

## 2003 Budget Wish List

Amidst the spectre of a slowing economy, job losses and external uncertainties, we believe that the Government would be addressing the issues of how to lower business costs, stimulate business, encourage entrepreneurship and create more jobs.

In addition, the Government will further refine the tax system by adopting more recommendations of the ERC Sub-Committee on policies related to Taxation, the CPF System, Wages & Land. Our wish list includes some of the proposals of this ERC Sub-Committee which we hope to see in the 2003 Budget which will be announced on 28 February 2003. Items which are not included in the ERC Sub-Committee report are in **bold or italics**.

## INCOME TAX

### Globalisation and improving our competitive edge

*Mergers and acquisitions, overseas investments and joint ventures and the creation of new markets*

#### 1. Corporate tax rate

The ERC Sub-Committee proposed that the corporate income tax rate be reduced to 20% within 3 years (i.e. by Y/A 2005). **We hope to see another 1% or 2% reduction to 21% or 20% for the year of assessment 2004.**

#### 2. Foreign income

a) Exempt foreign income from tax; or

b) Liberalise the system of taxation of foreign income as follows:

- Extend the availability of foreign tax credits beyond the first-tier investee company to lower-level subsidiaries.

**The current rules make it costly to use a non-Singapore intermediate holding company for overseas investments since it is not possible to claim foreign tax credit for the taxes paid by lower-level subsidiaries.**

- Lower the minimum threshold (currently at 25%) to qualify for unilateral tax credit(UTC).

**Currently, it is possible to apply for a lower threshold but approval is on a case-by-case basis. It would be better if this 25% threshold is “automatically” lowered for all projects which satisfy specified criteria – for example, large/higher risk projects.**

- **Unilateral tax credits to be extended to royalties and interest.**

**3. Reduce the withholding tax (WHT) rate**

**The current withholding tax rate of 15% on interest and royalty payments took effect from 28 February 1996. At that time, the corporate income tax rate was 26%. It is timely to reduce the WHT rate to (say) 10%. This will lead to a direct reduction in costs for the Singapore payer in cases where the payer has to bear the withholding tax.**

**4. Tax incentives**

**i) Manufacturing Sector**

- a) Allow enhanced investment allowance scheme to help companies cope with project uncertainties.

**ii) International Trading**

- a) Enhance the Global Trader Programme (GTP) by reducing the tax rate to less than 10% for firms with significant business spending in Singapore. This can be done through a tiered concessionary tax rate regime tied to a company’s turnover and business spending.
- b) Offer tax incentives for medium-sized trading companies that do not meet the minimum qualifying turnover of US\$100m required for the GTP.
- c) Allow interest attributed to approved investments of trading companies (with a nexus to the trading business) to be deductible against profits.

5. **In line with the deregulation of the telecommunications industry in Singapore there is a need to address areas of uncertainty, such as withholding tax issues on Indefeasible Rights of Use (IRU), the purchase/lease of capacity and other similar areas in the telecommunication business; tax exemption should not be restricted only to payment for satellite transponder capacity.**

## **Human Capital**

*To encourage employees to regularly upgrade and improve*

1. **Individuals who upgrade themselves by acquiring new skills and knowledge should be allowed a relief for educational expenses/course fees they incur themselves. This tax relief should not be restricted to courses which are related to the individual's "trade, business, profession, vocation or employment".**
2. **Individuals who purchase computers for use in the home should be allowed to deduct the cost of acquiring the computers. If the computer cost is borne by the employer, it should not be treated as a taxable benefit to the individual.**

## **Technology/Intangibles**

*To keep pace with technological advancement and build up R&D capabilities*

1. **Allow more generous tax treatment of intellectual property by applying the writing down allowance (WDA) automatically for acquisition of intellectual property, as is the case for physical assets. In addition, qualifying intellectual property is written off over 5 years as compared with physical assets which may be written off over 1 or 3 years. Perhaps the WDA for intellectual property could be improved to be more in line with physical assets.**

## New frontiers

*To encourage investment in new areas/technology*

1. Tax incentives should be granted to encourage investment into the life sciences industry and its development:
  - a) **Currently, the pioneer tax incentive period is between 5 to 10 years. Given the long gestation period for the life sciences industry, to provide further incentive for world class life sciences companies to set up their operations in Singapore, the government should consider allowing deferment of the commencement date of the incentive to such a time when the pioneer company generates taxable profits;**
  - b) **During its development phase, the life sciences company will likely incur tax losses. A possible incentive would be for the shareholders (both corporate and individual) of an approved life sciences company to have the option of utilising the losses incurred by the company against the shareholders' taxable income;**
  - c) **Automatic exemption of withholding tax should be granted for royalties paid by approved life sciences companies in connection with foreign know-how and technology used in their research;**
  - d) **Tax incentives could be granted to encourage the setting up of approved incubator management companies which provide support to life sciences companies;**
  - e) **To encourage foreign scientists and researchers to work in Singapore, tax benefits should be given to them in the form of a special tax rebate and tax exemption on benefits-in-kind provided to them - e.g. similar to remission of home leave passage for expatriate employees of pioneer companies.**
2. Tax incentives should also be given to promote Singapore as a regional center of excellence for the provision of healthcare and educational services. **Examples of possible incentives include:**
  - a) **To be a world class provider of healthcare services, there would be need to invest in the state-of-the-art equipment. Accordingly, incentives like liberalized investment allowances and even cash grants could be given to defray part of these costs.**

- b) Industrial building allowances should be granted for hospitals and hospices, including costs of new structures, upgrades, extensions, etc.**
- c) Double deduction for training costs to improve/upgrade skills.**
- d) Approved educational institutions should be granted double deductions for approved research projects. In addition, the fees paid to visiting foreign lecturers should be exempt from withholding tax.**

### **Financial services**

- 1. Details of the new consolidated FSI tax incentive to cover financial institutions are expected to be announced shortly. In particular, the definition or criteria for high growth and high value added activities which qualify for the 5% tax incentive should facilitate the addition of new activities created by this innovative and dynamic industry.**
- 2. As banks were given incentives to divest non-core assets, tax incentives should also be given to encourage stockbrokers, insurance and finance companies to merge to strengthen their financial position - e.g. waiver of stamp duty, preservation of tax losses, etc.**
- 3. Increase the ceiling for tax deductible general provisions made by banks and finance companies from 3% to 5%, and remove the 5 year time limit for the clawback of the approved excess (exceeding 3%) provisions made by banks in the year of assessment 1999.**
- 4. Extend the bond market/qualifying debt securities tax incentive which expires on 27 February 2003. In addition, tax exemption should be extended to Singapore residents who derive income from qualifying debt securities (currently, only non-residents are exempt from tax).**

### **Other corporate**

- 1. Allow deduction for all start-up business losses e.g. salaries, rentals, incurred prior to the production of income.**
- 2. Allow tax deduction for all costs associated with borrowings, including commitment fees, agency fees, front-end fees, etc.**
- 3. Allow deduction or capital allowance in respect of interest expenses incurred during the construction phase.**

4. Grant capital allowances for office buildings.

#### **Other individual**

1. Exempt interest income earned on all bank deposits, debt securities and other interest-bearing instruments.
2. Exempt foreign source personal income remitted back to Singapore from tax.
3. Exempt capital gains from tax under the Supplementary Retirement Scheme (SRS).
4. **In view of the recommendations made by the ERC Sub-Committee to reduce the contribution limit for ordinary wages and the amount of contributions by older workers (50 to 55 age group), the Government should consider a corresponding increase in the SRS contribution limits. This will restore the status quo for affected individuals who are able to contribute more to the SRS to set aside more retirement funds and claim tax deductions for those amounts previously deductible/not taxable under the CPF scheme.**

#### **STAMP DUTY**

1. **Extend the 30% remission retroactively from 1 January 2003.**

#### **ESTATE DUTY**

1. **Abolish Estate Duty.**

#### **PROPERTY TAX**

1. **The Government recently extended for another 6 months (till 30 June 2003), the property tax rebate for commercial and industrial properties which was announced as part of the 2001 off-Budget measures. The rebate consists of a fixed rebate of up to \$8,000 per year plus a further rebate of 30% for any balance property tax payable.**

**As part of the 2001 off-Budget measures, the Government also reinstated the property tax exemption for land under development; this exemption is valid up to 11 October 2003.**

To help lower business costs, it may be appropriate to either **further extend the above rebate/exemption or** review the property tax rate (**currently 10%**).

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