



## 2008 SINGAPORE BUDGET COMMENTARY

### INTRODUCTION

The Minister for Finance (“the Minister”) Mr Tharman Shanmugaratnam delivered his 2008 Budget Statement on 15 February 2008. This year budget focused on four key themes; namely education and training for people, spurring the growth of innovative enterprises, adjusting tax policies to stay competitive and building a resilient community.

### CORPORATE AND BUSINESS TAX

#### Corporate Tax Rate

The Singapore corporate tax rate is currently 18%. The Minister did not propose a further reduction to the corporate tax rate.

#### Full Tax Exemption Scheme for New Companies

The enhanced tax exemption scheme for new qualifying companies for its first three consecutive YAs with effect from YA 2008 are 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 (other than a company limited by guarantee);
- (ii) it is a tax resident in Singapore for that YA;
- (iii) its total share capital is beneficially held, directly or indirectly by no more than 20 shareholders all of whom are individuals throughout the basis period for that YA.

The Minister has proposed to allow companies with corporate shareholders to qualify for the full tax exemption scheme, provided that there is at least one individual shareholder of minimum 10% shareholding throughout the basis period relating to that YA of claim. Condition (i) and (ii) remain the same.

With the above change, the tax exemption scheme will apply to existing companies with corporate shareholders that are still within the first three YAs of incorporation.

**Effective Date: YA 2009**



---

### **Tax Incentive for Fixtures, Fittings and Installations**

Fixtures and fittings which formed part of a building are not regarded as “plant and machinery” and do not qualify for capital allowances.

The Minister has proposed a new tax incentive to grant special allowance for expenditure on all fixtures, fittings and installations except expenditures on structural works and expansion of space. The special allowance is to be written off over three years and is subject to a ceiling of \$150,000 every three years for each company.

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

**Effective Date: Expenditure incurred from 16 February 2008 to 15 February 2013**

### **Research & Development Tax Deduction**

*Enhancement of tax deduction for Research & Development (“R & D”) expenditure*

The Minister has proposed to increase the tax deduction for expenditure incurred on R & D done in Singapore from 100% to 150%. The 150% tax deduction will be granted to R & D which the company itself does in Singapore or outsources to a R & D organisation in Singapore.

*Removal of “related to existing trade or business” requirement*

The Minister has proposed that persons carrying on a manufacturing trade or business or a trade or business for the provision of services will be allowed to claim deductions for R & D expenses that are not incurred in respect of their existing trade or business. This is subject to the condition that the R & D activities are done in Singapore either by the company itself or by a R & D organisation in Singapore on its behalf.

**Effective Date: YA 2009 to YA 2013**

### **R & D Tax Allowance**

The Minister has introduced a new R & D Tax Allowance which shall be capped at 50% of the first \$300,000 of a company’s chargeable income for each YA from YA 2009 to YA 2013.

The R & D allowance granted can be utilised to set-off against the company’s chargeable income for the next three YAs following the YA when the tax allowance is granted if the company has incurred qualifying R & D expenditure in excess of a base amount. Any R & D tax allowance that remains unutilised as at the end of the three YAs will be disregarded.

**Effective Date: YA 2009**



---

### **R & D Incentive for Start-Up Enterprises**

The Minister has introduced a new R & D incentive for Start-Up Enterprises (“RISE”) to provide government grants to R & D-intensive start-ups that do not generate taxable profits in their first three years of assessment.

Under RISE, a qualifying start-up company is allowed to convert up to \$225,000 of its tax losses into cash grants of up to \$20,250 (i.e. \$225,000 @ 9%) or choose to carry forward the losses to set-off against its subsequent chargeable income in future YAs. To qualify for this incentive, a start-up company needs to incur at least \$150,000 of expenditure on ongoing R & D that the company undertakes directly (in house) in Singapore.

The amount of tax losses that can be converted for a YA of claim is the lower of:

- actual tax losses for the YA claim; or
- unutilised tax deduction for up to \$150,000 qualifying R & D expenditure incurred in the YA of claim.

Details will be released by the IRAS.

**Effective Date: YA 2009 to YA 2013**

### **Extension of Unilateral Tax Credit**

The Minister has proposed to extend the unilateral tax credit to cover all types of foreign-sourced income received in Singapore by Singapore tax residents from non-tax treaty countries.

**Effective Date: YA 2009**

### **Double Tax Deduction for Overseas Talent Recruitment Expenses**

The Minister has proposed to extend the double tax deduction for recruitment and relocation costs of hiring global talent for another five years to 30 September 2013.

**Effective Date: 15 February 2008**

### **Portable Medical Benefits**

Currently, employers who implement the Portable Medical Benefits Scheme or Transferable Medical Insurance Scheme would be entitled to claim medical expenses tax deduction equal to the lower of actual cost incurred or 2% of the total employees remuneration. Otherwise, the medical expenses tax deduction would be restricted to 1% of total employees remuneration.



---

The Minister has proposed that the 2% tax deduction limit be extended for employers who provide inpatient medical benefits through portable medical shield, either by paying the insurance premiums on behalf of their employees to the insurance companies directly or by reimbursing the premiums into employees' medisave accounts or make ad-hoc contributions to employees' medisave accounts (subject to a cap of \$1,500 per employee per year).

Further details will be released by the Ministry of Manpower.

**Effective Date: YA 2008**

### **Financial Sector**

Several enhancement and concession were proposed for the Financial Sector Incentive, Qualifying Debt Securities Scheme, Singapore Government Securities Market, Approved Special Purpose Vehicle Scheme, Project Financing Tax Incentive and Offshore Insurance Business Tax Incentive.

Further details will be released by the Monetary Authority of Singapore ("MAS").

### **Tax Exemption for Family-Owned Investment Holding Companies**

The Minister has proposed a new Family-Owned Investment Holding Companies ("FIHC") incentive scheme to grant tax exemption to qualifying FIHC to the extent that the tax exemption mirrors the tax exemption on qualifying locally-sourced investment income and foreign-sourced income granted to individuals.

Details will be released by the MAS.

**Effective Date: 1 April 2008 to 31 March 2013**

### **Enhancement to Maritime Sector Tax Incentive**

#### *Gains from Sale of Vessels*

The Minister has announced that the tax exemption on the gains derived from sale of vessels registered with Singapore Registry of Ships or owned by Approved International Shipping Enterprises be extended for another 5 years up to YA 2014. In addition, the concession will be extended to include gains from sale of ships which will subsequently be leased back and gains from the sale of shares in a Special Purpose Company which holds ships.

Details will be released by the Maritime Port Authority ("MPA").

**Effective Date: 15 February 2008**



---

***Gains from Risk Management Activities***

The Minister has announced that foreign exchange gains and gains from risk management activities derived by shipping companies in respect of vessels that are registered with the Singapore Registry of Ships or owned by Approved International Shipping Enterprise (“AISE”) company will be treated as income of the shipping companies qualifying for tax exemption either under Section 13A or 13F of the Income Tax Act if such gains are in connection with and incidental to the core shipping operations and the shipping companies do not engage in derivative trading.

Details will be released by the MPA.

**Effective Date: YA 2009**

**Enhancements to the Maritime Finance Incentive**

The Maritime Finance Incentive (“MFI”) will be enhanced to include container leasing activity and to allow partnerships to enjoy the incentive with effect from 1 April 2008. Under this expansion, an Approved Container Investment Enterprise (“ACIE”) will enjoy either a concessionary tax rate of 5% or 10% on its entire onshore and offshore container leasing income, depending on the level of local business spending and head count commitments. A container investment management company will enjoy a concessionary tax rate of 10% on its management fee income derived in connection with the management of an ACIE.

Details will be released by the MPA.

**Effective Date: MFI status granted from 1 April 2008 to 28 February 2011.**

**PERSONAL TAX**

**Personal Income Tax Rates**

The Minister did not propose any reduction in the personal tax rates but has given an income tax rebate of 20%, subject to a cap of \$2,000 for all resident taxpayers for YA 2008.

**Effective Date: Only YA 2008 (for tax rebate)**



### Not Ordinarily Resident Scheme

The Not Ordinarily Resident Scheme (“NOR”) will be refined as follows:

	Current	Revised
Time apportionment of employment income concession	<ul style="list-style-type: none"> <li>To qualify for the time apportionment concession, the effective tax rate (“ETR”) of the NOR individual must be at least 10%.</li> <li>Concession does not cover prerequisites, leave pay and director’s fees.</li> </ul>	<ul style="list-style-type: none"> <li>The minimum 10% ETR condition is replaced by the condition that the NOR individual’s Singapore employment income must be at least \$160,000.</li> <li>Concession has been expanded to include prerequisites and leave pay.</li> </ul>
Tax exemption of employer’s contribution to non-mandatory overseas pension scheme	<ul style="list-style-type: none"> <li>NOR individuals must not be a Singapore citizen nor a Singapore permanent resident.</li> <li>NOR individual can enjoy concession even if employer claim a tax deduction for the contribution.</li> </ul>	<ul style="list-style-type: none"> <li>NOR individual must not be Singapore citizens nor Singapore permanent residents and derive a minimum Singapore employment income of \$160,000.</li> <li>NOR individuals can enjoy concession provided employer did not claim a tax deduction for the contribution.</li> </ul>

Details will be released by the IRAS.

**Effective Date: YA 2009**

### Employee Remuneration Incentive Scheme

The various employee equity-based incentive schemes will be repackaged as one new umbrella incentive scheme, namely the Employee Remuneration Incentive Scheme (“ERIS”). There will be three different tiers of incentives under the ERIS as follows:

#### *ERIS (All corporations) – Liberalisation of qualifying conditions for ERIS*

The qualifying condition for ERIS will be liberalised such that companies only need to issue stock options or share awards to at least 25% of their employees, instead of the 50% currently required.

**Effective Date: All stock options and share awards granted after 15 February 2008**



*ERIS (SMEs)*

The Entrepreneurial Employee Equity-based Remuneration Scheme (“EEEEBR”) will be renamed as ERIS (SMEs). There are no other changes to the EEEBR Scheme.

**Effective Date: All stock options and share awards granted after 15 February 2008**

*ERIS (Start-ups)*

The ERIS (Start-ups) is a new incentive scheme to allow employees of qualifying start-up companies to be exempted from personal income tax on 75% of up to \$10 million of qualifying gains arising over a period of 10 years. The equity-based remuneration must be granted within the first three calendar years of the company’s incorporation.

Details will be released by the IRAS.

**Effective Date: All stock options and share awards granted between 16 February 2008 to 15 February 2013 in the first 3 years of incorporation of the qualifying start-up companies**

**Course Fee Relief**

The Minister has proposed to allow resident taxpayers to claim the course fee tax relief of \$3,500, regardless of whether the course is relevant to their current trade, business, profession, vocation or employment. Resident taxpayers can also make the claim within two YAs from the YA relating to the year in which he completed the courses instead of claiming the tax relief in the year the expense is incurred.

**Effective Date: YA 2009**

**CPF Minimum Sum Top-up Scheme**

Under the CPF Minimum Sum top-up scheme, taxpayers are allowed to make top-ups to their own Minimum Sum, and top-ups to their spouse, sibling, parent and grandparent Minimum Sum. Employers are not allowed to make Minimum Sum cash top-ups for their employees.

Currently, a taxpayer can claim tax relief up to a maximum amount of \$7,000 per YA for cash top-ups to his own, spouse, sibling, parent or grandparent retirement accounts under the CPF Minimum Sum top-up scheme. This is provided that the recipient is at least 55 years old. For top-ups to spouse and sibling, they must have earned \$2,000 or less in the preceding year.



---

The Minister has proposed the following:

- a) Allowing a tax relief of \$7,000 per YA for any taxpayer for top-up by himself or by his employer to his Minimum Sum, regardless of age;
- b) Allowing a separate tax relief of \$7,000 per YA for any cash top-up made to the taxpayer's spouse, sibling, parent or grandparent's Minimum Sum, regardless of age; and
- c) Allowing a full tax deduction to the employers for cash top-ups to their employees' Minimum Sum.

**Effective Date: YA 2009**

### **Voluntary Contributions to Medisave Account**

Currently, a taxpayer (except a self-employed person) cannot claim tax relief for voluntary contributions made to his CPF Medisave account.

The Minister has proposed to allow the claim of tax relief for voluntary contributions by a taxpayer made specifically to his own CPF Medisave Account. The relief will be subject to a prevailing Medisave Contribution Ceiling (i.e. \$26,393 less mandatory contributions) per YA. Mandatory contributions include contributions made by both the employer and employee.

**Effective Date: YA 2009**

### **Supplementary Retirement Scheme**

Currently, individuals can contribute to their own supplementary retirement scheme ("SRS") accounts up to the prevailing statutory retirement age if they have employment income in the previous year. In addition, employers cannot contribute to their employees' SRS accounts.

The Minister has proposed the following:

- a) Allowing employers to contribute to their employees' SRS accounts, subject to the current contribution limits of \$11,475 per year for Singapore Citizen and SPR employees and \$26,775 per year for foreigner employees.

The employers' contributions to the SRS accounts will be taxable to the employees, but the employees will be able to enjoy a tax relief up to the applicable contribution per YA. In addition, employers will be allowed to claim full tax deduction for the contributions that they make to their employees' SRS accounts;



- b) Removing the age limit on contributions to the SRS accounts beyond the statutory retirement age; and
- c) Allowing individuals without any earned employment income in the previous year to contribute to their SRS accounts in the current year.

**Effective Date: YA 2009**

## **OTHERS**

### **Skill Development Levy**

Currently, employers contribute a skill development levy (“SDL”) of 1% of the gross remuneration or \$2, whichever is greater for workers earning \$2,000 and below. The Minister has proposed that employers contribute SDL for all workers, up to the first \$4,500 of gross remuneration with the levy rate reducing from 1% to 0.25%.

**Effective Date: 1 October 2008**

### **Estate Duty**

The Minister has proposed to abolish estate duty for deaths occurring on and after 15 February 2008.

**Effective Date: 15 February 2008**

### **Revised Special Tax Structure for Euro-IV Private Diesel Cars**

Currently, an owner of a Euro-IV private diesel car pays both a road tax and a special tax which is 4 times the annual road tax.

The Minister has proposed that the special tax for EURO-IV private diesel cars be revised from the current 4 times the road tax to an absolute-dollar tax based on the engine capacity of the car, at a rate of \$1.25 per cc of engine capacity, subject to a minimum tax of \$1,250.

**Effective Date: 1 July 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.