if the unit holder is:

(i) An individual resident in Singapore; or

(ii) A person who is not resident in Singapore and has no permanent establishment in Singapore.

Proposed : The scheme will be allowed to lapse after 18 February 2019.

Existing AUTs will continue to receive the tax concession under the AUT scheme for a period of 5 years from YA 2020 to YA 2024.

This will allow existing AUTs sufficient time to transit to alternative tax incentive schemes, where relevant.

Effective : The AUT scheme will lapse after 18 February 2019.

Commentary : This scheme is allowed to lapse as it is assessed to be no longer relevant.

B GOODS AND SERVICES TAX ("GST")

1. TIGHTENING THE GST IMPORT RELIEF FOR TRAVELLERS

Current : Travellers who spend less than 48 hours outside Singapore get GST import relief for the first $150 value of goods bought overseas.

Travellers who spend at least 48 hours outside Singapore get GST import relief for the first $600 of the value of goods bought overseas.

The relief is applicable to Singapore Citizens, Singapore Permanent Residents and tourists, but is not applicable for crew members and holders of a work permit, employment pass, student's pass, dependant's pass, or long term pass issued by the Singapore Government.

The relief does not apply to intoxicating liquor and tobacco, as well as goods imported for commercial purposes.

Proposed : The Minister proposed to revise the quantum of GST import relief for travellers as follows.

(i) Travellers who spend less than 48 hours outside Singapore will get GST import relief for the first $100 (instead of $150 currently) of the value of goods bought overseas.

(ii) Travellers who spend at least 48 hours outside Singapore will get GST import relief for the first $500 (instead of $600 currently) of the value of goods bought overseas.

Time Spent Outside Singapore	Value of Goods Granted GST Relief
48 hours and above	$500 (down from the current $600)
Less than 48 hours	$100 (down from the current $150)

Effective : For travellers arriving in Singapore from 12.00 am, 19 February 2019 onwards.

Commentary : The above is to ensure that Singapore's tax system continues to remain resilient amidst rising international travel.

2. RECOVERY OF GST FOR QUALIFYING FUNDS

Current	:	Qualifying funds managed by prescribed fund managers in Singapore are allowed to claim GST incurred on expenses at a fixed recovery rate. This concession is scheduled to lapse after 31 March 2019.
Proposed	:	The Minister has proposed to extend the GST concession to 31 December 2024. MAS will release further details of the change by May 2019.
Effective	:	Extend to 31 December 2024.
Commentary	:	The above is to further grow Singapore as a centre for fund management and administration.

C INDIVIDUAL TAXATION

1. PERSONAL TAX RATES

Current : Residents are taxed at graduated rates from 0% to 22% (refer to attached **Appendix I)** from the YA 2017.

Proposed : No change to the existing personal income tax rates.

A one-off personal income tax rebate of 50%, subject to a cap of $200 per taxpayer, will be given to all resident individual taxpayers for the YA 2019 (i.e. for income earned in 2018).

Commentary : The personal income tax rebate is granted as part of the Bicentennial Bonus.

2. ALLOWING RESIDENT INDIVIDUAL TAXPAYERS TO CLAIM GRANDPARENT CAREGIVER RELIEF IN RESPECT OF A HANDICAPPED AND UNMARRIED DEPENDENT CHILD, REGARDLESS OF THE CHILD'S AGE

Current : Working mothers who engage the help of their parents, grandparents, parents-in-law or grandparents-in-law to take care of their young children may claim Grandparent Caregiver Relief, subject to conditions. One of the conditions is that the child has to be 12 years old or below during the year preceding the YA of claim.

Proposed : To allow working mothers to claim Grandparent Caregiver Relief in respect of a handicapped and unmarried dependent child (incapacitated by reason of physical or mental infirmity), regardless of the child's age, if all other conditions are met.

Effective : From YA 2020 (i.e. for income earned in 2019).

Commentary : The above aims to provide greater support and recognition to working mothers with handicapped and unmarried dependent children.

3. ALLOWING THE NOT ORDINARILY RESIDENT ("NOR") SCHEME TO LAPSE

Current : Under the NOR scheme, an eligible individual granted NOR status for a five-year period may, subject to conditions, receive the following tax concessions:

(a) Time apportionment of Singapore employment income

Under this concession, the resident Singapore employee would not be subject to tax on the portion of his/her Singapore employment income that corresponds to the number of days he/she has spent outside Singapore for business reasons pursuant to his/her Singapore employment subject to qualifying conditions.

(b) Tax exemption of employer's contribution to non-mandatory overseas pension fund or social security scheme

Under this concession, the resident Singapore employee is given tax exemption on contribution made by his/her employer to any non-mandatory overseas contribution scheme subject to qualifying conditions.

Proposed : The NOR scheme will lapse after YA 2020.

The last such NOR status will be granted for YA 2020 and expire in YA 2024. Individuals who have been accorded the NOR status will continue to be granted NOR tax concessions until their NOR status expires, if they continue to meet the conditions of the concessions.

Effective : From YA 2021.

Commentary : Singapore will continue to build a conducive environment to attract and retain highly-skilled individuals. This includes a competitive tax regime, stable political, economic and social environment, strong regional connectivity, and high standards of healthcare, housing and education.

D OTHERS

1. CENTRAL PROVIDENT FUND ("CPF") CONTRIBUTION RATES

Current : The employer's and employee's CPF contribution rates effective 1 January 2016 are as follows:

Employee Age (Years)	Contribution Rates (for monthly wages ≥ $750)		
	Employer %	Employee %	Total %
55 and below	17	20	37
Above 55 to 60	13	13	26
Above 60 to 65	9	7.5	16.5
Above 65	7.5	5	12.5

Proposed : No change to the CPF contribution rates.

APPENDIX I

RATES OF INCOME TAX
FOR RESIDENT INDIVIDUALS (SINGAPORE)

Tax Rates from YA 2017 onwards			
	Chargeable Income* ($)	**Tax Rate (%)**	**Gross Tax Payable ($)**
On the first	20,000	0	0
On the next	10,000	2	200
On the first	30,000	-	200
On the next	10,000	3.5	350
On the first	40,000	-	550
On the next	40,000	7	2,800
On the first	80,000	-	3,350
On the next	40,000	11.5	4,600
On the first	120,000	-	7,950
On the next	40,000	15	6,000
On the first	160,000	-	13,950
On the next	40,000	18	7,200
On the first	200,000	-	21,150
On the next	40,000	19	7,600
On the first	240,000	-	28,750
On the next	40,000	19.5	7,800
On the first	280,000	-	36,550
On the next	40,000	20	8,000
On the first	320,000	-	44,550
In excess of	320,000	22	

* Chargeable income = Income after tax reliefs

Note: For the Year of Assessment 2017, a one-off tax rebate of 20% of tax payable, subject to a cap of $500, is granted to resident individual taxpayers.

For the Year of Assessment 2019, a one-off tax rebate of 50% of tax payable, subject to a cap of $200, is granted to resident individual taxpayers.

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