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## 1999 SINGAPORE BUDGET COMMENTARY

The Minister for Finance, Dr Richard Hu, presented the 1999 Budget Statement on 26 February 1999.

Singapore is in recession resulting from external events. To moderate the effect of the recession, the 1999 Budget offers some short-term relief to companies and individuals with a 10% tax rebate given to both categories of taxpayers. The government has also affirmed its longer term commitment to reinforce Singapore's competitive position as a centre for financial services. Various tax incentives were proposed to stimulate the bond market and fund management as well as other specialised sectors of the economy.

### PERSONAL TAX

#### Tax Rebate

The personal tax rates for Year of Assessment 1999 remain the same. A 10% tax rebate will be given for the Year of Assessment 1999. The rebate is in addition to the GST rebate of \$500 granted on the 1999 tax payable. Both rebates are available to resident taxpayers only.

**Proposed Effective Date : Year of Assessment 1999 Only**

#### Personal Reliefs

Currently, resident taxpayers who incurred educational expenses for the purposes of gaining further academic and professional qualifications, or vocational qualifications related to their business, trade or employment will be eligible to claim course fees deduction subject to a maximum of \$2,000 per annum.

The tax deduction of course fees will be increased from \$2,000 to \$2,500 per annum.

**Proposed Effective Date : Year of Assessment 1999**



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## **CORPORATE INCOME TAX RATE**

The corporate tax rate will remain unchanged at 26%. However, a one-off 10% rebate will be given on the corporate tax payable for the Year of Assessment 1999. The 10% tax rebate will not apply to tax payable on Singapore dividends and income subject to final withholding tax. The tax rebate regressed at 26% will be available to Singapore resident companies for distribution as tax exempt dividends.

The Inland Revenue Authority of Singapore has issued a circular on details of calculation. These are reproduced in the attached Appendices.

**Proposed Effective Date : Year of Assessment 1999 only**

## **INCENTIVES FOR THE FINANCIAL SECTOR**

Various tax incentives and tax exemption were proposed to further promote the growth and development of the financial sector in Singapore. A summary of the tax incentives and exemption are as follows:-

	<b>Proposed Effective Dates</b>
<b>Bond Market</b>	
Withholding tax exemption on interest from qualifying debt securities earned by a non-resident entity with a permanent establishment in Singapore, provided that the non-resident does not purchase the securities using funds from Singapore operations.	<b>27 February 1999</b>



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	<b>Proposed Effective Dates</b>
<b>Approved Bond Intermediary (“ABI”) Scheme</b>	
All debt securities lead managed by a financial institution with ABI status granted by The Monetary Authority of Singapore would be regarded as qualifying debt securities. interest earned by any company from qualifying debt securities and income derived by any financial institution from trading in such debt securities are taxed at 10% concessionary tax rate. Income derived by any financial institution from arranging, underwriting or distributing any qualifying debt securities is exempt from tax.	<b>27 February 1999 to 26 February 2003</b>
<b>Primary Dealers in Singapore Government Securities (“SGS”)</b>	
Tax exemption on income derived by SGS Primary Dealers from trading in SGS.	<b>27 February 1999 to 26 February 2003</b>
<b>Syndicated Offshore Facilities</b>	
Income derived by Asian Currency Units or any Approved Securities Companies in Singapore from syndicated offshore credit and underwriting facilities is exempt from tax from 1 April 1998 to 31 March 2003. to give arrangers upfront certainty on whether a facility qualifies for tax exemption, facilities which meet certain pre-defined criteria will automatically be granted tax exemption.	<b>27 February 1999</b>
Further details of the new procedure have yet to be announced.	



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**Boutique Fund Management**

Tax exemption on qualifying income derived by foreign investors from funds managed by qualifying boutique fund managers. Boutique fund managers will continue to be taxed at 26% on their profit.

**Proposed Effective Dates**

**27 February 1999 to  
26 February 2003**

**Finance Companies**

qualifying finance companies are allowed tax deductions for general provisions against qualifying loans and investments on the lower of 25% of qualifying profits or 0.5% of qualifying loans and investments; and the amount of tax deduction is limited to a maximum cumulative claim of 2% of the qualifying loans and investments.

The Minister has proposed to suspend the Annual limits of 25% of qualifying Profits and 0.5% of qualifying loans and Investments.

**Years of Assessment 1999  
and 2000**

In addition, the maximum cumulative claims of 2% will be raised to 3% for qualifying finance companies.

**Year of Assessment 1999**



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## INCENTIVES FOR OTHER SECTORS

### Global Operational Headquarters (“OHQ”)

Presently, OHQ are eligible for tax exemption on dividend income from overseas subsidiaries, related or associated companies and 10% concessionary tax rate for income from qualifying services, royalty and interest.

To further promote the growth of services sector of the Singapore economy, the Minister has proposed to enhance the existing OHQ incentive by granting tax exemption to OHQ which perform at least one substantive global function in Singapore. This incentive will be granted for a maximum period of 10 years.

Further details on qualifying criteria including definition of “substantive global function” have yet to be announced.

**Proposed Effective Date : Year of Assessment 2000**

### Conference Organisers

To encourage the development of Singapore into an International Exhibition and Conference City, the Minister has proposed to extend the tax incentive for Approved Exhibition Organisers to companies organising and managing international conferences in Singapore. Incremental income derived by approved companies will be taxed at a concessionary rate of not less than 10%.

**Proposed Effective Date : Year of Assessment 2000**

### Floating Storage Vessels

To support Singapore’s progress towards strengthening its shipping sector, the Minister has proposed to extend the existing Approval International Shipping (“AIS”) incentive to cover income from the operation of Floating Production Storage Offloading vessel (“FPSO”) and Floating Storage Offloading vessel (“FSO”). Income derived under the AIS incentive is exempt from tax.

FPSO and FSO are primarily crude oil tankers deployed in the offshore oil fields for production and storage of crude oil. The operation of FPSO and FSO requires both advanced maritime and technological expertise. The incentive will be granted for a period of 10 years.

**Proposed Effective Date : Year of Assessment 2000**



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### **Diesel-Driven Vehicles**

To encourage owners of older diesel-driven vehicles to replace their vehicles, the Minister has proposed to grant one-year accelerated capital allowance (ie a 100% tax depreciation) on capital expenditure incurred for purchase of new commercial goods vehicle and buses. However, the new vehicle must replace the old diesel-driven vehicle which was registered before 1 January 1991 and has either one year of valid Certificate of Entitlement (“COE”) or is eligible for COE renewal.

**Proposed Effective Date : 27 February 1999**

### **GOODS AND SERVICES TAX (“GST”)**

#### **Approved Contract Manufacturer and Trader (“ACMT”) Scheme**

Singapore GST registered contract manufacturers would need to charge GST at 3% to their overseas customers where the manufactured goods were delivered to a location in Singapore.

Under this newly introduced ACMT Scheme, the ACMT need not charge GST to their overseas customers for goods delivered in Singapore provided the ACMT perform value-added manufacturing activities substantially for overseas customers.

The recipients of the goods in Singapore will account for GST on the purchase price of the goods by way of a reverse charge in their GST returns.

Further details of this new scheme will be announced shortly.

### **Bonded Warehouse**

A bonded warehouse is a designated area approved by the Comptroller of GST for storing imported goods chargeable with GST. When imported goods are stored in a bonded warehouse, the GST on importation will be deferred until the goods are removed from the bonded warehouse for the local market. To encourage the logistics operators to expand their business in Singapore, the Minister has proposed to waive the GST chargeable on goods removed from bonded warehouses operated by logistic companies for traders who have Major Exporter Scheme Status.

**Proposed Effective Date : Immediate**



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**PROPERTY TAX AND STAMP DUTY**

**Property Tax Rebate**

The 55% property tax rebate on commercial and industrial properties effective from 1 July 1998 to 30 June 1999 will be extended by another year to 30 June 2000.

**Proposed Effective Date : 1 July 1999**

**Stamp Duty**

The Government had suspended the stamp duty on contract notes for share transactions started on or after 30 June 1998 for one year. The Government has proposed that the suspension be extended by another year to 29 June 2000.

**Proposed Effective Date : 30 June 1999**

**CALCULATION OF 10% CORPORATE TAX REBATE**

**Example 1:**

	\$	\$
Trade income	10,000.00	10,000.00
Singapore dividends	1,000.00	
Less: Allowance expenses	200.00	800.00
Foreign interest income (subject to 10% withholding tax)	<u>          </u>	1,000.00
Chargeable income		<u>11,800.00</u>
Tax payable at 26%		3,068.00
Less: Tax deducted @ source	260.00	
Foreign tax credit	100.00	
10% tax rebate	276.00	636.00
Net tax payable	<u>          </u>	<u>2,432.00</u>
(a) <u>Tax on Singapore dividend</u>		
26% x 800 = \$208.00		
(b) <u>Tax rebate</u>		
10% x (3,068 – 100 – 208) = \$276.00		

**Example 2:**

	\$	\$
Trade loss		(10,000.00)
Singapore dividends	5,000.00	
Less: Allowance expenses	1,000.00	4,000.00
Singapore interest income	<u>          </u>	12,000.00
		<u>6,000.00</u>
Less: Donations		200.00
Chargeable income		<u>5,800.00</u>
Tax payable at 26%		1,508.00
Less: Tax deducted @ source	1,300.00	
10% tax rebate	113.10	1,413.10
Net tax payable	<u>          </u>	<u>94.90</u>
(a) <u>Tax on Singapore dividend</u>		
4,000(4,000 + 12,000) x 5,800 x 26% = \$377.00		
(b) <u>Tax rebate</u>		
10% x (1,508 – 377) = \$113.10		

## Appendix 2

**COMPUTATION OF AMOUNT AVAILABLE FOR PAYING EXEMPT DIVIDENDS****Example 3:- Income taxed at normal rate**

	\$	\$
Trade income		10,000.00
Singapore dividends	1,000.00	
Less: Allowance expenses	200.00	800.00
Foreign interest income (subject to 10% withholding tax)	_____	1,000.00
Chargeable income		11,800.00
Tax payable at 26%		3,068.00
Less: Tax deducted @ source	260.00	
Foreign tax credit	100.00	
10% tax rebate	276.00	636.00
Net tax payable	_____	2,432.00
<u>For payment of franked dividends</u>		
Amount credited to Section 44 account (\$4,432 + \$260)		2,692.00
<u>For payment of exempt dividends</u>		
Amount credited to Section 13E account (\$100/0.26 - \$100)		285.00
Amount credited to special account (arising from tax rebate (\$276/0.26)		1,061.00
Total amount for paying exempt dividends		1,346.00

**Example 4:-Income taxed at concessionary rate**

	\$	\$
Trade income		10,000.00
Chargeable income		10,000.00
Tax payable at 10%		1,000.00
Less: Tax rebate (10% x 1,000)		100.00
Net tax payable		900.00
<u>For payment of exempt dividends</u>		
Amount credited to Section 13B account (\$10,000 - \$1,000)		9,000.00
Amount credited to special account arising from tax rebate		100.00
Total amount for paying exempt dividends		9,100.00

