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TAX BULLETIN

To: Our Clients

SINGAPORE BUDGET 2015

The 2015 Budget was presented by Dr Tharman Shanmugaratnam, Dy Prime Minister and Minister for Finance in Parliament on 23 February 2015.

PART I – A ECONOMIC PERFORMANCE AND OUTLOOK

Global economy

2014

The US economic growth expanded by 3.2 per cent

China's economy growth touched 7.4%. Its property prices fell significantly and real estate remains one of the biggest immediate threats to its economy.

2015

China plans to cut its growth target to around 7%, pursuing reforms to make its economy more driven by market forces, aiming to put the economy on a more sustainable path. Analysts expect the government to offer stronger support to the economy to avoid any hard landing.

Though stellar in 2014, recovery in the US is still uncertain and so is the Eurozone.

IMF expects the world's economy to expand by 3.5%, the US growth at 3.6%, the euro area to stagnate with growth of just 1.2%, and the Asean's economies at 5.2. It lowers its 2015 growth forecast for China to 6.8% - 7%. Growth in emerging Asia remains high.

OECD said in a report that in most advanced economies, potential growth has been revised downwards and in some cases, there are growing concerns that persistently weak demand is pulling potential growth down further, resulting in a protracted period of stagnation. Overall, the report suggested that further reform could raise the long term level of GDP per capita by up to 10% on average across OECD countries. However, the OECD countries are showing

signs of reform slowdown. Risks of persistent stagnation concern mainly the euro area and Japan. In most cases, the slower pace of reform reflects growing difficulties by governments in pushing for reforms in a context of chronic demand shortfalls. In the major emerging market economies, growth has been far less impressive owing to a varying extent of infrastructure bottlenecks, financial-sector vulnerabilities and resource misallocation. Promoting cross-border trade and investment can help support global demand while boosting potential growth in individual countries.

Singapore

2014

GDP grew at 3 per cent. CPI fell to 1%. Labour market remained close to full employment.

Manufacturing expected to grow 3.5 per cent, construction to gain 3.4 per cent, wholesale and retail trade to grow 2.4 per cent.

Productivity fell 0.8% levelling below 2% to 3%

IE has helped 28,000 companies (80% SMEs) to explore overseas opportunities. 20,000 were preparing for internationalization, while 4000 were making their first steps venturing abroad. Another 4,000 are already overseas. A total of 342 projects were facilitated covering a wide range of industries (food, retail, infrastructure, environmental services, and consumer technology)

2015

MTI expects GDP growth to be between 2% to 4%.

Volatility remains in the financial markets. Possible higher interest rates are likely to dampen the property and the construction sectors

EDB projects a sharp reduction in the number of skilled jobs created, lower fixed asset investments and a decline in business expenditures

Singapore is facing land and labour constraints and investments are affected

PART II – B KEY INITIATIVES

B 1 - Building Our Future, Strengthening Social Security **Making fundamental policy shifts to give Singaporeans greater assurance, more opportunities and a better home**

B 1.1 To achieve our vision –

- (i) invest in the skills of the future and empower every individual to learn and develop throughout life**

(ii) **continue restructuring our economy and support by promoting innovation and internationalisation**

(iii) **invest in economic and social infrastructure for the future**

(iv) **strengthen assurance in retirement**

B.2 Building Skills

B.2.1 Education & training - SkillsFuture

- Singaporeans aged 25 and above to get \$500 SkillsFuture credit from 2016

* More study awards, course subsidies, internships, and on- the- job training

B.3 Supporting the middle class

- Lower domestic maid levy for more families (from \$120 to \$60 per month from 1 May 2015)
- Help with childcare and education costs

B.4 Strengthening safety nets

- Quarterly Silver Support cash payouts of \$300 to \$750 each for the low-income elderly

* *One-off seniors' bonus of up to \$600 for 2015*

B.5 Boosting Retirements' Savings

* CPF salary ceiling raised from \$5,000 to \$6,000

* Higher CPF contribution rates for those aged 50 to 65

Contribution Rate from 1 Jan 2016 for employees			
Employee age	Contribution by employer	Contribution by employee	Total
35 and below	17	20	37
Above 35 to 45			
Above 45 to 50			
Above 50 to 55	17	20	37
Above 55 to 60	13	13	26
Above 60 to 65	9	7.5	16.5
Above 65	7.5	5	12.5

- * From 1 Jan 2016, those aged 55 and above will receive extra interest, as follows:

CPF Balances	Interest Rate
First \$30,000	6%
Next \$30,000	5%
Above \$60,000	4%

- * Higher annual contribution cap for Supplementary Requirement Scheme

B.6 Encouraging enterprises to grow –

- * More grants to innovate and expand overseas
- * Deferment of foreign worker levy increases for S Pass and Work Permit Holders

B.7 More progressive taxes

B.8 Infrastructure

- * ***Development expenditure to grow to \$30 billion by 2020***
- * ***Larger Changi Airport's new Terminal 5***
- * ***Improvements to public transport***
- * ***More hospital beds and nursing home capacity***

B.9 Calibrating economic restructuring

- * ***Extension of the Wage Credit Scheme for 2016 and 2017 with co-funding lowered to 20%***
- * **Facilitating SMEs to apply to SPRING for capability development grants**
- * **Creating and capturing higher value from R & D**
- * **Catalysing Enterprise Financing**
- * **Supporting our companies to internationalise**

B.10 To raise the awareness of community causes in our students, Government will donate \$20,000 to each school, \$150,000 and \$250,000 to Polytechnics and ITE respectively

B.11 To help lower-income households with costs of living, the GST Voucher scheme will be enhanced by increasing the quantum by \$50 across the board

B.12 For seniors aged 65 and above living in HDB flats, Government will give an additional \$300 in 2015

B.13 In service and conservancy charges rebates, 1- and 2-room HDB households will receive a total of 3 months of rebates, while 3- and 4-room households will receive 2 months of rebates.

PART III – C BUDGET POSITION

FY 2014

Budgeted an overall deficit of \$1.2 billion (0.3% of GDP)

FY 2015

Projects a deficit of \$6.7 billion (1.7% of GDP)

PART IV – D HIGHLIGHTS OF TAX CHANGES

Business and Individual

- (a) Extend the 30% tax rebate for YAs 2016 and 2017 but capped at \$20,000
- (b) The PIC Bonus to lapse after YA 2015
- (c) Extending the Mergers & Acquisitions Scheme till 31 March 2020 with enhancements wef 1 April 2015 -
 - (i) Allowance rate increased to 25%
 - (ii) Cap on value revised to \$ 20 million
 - (iii) Stamp duty relief capped at \$40,000 per FY
 - (iv) Revised shareholding eligibility tiers (at least 20% ordinary shareholding or more than 50% ordinary shareholding in the target company)
 - (v) Existing 75% shareholding eligibility tier removed
 - (vi) The 2 look-back period for step acquisitions removed
- (d) The double tax deduction for internationalization scheme to be enhanced to cover qualifying manpower expenses incurred for Singaporeans posted to new overseas entities, capped at \$1 million per approved entity per year (from 1 July 2015 to 31 March 2020)

- (e) A new International Growth Scheme to support high potential companies in their expansion overseas while anchoring their key functions in Singapore to provide for concessionary tax of 10% for 5 years on their incremental income from qualifying activities from 1 April 2015 to 31 March 2020
- (f) The Angel Investors Tax Deduction scheme to encourage investment in start-up companies to be extended till 31 March 2020
- (g) A 5% concessionary tax will be granted to approved venture capital fund management companies from 1 April 2015 to 31 March 2020. The Pioneer Service incentive for venture capital fund management will accordingly be withdrawn.
- (h) The two schemes (IA-EE scheme and IA-EE for Green Data Centres scheme) of Investment Allowance will be combined into one known as the investment Allowance-Energy Efficiency Scheme from 1 March 2015 extended till 31 March 2021
- (i) The Development & Expansion Incentive for International Legal Services Scheme to encourage more international legal services work from Singapore will be extended till 31 March 2020
- (j) For the Approved Foreign Loan Incentive – a review date of 31 December 2023 will be legislated to ensure relevance. The minimum loan quantum raised to \$20 million
- (k) For the Approved Royalties Incentive, a review date of 31 December 2013 will be legislated to ensure relevance
- (l) For the Writing Down Allowance scheme on capital expenditure incurred on acquisition of an indefeasible right to use (IRU) of any international telecommunications submarine cable system – a review of 31 December 2020 will be legislated to ensure relevance
- (m) The tax deductions for collective impairment provisions for banks and finance companies will be extended till YA 2019/YA 2020
- (n) The Tax Incentive scheme of concessionary tax of 10% for insurance companies will be extended till 31 March 2020
- (o) The Enhanced-Tier Fund Tax Incentive Scheme will be enhanced to apply to the Special Purpose Vehicles held by the master fund, subject to conditions, as from 1 April 2015
- (p) The tax concessions for listed Real Estate Investment Trusts (Reits) will be extended till 31 March 2020, but the stamp duty concessions will lapse after 31 March 2015. The existing GST remission will be extended till 31 March 2020

- (q) Extend and enhance the Maritime Sector Incentive to cover finance leases, hire-purchase arrangements and loans used to finance equity injection into wholly-owned SPVs or intercompany loans to wholly-owned SPVs for purchase or construction of vessels, containers and intermodal equipment
- (r) The concessionary tax on income derived from offshore leasing of plant and machinery will be withdrawn from 1 January 2016
- (s) The Approved Headquarters Incentive will be withdrawn from 1 October 2015
- (t) Approved donations made to IPCs
 - * Tax deduction of 300% for donations made in 2015 (only)
 - * The existing 250% tax deduction will be extended for donations made from 1 January 2016 to 31 December 2018

Personal Income Tax

- (a) 50% tax rebate capped at \$1,000 for YA 2015 for resident individual
- (b) Top marginal rate increased from 20% to 22% from YA 2017

New tax structure from YA 2017:

	Chargeable Income (\$)	Tax Rate (%)	Gross Tax Payable
On the first	20,000	0	0
On the next	10,000	2	200
On the first	30,000	-	200
On the next	10,000	3.5	350
On the first	40,000	-	550
On the next	40,000	7	2,800
On the first	80,000	-	3,350
On the next	40,000	11.5	4,600
On the first	120,000	-	7,950
On the next	40,000	15	6,000
On the first	160,000	-	13,950
On the next	40,000	18	7,200
On the first	200,000	-	21,150
On the next	40,000	19	7,600
On the first	240,000	-	28,750
On the next	40,000	19.5	7,800
On the first	280,000	-	36,550
On the next	40,000	20	8,000
On the first	320,000	-	44,550
In excess of	320,000	22	

- (c) Passive rental income derived by an individual from 2015 from the letting of a residential property in Singapore - can claim a specified amount of expenses based on 15% of the gross rental income derived in lieu of the actual deductible expenses (excluding interest)
- (d) Tax exemption to be granted to a non-resident mediator for mediation work carried out in Singapore from 1 April 2015 to 31 March 2020
- (e) For the tax exemption for non-resident arbitrators, a review date of 31 March 2020 will be legislated to ensure relevance
- (f) The tax concession on royalties and other payments from approved intellectual property or innovation under section 10(16) will be withdrawn from YA 2017

Stamp Duty

The stamp duty concessions for purchases of local properties to lapse after 31 March 2015

GST

Pre-registration GST claim simplified to allow a newly GST-registered business to claim in full for goods and services acquired with 6 months before the GST registration date:

- (i) goods held at point of GST registration
- (ii) property rental, utilities and services not directly attributable to any supply made before GST registration
- (iii) for other purchases prior to GST registration, existing pre-registration GST claim rules will apply

These Notes are of a general nature and are not intended to be comprehensive. Our Clients are advised that before acting on any specific issue, they should discuss their particular factual situation with our Firm. No liability can be accepted for any action thereon without our prior consultation.

If you have any specific enquiry, please contact us at Tel: 62943022 (Fax: 62942722)

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