highlights of tax changes

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INCOME TAX CHANGES FOR BUSINESSES

LIBERALISATION OF THE TAX EXEMPTION SCHEME FOR NEW START-UP COMPANIES

With effect from Year of Assessment 2009, the tax exemption scheme for new start-up companies, presently available to new companies with not more than 20 shareholders all of whom are individuals, is extended to new start-up companies with corporate shareholders. A newly incorporated company with corporate shareholder(s) can qualify for the tax exemption under the scheme for any of its first three YAs if it has at least one shareholder who is an individual holding not less than 10% of the total number of issued ordinary shares in the company throughout the basis period relating to the YA of claim. All other conditions for granting the tax exemption under the scheme remain unchanged.

TAX DEDUCTION FOR MEDICAL EXPENSES

With effect from YA2008, employers are allowed to claim medical expenses for any YA beyond the existing 1% (but not exceeding 2%) of the total remuneration of their employees for the relevant basis period, subject to conditions, where they:

a) Provide their employees with inpatient medical insurance benefits in the form of portable medical shield plans (excluding riders that cover deductibles and co-payments) either by paying the insurance premiums on behalf of their employees to the insurance companies directly, or by reimbursing the employees' Medisave Accounts, the premiums paid by their employees; or
b) Make ad-hoc contributions to their employees' Medisave Accounts (subject to a cap of S$1,500 per employee per year) during the relevant basis period.

For any YA, the maximum tax deduction for medical expenses is still capped at 2% of the total employee remuneration for the relevant basis period.

EXTENSION OF FURTHER TAX DEDUCTION SCHEME FOR EXPENSES INCURRED IN RECRUITING OR RELOCATING OVERSEAS TALENT

The further tax deduction scheme (which expires on 30 September 2008) has been extended for another 5 years to 30 September 2013.

TAX INCENTIVE FOR FIXTURES, FITTINGS AND INSTALLATIONS

A special allowance is granted on the costs of renovation and refurbishment works (which do not relate to the structure of the building or expansion of space) incurred, from 16 February 2008 to 15 February 2013, by any person for the purposes of his trade, business or profession. The allowance is to be granted over a period of 3 years subject to an expenditure cap of S$150,000 for every three years for each person.

MEASURES TO ENCOURAGE RESEARCH & DEVELOPMENT (R&D) IN SINGAPORE

I. Liberalisation of the claims under sections 14D and 14E

a) The existing requirement under sections 14D and 14E that R&D expenses claimed must be related to the taxpayer's trade or business will be removed from YA2009 to 2013. Hence, R&D expenses incurred for R&D carried out in Singapore can qualify for tax deduction regardless of whether they are incurred in respect of the taxpayer's existing trade or business. Where the R&D activities are outsourced to an R&D organisation located outside Singapore, the existing requirement (under section 14D) of "related to that trade or business" will continue to apply;
b) For YA2009 to 2013, the deduction for R&D expenses under section 14D has been enhanced from 100% to 150% of the actual R&D expenditure incurred on R&D activities carried out in Singapore.

II. New R&D tax allowance scheme

From YA2009 to 2013, companies with chargeable income will be granted R&D tax allowance ("RDA") for each year based on 50% of their chargeable income for that year, up to a maximum amount of S$150,000. The RDA can be utilised to offset against the company's chargeable income for the next three YAs (following the YA that the RDA is granted), if the company incurs incremental R&D expenditure in the respective basis period for the YA when the RDA is utilised. Incremental R&D expenditure is defined as the qualifying R&D expenditure in excess of the base amount of R&D expenses incurred by the company in the basis period for YA2008. The amount of RDA available for offset against the chargeable income of any YA is the lower of the RDA brought forward from the preceding YA or the amount of incremental R&D expenditure of that year.

III. New R&D incentive for start-up enterprise (RISE)

Under RISE, a qualifying start-up company is allowed to surrender their tax adjusted losses in exchange for a cash grant of up to S$20,250 (based on 9% of S$225,000 which is 150% of S$150,000 of qualifying R&D expenditure) so long as it incurs qualifying R&D expenditure of at least S$150,000 during the year for directly undertaking R&D works in Singapore. The surrender for the cash grant must be made within the first 3 YAs from its incorporation which falls within YA2009 to 2013. The cash grant will be computed based on 9% of S$225,000 or the amount of tax-adjusted loss of the company, whichever is lower.

TAX EXEMPTION FOR QUALIFYING FAMILY INVESTMENT HOLDING COMPANY (FIHC)

During the period from 1 April 2008 to 31 March 2013, tax exemption will be granted on specified Singapore-sourced investment income derived and all foreign-sourced income received in Singapore by a qualifying FIHC that is owned by qualifying individuals, subject to conditions.

10% CONCESSIONARY RATE OF TAX FOR APPROVED INSURANCE BROKERS

A concessionary tax rate of 10% is granted on the qualifying income derived by an approved company in Singapore, which is registered as a direct insurance and reinsurance broker under the Insurance Act. Qualifying income refers to commission income and fees from the provision of insurance (life or general insurance or both) broking and advisory services to the approved company's non-Singapore based clients. The window approval period for the incentive is from 1 April 2008 to 31 March 2013 and the incentive is for a period of up to 10 years, subject to conditions.

10% CONCESSIONARY TAX RATE FOR APPROVED COMPANY MANAGING QUALIFYING INFRASTRUCTURE BUSINESS TRUST/COMPANY

A concessionary tax rate of 10% is granted on the qualifying income derived by an approved company from managing qualifying registered business trusts and companies in respect of their offshore infrastructure assets. The window approval period for the incentive is from 1 April 2008 to 31 December 2011 and the incentive is for a period of up to 10 years.

EXTENTSION AND ENHANCEMENT OF FINANCIAL SECTOR INCENTIVE (FSI) SCHEME

The FSI scheme has been extended and enhanced as follows:

a) The window approval period has been extended for another 5 years until 31 December 2013;
b) With effect from 16 February 2008, the scope of qualifying activities under FSI-Bond Market enhanced tier award has been expanded to cover trading of qualifying project debt securities and qualifying debt securities;
c) With effect from 16 February 2008, the scope of qualifying activities under FSI-Derivatives Market enhanced tier award has been expanded to cover trading of exchange traded financial derivative.

5% CONCESSIONARY TAX RATE FOR QUALIFYING ISLAMIC FINANCIAL ACTIVITIES

A concessionary tax rate of 5% is granted on qualifying income from qualifying Islamic financial activities derived by:

a) An approved Financial Sector Incentive (FSI) company (under FSI (Islamic finance) enhanced tier award) from -
   i. Lending and related activities;
   ii. Management of Shariah compliant funds and provision of investment advisory services in relation to Shariah compliant funds,
b) An approved general or life insurer from offshore takaful or retakaful business.

The window approval period for the incentive is from 1 April 2008 to 31 March 2013, and the incentive is for a period of up to 5 years.

EXTENSION AND ENHANCEMENT OF THE TAX INCENTIVE SCHEME FOR APPROVED SPECIAL PURPOSE VEHICLE (ASPV) ENGAGED IN ASSET SECURITISATION TRANSACTIONS

The ASPV Scheme is extended for another 5 years until 31 December 2013; and the condition that all of the debt securities issued by the SPV must be qualifying debt securities (QDS) has been removed, from 16 February 2008 to 31 December 2013.

PROVISION OF TAX CERTAINTY ON TREATMENT OF GAINS FROM SALE OF VESSELS

The administrative concession of not taxing the gains derived from the sale of vessels registered with the Singapore Registry of Ships or owned by companies under the Approved International Shipping (AIS) Enterprise scheme has been extended for another 5 years up to YA2014.

The scope of the administrative concession has also been expanded to include:

a) Gains from the sale of vessels which would subsequently be leased back to the shipping companies;
b) Gains from the sale of shares in a single purpose company which holds ships.

The administrative concession will not apply to gains arising from the sale of vessel-building contracts.

INCLUSION OF FOREIGN EXCHANGE GAINS AND GAINS FROM RISK MANAGEMENT ACTIVITIES AS QUALIFYING INCOME UNDER SECTIONS 13A AND 13F OF THE INCOME TAX ACT (ITA)

With effect from YA2009, foreign exchange gains and gains from risk management activities derived by shipping companies in respect of Singapore-flag vessels and vessels owned by AIS companies are included as income of the shipping companies qualifying for tax exemption under sections 13A and 13F of the ITA. This is on condition that the gains are in connection with and incidental to the core shipping operations of the shipping companies and the shipping companies do not engage in activities that are considered as trading in derivatives.

ENHANCEMENT TO THE MARITIME FINANCE INCENTIVE (MFI)

The MFI is enhanced as follows:

a) Leasing of sea-containers will be included under MFI scheme from 1 April 2008 to 28 February 2011 such that:
   i. An Approved Container Investment Enterprise (ACIE) will enjoy a concessionary rate of tax of 5% or 10% on its income from leasing of sea-containers to onshore and offshore lessees; and
   ii. An ACIE management company will enjoy a concessionary tax rate of 10% on its management fee income derived in connection with the management of an ACIE.
b) Partnerships will be allowed to apply for and enjoy the MFI with effect from 1 April 2008.

INCOME TAX CHANGES FOR INDIVIDUALS

PERSONAL INCOME TAX REBATE FOR RESIDENT INDIVIDUALS AND HINDU JOINT FAMILIES

As part of the government's surplus sharing exercise, a one-off personal tax rebate of 20% is granted for all resident individual taxpayers and Hindu joint families for YA2008, subject to a maximum rebate of S$2,000 per taxpayer. The 20% tax rebate is calculated based on the tax payable after double tax relief (DTR) and other credits but before set-off of any other tax rebates, namely, parenthood tax rebate and tax deducted at source under section 46(1)(a) and (b) of the Income Tax Act.

ENHANCEMENT TO COURSE FEES RELIEF

A taxpayer who has incurred course fees to attend any course of study, seminar or conference leading to an approved vocational qualification can claim for course fees relief of up to S$3,500 with effect from YA2009. The period for claiming course fees relief for any individual who has attended any course, seminar or conference that leads to an approved academic, professional or vocational qualification, has also been extended to 2 YAs from the YA relating to the year in which he has completed the course, or attended the seminar or conference.

The deferment of claim, however, will not be allowed if the individual's assessable income exceeds S$22,000.

CHANGES TO TAX RELIEF FOR CENTRAL PROVIDENT FUND (CPF)

Voluntary contributions to Medisave account

Employees and self-employed persons are allowed to claim tax relief for their voluntary cash contributions made specifically to their own Medisave Accounts, subject to conditions.

CPF minimum sum top-up scheme

Resident individuals who are Singapore citizens or permanent residents can claim tax relief for cash top-ups to their own and their family members' (i.e. siblings, spouses, parents and grandparents) Minimum Sums now regardless of the age of the recipients.

There will be two separate tax relief caps of S$7,000 per YA, one for cash top-ups to Minimum Sum for self and another for cash top-ups to Minimum Sum for family members. The existing requirement for claiming tax relief in respect of cash top-ups to Minimum Sum for siblings/spouse (the siblings or spouse must not have income exceeding S$2,000 in the year preceding the year of top-up) remains.

For employers who make cash top-ups to their employees' Minimum Sums on the employees' behalf, they will be allowed a tax deduction on such top-ups, being employees' remuneration. Employees can claim tax relief for such employers' cash top-ups. The total tax relief for cash top-ups by his employer on the individual's behalf and the individual is capped at S$7,000 per YA.

The above changes will take effect from YA2009.

CHANGES TO TAX RELIEF FOR SUPPLEMENTARY RETIREMENT SCHEME (SRS) CONTRIBUTIONS

I. SRS contributions by employers on the employees' behalf

With effect from YA2009, employers can contribute to their employees' SRS accounts on the employees' behalf, subject to the current SRS contribution cap for each individual (S$11,475 per year for Singapore Citizens and Permanent Residents, and S$26,775 per year for foreigners).

Such contributions are deductible to the employer as employees' remuneration, and taxable in the hands of the employee. The employees can claim tax relief in respect of the SRS contributions made by the employer on his behalf. The total contributions to the employee's SRS account by the individual and his employer on his behalf cannot exceed the SRS contribution cap.

II. SRS contribution by individuals

With effect from YA2009, individuals deriving only passive income in the preceding year are allowed to contribute to his SRS account in the current year.

III. SRS contribution beyond the prevailing prescribed retirement age

SRS members can now continue to contribute beyond the prevailing prescribed retirement age, up to the point of their first penalty-free withdrawal. With this change, they can withdraw their SRS monies over 10 years from the point of their first penalty-free withdrawal instead of 10 years from the prevailing prescribed retirement age.

CHANGES TO NOT ORDINARILY RESIDENT (NOR) TAXPAYER SCHEME

Changes to time apportionment concession

a) The previous qualifying criteria of a minimum 10% qualifying tax rate has been replaced with a minimum Singapore employment income threshold of S$160,000.
b) The previous restriction of not apportioning certain Singapore employment income like perquisites, leave pay etc. has been lifted. Director's fees will continue to be excluded from the scope of apportionment.

Changes to non-mandatory overseas contribution concession

Tax exemption is only allowed if the NOR taxpayer derives at least S$160,000 from his Singapore employment and the employer does not claim a tax deduction for the contributions made to non-mandatory overseas pension or provident fund and social security scheme.

The conditions qualifying an individual to be a NOR taxpayer and the period of concession remains the same.

NEW EQUITY REMUNERATION INCENTIVE SCHEME (ERIS)

ERIS(SME) and ERIS (All Corporations)

The existing Entrepreneur Employee Equity-based Remuneration (EEEBR) scheme and Company Employee Equity based Remuneration (CEEBR) scheme will be renamed as ERIS (SME) and ERIS (All Corporations) respectively.

ERIS (Start-Ups) Plan

An Employee Stock Option Plan (ESOP) that has met the vesting period requirement as prescribed for companies listed on Singapore Exchange (SGX) qualifies to be an ERIS (Start-Ups) Plan. For Employee Share Ownership (ESOW) Plan, the plan must meet the minimum holding period before it can qualify as an ERIS (Start-Ups) Plan.

Under ERIS (Start-Ups), an employee can enjoy tax exemption of 75% of the gains (up to S$10 million) from ESOP or ESOW plans granted within the first 3 years of incorporation of the qualifying company, over a 10-year period, provided certain criteria is met.

ENHANCEMENT OF COMPANY EMPLOYEE EQUITY BASED REMUNERATION (CEEBR) SCHEME NOW RENAMED AS ERIS (ALL CORPORATIONS)

Previously, to qualify an ESOP or ESOW plan to be a CEEBR plan, the plans must be offered to at least 50% of the employees of the qualifying company. This 50% requirement is now reduced to 25% to give more flexibility to companies wishing to restrict their stock options plan to only a select group of employees impacting the company's growth.

INCOME TAX CHANGES FOR BUSINESSES, INDIVIDUALS AND/OR BODIES OF PERSONS

EXTENSION OF THE SCOPE OF UNILATERAL TAX CREDIT (UTC) UNDER SECTION 50A

UTC has been extended to other types of foreign-sourced income (including rental income, interest income which currently do not enjoy UTC) that is received in Singapore from a non-treaty country if tax has been paid in the foreign tax jurisdiction on such income. This tax change will apply to foreign-sourced income remitted to Singapore during the basis period for YA2009 and any subsequent YA.

RENEWAL AND ENHANCEMENT OF TAX INCENTIVE SCHEMES FOR DEBT SECURITIES

The following schemes are extended:

a) Qualifying Debt Securities (QDS) scheme for another 5 years from 1 January 2009 to 31 December 2013;
b) Project finance incentives for another 3 years from 1 January 2009 to 31 December 2011; and
c) Tax exemption for primary dealers for a further period from 28 February 2008 to 31 December 2013

The specified income derived by all investors from the following qualifying debt securities issued during the period from 16 February 2008 to 31 December 2013 will also be tax-exempt:

- Amount payable on sukuks (Islamic debt securities), subject to conditions;
- Interest, discount, prepayment fees, break cost and redemption premium from long dated (with tenure of at least 10 years) debt securities, subject to conditions.

GOODS AND SERVICES TAX (GST) CHANGES

ENHANCEMENT OF REMISSION GRANTED TO SINGAPORE REAL ESTATE INVESTMENT TRUSTS (S-REITS) AND THEIR SPECIAL PURPOSE COMPANIES (SPVS) FOR THE HOLDING OF OVERSEAS NON-RESIDENTIAL PROPERTIES

From 17 February 2006 to 17 February 2010 (both dates inclusive), the 2006 GST remission will be enhanced to allow S-REITs, Registered Business Trusts in infrastructure business, ship leasing and aircraft leasing (qualifying S-RBTs) and their SPVs to claim GST on their business expenses except for disallowed expenses under Regulations 26 and 27 of the GST (General) Regulations, subject to conditions and rules.

ABOLITION OF ESTATE DUTY

Estate duty for death occurring on or after 15 February 2008 has been abolished to encourage high net worth individuals to bring their assets into Singapore and thus supporting the growth of the wealth management industry.