
2005 SINGAPORE BUDGET COMMENTARY

INTRODUCTION

Prime Minister and Minister for Finance (“Minister”) Mr Lee Hsien Loong delivered his 2005 Budget Statement on 18 February 2005. The Budget aims to promote an economy brimming with opportunities and to cultivate a stronger sense of community among Singaporeans.

CORPORATE AND BUSINESS TAX

Corporate Tax Rate

The corporate tax rate was reduced from 22% to 20% with effect from Year of Assessment (“YA”) 2005. The Minister has not proposed a further reduction in the corporate tax rate.

Carry-back of Losses for Businesses

The Minister has proposed to introduce a one-year loss carry-back of current year unutilised capital allowances (“CA”) and trade losses for businesses. The main features of the scheme are:

- i Only current year unutilised CA and trade losses will be allowed to be carried back for one YA immediately preceding to the YA in which the CA were granted or the trade losses were incurred;
- ii An aggregate amount of \$100,000 of current year unutilised CA and trade losses can be carried back;
- iii The carry-back system will be available to all businesses, including sole proprietors and partnerships;
- iv The current requirements for carry-forward of unutilised CA and trade losses will similarly apply when these amounts are carried back i.e. the substantial shareholding and the same business tests;
- v The carry-back will be given on due claim; and
- vi In line with their exclusion from the loss carry-forward and group relief schemes, Section 10E companies will be disallowed from carrying back their losses and CA.

Details will be released by the Inland Revenue Authority of Singapore (“IRAS”) by June 2005.

Proposed Effective Date: Year of Assessment 2006



Tax Incentives

Approved International Shipping Enterprise Scheme

The Minister has proposed to extend the scope of Approved International Shipping Enterprise Scheme ("AISE") incentive to ship leasing companies which do not own Singapore ships or foreign ships. These ship leasing companies are now eligible to apply for AISE for their leasing income to be exempted from tax.

Proposed Effective Date: 18 February 2005

Global Trader Programme

Currently, income of an approved global trading company derived from prescribed qualifying transactions denominated in foreign currencies is taxed at the concessionary tax rate of 5% or 10%. The Minister has proposed to extend the existing concessionary tax rates to trades denominated in Singapore dollars.

Proposed Effective Date: Year of Assessment 2006

Tourism and Retail Sectors

The Minister has proposed to extend the Investment Allowance incentive to flagship concept projects in retail, food and beverages and entertainment approved from 1 April 2005 to 31 March 2010. Investment Allowance is granted to companies in addition to their claim for capital allowances.

Proposed Effective Date: Project approved from 1 April 2005 to 31 March 2010

Event Companies

Currently, income of event companies is subject to tax at the prevailing corporate tax rate. The Minister has proposed to grant concessionary tax rate of 10% on the income of event companies from qualifying tourism events approved from 1 April 2005 to 31 March 2010.

Proposed Effective Date: Qualifying tourism events approved from 1 April 2005 to 31 March 2010



Tax Incentives for Financial Services

Commodity Derivatives Trading

The Minister has proposed to enhance the existing Commodity Derivatives Trading incentive by extending the concessionary tax rate of 5% to qualifying income derived by an approved Commodity Trader from transactions in exchange-traded commodity derivatives.

Proposed Effective Date: 18 February 2005

Finance and Treasury Centre

Currently, income derived from a certain qualifying activities carried out by an approved Finance and Treasury Centre ("FTC") is taxed at the concessionary tax rate of 10%.

The Minister has proposed to enhance the scope of the FTC incentive in two ways as follows:

- i. Associated companies of the FTC in Singapore can now qualify as approved network companies; and
- ii. The qualifying activities and services will be expanded to include Singapore-dollar denominated transactions.

Proposed Effective Date: 18 February 2005

Fund Management

Currently, specified income derived by a foreign investors from funds managed by any fund manager in respect of designated investments is tax exempt.

The Minister has proposed to make it easier for the specified income of the funds managed by start-up fund managers to qualify for tax exemption by granting a 12-month grace period for them to meet the 80% foreign investor fund requirement.

Proposed Effective Date: 18 February 2005 to 17 February 2010

Securities Borrowing and Lending Transactions

The Minister has proposed to grant a concessionary tax rate of 10% on income earned by approved companies, including intermediaries from securities borrowing and lending arrangement and from borrowing and lending local securities.

Proposed Effective Date: 18 February 2005



Foreign Charitable Trusts

The Minister has proposed to exempt the specified income of all qualifying foreign charitable trusts. No restriction on expenditure levels or where the funds may be spent will be imposed.

Proposed Effective Date: 18 February 2005

Islamic Bond Payouts

The Minister has proposed to accord payouts from Islamic bonds the same concessionary tax treatment granted to interest arising from conventional financing.

Proposed Effective Date: 18 February 2005

Real Estate Investment Trust

The Minister has proposed to lower the withholding tax from 20% to 10% on Real Estate Investment Trust distributions to non-resident corporate investors.

Proposed Effective Date: 18 February 2005 to 17 February 2010

PERSONAL TAX

Personal Income Tax Rates

The Minister has proposed to lower the personal income tax rates over the next two years. The top marginal personal income tax rate will be lowered to 21% in YA 2006 and then to 20% in YA 2007. Correspondingly, the marginal tax rates for all income brackets has also been lowered. The personal tax rate tables for YA 2005 to YA 2007 are attached in Appendix A.

Proposed Effective Date: Year of Assessment 2006 and Year of Assessment 2007

Tax Relief on Voluntary CPF Contribution by Self-Employed Persons

The Minister has proposed to raise the CPF voluntary contributions by self-employed persons to align with the mandatory contribution cap of 17 months of the CPF salary ceiling. Hence, the voluntary CPF contributions by self-employed persons eligible for tax relief will be capped at \$28,050 for year 2005 income.

Proposed Effective Date: Year of Assessment 2006



CPF Minimum Sum Top-Up

Currently, individuals who top-up cash to their CPF Retirement Account for themselves, their parents, grandparents or non-working spouses who are at least 55 years and who do not earn more than \$2,000 in the year will be eligible for tax relief up to a maximum of \$7,000 per year. The Minister has proposed to relax the criteria for CPF members to top up to the Retirement Accounts of their parents and non-working spouses.

Proposed Effective Date: Details will be released by CPF Board later

Supplementary Retirement Scheme

Currently, the contributions to Supplementary Retirement Scheme ("SRS") are eligible for the relief subject to a cap. The Minister has proposed to simplify the rules on the SRS contribution caps by removing the separate caps for employees and self-employed persons. A common absolute cap of 17 months of the prevailing CPF salary ceiling will be applicable for both employees and self-employed (i.e. \$85,000 for year 2005).

Proposed Effective Date: Year of Assessment 2006

PHILANTHROPY AND COMMUNITY INVOLVEMENT

To promote volunteerism and philanthropy among Singaporean, the Minister has proposed the following:

- i The advancement of sport will be recognised as a charitable purpose. Qualifying sport groups will be eligible for income tax exemption. The sport groups can also apply for status of an Institution of a Public Character ("IPC"). Donations to IPCs are generally tax deductible to the donors.
- ii Groups under "other purposes beneficial to the community" will be recognised as charitable purpose so that such groups can apply for IPC status. Explicitly activities to be recognised are those for advancement of health, citizenship or community development, arts, heritage or science, environmental protection, relief for needy and animal welfare.
- iii Double tax deductions will be given for all donations made to IPCs or other approved beneficiaries on or after 1 January 2005, whether or not they involve naming opportunities.
- iv Double tax deductions will be given for donations of computer to all IPCs on or after 1 January 2005.

Proposed Effective Date: Year of Assessment 2006



GOODS AND SERVICES TAX

Bonded Warehouse Scheme

Currently, under the Bonded Warehouse Scheme (“BWS”), the Goods and Services Tax (“GST”) is deferred for goods imported which are substantially destined for re-export (80% or more) until the goods are removed from the bonded warehouse for sale in Singapore. The Minister has proposed to lift the 80% re-export requirement under the BWS. The restrictions on storing and moving goods between pre-approved warehouses will be eased.

Details will be released by Singapore Customs in 3rd Quarter 2005.

Proposed Effective Date: 1 January 2006

STAMP DUTY

The Minister has proposed the following changes to stamp duty:

- i Remission of stamp duties paid on aborted property transactions;
- ii Remove the requirement for the transferee companies to be tax residents in order to qualify for stamp duty relief on transfer of immovable property or stock between associated companies (stamp duty relief will also be extended to include the transfer of mortgages);
- iii Waiver of stamp duty for 5 years for transfer of Singapore projects into SGX listed REITS or REITS to be listed on SGX; and
- iv Removal of double deduction of stamp duties on Islamic mortgages which involve real estate.

Proposed Effective Date: 18 February 2005

ESTATE DUTY

When individual pass away within a short period of time of each other, and the assets pass from one to another, these assets will be subject to Estate Duty (“ED”) on each death. To eliminate the burden of ED, the Minister has proposed to allow deduction of ED paid on the earlier death against ED payable on the same assets. The relief from ED will be as follows:

For successive deaths occurring within	Estate Duty Relief
≤ 6 months	100%
7 - 12 months	75%
13 - 18 months	50%
19 - 24 months	25%
> 24 months	0%

Proposed Effective Date: 1 January 2006



FOREIGN WORKER LEVY

The Minister has proposed to raise the skilled foreign worker levy from \$50 per month to \$80 per month effective from 1 July 2005 and a further increase to \$100 per month from 1 January 2006. Companies in both the manufacturing and services sectors will be allowed to employ more foreign workers beyond their present dependency ceiling, subject to a higher levy of \$500 per month for each additional foreign worker. Details will be given by the Ministry of Manpower.

Proposed Effective Date: 1 July 2005 and 1 January 2006

FOREIGN DOMESTIC WORKER LEVY

The Minister has proposed to lower the foreign domestic worker levy by \$50 to \$295 per month from 1 April 2005.

Proposed Effective Date: 1 April 2005

TOBACCO DUTY

To discourage smoking in Singapore, the excise duty on tobacco products will be increased from \$293 per 1,000 sticks to \$352 per 1,000 sticks.

Proposed Effective Date: 18 February 2005

HORSE BETTING DUTY

To compete with illegal gambling operators, the Minister has proposed to change the duty on horse bettings from 12% of each bet to 25% of gross betting profits (i.e. bets less winnings paid out).

Proposed Effective Date: To be announced

Important Note:

As the Budget proposals are yet to be legislated, this commentary should be used only as a guide. This commentary is prepared 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 article should not be relied on or acted upon without professional advice. If you need any further clarification or advice, please contact the partners, our Tax Manager, Mrs Tang See Tha, or our Assistant Tax Manager, Ms 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.

**Rates of Income Tax for Resident Individuals
Years of Assessment 2005 to 2007**

	Chargeable Income \$	YA 2005		YA 2006		YA 2007	
		Tax Rate	Tax	Tax Rate	Tax	Tax Rate	Tax
		%	\$	%	\$	%	\$
On the first	20,000	0.00	0	0.00	0	0.00	0
On the next	<u>10,000</u>	4.00	<u>400</u>	3.75	<u>375</u>	3.50	<u>350</u>
On the first	30,000		400		375		350
On the next	<u>10,000</u>	6.00	<u>600</u>	5.75	<u>575</u>	5.50	<u>550</u>
On the first	40,000		1,000		950		900
On the next	<u>40,000</u>	9.00	<u>3,600</u>	8.75	<u>3,500</u>	8.50	<u>3,400</u>
On the first	80,000		4,600		4,450		4,300
On the next	<u>80,000</u>	15.00	<u>12,000</u>	14.50	<u>11,600</u>	14.00	<u>11,200</u>
On the first	160,000		16,600		16,050		15,500
On the next	<u>160,000</u>	19.00	<u>30,400</u>	18.00	<u>28,800</u>	17.00	<u>27,200</u>
On the first	320,000		47,000		44,850		42,700
Excess over	<u>320,000</u>	22.00		21.00		20.00	