BSL TAX SERVICES PTE LTD
220 Orchard Road #05-02 Midpoint Orchard Singapore 238852
T: (65) 6235 3388 | F: (65) 6235 3168 | W: www.bsl.sg | E: tax@bsl.sg
Company Reg No. 200510865C GST Registration No. 200510865C

FOR CLIENTS' INFORMATION ONLY 18 February 2020

Dear Sirs

THE 2020 SINGAPORE BUDGET COMMENTARY

The Minister for Finance presented an expansionary budget to surmount the headwinds posed by COVID-19 that has adversely impacted the tourism and aviation industries as well as the disruption to China's supply chains that will greatly negatively impact other sectors and the overall economic performance of Singapore.

The government will provide a $4 billion support package to help companies with cash flow and retain workers and $1.6 billion for household expenses. Another $6 billion will be set aside for the anticipated 2% future increase in the goods and services tax. It was also announced that another $8.3 billion will be spent on growing and transforming the economy over three years.

The Minister has introduced a myriad of support including enhancing the quantum of the working capital loans granted to SME's as well as providing property tax rebates to affected sectors.

We are pleased to highlight in the following pages the tax and certain other changes as proposed in the 2020 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

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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.

Proposed : A 25% corporate tax rebate capped at $15,000 for the YA 2020.

Commentary : The tax rebate is intended to help companies with their cash flow.

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.

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.

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.

The start-up tax exemption scheme is however not 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. AUTOMATIC EXTENSION OF INTEREST-FREE INSTALMENTS OF 2 MONTHS FOR PAYMENT OF CORPORATE TAX ON ESTIMATED CHARGEABLE INCOME ("ECI")

Current : Companies paying their income tax by GIRO can enjoy interest-free monthly instalments if they file their ECI within 3 months from their financial year end as follows.

ECI e-filed via *myTax Portal* within	Maximum number of instalments granted
1 month from accounting year-end	10
2 months from accounting year-end	8
3 months from accounting year-end	6

Instalments are only available for companies via GIRO deductions. For companies not on GIRO, the full amount of estimated tax will be payable within one month from the date of issue of the Notice of Assessment.

The ECI must be e-filed by the 26th day of the month in order to enjoy the maximum number of instalments allowable for that month.

Proposed : Companies paying their income tax by GIRO can automatically enjoy additional 2 months of interest-free instalments, when they file their ECI within 3 months from their financial year end. This automatic extension of instalment plan by 2 more months will apply to:

(a) Companies that file their ECI from 19 February 2020 to 31 December 2020; or

(b) Companies that file their ECI before 19 February 2020 and have ongoing instalment payments to be made in March 2020.

5. ENHANCEMENT OF LOSS CARRY-BACK RELIEF SCHEME

Current : Companies are allowed a one-year carry-back of current year unutilised trade losses and capital allowances, subject to a cap of $100,000. Unutilised trade losses and capital allowances exceeding the $100,000 limit can still be carried forward.

The main features of the loss carry-back scheme are:

(a) Only current year unutilised trade losses and capital allowances will be allowed to be carried back for one YA immediately preceding the YA in which the trade losses were incurred or the capital allowances were granted.

(b) An aggregate amount of $100,000 of current year unutilised trade losses and capital allowances can be carried back.

(c) The scheme is available to all businesses, including sole proprietors and partnerships. In line with the exclusions in the loss carry-forward and group relief schemes, Section 10E companies that are in the business of making of investments are specifically excluded from the loss carry-back scheme.

(d) The existing requirements for carry-forward of unutilised trade losses and capital allowances (ie. the "substantial shareholding" test for companies and additionally for capital allowances the "same business" test) will similarly apply when these amounts are carried back.

(e) The carry-back relief is given on due claim.

Proposed : Under the enhanced scheme, current year trade losses and capital allowances for YA 2020 may be carried back up to three immediate preceding YAs (i.e. YA 2017, YA 2018 and YA 2019), capped at $100,000. Similar conditions, namely, substantial shareholding test and same business test must be satisfied.

Businesses may elect to carry back to the relevant preceding YAs an estimated amount of qualifying deductions available for YA 2020, before the actual filing of their income tax returns for YA 2020.

IRAS will provide further details of the change by end February 2020.

Commentary : The enhancement of the carry-back relief scheme will enable businesses to claim a refund of tax paid in the preceding three YAs, up to a potential maximum of $17,000. This is also aimed at helping businesses with their cash flow.

6. ENHANCEMENT OF CAPITAL ALLOWANCE CLAIMS

Current : Capital allowances are granted on a 3-year straight line basis for capital expenditure incurred in the provision of "plant and machinery" ("P&M") within the meaning of the Income Tax Act ("ITA"), for the purpose of a trade, profession or business.

Capital allowances may be claimed under Section 19 of the ITA over the working life of the assets as specified in the Sixth Schedule, or over 3 years as provided for under Section 19(A) of the ITA.

Further, the following capital expenditure incurred for the purpose of a trade, profession or business are entitled to 100% capital allowances.

(i) Computer and automation equipment.
(ii) P&M where the capital expenditure on each item does not exceed $5,000, and the aggregate claim for capital allowances on such items do not exceed $30,000 for each YA.

Proposed : An accelerated write-down over 2 years will be granted on capital expenditure incurred during the financial year ended 2020 that would generally qualify for a 3-year capital allowance claim.

The claim for the accelerated capital allowance is computed as follows.

(i) 75% of the capital expenditure for the 1st YA.
(ii) 25% of the capital expenditure for the 2nd YA.

The above option, if exercised, is irrevocable.

Commentary : No deferment of capital allowance is allowed under the above option. This means that if a taxpayer opts for the accelerated write-off option, it needs to claim the capital expenditure incurred for acquiring P&M based on the rates of 75% (in YA 2021) and 25% (in YA 2022).

7. STREAMLINING THE NUMBER OF YEARS OF WORKING LIFE OF P&M FOR CAPITAL ALLOWANCE CLAIMS

Current : The Sixth Schedule specifies the number of years of working life ("prescribed working life") of P&M for the purpose of computing annual allowances for such P&M under Section 19 of the ITA.

Businesses may claim annual allowances on their P&M over 5, 6, 8, 10, 12, or 16 years depending on the P&M.

Proposed : The Minister proposed that the prescribed working life of P&M in the Sixth Schedule will be streamlined.

Businesses claiming annual allowance under Section 19 of the ITA may make an irrevocable election to write down their P&M as follows:

(a) If the current prescribed working life of the P&M in the Sixth Schedule is 12 years or less, businesses may choose to claim annual allowance over 6 or 12 years; or

(b) If the current prescribed working life of the P&M in the Sixth Schedule is 16 years, businesses may choose to claim annual allowance over 6, 12 or 16 years.

The above will apply for P&M acquired in or after financial year 2022, and in cases where P&M were purchased prior to financial year 2022 and no claim for capital allowances (both initial and annual allowances) has been made (i.e. the claim for capital allowances in respect of the entire cost of the P&M has been deferred).

Commentary : The above aims to streamline and simplify the capital allowance claims made under Section 19 of the ITA.

8. ENHANCEMENT OF DEDUCTION OF EXPENSES INCURRED ON RENOVATION & REFURBISHMENT ("R&R")

Current : Under Section 14Q of the ITA, a taxpayer which incurs qualifying expenditure on R&R for the purpose of its trade, profession or business is allowed to claim tax deduction on such expenditure over 3 consecutive YAs, starting from the YA relating to the basis period in which the R&R expenditure is incurred.

A cap of $300,000 for every relevant period of 3 consecutive YAs applies.

Such R&R expenditure do not normally qualify for tax deduction or capital allowances.

Proposed : A taxpayer which incurs qualifying expenditure on R&R during the basis period for YA 2021 (i.e. financial year 2020) for the purpose of its trade, profession or business will have an option to claim R&R deduction in one YA (i.e. accelerated R&R deduction). The cap of $300,000 for every relevant period of 3 consecutive YAs will still apply. This option, if exercised, is irrevocable.

Commentary : This option will be in addition to the existing option currently available under Section 14Q of the ITA.

9. EXTENDING AND ENHANCING THE DOUBLE TAX DEDUCTION FOR INTERNATIONALISATION ("DTDI") SCHEME

Current : The DTDi scheme allows businesses a tax deduction of 200% on qualifying market expansion and investment development expenses, subject to approval from Enterprise Singapore or the Singapore Tourism Board ("STB").

No prior approval is required from Enterprise Singapore or STB for tax deduction on the first $150,000 ($100,000 prior to YA 2019) of qualifying expenses incurred on the following activities for each YA:

(a) Overseas business development trips/missions;
(b) Overseas investment study trips/missions;
(c) Participation in overseas trade fairs; and
(d) Participation in approved local trade fairs.

The DTDi scheme is scheduled to lapse after 31 March 2020.

Proposed : The Minister proposed that the DTDi scheme will be extended till 31 December 2025.

In addition, the scope of the DTDi scheme will be enhanced to cover the following expenses incurred on or after 1 April 2020.

(a) Third-party consultancy costs relating to new overseas business development to identify suitable talent and build up business network; and.

(b) New categories of expenses incurred for overseas business missions (i.e. fees incurred on speaking spots to pitch products/services at overseas business and trade conferences, transporting materials/samples used during the business missions, and third-party consultancy costs to arrange business networking events to promote products/services).

Enterprise Singapore will provide further details of the changes by end-March 2020.

Effective : From 1 April 2020 to 31 December 2025.

Commentary : The objective is to continue to encourage internationalisation by incentivising small and medium enterprises ("SMEs") to venture abroad.

10. EXTENDING THE MERGERS & ACQUISITIONS ("M&A") SCHEME

Current : The M&A scheme was introduced in Budget 2010 to provide for M&A allowance and stamp duty relief for M&A undertaken. The scheme was extended in 2015 to further support companies, especially SMEs, to grow via strategic acquisitions.

Under the M&A scheme, taxpayers may enjoy the following tax benefits:

(a) An M&A allowance (to be written down over 5 years) that is based on 25% of the value of a qualifying acquisition, subject to a cap of $40 million on the value of all qualifying acquisitions per YA;

(b) Stamp duty relief on the instruments for the acquisition of the ordinary shares under an M&A deal, capped at $80,000 of stamp duty per financial year; and

(c) 200% tax deduction on transaction costs incurred on qualifying M&A deals, subject to an expenditure cap of $100,000 per YA.

The acquisition must result in the acquiring company's ownership of:

(i) at least 20% of the ordinary shares of the target company ("20% shareholding threshold") if it owned less than 20% before the date of share acquisition. Companies that wish to claim M&A allowance based on the 20% shareholding threshold will need to meet additional conditions; or

(ii) more than 50% of the ordinary shares of the target company if it owned less than or equal to 50% before the date of share acquisition ("50% shareholding threshold").

Since 2012, the waiver of the condition that acquiring companies must be held by an ultimate holding company that is incorporated in and is a tax resident of Singapore, has been allowed on a case-by-case basis.

This scheme is scheduled to lapse after 31 March 2020.

Proposed : The Minister proposed that the M&A scheme will be extended to cover qualifying acquisitions made on or before 31 December 2025.

The scheme will remain unchanged for acquisitions made on or after 1 April 2020, except for the following:

(a) Stamp duty relief will lapse for instruments executed on or after 1 April 2020; and

(b) No waiver will be granted for the condition that the acquiring company must be held by an ultimate holding company that is incorporated in and is a tax resident of Singapore. This will apply for acquisitions made on or after 1 April 2020.

Effective : Up to 31 December 2025.

Commentary : This is to continue encouraging companies to consider M&A as a strategy for growth and internationalisation.

11. EXTENDING AND REFINING THE UPFRONT CERTAINTY OF NON-TAXATION OF COMPANIES' GAINS ON DISPOSAL OF ORDINARY SHARES

Current : Under Section 13Z of the ITA, gains derived from the disposal of equity investments by companies will not be taxed, if:

(a) The divesting company holds a minimum shareholding of 20% in the company whose shares are being disposed ("investee company"); and

(b) The divesting company maintains the minimum 20% shareholding for a minimum period of 24 months just prior to the disposal.

The scheme is applicable to both listed and non-listed investee companies whether incorporated in Singapore or elsewhere.

The scheme does not apply to:

(a) A **divesting company** whose gains or profits form the disposal of shares are included as part of its income based on the provisions of Section 26 of the ITA.

(b) Disposals of shares in an unlisted **investee company** that is in the business of trading or holding Singapore immoveable properties (other than the business of property development).

For non-qualifying share disposals (such as those excluded from the scheme), the tax treatment of the gains/losses arising from share disposals will be determined based on the facts and circumstances of the case.

The scheme is scheduled to lapse after 31 May 2022.

Proposed : The Minister proposed to extend the scheme under Section 13Z to cover disposals of ordinary shares by companies from 1 June 2022 to 31 December 2027.

Further, the scheme will not apply to disposals of unlisted shares in an investee company that is in the business of trading, holding or <u>developing</u> immovable properties in <u>Singapore or abroad</u>. The tax treatment of such share disposals will be based on the facts and circumstances of the case. The change will apply to shares disposed on or after 1 June 2022.

All other conditions and exclusions of the scheme remain the same.

IRAS will provide further details of the changes by end-June 2020.

Effective : From 1 June 2022 to 31 December 2027.

Commentary : The above changes aim to continue to provide upfront certainty to companies in their corporate restructuring as well as consistency in the tax treatment for property related businesses.

12. EXTENDING THE TAX INCENTIVE SCHEMES FOR INSURANCE BUSINESSES

Current : The Insurance Business Development ("IBD") umbrella scheme includes the following schemes:

(a) IBD scheme

Approved insurers are granted a concessionary tax rate of 10% for a period of 10 years on qualifying income derived from the carrying on of onshore and offshore life reinsurance, onshore and offshore general insurance and reinsurance, excluding fire, motor, work injury compensation, personal accident and health insurance;

(b) IBD-Captive Insurance ("IBD-CI") scheme

Approved insurers are granted a concessionary tax rate of 10% for a period of 5 years on qualifying income derived from the carrying on of onshore and offshore life reinsurance, onshore and offshore general insurance and reinsurance, excluding fire, motor, work injury compensation, personal accident and health insurance; and

(c) IBD-Marine Hull and Liability Insurance Business ("IBD-MHL") scheme

Approved insurers are granted a concessionary tax rate of 10% for a period of 5 years on qualifying income derived from onshore and offshore MHL insurance and reinsurance.

The IBD umbrella scheme is scheduled to lapse after 31 March 2020.

Proposed : The Minister proposed to extend the IBD and IBD-CI schemes till 31 December 2025. The concessionary tax rate remains at 10%.

In an effort to streamline and simplify the IBD umbrella scheme, the IBD-MHL scheme will be allowed to lapse after 31 March 2020. Insurers engaged in the MHL insurance and reinsurance business will be incentivised under the IBD scheme.

All new and renewal IBD scheme awards approved on or after 1 April 2020 will be granted for a period of 5 years. This will align the tenure of all awards under the scheme.

MAS will provide further details of the changes by May 2020.

Commentary : The streamlining and extension of the scheme aims to continue to support Singapore's value proposition as an Asian insurance and reinsurance centre.

13. EXTENDING THE LAND INTENSIFICATION ALLOWANCE ("LIA") SCHEME

Current : The LIA scheme was introduced in Budget 2010 and later enhanced in Budget 2014 to encourage intensification of industrial land to promote efficient use of land and higher value activities.

The LIA scheme is open to businesses in the manufacturing sector that build on land that is zoned as Business 1 or Business 2 (excluding Business 1 White or Business 2 White) under the Urban Redevelopment Authority ("URA") Master Plan as at the date the development application is made to URA.

In 2014, the LIA scheme is extended to the logistics sector, as well as businesses carrying out qualifying activities on airport and port land. In Budget 2016, the LIA scheme is further extended to qualifying capital expenditure incurred from 25 March 2016 on buildings used by a user or multiple users, who are related, for one or multiple qualifying trades or businesses.

To qualify for the LIA scheme, the following conditions must be met upon completing the construction or renovation of the building or structure.

(a) The Gross Plot Ratio ("GPR") of the building or structure:

   (i) meets the GPR benchmark applicable for the qualifying trade or business; or

   (ii) is at least 10% more than its current GPR if the existing building or structure already meets or exceeds the GPR

(b) At least 80% of the total floor area of the relevant building or structure is utilised by a single user for undertaking the qualifying trade or business.

Approved LIA incentive recipients will enjoy an initial allowance of 25% of the qualifying capital expenditure incurred on the construction or renovation/extension of an approved LIA building will be granted in the YA relating to the basis period during which the capital expenditure is incurred. Upon issuance of the Temporary Occupation Permit ("TOP") for the completed LIA building, annual allowance of 5% of the qualifying capital expenditure incurred will be granted, subject to all the qualifying conditions being met.

The LIA scheme is scheduled to lapse after 30 June 2020.

Proposed : The Minister proposed to extend the LIA scheme till 31 December 2025. This refers to the last date a building or structure may be approved for LIA.

All conditions of the scheme remain the same.

Effective : Up to 31 December 2025.

Commentary : Given the scarcity of land in Singapore, the LIA scheme remains relevant and hence extended.

14. ALLOWING THE FURTHER TAX DEDUCTION SCHEME FOR RESEARCH AND DEVELOPMENT ("R&D") EXPENDITURE UNDER SECTION 14E OF THE ITA ("SECTION 14E INCENTIVE") TO LAPSE

Current : Taxpayers are allowed R&D tax deductions as follows:

(i) **Section 14(D)(1)** – 100% base deduction on R&D:

(a) related to the trade or business;

(aa) undertaken in Singapore not related to the trade or business incurred during YA 2009 to YA 2025;

(b) payments to R&D organisation undertaken in Singapore related to the trade or business;

(ba) payments to R&D organisation undertaken partly in Singapore and partly outside Singapore related to the trade or business;

(c) payments to R&D organisation undertaken in Singapore not related to the trade or business incurred during YA 2009 to YA 2025;

(d) payments to R&D organisation undertaken outside Singapore related to the trade or business;

(e) payments made under any cost-sharing agreement related to the trade or business during YA 2012 to YA 2017;

(f) payments made under any cost sharing arrangement in Singapore not related to the trade or business incurred during YA 2012 to YA 2017; and

(g) payments made under any cost-sharing agreement during YA 2018 or a subsequent YA for any R&D.

(ii) **Section 14DA(1)** – 50% additional deduction on R&D undertaken in Singapore during YA 2009 to YA 2025, and

(iii) **Section 14E** – Further deduction for R&D projects approved on or before 31 March 2020.

The total amount of deduction allowed under Sections 14, 14D, 14DA or 14E must not exceed 200% of the R&D expenditure.

For qualifying expenditure on R&D undertaken in Singapore, businesses can claim:

(a) 250% (150% prior to YA 2019) tax deduction for staff costs and consumables incurred (i.e. Section 14D(1) plus Section 14DA(1)); and

(b) 100% tax deduction for other qualifying expenditure (i.e. Section 14D(1)).

Proposed : The Section 14E incentive will lapse after 31 March 2020.

Existing Section 14E incentive recipients can continue to enjoy the further tax deduction under Section 14E incentive till their awards expire.

Commentary : The broad-based tax deductions for R&D conducted in Singapore has been enhanced over the years and are available for all businesses without a need for approval.

Businesses can also benefit from various non-tax schemes for R&D and innovation. For instance, the Research Incentive Scheme for Companies ("RISC"), administered by the Economic Development Board, co-funds qualifying R&D costs incurred by eligible companies.

Businesses can also access A*STAR's laboratories advanced manufacturing equipment via Tech Access, benefit from technology consultancy and testing services in Centres of Innovation, and obtain technical advisory through GET-Up.

15. EXTENDING THE WRITING-DOWN ALLOWANCE ("WDA") SCHEME FOR THE ACQUISITION OF AN INDEFEASIBLE RIGHT TO USE AN INTERNATIONAL SUBMARINE CABLE SYSTEM (REFERRED TO AS "INDEFEASIBLE RIGHT OF USE" OR "IRU") UNDER SECTION 19D OF THE ITA

Current : A taxpayer who incurred capital expenditure on the purchase of an IRU for the purposes of its trade, business or profession can claim WDA on the amount incurred, subject to conditions.

The scheme is scheduled to lapse after 31 December 2020.

Proposed : The Minister proposed to extend the WDA scheme under Section 19D till 31 December 2025, i.e. WDA will be allowed on qualifying capital expenditure incurred on or before 31 December 2025 for the acquisition of an IRU.

16. EXTENDING AND ENHANCING THE MARITIME SECTOR INCENTIVE ("MSI")

Current : MSI provides tax exemption and concessionary tax rate on qualifying income of the following ship operators, maritime lessors and providers of shipping related support services.

Ship Operators

(a) **MSI-Shipping Enterprise (Singapore Registry of Ships) ("MSI-SRS")**
Tax exemption on qualifying income derived from operating Singapore-flagged ships including income derived from uplift of freight from Singapore by foreign-flagged ships, except where such carriage arises solely from transshipment from Singapore or is only within the limits of the port of Singapore.

(b) **MSI-Approved International Shipping Enterprise ("MSI-AIS") Award**
Tax exemption on qualifying income derived from operating foreign-flagged ships including in-house ship management income derived by MSI-AIS Parent Company and Managing Company.

Maritime Lessors

(c) **MSI-Maritime Leasing(Ship) ("MSI-ML(Ship)") Award**
Tax exemption on qualifying income derived from leasing ships and 10% concessionary tax rate on qualifying income derived from managing an approved shipping investment enterprise.

(d) **MSI-ML (Container) Award**
10% or 15% concessionary tax rate on qualifying income derived from leasing of qualifying sea containers and intermodal equipment that is incidental to the leasing of qualifying sea containers.
10% concessionary tax rate on qualifying income derived from managing an approved container investment enterprise.

For (c) and (d), stamp duty remission is applicable to instruments executed on or before 31 May 2021 for the acquisition of shares in a special purpose company by an approved shipping or container investment enterprise, subject to conditions.

Providers of Certain Shipping – Related Support Services

(e) **MSI-Shipping-related Support Services ("MSI-SSS") Award**
10% concessionary tax rate on incremental qualifying income derived from carrying out approved shipping-related support services.

In addition, withholding tax exemption is granted on qualifying payments made by qualifying MSI recipients to non-tax residents in respect of qualifying financing arrangements entered into on or before 31 May 2021 to finance the construction or purchase of qualifying assets subject to conditions.

MSI-AIS, MSI-ML(Ship), MSI-ML(Container) and MSI-SSS are scheduled to lapse after 31 May 2021.

Proposed	:	MSI scheme will be extended till 31 December 2026.
		Withholding tax exemption will be extended for qualifying payments made on qualifying financing arrangement entered into on or before 31 December 2026.
		The following changes will be made to the MSI scheme:
		(a) Expand the scope of in-house ship management income exemption under the MSI-AIS Award to include such income derived by MSI-AIS Sister Company and MSI-AIS Local Subsidiary.
		(b) Allow income derived from operating a ship that is provisionally registered with the SRS to qualify for tax exemption under the MSI-SRS scheme, regardless of whether a permanent certificate is not obtained, in which case, the exemption is only allowed up to 1 year from the date of issue of the provisional certificate.
		(c) Allow the stamp duty remission to lapse from instruments executed on or after 1 June 2021.
Effective	:	The enhancements in (a) and (b) will apply to existing and new award recipients for qualifying income derived on or after 19 February 2020.
		MPA will provide further details of the changes by May 2020.
Commentary	:	The Government recognises the importance of Singapore as an international maritime centre.

17. ENHANCING THE WITHHOLDING TAX ("WHT") EXEMPTION FOR INTEREST ON MARGIN DEPOSITS

Current : The WHT exemption for interest on margin deposits is part of range of WHT exemptions granted for financial sector up till 31 December 2022.

The current qualifying entities and products covered by the WHT exemption are:

Members of approved exchanges

(a) Spot foreign exchange (other than those involving Singapore dollars);
(b) Financial futures; and
(c) Gold futures.

Proposed : To enhance the WHT exemption for interest on margin deposits to cover the following entities and products:

Covered entities
(a) Members of approved exchanges;
(b) Members of approved clearing houses;
(c) Approved exchanges; and
(d) Approved clearing houses.

Covered products
(a) Spot foreign exchange (other than those involving Singapore dollars);
(b) Financial futures;
(c) Gold futures; and
(d) **All other derivative contracts traded or cleared on approved exchanges and approved clearing houses**.

Effective : The enhancement in item (d) will apply for agreement entered into on or after 19 February 2020.

Extension of the WHT exemption will be reviewed before 31 December 2022.

MAS will provide further details of the changes by May 2020.

Commentary : The Singapore Government is continuing to further develop Singapore's derivative market and its status as a wealth management hub.

18. EXTEND AND REFINE THE TAX INCENTIVES FOR VENTURE CAPITAL FUNDS AND VENTURE CAPITAL FUND MANAGEMENT COMPANIES

Current : Venture capital funds approved under Section 13H of the ITA enjoy tax exemption on the following income ("Section 13H scheme"):

(a) Divestment gains from qualifying investments;
(b) Dividend income from foreign companies; and
(c) Interest income arising from foreign convertible loan stock.

Approved venture capital fund management companies managing approved venture capital funds are granted 5% concessionary tax rate under Section 43ZG of the ITA on the income derived from managing an approved venture capital fund ("Fund Management Incentive").

Both incentives are scheduled to lapse after 31 March 2020.

Proposed : To extend the Section 13H scheme and Fund Management Incentive till 31 December 2025.

Section 13H scheme:

(a) List of investments and income will be expanded to include relevant items of Specified Income – Designated Investments list applicable for fund incentives under Sections 13CA, 13R and 13X of the ITA.
(b) Apart from companies incorporated in Singapore and partnerships, the Section 13H incentive maybe granted to venture capital funds which are constituted as foreign incorporated companies or Singapore Variable Capital Companies:
(c) The statutory sub-limit imposing a maximum tenure of 10 years for the first tranche of the tax exemption will be removed, while the 15-year cap on the overall tenure of the tax exemption status remains. This means that the tax exemption may be awarded for the fund life of the venture capital fund, up to a total tenure of 15 years;
(d) Approved venture capital funds will be allowed, by way of remission, to claim GST incurred on their expenses at a fixed recovery rate to be determined for the industry; and

Fund Management Incentive:

(e) Statutory limitation on the total incentive tenure allowed for each venture capital fund management company will be removed. Instead each Fund Management Incentive award for the fund manager will be set at a maximum tenure of 5 years, and can be renewed subject to conditions;

Effective : The changes will take effect from 1 April 2020.

Enterprise Singapore will provide further details of the changes by May 2020.

Commentary : The Singapore Government is continuing to encourage venture capital funding for Singapore-based companies.

19. EXTENDING AND ENHANCING THE FINANCE AND TREASURY CENTRE ("FTC") SCHEME

Current : The FTC scheme grants a concessionary tax rate of 8% on qualifying income derived by approved FTCs from qualifying activities or services.

To qualify for the concessionary tax rate, approved FTCs are required to use only funds from qualifying sources as prescribed in the Income Tax (Concessionary Rate of Tax for Approved Finance and Treasury Centre) Regulations.

The scheme is scheduled to lapse after 31 March 2021.

Proposed : The Minister proposed to extend the FTC scheme till 31 December 2026, with the following enhancements from 19 February 2020:

(a) The list of qualifying sources of funds will be expanded to include funds raised via convertible debt issued on or after 19 February 2020; and

(b) The list of qualifying FTC activities will be expanded to include transacting or investing into private equity or venture capital funds that are not structured as companies. Income derived on or after 19 February 2020 by approved FTCs from this activity will qualify for the concessionary tax rate.

Effective : Up to 31 December 2026.

Commentary : This is to continue encouraging finance and treasury activities in Singapore.

20. EXTENDING AND REFINING THE GLOBAL TRADER PROGRAMME ("GTP")

Current	:	The GTP grants a concessionary tax rate of 5% or 10% on income derived by approved global trading companies from qualifying transactions. Approved global trading companies enjoy a concessionary tax rate of 5% on their income from qualifying transactions in liquefied natural gas ("LNG"), regardless of whether a concessionary tax rate of 5% or 10% applies to their income from qualifying transactions in other GTP-qualifying commodities. The GTP is scheduled to lapse after 31 March 2021. The GTP (Structured Commodity Financing) ("GTP(SCF)") grants a concessionary tax rate of 5% or 10% on qualifying income derived by approved GTP(SCF) companies. The GTP(SCF) is scheduled to lapse after 31 March 2021.

Proposed	:	The Minister proposed to extend the GTP till 31 December 2026 with the following changes:
		
		(a) The qualifying activities of GTP(SCF) will be subsumed under GTP with effect from 19 February 2020;
		
		(b) The GTP(SCF) will lapse after 31 March 2021; and
		
		(c) The concessionary tax rate of 5% on income from qualifying transactions in LNG will lapse after 31 March 2021. With the lapsing of this concession, LNG will be treated no differently from other GTP-qualifying commodities under the GTP.
		
		For (b), existing recipients of GTP(SCF) awards can continue to enjoy the tax concession under the GTP(SCF) till the expiry of their awards, if the conditions for approval of their awards continue to be met.
		
		For (c), existing recipients of GTP awards can continue to enjoy the concessionary tax rate of 5% on income from qualifying transactions in LNG till the expiry of their awards, if the conditions for approval of their awards continue to be met.
		
		Enterprise Singapore will provide further details of the changes by May 2020.

Effective	:	Up to 31 December 2026.
Commentary	:	This aims to further strengthen Singapore's position as a global trading hub and to encourage more structured commodity financing activities to be done in Singapore.

21. REFINING THE TAX TREATMENT OF EXPENDITURES FUNDED BY CAPITAL GRANTS

Current : For Singapore tax purposes, receipts that are capital in nature are not subject to tax. Therefore, recipients of capital grants from the government and statutory boards (e.g. Capability Development Grant granted for technology innovation and productivity improvements, etc) are not subject to tax on the grant amounts received. At the same time, these recipients are able to claim tax deductions or allowances on the corresponding expenditure incurred which are funded by such grants from the government or statutory boards.

On the other hand, recipients of grants from the government or statutory boards that are revenue in nature are currently subject to income tax on the grant amount received. These recipients are able to claim tax deductions or allowances on the corresponding expenditure incurred which are funded by such grants from the government or statutory boards.

Proposed : The Minister proposed that for capital grants approved on or after 1 January 2021, recipients will not be allowed to claim tax deductions or allowances on that part of the expenditures that are funded by such grants from the government or statutory boards.

Effective : On or after 1 January 2021.

Commentary : The above seeks to eliminate double-incentivisation where the capital grants are not taxed while the expenditures funded by these grants are eligible for tax deductions and allowances.

B GOODS AND SERVICES TAX ("GST")

1. DEFERRING GST RATE INCREASE IN 2021

Current : GST is a broad-based consumption tax levied on the import of goods, as well as nearly all supplies of goods and services in Singapore, unless specifically exempted, or outside the scope of the GST Act.

Supplies for GST purposes can be broadly classified into the following categories:

Taxable supply

(a) Standard-rated Supply

GST is charged at the prevailing rate of 7% by GST-registered businesses on all sales of goods and services made in Singapore.

(b) Zero-rated Supply

GST is charged at 0% on the following two categories of zero-rated supply:
(i) exports of goods;
(ii) provision of international services.

Non-taxable supply

(c) Exempt Supply

These are supplies that are specifically exempted from GST under the Fourth Schedule to the GST Act. They include the provision of financial services and sale and lease of residential properties.

(d) Out-of-scope Supply

Out-of-scope supplies refer to supplies which are outside the scope of the GST Act. They also include supplies where the place of supply is outside of Singapore.

Previously, the Minister announced in Budget 2018 that the rate of GST on standard-rated supplies is to be raised by two percentage points from 7% to 9% sometime in the period from 2021 to 2025.

The GST increase is to be implemented in a progressive manner, with the following measures:

(i) Continue to absorb GST on publicly-subsidised education and healthcare;

(ii) Enhance the permanent GST Voucher ("GSTV") scheme when the GST is increased;

(iii) Implement an offset package for a period to help Singaporeans adjust to the GST increase where the lower- and middle-income households will receive more support.

Proposed : The Minister announced that the GST rate increase will not take effect in the 2021. The GST rate will remain at 7% in 2021.

Commentary : The Minister commented that they will not be able to put off the GST increase indefinitely. The COVID-19 outbreak has reinforced the importance of continued investment in the healthcare system, including the capability to deal with outbreaks. In addition, recurrent sources of revenue to fund the recurrent spending needs in the medium term will still be required.

Therefore, the GST increase will still be needed by 2025.

The Minister assured that the appropriate time for the GST increase will be assessed carefully and sufficient lead time will be provided to Singaporeans.

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. A one-off personal income tax rebate of 50%, subject to a cap of $200 per taxpayer, is given to all resident individual taxpayers for the YA 2019 (i.e. for income earned in 2018).
Proposed	:	No change to the existing personal income tax rates. The one-off personal income tax rebate granted for the YA 2019 will not be granted for the YA 2020.

2. EXTENDING THE WITHHOLDING TAX EXEMPTION FOR NON-RESIDENT MEDIATORS

Current	:	Non-resident professionals are subject to withholding tax at a rate of 15% on gross income from the profession; or they may elect to be taxed at 22% on net income. As a concession, income derived by non-resident mediators from mediation work carried out in Singapore is exempt from tax, subject to conditions. The exemption is scheduled to lapse after 31 March 2020.
Proposed	:	The Minister proposed to extend the withholding tax exemption till 31 March 2022.
Effective	:	Up to 31 March 2022.
Commentary	:	The withholding tax exemption is extended to continue promoting Singapore’s mediation sector.

3. EXTENDING THE WITHHOLDING TAX EXEMPTION FOR NON-RESIDENT ARBITRATORS

Current	:	Non-resident professionals are subject to withholding tax at a rate of 15% on gross income from the profession; or they may elect to be taxed at 22% on net income. As a concession, income derived by non-resident arbitrators from arbitration work carried out in Singapore is exempt from tax, subject to conditions. The exemption is scheduled to lapse after 31 March 2020.
Proposed	:	The Minister proposed to extend the withholding tax exemption till 31 March 2022.
Effective	:	Up to 31 March 2022.
Commentary	:	The withholding tax exemption is extended to continue promoting Singapore’s arbitration sector.

4. ALLOWING THE CONCESSIONARY WITHHOLDING TAX RATE FOR NON-RESIDENT PUBLIC ENTERTAINERS TO LAPSE

Current	:	Non-resident public entertainers are subject to withholding tax at a rate of 15% on the taxable income from services performed in Singapore. The withholding tax rate is reduced from 15% to 10% if the income for the services performed in Singapore is due and payable to the non-resident public entertainers during the period from 22 February 2010 to 31 March 2020. The concession is scheduled to lapse after 31 March 2020.
Proposed	:	The Minister proposed to extend the concessionary withholding tax rate of 10% till 31 March 2022. The concession will then lapse after 31 March 2022.
Effective	:	Up to 31 March 2022.
Commentary	:	The concessionary withholding tax rate for non-resident public entertainers was introduced in 2010 to kick-start Singapore’s push to being a vibrant global city. Over the years, the local sports and entertainment scenes have developed significantly, and government schemes have been introduced to promote the sector.

5. ALLOWING THE ANGEL INVESTORS TAX DEDUCTION SCHEME TO LAPSE

Current : The Angel Investors Tax Deduction ("AITD") scheme was introduced in Budget 2010 to encourage eligible individuals to invest in start-up companies and help them grow (e.g. through their management expertise, business networks, etc).

Under the AITD incentive, an approved angel investor who invests a minimum of $100,000 into a start-up company within a year, and holds the qualifying investment for a continuous period of 2 years, can enjoy a tax deduction of 50% of the cost of the qualifying investment. The deduction to an approved angel investor is capped at $500,000 of investment into qualifying start-ups per YA.

The AITD scheme is scheduled to lapse after 31 March 2020.

Proposed : The AITD scheme will be allowed to lapse after 31 March 2020.

Angel investors, whose approved angel investor status commences on or before 31 March 2020, can continue to be granted the tax deduction under the AITD scheme in respect of qualifying investments made during the period of his approved angel investor status, subject to existing conditions.

Enterprise Singapore will provide further details of the transitional arrangement for approved angel investors by end-March 2020.

Effective : Up to 31 March 2020.

Commentary : This is to maintain the resilience and progressivity of the tax system.

With the lapsing of AITD, Singapore-based startups can access funding through other government schemes such as the Startup SG programme (which provides holistic support for startups through co-investments, loans, proof-of-concept grants, mentorship and physical space).

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 to 70	7.5	5	12.5
Above 70	7.5	5	12.5

Proposed : The CPF contribution rates will be raised gradually for Singaporeans and Permanent Resident workers aged above 55 to 70. The first increase will take place on 1 January 2021 as follows.

With effect from 1 January 2021

Employee Age (Years)	Contribution Rates (for monthly wages ≥ $750)		
	Employer %	Employee %	Total %
55 and below	17	20	37
Above 55 to 60	14	14	28
Above 60 to 65	10	8.5	18.5
Above 65 to 70	8	6	14
Above 70	7.5	5	12.5

Eventually, by about 2030, those 60 and below will enjoy full CPF rates as follows.

Employee Age (Years)	Total Contribution Rates (Employer and Employee) (for monthly wages ≥ $750)		
	Current %	From 1 Jan 2021 %	By About 2030 %
55 and below	37	37	37
Above 55 to 60	26	28	37
Above 60 to 65	16.5	18.5	26
Above 65 to 70	12.5	14	16.5
Above 70	12.5	12.5	12.5

The timing of subsequent increases will depend on economic conditions.

Effective : From 1 January 2021.

Commentary : The above aims to support older workers to continue working longer and to be more financially secure in retirement.

2. ENHANCING THE WAGE CREDIT SCHEME ("WCS")

Current : The WCS was introduced in Budget 2013 and extended in Budget 2015 and Budget 2018.

Under the current WCS as announced in Budget 2018, the government co-funded 20% of wage increases given to Singaporean employees earning a gross monthly wage of up to $4,000 in 2018. Wage increases of 15% given in 2019 and of 10% given in 2020 are also eligible for the WCS.

Once an employee's gross monthly wage exceeds $4,000, the portion of the wage increase that brings the gross monthly wage above $4,000 is not eligible for co-funding under WCS.

	Current WCS
Qualifying years	2018, 2019 and 2020
Level of co-funding	• 20% of qualifying wage increases in 2018 • 15% of qualifying wage increases in 2019 • 10% of qualifying wage increases in 2020
Gross monthly wage ceiling	• $4,000
Qualifying wage increases	• Gross monthly wage increases of at least $50 in the qualifying year (2018-2020) will qualify for 20% / 15% / 10% co-funding, up to a gross monthly wage level of $4,000. • In addition, gross monthly wage increases of at least $50 – given in 2017 and sustained in 2018/2019/2020, as well as wage increases given in 2018 and sustained in 2019/2020 and wage increases given in 2019 and sustained in 2020, will continue to be co-funded at 20%/15%/10%.
Others	• All other parameters remain the same. • Employers do not need to apply for WCS. They will receive payouts automatically in March of the following year.

Proposed : The Minister has proposed to enhance the WCS in 2019 and 2020. The government co-funding of qualifying wage increases will be raised to 20% and 15% respectively. The qualifying gross wage ceiling will also be raised to $5,000 for both years.

	Enhancement of WCS
Qualifying years	2019 and 2020
Level of co-funding	• 20% of qualifying wage increases in 2019 • 15% of qualifying wage increases in 2020
Gross monthly wage ceiling	• $5,000
Qualifying wage increases	• Gross monthly wage increases of at least $50 in the qualifying year (2019-2020) will qualify for 20% / 15% co-funding, up to a gross monthly wage level of $5,000. • In addition, gross monthly wage increases of at least $50 – given in 2017 and sustained in 2018/2019/2020, as well as wage increases given in 2018 and sustained in 2019/2020 and wage increases given in 2019 and sustained in 2020, will continue to be co-funded at 20%/15%.
Others	• All other parameters remain the same. • Employers do not need to apply for WCS. They will receive payouts automatically in March of the following year.

From March 2020 onwards, the WCS payouts will only be disbursed electronically through direct crediting modes. Businesses that have not registered for GIRO to pay income tax / GST or have not registered for PayNow Corporate will have to sign up for either of these modes to receive the WCS payout.

Effective : For 2019 and 2020.

Commentary : The above aims to encourage firms that have invested in raising productivity to continue to upgrade and to share the gains with their workers.

3. GRANTING PROPERTY TAX REBATE TO LICENSED HOTELS, SERVICED APARTMENTS, PRESCRIBED MEETINGS, INCENTIVE, CONFERENCES AND EVENTS (“MICE”) VENUES AND OTHER QUALIFYING COMMERCIAL PROPERTIES

Proposed : Qualifying commercial properties will be granted a rebate for property tax payable for the period 1 January 2020 to 31 December 2020.

The property tax rebate is 30% of property tax payable for:

- Accommodation and function room components of hotels licenced under the Hotels Act;
- Accommodation and function room components of serviced apartments; and
- MICE space components of 3 prescribed MICE venues (i.e. Suntec Singapore Convention & Exhibition Centre, Singapore EXPO and Changi Exhibition Centre).

The property tax rebate is 15% of property tax payable for other qualifying commercial properties. Some examples are:

- Premises of an international airport (i.e. Singapore Changi Airport);
- Premises of an international cruise or reginal ferry terminal (i.e. Marina Bay Cruise Centre, Singapore Cruise Centre and Tanah Merah Ferry Terminal);
- Shops (e.g. retail and F&B), including those within hotel buildings, serviced apartment buildings and the prescribed MICE venues; and
- Premises of tourist attractions (e.g. Singapore Zoological Gardens, Singapore Flyer and Haw Par Villa).

The property tax rebate is 10% of the property tax payable for:

- Marina Bay Sands; and
- Resorts World Sentosa.

The above 30% and 15% property tax rebates do not apply to Marina Bay Sands and Resorts World Sentosa.

The above 30%, 15% and 10% property tax rebates do not apply to any premises or a part of any premises used for a residential, industrial or agricultural purpose, or as an office, a business or science park, or a petrol station.

IRAS will inform owners of qualifying properties on their property tax rebates by 30 April 2020. Owners are not required to submit any claims for the rebate.

Owners of qualifying properties can expect to receive their refunds by 31 May 2020.

Full details on the scope of the rebate will be published in the ministerial remission order at a later date.

Effective : From 1 January 2020 to 31 December 2020.

Commentary : The above aims to provide additional support to sectors directly affected by COVID-19.

4. RENTAL WAIVERS FOR COMMERCIAL TENANTS IN GOVERNMENT-OWNED / MANAGED FACILITIES

Proposed : National Environment Agency ("NEA") will provide a full month of rental waiver to stallholders in NEA-managed hawker centres and markets.

Other Government agencies, like Housing and Development Board, People's Association, Singapore Land Authority, National Parks Board, JTC Corporation, Urban Redevelopment Authority, Singapore Tourism Board and Sentosa Development Corporation will provide half a month of rental waiver to eligible commercial tenants / lessees who are on leases not exceeding three years and do not pay property tax.

Eligible tenants / lessees may include those providing commercial accommodation, retail, F&B, recreation, entertainment, healthcare and other services.

The rental waivers do not apply to any premises or a part of any premises used for a residential, industrial or agricultural purpose, or as an office, a business or science park, or as a petrol station.

For more information, please contact the respective agencies providing the rental waivers.

Commentary : The above aims to support commercial establishments in food services and retail business directly affected by COVID-19.

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.

CONTACT US

Wendy Wong
Director of Taxes
Email: wong.wendy@bsl.sg
DID: (65) 6833 6314

N Vimala Devi
Director of Taxes
Email: devi.vimala@bsl.sg
DID: (65) 6833 6322

Gary Tan
Senior Tax Manager
Email: tan.gary@bsl.sg
DID: (65) 6833 6313

Lim Hsee Meang
Senior Tax Manager
Email: lim.hseemeang@bsl.sg
DID: (65) 6833 6318