

## 2007 SINGAPORE BUDGET COMMENTARY

### INTRODUCTION

The Second Minister for Finance (“the Minister”) Mr Tharman Shanmugaratnam delivered his 2007 Budget Statement on 15 February 2007. The thrust of the budget is about shaping Singapore’s competitive edge, building capabilities for the future as well as strengthening our social security system.

### CORPORATE AND BUSINESS TAX

#### Corporate Tax Rate

The corporate tax rate will be reduced by 2% to 18% with effect from Year of Assessment (“YA”) 2008. Withholding tax rate on certain payments to non-residents is also reduced to 18%. Franked dividends paid on or after 1 January 2007 will correspondingly carry a tax credit of 18% instead of 20%.

**Effective Date: YA 2008**

#### Increase in Partial Tax Exemption Threshold

The Minister has proposed to increase the partial tax exemption threshold from \$100,000 to \$300,000 as follows:

Chargeable income (“CI” (excluding Singapore dividends))	Portion of CI exempt from tax	Portion of CI subject to tax
For first \$10,000	75%	25%
For next \$290,000	50%	50%
Exceeding \$300,000	-	100%

**Effective Date: YA 2008**

#### One-tier Corporate Tax System

There is a 5-year transitional period from 1 January 2003 to 31 December 2007 for companies to utilise their Section 44A balances. The Minister has proposed not to grant further extension to the 5-year transitional period.



### Full Tax Exemption Scheme for New Companies

In the 2004 Budget, qualifying new companies is granted full tax exemption on the first \$100,000 of their normal chargeable income (excluding Singapore franked dividends) for the first three consecutive YAs falling within Year of Assessment 2005 to Year of Assessment 2009. The Minister has announced that the current expiry date of YA 2009 will be removed.

The enhanced tax exemption scheme for new qualifying companies for its first three consecutive YAs with effect from YA 2008 will be as follows:

<u>Chargeable income ("CI") (excluding Singapore dividends)</u>	<u>Portion of CI exempt from tax</u>	<u>Portion of CI subject to tax</u>
For first \$100,000	100%	-
For next \$200,000	50%	50%
Exceeding \$300,000	-	100%

To qualify for the full tax exemption for a relevant YA, all the following conditions must be met:

- (i) it is incorporated in Singapore;
- (ii) it is a tax resident of Singapore for that YA;
- (iii) it has no more than 20 shareholders throughout the basis period relating to that YA;  
and
- (iv) all its shareholders are individuals throughout the basis period relating to that YA.

**Effective Date: 15 February 2007**

### Tax Deduction for Borrowing Costs

The Income Tax Act contains a specific provision under Section 14(1) (a) that allows a tax deduction for interest expense payable on capital employed in acquiring income.

In today context of various innovative and sophisticated forms of loans, the costs of borrowing are no longer restricted to interest expense alone. Banks are charging borrowing cost such as guarantee fees, commitment fees, discount on notes/banks etc in return for a lower interest rate.

The Minister has proposed that certain specified borrowing costs incurred on a borrowing used to acquire income-generating capital assets will be tax deductible if these costs are incurred as a substitute for interest or to reduce interest costs.

Details will be released by the Inland Revenue Authority of Singapore ("IRAS").

**Effective Date: YA 2008**



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**Accelerated Depreciation Allowance for Replacement of Pre-Euro IV Diesel Goods Vehicles and Buses**

The Minister has proposed to extend the one-year write-off of capital expenditure incurred on new diesel driven goods vehicles and buses meeting the new Euro-IV emission standard to replace existing pre Euro-IV vehicles that were registered on or after 1 January 1991.

This incentive will be granted for 5 years to new goods vehicles and buses registered from 15 February 2007 to 14 February 2012.

**Effective Date: 15 February 2007**

**Extension of Writing Down Allowances for Capital Expenditure Incurred on Acquisition of Intellectual Property Rights**

Currently, writing down allowances over a period of 5 years are granted on capital expenditure incurred for the acquisitions of intellectual property rights ("IPR") during the period from 1 November 2003 to 31 October 2008.

The Minister has proposed to extend the writing down allowances for IPR by another 5 years to 31 October 2013.

**Effective Date: 15 February 2007**

**Tax Incentives**

*Enhancement to Investment Allowance Scheme*

Currently, for companies granted investment allowance ("IA") incentive that purchase qualifying assets on hire purchase, any capital expenditure (ie hire purchase instalment made) incurred beyond the 5-year qualifying period will not qualify for IA.

The Minister has proposed to extend the maximum qualifying period for IA from 5 years to 8 years for equipment purchased on hire purchase.

**Effective Date: Equipment purchased on or after 15 February 2007**



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*International Arbitration Activities*

The Minister has proposed to introduce a new tax incentive which grants approved law firms a 50% income tax exemption on qualifying incremental income derived from international arbitration activities.

This scheme will be available from 1 July 2007 to 30 June 2012 and the incentive period will be up to 5 years.

Details will be released by the Ministry of Law.

**Effective Date: 1 July 2007**

*Enhancement to Approved Shipping Logistics Enterprise Scheme*

Currently, Approved Shipping Logistics Enterprise (“ASL”) enjoys a concessionary tax rate of 10% on incremental qualifying income from the provision of ship management, ship agency, freight and logistic services. The ASL incentive is granted for a period of 5 years.

The Minister has proposed to extend the incentive period from 5 years to 10 years.

Details will be released by the Maritime and Port Authority of Singapore.

**Effective Date: 15 February 2007**

*Enhancement to the Approved Aircraft Leasing Scheme*

Currently, aircraft leasing companies approved under the Approved Aircraft Leasing Scheme (“ALS”) enjoy a concessionary tax rate of 10% on income from offshore leasing of aircrafts as well as ancillary activities which include management of aircraft leases, advisory and agency services relating to sale or offshore leasing of aircraft.

The Minister has proposed to enhance the scope of ALS as follows:

- (i) To grant a concessionary tax rate of 5% (instead of existing 10% rate) on qualifying lease income for a period of 5 years;
- (ii) To extend the concessionary tax rates to registered business or an approved company under an aircraft or aircraft engine financing arrangement; and
- (iii) To expand the scope of income qualifying for the concessionary tax rates to include income from leasing of aircraft engines and income from onshore leasing of aircraft or aircraft engines.

Details will be released by the Economic Development Board (“EDB”).

**Effective Date: 1 March 2007 to 29 February 2012**



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## **PROMOTING FINANCIAL SERVICES**

### **Tax Exemption Schemes for Income from Funds Managed for Foreign Investors**

Currently, specified income derived by a foreign investors from funds managed by any fund manager in Singapore in respect of designated investments is exempted from Singapore tax. To qualify for exemption, one of the conditions is that the fund must not have more than 20% of the total number of its issued shares (where it is a company) beneficially owned, directly or indirectly by Singapore residents or citizens.

The Minister has proposed to remove the requirement that where a foreign investor is a company or trust fund, it must not be more than 20% owned by Singapore residents or citizens.

The Minister has also proposed to expand the list of designated investments to include qualifying loans and commodity derivatives and physical commodities. The tax exemption scheme will also be expanded to cover Collateralised Debt and Loan Obligations.

Details will be released by the Monetary Authority of Singapore (“MAS”).

**Effective Date: 15 February 2007**

### **Financial Sector Incentive**

Currently, fees and commission derived by a Financial Sector Incentive (“FSI”) (standard-tier) company or an FSI (fund management) company from certain prescribed qualifying activities are taxed at a concessionary tax rate of 10%.

The Minister has clarified that fees and commissions from investment advisory services to a foreign investor or to a foreign fund manager under a fund delegation arrangement will also qualify for the concessionary tax rate of 10%.

Details will be released by the MAS.

**Effective Date: 15 February 2007**

### **Finance and Treasury Centre Incentive**

Currently, an approved Financial and Treasury Centre (“FTC”) enjoys a concessionary tax rate of 10% on income derived from:

- (i) qualifying activities carried out on its own account; or
- (ii) qualifying services provided to its approved offices and associated companies.



The Minister has proposed to expand the list of FTC qualifying activities to include transacting and investing in units in any qualifying unit trusts. For this purpose, a qualifying unit trust is one which engages wholly in qualifying activities that a FTC can carry out on its own account.

Details will be released by the MAS.

**Effective Date: 15 February 2007**

**Tax Exemption on Over-The-Counter Financial Derivative Payments made to Non-Resident**

Currently, the following payments on over-the-counter (“OTC”) financial derivatives are exempted from tax:

- (i) Payments which a financial institution (“FI”) in Singapore is liable to make from 27 February 2004 to 19 May 2007 to non-residents.
- (ii) Payments which an Approved Special Purpose Vehicle (“ASPV”) is liable to make from 27 February 2004 to 18 May 2007 to non-residents.

The Minister has proposed to enhance the existing tax incentive for OTC financial derivatives as follows:

- (i) Financial Institute

To extend the tax exemption on OTC financial derivative payments by an FI to non-residents by another 5 years to 19 May 2012. Tax exemption will be applied to all payments made on contracts which are entered into from 15 February 2007 to 19 May 2012 (both dates inclusive). The tax exemption will apply to OTC financial derivative payments made by FI to non-residents for the entire duration of such contracts.

- (ii) Approved Special Purpose Vehicle

To extend the tax exemption on OTC financial derivative payments made by an ASPV to non-residents to 31 December 2008.

The tax exemption will be applied on a contract basis for contracts entered into during the period from 15 February 2007 to 31 December 2008 (both dates inclusive). The tax exemption will apply to OTC financial derivative payments made by an ASPV to non-residents for the entire duration of the contracts.

Details will be released by the MAS.

**Effective Date: 15 February 2007**



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### **Qualifying Debt Securities Scheme**

Currently, interest and discount derived by investors from Qualifying Debt Securities (“QDS”) are taxed at concessionary tax rates or exempt from tax, subject to certain conditions.

The Minister has proposed, subject to certain conditions, to grant concessionary tax or tax exemption on prepayment fee, redemption premium and break cost derived by investors from QDS issued on or after 15 February 2007.

Details will be released by the MAS.

**Effective Date: 15 February 2007**

### **PROMOTING PHILANTHROPY**

#### **Income Tax Exemption for Registered Charities**

Currently, the income of registered charities is exempted from tax if the charities spend not less than 80% of its income on charitable objects in Singapore within 2 years. The Minister has proposed to remove the 80% spending requirement.

Furthermore, under the Charities (Fund-Raising Appeals for Foreign Charitable Purposes) Regulations, to obtain a permit to conduct or participate in a fund raising appeal for foreign charitable purpose, an organisation is required to spend in Singapore not less than 80% of the net proceeds raised, unless otherwise allowed by the Commissioner of Charities. A foreign charitable purpose is defined as any charitable, benevolent or philanthropic purpose connected wholly or partly with persons, events or objects outside Singapore. The Minister has also proposed that the 80% spending requirement will be relaxed, provided that the funds are raised from private donors and not from the general public.

Details will be released.

**Effective Date: To be announced**

#### **Double Tax Deductions for Donations to Foundations and Grantmakers**

Currently, individuals and companies are given double tax deductions for cash donations and certain donations in kind made to an Institution of Public Character (“IPC”). No tax deduction is given for donations to non-IPC.



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The Minister has proposed to extend the double tax deductions to donations made to foundations and grantmakers provided such donations are channelled to IPCs in Singapore within a specified timeframe.

Details will be released.

### **Tax Exemption Scheme for Not-for-Profit Organisations**

Currently, only charitable institutions, trusts or bodies of persons established for charitable purposes may be granted tax exemption if they meet certain conditions.

The Minister has proposed that Not-for-Profit Organisation which can bring economic value to Singapore will be granted tax exemption for an initial period of not more than 10 years. This tax incentive may be renewed subject to approval by the EDB.

**Effective Date: 15 February 2007**

## **PERSONAL TAX**

### **Personal Income Tax Rates**

The top marginal tax rates for YA 2007 is 20%. The Minister has indicated that it was not necessary to reduce the personal income tax rates further for now.

### **Tax Relief for Cash Top-Ups to CPF Accounts by Siblings**

Currently, individuals may claim up to \$7,000 tax relief for cash top-ups to his, his parents, his grandparents or his spouse CPF Retirement Accounts, if they are 55 years and above and earn \$2,000 or less in the year preceding the top-ups.

The tax relief will be extended to individuals making cash top-ups to their siblings who are at least 55 years old and who do not earn more than \$2,000 in preceding year of top-up.

**Effective Date: YA 2008**



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## **GOODS AND SERVICES TAX**

### **Tax Rate**

The Minister has decided to raise the rate for Goods and Services Tax (“GST”) from 5% to 7%.

**Effective Date: 1 July 2007**

### **Zero-rating of GST for Servicing, Sale and Lease of Containers**

Currently, the supply of servicing, sale and lease of containers can be treated as international service and be zero-rated if it was provided to customers who belong outside Singapore at the time the services is performed and the containers are shipped out of Singapore.

The Minister has proposed to allow the supply of servicing, sale and lease of containers in Singapore to be zero-rated for GST purposes.

Details will be released by the IRAS.

**Effective Date: 1 April 2007**

## **OTHER CHANGES**

The other changes are briefly summarised below:

### **Central Provident Fund Contribution Rate**

The employer’s Central Provident Fund (“CPF”) contribution rate will be increased by 1.5%.

**Effective Date: 1 July 2007**

### **Restructuring CPF for Low-Wage Workers**

To increase the take-home pay of low wage workers, the employees’ CPF contribution rates will be reduced for all employees earning \$1,500 or less per month. The employees’ CPF contribution rates will increase gradually from 0% for monthly wages of above \$500 to 20% for monthly wages of \$1,500. The CPF contribution rates for employees above 50 years which are lower, will be scaled down accordingly.



To improve the employability of older, low wage workers, the employer's CPF contribution rate will be reduced for workers above 35 years old and earning \$1,200 or less per month. The employer's CPF contribution rate will increase gradually from 0% for a monthly wage of above \$50 to 13% for a monthly wage of \$1,200. The 1.5% increase in employer's CPF contribution rate will be phased in between \$1,200 and \$1,500. The CPF contribution rates for employees above 50 years old will be scaled down accordingly.

**Effective Date: Expected to be 1 July 2007**

### **CPF contribution for Self-Employed**

The Medisave rate will be reduced to one-third of the full Medisave contribution rate for those with an annual net trade income of \$6,000 to \$12,000. The contribution rate will be gradually increased to the full rates for those with annual net trade income of \$12,001 to \$18,000.

**Effective Date: Expected to be 1 July 2007**

### **Small Medium Enterprise Rebate**

The Government will introduce the Small Medium Enterprise ("SME") rebate scheme for two years (i.e. 1 July 2007 to 30 June 2008, and 1 July 2008 to 30 June 2009). This rebate scheme will apply to qualified SMEs that apply to the CPF Board and declare that they meet the SME qualifying criteria. Details of the application process will be released by 1 May 2007.

The rebate will be pegged to total employer and employee contributions payable by the SME to the CPF Board as follows:

<u>Total CPF Contribution</u>	<u>Year 1</u>	<u>Year 2</u>
First \$40,000	2%	1%
Next \$40,000	1%	0.5%
Maximum CPF Rebate	\$1,200	\$600

**Effective Date: 1 July 2007 to 30 June 2008 (first year)**  
**1 July 2008 to 30 June 2009 (second year)**

### **Abolition of Cess**

The Minister has proposed to remove the 1% Cess that applies to food and beverage outlets.

**Effective Date: To be announced**



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**Reduction in Road Tax**

The Minister has proposed to reduce the road tax for passenger cars and motorcycles by 8%.

Details will be announced by the Ministry of Transport.

**Effective Date: To be announced**

**Foreign Worker Levy**

The Minister has proposed to lower the second tier foreign worker levy for the manufacturing and service sectors from \$310 to 280.

**Effective Date: April 2007**

**Foreign Domestic Worker Levy**

The Minister has proposed to reduce the foreign domestic worker levy by \$30 to \$265.

**Effective Date: 1 July 2007**

**Stamp Duty**

Currently, relief from stamp duty is granted on documents made for the purposes of or in connection with the transfer, conveyance or assignment of any beneficial interest in any immovable property or shares ("assets"). This relief is available to transfers between associated companies with limited liability, associated registered business trusts, or a company with limited liability and an associated registered business trust.

The Minister has proposed to extend the stamp duty relief to intra-group transfer of assets involving Statutory Boards, unlimited companies and Limited Liability Partnerships where all the partners are companies. This change applies to documents executed and dated on or after 15 February 2007. The relief will be allowed if all the qualifying conditions under the Stamp Duties (Relief from Stamp Duty Upon Transfer of Assets Between Associated Companies) Rules are met.

Details of this tax change are set out in the IRAS circular dated 15 February 2007 titled "Extension of Relief Granted under Section 15(1)(b) of the Stamp Duties Act to Statutory Boards, Unlimited Companies and Limited Liability Partnerships".

**Effective Date: 15 February 2007**



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**Property Tax Rebate**

All owner-occupied residential properties will receive a one-off property tax rebate of up to \$100 per year in 2008 and 2009.

**Effective Date: Year 2008 and 2009**

**Duties on Liquor**

The customs duty and excise duty on beer and stout will be revised to \$16 per litre of alcohol and \$48 per litre of alcohol respectively.

**Effective Date: 1 January 2008**

**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 Tax Services Pte. Ltd. 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. 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.