
2003 SINGAPORE BUDGET COMMENTARY

The Minister for Finance, Deputy Prime Minister ("Minister") Lee Hsien Loong delivered his 2003 Budget Statement on 28 February 2003.

This year's tax package was referred to the final report and recommendations by the Economic Review Committee ("ERC") released on 6 February 2003. The ERC's recommendations were aimed to help the Singapore economy recovers from the recession and to restructure the Singapore economy. The five longer term strategies are: to expand external ties, to stay competitive and flexible, to promote entrepreneurship, to develop manufacturing and services and to invest in Singapore's human resource.

CORPORATE AND BUSINESS TAX

Corporate Income Tax Rate

The corporate tax rate remains at 22% for Year of Assessment 2004. No tax rebate is available. The corporate exemption structure on the chargeable income of \$100,000 is still applicable.

However, the Minister has given his assurance that the corporate tax rates will be reduced to 20% by Year of Assessment 2005.

Tax Exemption for Remittance of Foreign Sourced Income

To simplify the tax treatment on foreign sourced income so as to make Singapore a more attractive business hub and to boost Singapore's services exports, the Minister has announced that tax exemption will be granted to both companies and individuals in respect of all foreign sourced dividends, branch profits and service income remitted back to Singapore.

However, the exemption only applies to income earned from jurisdictions with "headline" tax rates of at least 15%. The Inland Revenue Authority of Singapore ("IRAS") has clarified that "headline" tax refers to the highest corporate tax rate of a foreign jurisdiction and need not to be the actual rate of tax imposed.

Proposed Effective Date: 1 June 2003



Portable Medical Benefits

To ensure that Singapore has a flexi labour market and to address the concern of older workers, two schemes, i.e. Portable Medical Benefits Scheme (“PMBS”) and Transferable Medical Insurance Scheme (“TMIS”), are proposed to encourage employers to implement for their employees.

- Tax exemption for additional Medisave contribution for private sector employees will be raised from 1% of an employee’s current monthly salary to a lump-sum of S\$1,500 per employee per year.

Proposed Effective Date: **Year of Assessment 2004**

- Tax deduction limit for medical expenses will be reduced from the existing 2% to 1% of the total employees’ remuneration. However, employers who implement either PMBS or TMIS, will continue to enjoy the tax deduction limit of 2%.

Proposed Effective Date: **1 April 2004**

Concession for Enterprise Development

Currently, expenses incurred by a business before the commencement date of its business operation do not qualify for tax deduction. To encourage entrepreneurship, the Minister has proposed an administrative concession to treat the date of commencement of any business to be the first day of the accounting year in which a business earns its first dollar of trade. However, if a business is able to substantiate that it has commenced trading and incurred expenses at an even earlier point of time, it would be able to get a tax deduction for such expenses.

Proposed Effective Date: **Year of assessment 2004**

Revised Overseas Investment Incentive

To assist Singapore companies expand overseas, the Minister has proposed to allow an approved company to defer its income tax for two years if its approved overseas investment incurs operating losses during the first 3 years. The revised overseas investment incentive will be applicable for approved overseas investments made on or after 1 January 2004. Further details will be released by International Enterprise Singapore (“IES”).

Proposed Effective Date: **1 January 2004**



Intellectual Property

- Royalty Income

To encourage companies to hold their intellectual property (“IP”) rights in Singapore, the Minister has proposed to extend Unilateral Tax Credit Scheme to royalties remitted from all non-treaty countries.

Proposed Effective Date: **Year of Assessment 2004**

- Intellectual Property Acquisition

Presently, approval from Economic Development Board (“EDB”) or Infocomm Development Authority are required for companies claiming writing down allowance over 5 years for specified expenditure incurred for acquiring IP.

The Minister has proposed that the writing down allowances be granted automatically for capital expenditure incurred in acquiring IP such as patents, copyrights and trademarks, on the condition that the legal and economic ownership of the intellectual property lies with the Singapore company. This concession is applicable to IP acquired on or after 1 November 2003 for a period of 5 years.

Proposed Effective Date: **1 November 2003**

- Patenting cost

To encourage more inventors to patent their inventions and make Singapore an attractive base for research and development (“R&D”) and IP management activities, the Minister has proposed to allow tax deduction for costs incurred in patenting an invention to complement the Patent Application Plus grant scheme.

This incentive will be applicable for patenting cost incurred during the 10-year period from 1 June 2003. Further details will be released by EDB.

Proposed Effective Date: **1 June 2003**



Exemption of Foreign Income Used for Research & Development

To increase the stockpile of funds for R&D activities, the Minister has proposed to introduce a new R&D incentive to grant tax exemption on foreign sourced royalties and interest income that are used for R&D purposes only. The incentive is for a period of 5 years. Further details will be released by EDB.

Proposed Effective Date: 1 June 2003

Withholding Tax Exemption on Payments for Provision of Information and Digitised Goods

The Minister has proposed that payments by end-users to non-residents for on-line information and digitised goods are exempted from withholding tax. This exemption will be for a period of 10 years.

Proposed Effective Date: 28 February 2003

Integrated Industrial Capital Allowance

The Minister has proposed an "Integrated Industrial Capital Allowance" incentive to allow a Singapore company to claim capital allowances on cost of plant and machinery used by their subsidiaries outside Singapore. This incentive will be for a period of 10 years. Further details will be released by EDB.

Proposed Effective Date: 1 March 2003

Upfront Land Premium for leased Land

The Minister has proposed the qualifying lease tenure period for the upfront land premium deduction be extended from the current restriction of 30 years lease tenure to 60 years.

Proposed Effective Date: Year of Assessment 2004



Income Tax Exemption for Foreign Trusts

Presently, specified income derived by a foreign trust administered by an Approved Trustee Company (“ATC”) is exempt from tax. The Minister has proposed to extend the income tax exemption to foreign trusts administered by all trust companies in Singapore, and not just those administered by ATCs.

In addition, the existing lists of designated investments and specified income under the ATC scheme will be replaced with an exclusion list by 1 June 2003.

Proposed Effective Date: **Year of Assessment 2004**

Extension of Approved Marine Hull and Liability Insurer Scheme

The Minister has proposed the scheme to be extended to cover income derived from writing onshore marine hull and liability insurance business.

Proposed Effective Date: **Year of Assessment 2004**

Improved Global Trader Programme

Presently, under the Global Trader Programme (“GTP”), an approved company enjoys a concessionary tax rate of 10% on qualifying income. The Minister has proposed to enhance the GTP to grant the approved global trading company concessionary tax rates of 5% and 10% on qualifying offshore trading income, depending on the level of the company’s turnover and business spending. In addition, the GTP will also be expanded to include high-growth, medium-sized trading companies. Further details will be released by IES.

Proposed Effective Date: **28 February 2003**

Tax Holiday for the Singapore Commodity Exchange

The Minister has proposed a further 5-year tax holiday to Singapore Commodity Exchange Ltd on its income derived from futures activities.

Proposed Effective Date: **Year of Assessment 2004**



Submarine Cable Capacity

The Minister has proposed to exempt withholding tax on payments made to non-resident submarine cable operators for the use of submarine cable capacity for a period of 5 years.

Proposed Effective Date: 28 February 2003

In addition, writing down allowance will be granted for payment for Indefeasible Rights of Use of submarine cable system over its useful life.

Proposed Effective Date: Year of Assessment 2004

Overseas Talent Recruitment

The Minister has proposed to increase the double tax deduction limit for the employer from S\$15,000 to S\$25,000 for P1 employment pass holders and from S\$5,000 to S\$15,000 for P2 employment pass holders. The maximum deduction allowed is also increased from S\$150,000 to S\$275,000 per year.

Proposed Effective Date: 28 February 2003

PERSONAL TAX

Personal Income Tax Rates

The top personal tax rate remains at 22% for Year of Assessment 2004. No tax rebate is available.

It is expected that the top personal tax rate will be reduced to 20% in line with the reduction in corporate tax rate by Year of Assessment 2005.

Tax Exemption for Employer-Subsidised Childcare Benefits

The Minister has proposed that benefits in the form of fees paid to the licensed childcare centres will be exempt from tax.

Proposed Effective Date: Year of Assessment 2004



Tax Exemption for Singapore Source Interest Income

The Minister has proposed to exempt from tax interest income derived by individuals from each of their local standard savings, current and fixed deposits accounts exceeding S\$100,000 from Year of Assessment 2004 and full exemption from Year of Assessment 2006. Further details will be released by IRAS.

Increase in Course Fee Relief

The course fee relief will be increased from S\$2,500 to S\$3,500. The tax deduction will be expanded to include fees for seminars and conferences as well as courses not directly related to one's current profession on the condition that the applicant has to prove that the course resulted in a career switch to a relevant job within two years. The relief is granted to resident taxpayers who complete courses, seminars or conferences starting from 1 January 2003.

Proposed Effective Date: Year of Assessment 2004

Tax Deduction for Donation of Land & Building

The Minister has proposed to give tax deduction for donations of building and parcels of land made to approved Institutions of a Public Character ("IPCs"). The donors will have the option to donate the sales proceeds of the assets or the asset itself. Both options will allow the donor an equivalent amount of tax deduction.

Proposed Effective Date: 1 April 2003

Enhancement to Public Sculpture Donation Scheme

The Minister has proposed to introduce three enhancements to the Public Sculpture Donation Scheme. Incentives will be granted to donors who adopt existing sculptures, commission and donate sculpture or publicly display sculptures from their private collections. Further details of the enhanced scheme will be released by the National Heritage Board.

Proposed Effective Date: 1 July 2003



GOODS AND SERVICES TAX (“GST”)

Alignment of Qualifying Conditions for Income Tax Exemption and Zero-Rating of Trustee Services

Currently, different sets of conditions are provided for GST and income tax purposes of qualifying for zero-rating and tax exemption to foreign trusts. The Minister has proposed that the conditions for zero-rating of trustee services provided to foreign trusts be aligned to that of the income tax. Further details will be released by IRAS.

Proposed Effective Date: 1 June 2003

Zero-Rating of Trustee Services

Zero-rating of trustee services is to be extended to trust administration services provided by a Singapore trust company to foreign trusts of which it is not the trustee.

Proposed Effective Date: 1 June 2003

Approved Third Party Logistics Company Scheme

The Minister has proposed a new scheme whereby qualifying companies can import goods belonging to them or to their foreign principals without payment of GST. These companies can also move goods to their customers who are under the Major Exporter Scheme, and other qualifying companies under the same scheme without charging GST.

Proposed Effective Date: 1 January 2004

STAMP DUTY

Stamp Duty on Leases

Leases with annual rents not exceeding S\$1,000 will be exempt from stamp duty with effect from 1 April 2003. The exemption also applies to new lease and renewal of lease of 1- and 2-room HDB rental flats and fixed duty levied on 99-year leases on purchase of flats from Housing & Development Board (“HDB”).



Seller's Stamp Duty

The seller's stamp duty on the sale of residential properties, which was introduced in May 1996 and suspended indefinitely in November 1997, is abolished.

Stamp Duty on Donations

All donations of immovable properties and shares to IPCs are exempt from stamp duty with effect from 28 February 2003.

OTHER CHANGES

The other tax changes are briefly summarised below:

CPF Salary Ceilings

CPF salary ceilings for private and public sector employees will be lowered in phases from 1 January 2004 as follow:

Categories	Current S\$	From 1 Jan 2004 S\$	From 1 Jan 2005 S\$
Private Sector	6,000	5,500	5,000
Public Sector (Non-Pensionable)	7,000	5,500	5,000
Public Sector (Pensionable)	9,333	8,000	6,667

Employee Contribution Rates for Older Workers

The employee contribution rate for older workers aged 50 to 55 will be reduced in phases from 1 January 2004 as follow:

Contribution Types	Current %	From 1 Jan 2004 %	From 1 Jan 2005 %
Employer Contribution	16	16	16
Employee Contribution	20	18	16
Total CPF Contribution	36	34	32



Contribution Rates for Special and Medisave Accounts

The contribution rates to Special and Medisave Accounts will be increased with a corresponding decrease in the contribution rate to the ordinary account over the next three years as follow:

Age Groups	CPF Accounts	Current	From	From	From
		%	1 Jan 2004	1 Jan 2005	1 Jan 2006
For workers aged 35 years and below	Special Account	4	5	5	5
	Medisave Account	6	6	7	7
For workers aged above 35-45 years	Special Account	6	7	7	7
	Medisave Account	7	7	8	8
For workers aged above 45-55 years	Special Account	6	7	8	9
	Medisave Account	8	8	8	9

Property Tax Rebate

The commercial and industrial properties will be given a property rebate of S\$2,000 plus 15% of the balance property tax payable from 1 July 2003 to 31 December 2003.

Rental Rebates

The rental rebates currently given to the HDB's tenants and lessees, Jurong Town Corporation's ("JTC") tenants, Singapore Land Authority's commercial tenants and stallholders in the Ministry of the Environment, HDB and JTC hawker centres will be extended by another six months to 31 December 2003.

Diesel Tax for Taxis

The diesel tax for taxis was reduced from S\$5,100 to S\$4,700 in the Off-Budget package. The Government will extend the reduction by another six months to 31 December 2003.



Excise Duties on Petrol

The new specific duty rates for various grades of petrol with effect from 28 February 2003 are as follows:

Grades of Petrol	Excise Duties S\$ per litre
Premium	0.44
Intermediate	0.41
Regular	0.37

Foreign Worker Levy

The skilled foreign worker levy which is currently at a concessionary rate of S\$30, will be extended for another six months to 31 December 2003.

Economic Restructuring Shares (“ERS”)

For the benefit of the lower income Singaporeans living in 1- and 2-room HDB flats and welfare homes who did not get their ERS because they failed to top up their CPF accounts by 31 December 2002, the Government has extended the deadline to 31 March 2003. Those who apply by this date will receive their ERS by 1 May 2003.

Utilities Save Scheme

To help households, especially lower income ones, which are affected by the increase in utilities charges, the Government has decided to extend the Utilities Save Scheme by another year to 2004.

Rebates on HDB Service and Conservancy (“S&C”) Charges

To further assist Singaporeans, the Minister has decided to grant an extra month of rebate on S&C charges for all 1- to 5-room HDB flats.

Duties on Liquor

Excise duties on certain types of liquors are raised with effect from 28 February 2003.



Duties on Cigarettes and Tobacco

- Excise duties on cigarettes are increased from S\$210 per kg to S\$255 per kg with effect from 28 February 2003.
- Excise duties on cigarettes will be imposed by sticks rather than by weight with effect from 1 July 2003. The excise duty on each stick of cigarette less than 1 gram will be S\$0.255 and each additional 1gram or part thereof will attract a duty of S\$0.255.
- Currently, travellers are allowed to bring in tobacco products not exceeding 2 kg without a permit, by paying a duty on them. The Minister has now lowered the limit to 400 gram with effect from 1 April 2003.

Motor Vehicle Taxes

- The basis of valuating motor vehicles will be changed from Brussels Definition of Value to the Customs Valuation Code method for those cars where excise duty are paid on or after 1 April 2003. Under the new valuation, the value of the car is expected to be reduced and therefore reducing the Additional Registration Fee (“ARF”) and excise duty payable.
- The cost of wheelchair lifts and other costs associated with the installation of such lifts will be excluded from the computation of the open market value of the vehicle when computing ARF and excise duty payable. This change will take effect from 28 February 2003.

Important Note:

As the Budget proposals are yet to be legislated, this commentary should be used only as a guide for clients and staff of MHC & Associates, DFK. It is not intended to be comprehensive. Whilst every effort has been made to ensure the accuracy of information contained in the commentary, no responsibility can be accepted for any errors or omissions. Readers are advised that the contents of this commentary should not be relied on or acted upon without professional advice. If you need any clarification or advice, please contact the partners, our tax manager Tang See Tha, or our assistant tax manager Esther Choo. No liability can be accepted for any action taken as a result of reading this article without prior consultation with regard to all relevant factors.

