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# **Singapore Budget 2003 Synopsis**

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# Contents

	<b>Page</b>
Introduction	2
At A Glance	4
Business Tax	7
Personal Income Tax	33
Goods & Services Tax	42
Miscellaneous	49
Recent Singapore Tax Developments	51
■ Qualifying Debt Securities Scheme	
■ Financial Sector Incentive Scheme	
■ Enhanced Headquarters Incentive	
■ Benefits to Company Directors from Interest-Free / Subsidised Loans	
■ New Double Taxation Agreements	
Glossary Of Terms	58
Ernst & Young Tax Partners & Directors	59

# Introduction

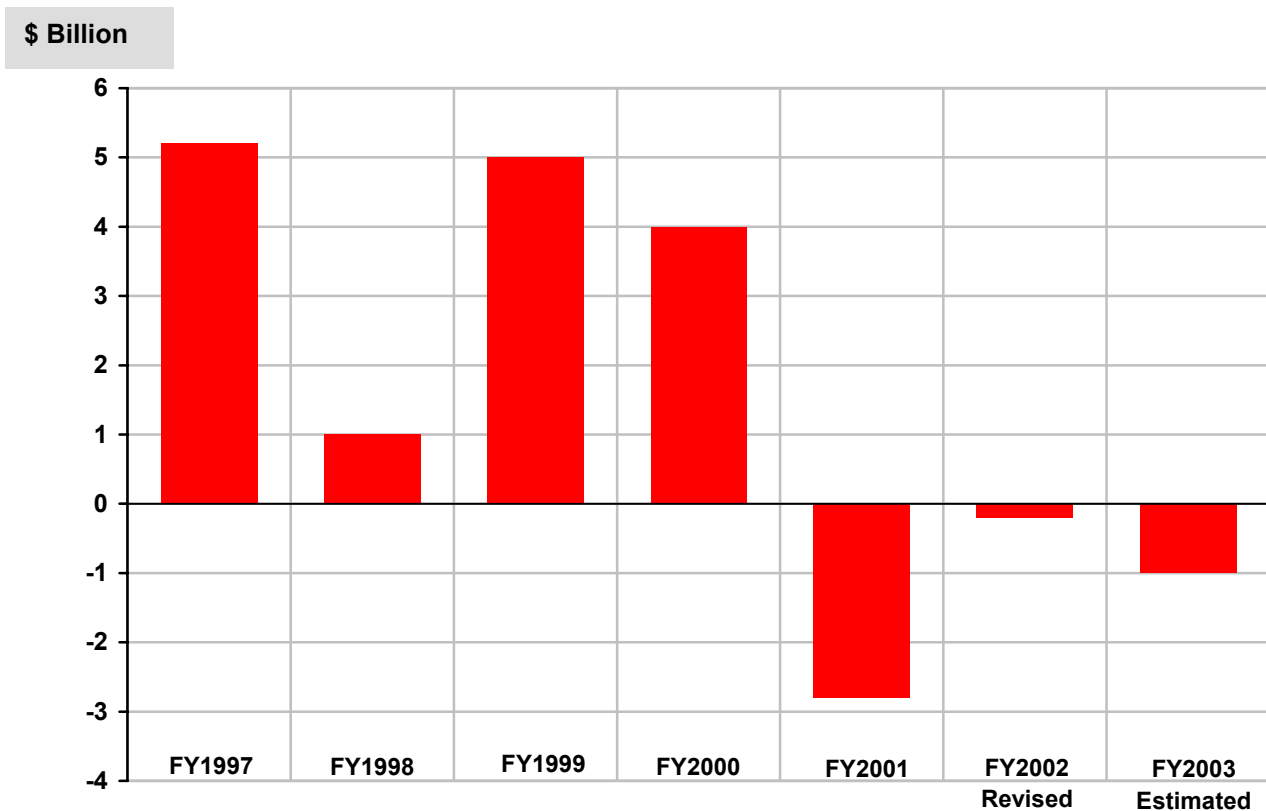
## “A liberalising budget to revitalise the economy”

*“We have made a good start in restructuring the economy to secure our future. But this is a long process and much more work lies ahead.”* - Deputy Prime Minister and Minister for Finance Lee Hsien Loong

The 2003 Budget may not have contained some of the radical tax changes seen in 2002, but it was an important Budget nevertheless. It consolidated and extended some of the tax restructuring started last year whilst at the same time continuing quietly and without fuss a policy of mild reflation and subtle liberalisation in certain areas.

Last year, DPM Lee made the case for allowing deficits in difficult years so long as a surplus is obtained over the whole business cycle. This year, he has announced at the outset that the Government is expecting to run a modest deficit of \$0.9 billion in 2003. It will be the third successive year of deficit following those in 2001 and 2002. Given the consistent policy aim of budgeting for a surplus, this marks the Government’s clear conviction that tolerating a small deficit is the correct strategy for the current economic climate.

**Budget Surplus / Deficit**



Source: Budget Statement 2003

Although GDP is forecast to grow at 3% this year, the Government is, sensibly in our view, stimulating the economy through a budget deficit on the grounds that the recovery is still fragile and under threat from external factors largely outside Singapore's control.

On the taxation front, the Government has, in general, accepted the recommendations of the Economic Review Committee. The big question was whether the top income tax rates for companies and individuals would be reduced this year from 22%. In view of the tight budget position, the Government has decided to defer a reduction this time but has reaffirmed its intention to bring the top rates down to 20% by YA 2005.

The Government has extended the effect of last year's changes to the corporate tax system by introducing measures to exempt from tax certain types of foreign income and to exempt foreign sourced royalties and interest income that are used for research and development activities in Singapore or controlled from Singapore. This has the effect of making Singapore's tax system closer to a pure form of territorial system like that of Hong Kong's.

The Budget also includes a number of measures to encourage companies to hold their intellectual property in Singapore. These include the introduction of a unilateral tax credit scheme for royalty income from non-treaty countries and the automatic granting of writing down allowances on the acquisition of patents, copyrights and trademarks. The latter is one of a number of liberalisations of the tax system in the Budget as the intellectual property in question no longer needs to be approved before the allowances are given. Elsewhere on the intangible property front, the Government has moved commendably with the times by granting a withholding tax exemption for e-commerce payments by end users and payments for the use of capacity on submarine cables operated by non-resident persons. In addition, writing down allowance will be granted for the purchase of IRUs on submarine cable system from YA 2004.

Individuals will also benefit from this Budget. Domestic interest income will become fully exempt from income tax, although this will be phased in over two years. There are also new tax incentives to encourage portable medical benefits for employees, education, training and the upgrading of skills. Car ownership costs will decrease through a reduction in the tax base for calculating the Additional Registration Fee and Excise Duty. A number of rebates for household costs are to be either extended or enhanced to help ordinary Singaporeans cope with the current economic difficulties and as part of the package to offset the recent GST increase. One group who will suffer an increase in costs is the dwindling band of smokers as they will have to pay a significant additional amount of excise duty.

Much of the Budget speech was taken up by non-tax matters designed to enhance the competitiveness of Singapore's businesses and facilitate entrepreneurial activity. These include the simplification of company law for small businesses, the introduction of limited partnership and limited liability partnership structures, a leveling of the playing field between the private and public sectors and a reduction in licensing requirements and red tape.

On the whole then, this was a budget designed to build on the structural reforms put in place last year and to help the Singapore economy move forward by giving a helpful fiscal nudge in the right direction. Whether directly or indirectly, most Singaporeans will benefit from the measures announced. It is to be hoped that the present global economic and political uncertainties will abate to allow the overall benefits of the Budget to the country to become apparent.

Budget Day  
28 Feb 2003

# At A Glance

<b>Business Tax</b>	<b>Effective</b>	<b>Page</b>
Corporate Income Tax Rate (No change)	-	7
Foreign Income		9
▪ Exemption for dividends, branch profits and service income	1 Jun 2003	
Portable Medical Benefits		11
▪ Medisave contribution limit raised	YA 2004	
▪ Restricted tax deduction for not implementing new scheme	1 Apr 2004	
Concession For Enterprise Development		13
▪ Pre-commencement expenses to become tax deductible from first day of accounting year which shows trade revenue	YA 2004	
Revised Overseas Investment Incentive		14
▪ Deferral of income tax for two years if approved overseas investment incurs operating losses during the first three years	Investments made from 1 Jan 2004	
Intellectual Property		15
▪ Extension Of Unilateral Tax Credit Scheme To Royalty Income	YA 2004	
▪ Automatic Writing Down Allowances For Acquisitions	1 Nov 2003	16
▪ Tax Deduction For Patenting Costs	1 Jun 2003	18
▪ Exemption For Foreign Royalties And Interest Income Used For R&D	1 Jun 2003	19
▪ Withholding Tax Exemption For Provision Of Information & Digitised Goods	Immediate	21
Integrated Industrial Capital Allowance		23
▪ Capital allowances for equipment used by overseas subsidiaries	1 Mar 2003	
Upfront Land Premium For Leased Land		24
▪ Deduction extended to maximum lease tenures of 60-years	YA 2004	
Income Tax Exemption For Foreign Trusts		25
▪ Abolition of requirement to use an ATC	YA 2004	
▪ Exclusion list under ATC scheme	1 Jun 2003	
Approved Marine Hull and Liability Insurer Scheme		26
▪ Extended to cover onshore business	YA 2004	
Tax Holiday For SICOM		27
▪ Extension for another 5 years	YA 2004	

<b>Business Tax</b>	<b>Effective</b>	<b>Page</b>
Improved Global Trader Programme		28
▪ Enhanced with tiered concessionary rates of 5% and 10%	Immediate	
Use Of Submarine Cable Capacity		29
▪ Exemption from withholding tax for payments for cable capacity	Immediate	
▪ Writing down allowances for Indefeasible Rights of Use	YA 2004	
Overseas Talent Recruitment		31
▪ Increase in double tax deduction limits	Immediate	
Property Tax Rebate		32
▪ Rebate of \$2,000 plus 15% of the balance payable	Jul to Dec 2003	

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## **Personal Income Tax**

Personal Income Tax Rates (no change)	-	-
CPF Changes		33
▪ Deferral of restoration of CPF contribution rates for 2 years	-	
▪ Reduction in CPF salary ceilings from \$6,000 to \$5,000 in the private sector (in two stages)	Jan 2004 and Jan 2005	
▪ Lowering of CPF contribution rates for older workers - to be reduced from the current 20% to 16% in two stages	Jan 2004 and Jan 2005	
▪ Increase Special Account and Medisave Account contributions over 3 years	1 Jan 2004	
Domestic Interest Income		37
▪ Exemption on interest from deposits exceeding \$100,000 in each account	YA 2004	
▪ Exemption for domestic savings, current and fixed deposit interest	YA 2006	
Enhanced Course Fee Relief		39
▪ Course fee relief increased from \$2,500 to \$3,500	YA 2004	
▪ Expansion of scope to include seminars and conferences	1 Jan 2003	
▪ Extension to cover courses not related to current profession	1 Jan 2003	
Childcare Benefits		40
▪ Exemption for employer-subsidised childcare benefits paid to licensed childcare centres	YA 2004	

## Goods & Services Tax

	Effective	Page
Alignment Of Qualifying Conditions For Income Tax Exemption And Zero-Rating Of Trustee Services	1 Jun 2003	42
Extension Of GST Relief For Trustee Services To Trust Administration Services	1 Jun 2003	42
Approved Third Party Logistics Company Scheme	1 Jan 2004	43
▪ Importation without GST by qualifying logistics companies		

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## Miscellaneous

Companies Act Amendments	-	46
Liquor And Tobacco Duties		47
▪ Increases in excise duty rates for certain kinds of liquor	Immediate	
▪ Duty charged on number of cigarette sticks rather than weight	1 Jul 2003	
Motor Vehicle Taxes		47
▪ Exclusion of certain costs for charging ARF and duty	1 Apr 2003	
▪ Rebates for wheelchair lifts		
Stamp Duties		48
▪ Exemption for leases with annual rents of \$1,000 or less	1 Apr 2003	
▪ Abolition of seller's stamp duty introduced to curb property speculation	Immediate	
Promoting Philanthropy	-	49
▪ Various		

# Business Tax

## Corporate Income Tax Rate

### Current

The standard corporate income tax rate applicable to taxable income in excess of \$100,000 is 22%. For lower levels of taxable income, the effective rates are 5.5% on the first \$10,000 and 11% on the next \$90,000.

### Proposed

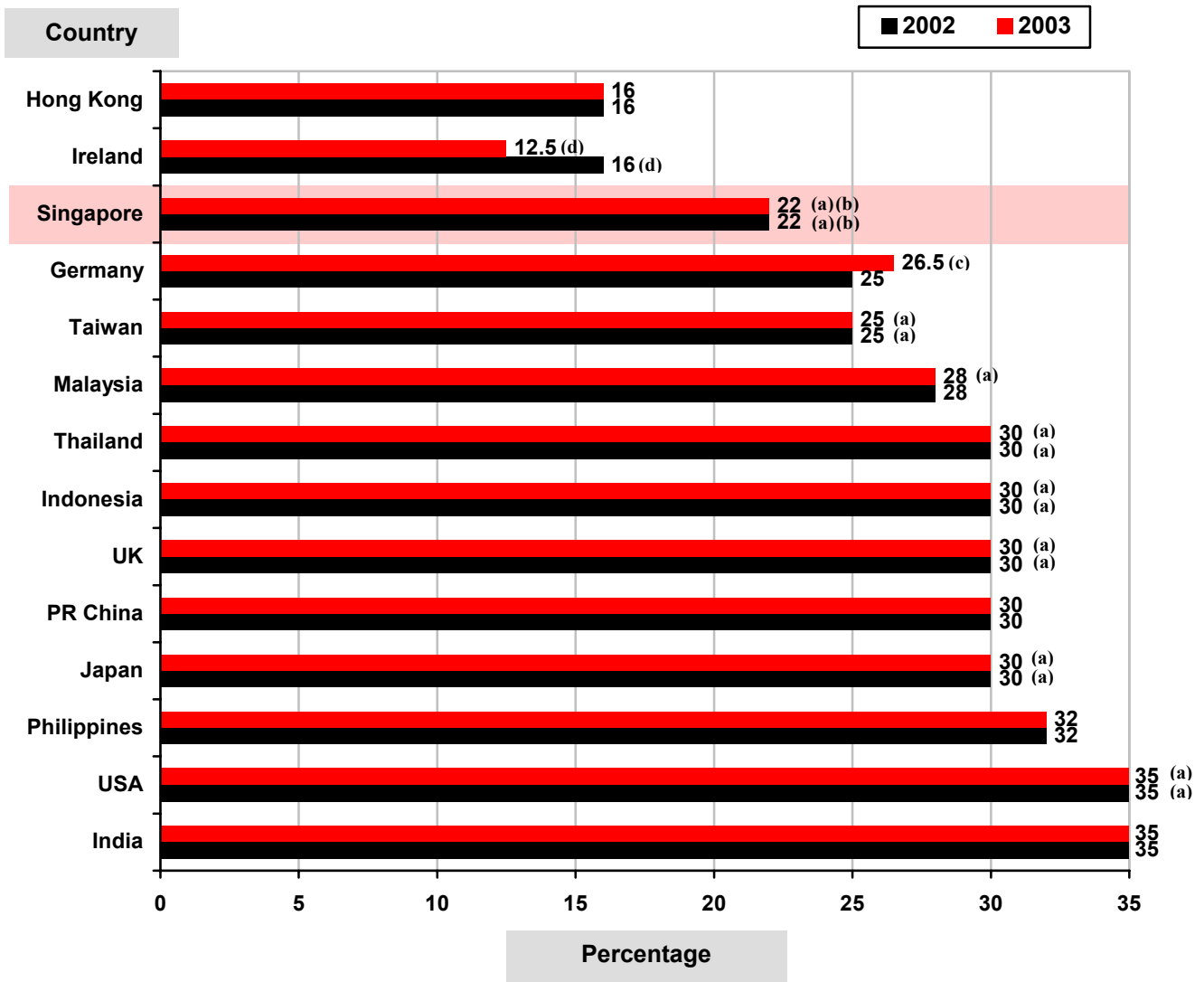
There is no proposed change to the corporate income tax rate for the YA 2004. There will also not be any tax rebate against the tax payable for the YA 2003.

### Commentary

- Companies can continue to hope for a further 2% tax rate reduction, as the Minister has reaffirmed the Government's intention to bring the corporate tax rate down to 20% by the YA 2005.
- As the tax rate is likely to be reduced in the YA 2005, it will be advantageous for companies to consider accelerating their controllable business expenditures to maximise the deduction value. Similarly, purchase of fixed assets should be accelerated, if appropriate.
- Companies with foreign source income which is taxable on a remittance basis and where the foreign income is not covered in the exemption introduced by the Minister for foreign sourced income received in Singapore, may want to consider deferring the remittance of that income so as to maximise the benefit from a further reduction of the corporate tax rate.
- Companies with overseas operations and companies whose parent companies are based in countries with Controlled Foreign Corporation ("CFC") or accruals taxation regime may also need to review their structure in view of the anticipated further tax cut of 2%.

# Business Tax

## Corporate Income Tax Rates In Selected Countries



- (a) Progressive corporate tax rates are applicable for lower income bands or companies with smaller paid-up capital.
- (b) For Singapore, the rates indicated are for incomes earned in calendar and/or financial years ended in 2002 and 2003, which are taxed in the years of assessment 2003 and 2004 respectively.
- (c) Temporary increase in rate only for the year 2003.
- (d) Rate is applicable only for trading income; different rates are applicable for other income.

Notes: The above is based on latest tax rates as at 31 Jan 2003.  
The rates stated exclude local taxes, surcharges and state taxes where applicable.

# Business Tax

## Foreign Income

### Current

Currently foreign sourced income is brought to tax if it is remitted or otherwise received in Singapore. Singapore resident taxpayers can claim relief for the foreign tax paid on the remitted income against the Singapore tax payable on the same income. The foreign tax credit relief is claimed either as double taxation relief or as unilateral tax credit relief or both. For companies, the foreign tax credit relief claims would in most cases eliminate the Singapore tax payable on the income remitted to Singapore.

The Minister also has powers to exempt from tax, foreign source income received by a person resident in Singapore either wholly or in part.

### Proposed

In response to repeated requests to exempt foreign income remitted into Singapore, the Government has decided to exempt from tax all remittances of foreign income in the form of dividends, branch profits and services income with effect from 1 June 2003.

The exemption will apply to all taxpayers, whether companies or individuals. However, it will apply only to income earned from jurisdictions with headline tax rates of at least 15%.

All other foreign income received in Singapore will continue to be subject to the existing tax credit system.

The IRAS will release more details by May 2003.

### Commentary

- The system of exempting foreign source income is simpler and less cumbersome than the present tax credit relief system.
- For companies that have unabsorbed trade losses or capital allowances, these will not be eroded by the remitted foreign source income which has suffered tax in foreign countries.
- The exemption covers only the specific income sources mentioned. In particular, it does not include foreign sourced interest and royalty income.
- Hong Kong's corporate tax rate (presently 16%) is lower than Singapore's tax rate of 22%. Under the current system, any dividend income received from Hong Kong will attract an incremental tax liability in Singapore, even after the foreign tax credit relief claim. As the current corporate tax rate in Hong Kong of 16% is higher than the "headline tax rate" of 15%, dividend income paid out of income earned in Hong Kong will be able to be received in Singapore without incremental Singapore tax.

- The tax exemption system will also benefit individual taxpayers, as the incremental tax payable by the individuals on the foreign income received in Singapore will be eliminated. Under the foreign tax credit relief system, the foreign income received by an individual is taxed at his marginal rate of tax. Relief for foreign tax suffered is, however, restricted to the Singapore tax payable on the same income, calculated at the average rate of tax. Since the foreign income received is taxed at the marginal rate and relief is granted at the average rate of tax, individuals therefore end up paying incremental tax on the foreign sourced income received in Singapore.

### **Clarification required**

- The definition of “service income” needs to be clarified. It could potentially include income from all types of services including management services income, technical services fee income and employment income. Such service income must however meet the criterion that it is foreign sourced. Certain service fee income derived by companies based in Singapore may not qualify as foreign sourced income.
- Clarification is required on the definition of the term “headline tax rate”. In particular, it remains to be seen if the foreign income would be required to have suffered at least 15% tax overseas and whether the tax must be paid in the jurisdiction in which the income was earned. Subject to the clarification to be issued, this new exemption may mean that the use of holding and intermediate holding companies overseas may no longer be a concern if the headline tax rate of the country in which the holding or operating company is located is at least 15%.
- Clarification is also required as to whether the new exemption system would apply to income earned overseas prior to 1 June 2003 but received in Singapore on or after 1 June 2003.
- The foreign tax credit relief system in respect of foreign income received in Singapore applies only to resident taxpayers. It remains to be seen if the tax exemption will likewise be restricted to resident taxpayers.
- Corporate taxpayers which have not yet migrated to the one tier system of tax will presumably be allowed to flow through the exempted income as exempt dividends to shareholders.

# Business Tax

## Portable Medical Benefits

### Current

- Currently employers are required to contribute statutorily to the employees' CPF account. A part of this contribution is allocated to the Medisave account. In addition, employers may make a monthly contribution of up to 1% of the ordinary wages of the employee to the employee's Medisave account maintained under the Central Provident Fund Act, or \$60, whichever is the lower. This additional contribution is in lieu of hospitalisation benefits which the employer is obliged to provide by reason of a contract of employment.
- Statutory contributions to an employee's CPF account are deductible by the employer and non-taxable for the employee. The additional contribution to the Medisave account is also tax deductible by the employer and exempted from tax in the employee's name provided that the employee is a Singapore citizen or a permanent resident of Singapore.
- In addition to the above, employers are allowed a deduction in respect of medical expenses incurred in respect of their employees. Such medical expense claims may not exceed 2% of the total remuneration of the employees in the relevant basis period.

### Proposed

- To encourage the provision of portable medical benefits, the ERC has recommended that the Portable Medical Benefits Scheme or the Transferable Medical Insurance Scheme be developed.
- The Portable Medical Benefits Scheme will involve additional contributions to the CPF Medisave account by employers. The Transferable Medical Insurance Scheme will involve a portable insurance product.
- To encourage employers and workers to switch to the new scheme, the tax exemption limit for additional Medisave contributions for private sector employees will be raised from 1% of an employee's monthly salary at present, to a lump sum of \$1,500 per employee per year. This will take effect from YA 2004.
- Presently, medical benefits are tax deductible expenses for employers, up to a limit of 2% of payroll. From 1 April 2004, employers who implement either of the new schemes will continue to enjoy a 2% deduction limit. However, employers who do not implement these schemes will only be allowed to deduct 1% of their total payroll for medical expenses.

## Commentary

### ■ Employees

Many employers currently provide medical benefits to their employees. Typically the employers pay the entire cost of the benefits up to a cap or require the employees to make co-payments. This is not entirely satisfactory as employees find that they are without medical cover when they are in-between jobs. The limited funds in the Medisave account may also be insufficient to meet the employees' immediate and future medical needs. The Portable Medical Benefits Scheme provides portability and flexibility in the provision of medical coverage.

### ■ Employers

There is a penalty for non-participation in the new Schemes, since the tax deduction limit will be reduced to 1% of total remuneration for those companies that do not participate.

# Business Tax

## Concession For Enterprise Development

### Current

Expenses incurred prior to the commencement of trade or business activities are not tax deductible.

The date of commencement of business is a question of fact. It is the date when the company is in a position to commence business. It would therefore typically be after key facilities of the business have been set up. For example in the case of a manufacturing business, it would be after the factory building is completed. It is not necessary for revenue to be earned before a business can be regarded as having commenced.

### Proposed

With effect from the year of assessment 2004, the first day of the accounting year in which a business earns its first dollar of trade revenue will be regarded as the day the business starts trading. The revenue expenses incurred during that accounting year will therefore be tax deductible.

If the business is able to prove that it has started trading and incurred revenue expenses even earlier, it will be allowed to deduct these expenses as well.

### Commentary

- With this change, the business commencement date is automatically assumed to be the first day of the accounting year in which the business earns its first dollar of trade revenue. Under existing tax rules, revenue expenses incurred before the business commencement date do not qualify for deduction. This change is therefore an improvement over the existing tax rules and allows for deductibility of the expenses for the entire accounting year even if the first dollar of trade revenue is earned towards the end of the accounting year.
- This new rule, however, does not displace the case law rule that a business could have commenced well before any trade revenue is received. So long as a business is able to show that it has started trading, even the revenue expenses incurred in a period or periods prior to the accounting year in which the first dollar of trade revenue is earned will qualify for deduction.

# Business Tax

## Revised Overseas Investment Incentive

### Current

Currently, the Overseas Investment Incentive (OII) allows an approved Singapore company to deduct losses, subject to certain restrictions as to holding period and quantum, arising from the sale of shares or liquidation of an approved overseas investment against its Singapore statutory income.

### Proposed

The OII will be revamped to allow an approved Singapore-based company to defer its income taxes for 2 years if the approved overseas investment incurs operating losses during the first 3 years of the approved investment. This revision will affect all new investments made from 1 January 2004.

IE Singapore will provide further details by July 2003.

### Commentary

- The revised OII should be more effective in providing timely cash-flow relief to Singapore based companies that suffer losses in their approved overseas investments. Under the existing OII, such Singapore companies will only be able to benefit from the OII when their approved overseas investments are either sold or liquidated, which may be many years later.

### Clarification required

- The details of the proposed changes to be released by the IES should hopefully clarify the following:
  - ◆ Whether the term “operating losses during the first 3 years” is intended to mean 3 years of consecutive losses or a net loss during the first 3-year period.
  - ◆ How the amounts are to be derived in determining the quantum of Singapore tax to be deferred. Losses determined based on accounting rules and on tax rules can differ vastly.
  - ◆ Whether any restrictions will be placed on the quantum of tax that can be deferred – whether there will be an annual cap and/or a ceiling pegged to the cost of investment.
  - ◆ The timing of the start of the tax deferral – whether deferral commences in the year when losses are first incurred, with clawback provisions should the following year be profitable, or will deferral only take place after the end of the third year.
  - ◆ Whether the absolute deduction for losses (from sale or liquidation of the approved overseas investment), as provided under the current OII, will be retained?

# Business Tax

## Intellectual Property Unilateral Foreign Tax Credits For Royalty Income

### Current

Currently UTC is claimable on specified income received from non-treaty countries, but does not cover royalty income. Royalties received in Singapore from non-treaty countries are subject to Singapore tax and no tax credit for any foreign taxes paid is allowed against the Singapore tax payable on such income. This can result in the same income being taxed twice.

### Proposed

To encourage firms to hold their IP rights in Singapore, the UTC will be extended to royalties received from all non-treaty countries with effect from the YA 2004.

### Commentary

- Foreign taxes paid on royalties received from countries which do not have tax treaties with Singapore, such as the USA, will be claimable as a tax credit against the Singapore tax payable on the royalties.
- For royalties received from tax treaty countries, the current Singapore tax position remains unchanged. Tax credits for the foreign tax suffered will continue to be available.
- The amount of foreign tax claimable as UTC is limited to the Singapore tax payable on the royalties received (net of deductible expenses).
- The extension of UTC is a welcome step forward. However, it is worth noting that in cases where the foreign withholding tax on royalties received from non-treaty countries is less than the Singapore tax payable on the same income, there will still be some incremental tax to be paid in Singapore.

### Clarification required

- The term “royalties” is not defined in the current income tax legislation. Further clarification from the IRAS will be needed as to whether the extended UTC will only apply to royalties from the rights to use IP or whether it includes other lump sum payments for the use of IP rights.
- It is also not clear from the Budget whether the extended UTC is intended to be given to both Singapore companies and partnership businesses conducted by Singapore resident individuals. This will need to be clarified by the IRAS in due course.

# Business Tax

## Automatic Writing-Down Allowances For Acquisition Of IP

### Current

Companies can currently apply to EDB or IDA for writing-down allowances over a five-year period for capital expenditure incurred in acquiring one of seven classes of IP:

- Patents;
- Copyrights and Related Rights;
- Trade Marks;
- Registered Designs;
- Geographical Indications;
- Layout Designs of Integrated Circuits; and
- Protection of Confidential Information

### Proposed

To increase Singapore's attractiveness as an international IP holding location, writing-down allowances will be granted automatically for capital expenditure incurred on the acquisition of IP on or after 1 November 2003. This is provided the legal and economic ownership of the IP lies with the Singapore companies. This concession is for an initial period of five years.

### Commentary

- Companies that acquire one of the above 7 classes of IP on or after 1 November 2003 will not need to go through the process of seeking approval from the EDB or IDA. Instead, the claims for writing down allowances will be admitted so long as the claimant is a Singapore company and it is able to demonstrate that the legal and economic ownership of the IP lies with it.
- This self-administration scheme for IP writing down allowances will bring the treatment in line with the current capital allowances claim on plant and machinery where no prior approval is required.
- The automatic concession as announced will apply for an initial period of 5 years from 1 November 2003 to 31 October 2008. This provides the relevant authorities with the opportunity to review and assess the self-administration scheme to determine its effectiveness and whether the scheme should be extended further or modified.
- From a Singapore tax perspective, as a result of the proposed change acquiring an IP could be a more tax efficient option than having to pay royalties for the use of the IP. The latter is generally subject to Singapore withholding tax which in reality tends to increase the cost of doing business here because the tax burden is often borne by the payer in Singapore.

- Under the current regime, the subsequent sale of the IP will result in a claw back of part or all of the writing down allowances claimed. The maximum potential amount of the claw back is the proceeds realised from the sale of the IP or the original qualifying cost of acquiring the IP, whichever is the lower.

## **Clarification required**

- We believe payments made to a non-resident for the acquisition of the “legal and economic ownership” in an IP should not be liable to withholding tax. In our view, “legal and economic ownership” is tantamount to absolute ownership. This ownership right is distinct from a mere right of use, such as a licence to use or exploit the IP, and which is typically within the scope of the withholding tax provision. Clarification from the IRAS on this point will greatly enhance the effectiveness of this proposed concession to encourage Singapore companies to acquire and own IP.
- Clarification is also needed on what constitutes “legal and economic ownership of IP”. Coupling the legal and economic ownership would suggest that the owner is also required to be the user and exploiter of the IP. Such a condition would be in line with that in the existing approval scheme which requires the IP to be used for the purposes of the trade or business carried on.
- Demonstration of “legal ownership” should not normally present issues. It is, however, uncertain what would constitute “economic ownership”. It is hoped that the IRAS will in due course provide guidelines on what constitutes “economic ownership”.

# Business Tax

## Tax Deduction For Patenting Costs For IP

### Current

Tax deductions are not available for the costs of patenting an invention because such costs are regarded as capital expenditure. Furthermore, it is not possible under current legislation to claim capital allowances for expenditure on legal fees, registration fees, stamp duty and other costs related to the registration of the patent.

Currently, the EDB administers a Patent Application Fund Plus (PAFP) grant scheme, which helps individual inventors and Singapore-based SMEs defray part of the cost of patenting an invention.

### Proposed

To encourage more companies to patent their inventions and make Singapore an attractive base for IP management, the PAFP grant scheme will be complemented with tax deductions for the costs of patenting an invention provided that:

- the invention has not received any PAFP grant; and
- the legal and economic ownership of the resulting IP lies with the Singapore company.

The incentive will apply to patenting costs incurred on or after 1 June 2003 and will last for an initial period of 10 years.

### Commentary

- As an alternative to the PAFP scheme, Singapore companies will be able to claim a tax deduction for the costs of patenting an invention so long as they will have the legal and economic ownership of the resulting IP.
- Companies planning to incur patenting costs should consider deferring such expenditure to on or after 1 June 2003 to benefit from the incentive.

### Clarification required

The EDB will release more details by May 2003. Examples of clarifications required include:

- the tax deduction will require special application;
- there will be restrictions on the type or amount of expenditure that qualifies for tax deduction;
- there will be restrictions as to the type of company or business that will be eligible for the incentive. The PAFP grant regime is not available to larger companies.

# Business Tax

## Exemption For Foreign Royalties And Interest Income Used For R&D

### Current

Foreign sourced royalties and interest income are subject to income tax when these are received in Singapore. Foreign tax credit relief is available if the royalties or interest income are sourced (and taxable) in a country with which Singapore has concluded a tax treaty.

### Proposed

To increase the stockpile of funds available for R&D activities conducted in Singapore or controlled from Singapore, a new R&D incentive will be introduced from 1 June 2003. Companies under this incentive will be granted tax exemption on foreign sourced royalties and interest income that are used for R&D purposes only.

This incentive will last for an initial period of 5 years.

### Commentary

- The proposed incentive aims to encourage companies to conduct R&D activities in Singapore or to control these activities from Singapore.
- This incentive will be beneficial to those companies with significant amounts of foreign royalties and interest income and are able to use such income to fund R&D activities.
- As reported elsewhere in this Synopsis, it is proposed that all foreign sourced dividends, branch profits and service income be exempt from tax in Singapore. In contrast, exemption for foreign sourced royalties and interest income will only be allowed under the terms of this proposed incentive.
- Further, with effect from YA 2004, UTC is claimable on royalties received in Singapore from non-treaty countries. This incentive effectively removes the incremental Singapore tax that may be payable by Singapore companies which remit their foreign sourced royalties and interest income to Singapore to fund their R&D activities.

## Clarification required

Further details of the proposed incentive are to be released by the EDB by May 2003. The following points would need to be clarified:

- the conditions that must be met for the incentive to apply;
- whether the incentive will apply only to new R&D activities or incremental R&D activities over and above those that already exist in Singapore;
- to what extent must the R&D activities take place in, or be controlled from, Singapore;
- whether the incentive will apply broadly or on a project by project basis;
- to what extent different sources of foreign sourced income need to be individually tracked for the incentive to apply, especially in situations where the offshore funds generated from such income have been pooled in a common bank account outside Singapore.

# Business Tax

## Withholding Tax Exemption For Provision Of Information And Digitised Goods

### Current

Payments made to non-residents for the use of or right to use scientific, technical, industrial or commercial knowledge or information are subject to a final withholding tax at 15% of the gross payments. The rate of withholding tax may be reduced under the provisions of a treaty for the avoidance of double taxation.

The withholding tax provisions were legislated in the late 1970s. Electronic commerce has since created new mediums of delivery and there is some degree of uncertainty as to whether withholding tax should apply to certain e-commerce transactions. During 2001 the IRAS provided guidance on the taxation of e-commerce transactions and tax exemptions were introduced in 2001 for specified payments for software. Nevertheless, the tax treatment of payments for information and digitised goods remains a point of contention. This situation exists in many tax jurisdictions, not only in Singapore.

Under a strict legalistic interpretation of the Singapore tax legislation, most payments to non-residents for electronically delivered information or digitised goods could be subject to withholding tax. However, this legalistic approach differs from that taken by the Organisation for Economic Cooperation and Development (OECD) Technical Advisory Group on Treaty Characterisation of Electronic Commerce Payments as set out in their report dated 1 February 2001. This report remains one of the more comprehensive analyses so far in the area of characterisation of digitised products and information. The report encourages a focus on the substance of transactions and distinguishes between a right that is enjoyed by an end-user and a right that is exploited for commercial reasons.

### Proposed

To facilitate the flow of on-line information and digitised goods, payments made by end-users to non-resident persons will be exempted from withholding tax. This will take effect from 28 February 2003 for an initial period of 10 years.

### Commentary

- This proposal provides an important tax exemption, and gives more clarity and certainty on the tax treatment of payments to non-residents for information and digitised goods. There will be a cost saving to businesses and individuals who pay for the use of on-line information or who pay for downloading images and sounds as end-users. Although withholding tax is theoretically a tax on the supplier, the obligation to account for the tax lies with the user and in the case of payments for information and digitised goods the cost is more usually borne by the user.

- In the IRAS circular dated 28 February 2003, the following clarification is provided for the purpose of this exemption.
  - ◆ The term “information” is defined as proprietary data or text or other content.
  - ◆ The exemption covers end-user payments for the use of information for personal consumption, or use within a business operation, without the right to exploit the copyright. An example would be an end-user subscription to Bloomberg.
  - ◆ The exemption does not cover payments for information by a reseller who acquires a master copy of information from a non-resident supplier and allows customers to purchase copies duplicated from the master copy. Resellers who merely facilitate the sale of information and digitised goods without having any right to commercially exploit the copyright of the information or digitised good will be covered by the exemption.
  - ◆ The term “digitised goods” refers to images, sounds or text that are transferred electronically to an end-user for a fee - for example, downloadable music or film.
  - ◆ The exemption covers end-user payments for the right to use digitised goods for personal consumption or for use within a business operation, where the end-user is not permitted to copy, modify or adapt the digitised goods.
  - ◆ The exemption does not cover situations where a broadcasting company acquires a movie or film from a non-resident for the purpose of broadcasting to its viewers.
  - ◆ The exemption is granted for a period of 10 years. This is to allow the Ministry of Finance to review the effectiveness of this incentive at the end of the exemption period.
  - ◆ No prior or special approval is required to enjoy the exemption.

# Business Tax

## Integrated Industrial Capital Allowance

### Current

At present, capital allowances are only granted on equipment that is used in a company's own trade or business. In practice, equipment which is not located in Singapore does not qualify for capital allowances.

### Proposed

There is a growing trend for corporate groups to concentrate marketing or other high value added activities in a single centralised company and to have their regional subsidiaries perform other activities, such as manufacturing goods under contract manufacturing terms.

To accommodate this emerging business model an Integrated Industrial Capital Allowance incentive is being introduced from 1 March 2003. Under this incentive, companies will be allowed to claim capital allowances on equipment that they own wholly, but which is used by their subsidiaries outside Singapore.

The EDB will release details of this incentive in March 2003.

### Commentary

- This measure will enable a Singapore company to obtain capital allowances in the situation where it sends its own goods for processing by its overseas subsidiary to whom it provides the necessary plant and machinery.
- Companies within the group may have to be reorganised in order to qualify as "subsidiaries" of the company which owns the assets.
- This incentive will not be attractive to Singapore companies that have a very low or zero effective tax rate, as the capital allowances will have little or no tax value.

### Clarification required

- The proposed incentive will be introduced from 1 March 2003. It remains to be seen if equipment purchased or sent overseas before this date would be eligible for capital allowances after 1 March 2003.
- It remains to be seen what criteria the EDB will impose for the purpose of granting the incentive.
- Clarification is required for the definition of a "subsidiary".

# Business Tax

## Upfront Land Premium For Leased Land

### Current

Currently, tax deductions are granted for the upfront land premium paid by a lessee to JTC or HDB in respect of a designated lease for the construction or use of a building or structure for the purposes of carrying on certain qualifying activities in that building or structure. This is provided the lease tenure is not more than 30 years. “Qualifying activities” for this purpose refer to the activities that currently qualify for industrial building allowances, with certain exceptions such as those relating to plantations, mining, the tourist industry, postal services and the organisation or management of exhibitions and conferences.

The yearly tax deduction for the upfront land premium is computed by reference to the lease tenure or remaining tenure in the case of a designated lease acquired by an assignee.

### Proposed

The current 30-year lease tenure restriction will be lengthened to a 60-year limit with effect from YA 2004.

### Commentary

- Lessees can now enjoy tax deduction for the upfront land premium paid for the construction or use of qualifying industrial buildings with a lease tenure exceeding 30 years but not exceeding 60 years.

### Clarification required

- Clarification is required on how a company may, for an existing designated lease (for the construction/use of a building or structure for qualifying activities) which is extended beyond 30 years, calculate and claim the proportionate upfront land premium paid.

# Business Tax

## Income Tax Exemption For Foreign Trusts

### Current

Specified income derived by a foreign trust administered by an ATC is exempted from Singapore tax.

### Proposed

With effect from YA 2004, the tax exemption will apply to all foreign trusts administered by any trust company in Singapore, and not just those administered by ATCs.

By 1 June 2003 the existing lists of designated investments and specified income under the ATC Scheme will be replaced by an exclusion list.

In addition, to reduce the tax compliance costs for trust companies, the conditions for foreign trusts to qualify for tax exemption and the conditions for trustee services provided to foreign trusts to be zero-rated for GST purposes will be aligned with effect from 1 June 2003. (This is discussed in the GST section.)

### Commentary

- Foreign trusts will have greater flexibility in appointing Singapore trustees as their choice will not impact the taxation of the income of the trust as is currently the case. The proposed change will effectively put trust companies and ATCs on a level playing field as far as providing services to foreign trusts is concerned.
- The replacement of designated investments and specified income by an exclusion list will likely allow more types of investments and related income to qualify for exemption.

# Business Tax

## Approved Marine Hull And Liability Insurer Scheme

### Current

Under the Approved Marine Hull and Liability Insurer Scheme, an approved marine hull and liability insurer is exempt from tax on the following income for a period not exceeding 10 years:

- underwriting income derived from writing offshore marine hull and liability insurance business; and
- dividends and interest derived from outside Singapore, gains or profits from sale of offshore investments and interest from ACU deposits, where such income is derived from investing offshore marine hull and liability insurance business income or shareholders' funds used to support offshore marine hull and liability insurance business.

### Proposed

The above scheme will be extended to cover income derived from writing onshore marine hull and liability insurance business with effect from YA 2004.

### Commentary

- The change is by itself notable as it appears to signify a gradual shift in the policy on the “offshore and onshore” concept that currently governs most of our tax incentives. With this shift, approved insurers will enjoy tax exemption on all marine hull and liability insurance business, regardless of the location of the risks and the insured.
- With this extension, an approved marine hull and liability insurer will likely enjoy tax exemption on the following:
  - ◆ underwriting income derived from writing onshore marine hull and liability insurance business; and
  - ◆ dividends and interest derived from outside Singapore, gains or profits from sale of offshore investments and interest from ACU deposits, where such income is derived from investing onshore marine hull and liability insurance business income or shareholders' funds used to support the onshore marine hull and liability insurance business.
- With this extended incentive, it is hoped that insurance companies will be able to offer more competitive premium rates to local shipping companies, and hence lower the costs of doing business for these companies. This change is also timely in that it may ease some of the pressures on premium rate hikes given the current tensions over terrorist attacks and the possibility of war in Iraq.

## **Clarification required**

- Under the existing tax regulations, an approved marine hull and liability insurer is necessarily an insurance company that carries on offshore general insurance business. It remains to be seen whether an insurance company that carries on only onshore general insurance business will now be eligible for the above scheme.
  - It appears that no separate approval is required for the extended scope of exemption. If so, existing approved marine hull and liability insurers will be enjoying the widened scope of tax exemption from the YA 2004 up to the end of the incentive period for which the existing approval was given.
- 

## **Tax Holiday For SICOM**

### **Current**

The 10-year tax holiday granted to SICOM, which exempted from tax prescribed income derived by SICOM, expired on 26 May 2002.

### **Proposed**

SICOM will be granted another 5-year tax holiday with effect from the Year of Assessment 2004.

# Business Tax

## Improved Global Trader Programme

### Current

Under the Global Trader Programme (GTP), an approved company enjoys a concessionary tax rate of 10% on all qualifying income, which includes:

- profits from physical trading and brokering in qualifying commodities;
- profits from trading in approved commodities futures exchanges; and
- foreign exchange gains arising from the above transactions.

To qualify, the income must be derived from transactions either with an offshore party or with another approved global trading company.

### Proposed

From 28 February 2003, an approved global trading company would be granted concessionary tax rates of 5% and 10% on qualifying offshore trading incomes, depending on the level of its turnover and business spending. In addition, the GTP will be expanded to include high-growth, medium-sized trading companies.

IE Singapore will provide further details by April 2003.

### Commentary

- With this announcement, the existing GTP is enhanced to help in retaining the existing international trading companies in, and attracting new international players to, Singapore.
- It is hoped that these high-growth, medium-sized trading companies participating in the improved and expanded GTP will, over time, evolve into world-class international traders. This will give a further boost to Singapore's status as an international trading centre. Thus high-growth, medium sized international trading companies which previously could not meet the turnover and spending limits for the GTP status can now reassess their eligibility for this proposed enhanced incentive.

### Clarification required

- It remains to be seen whether existing GTP companies which meet the turnover and business spending criteria for the 5% tax rate can re-negotiate for this reduced rate with immediate effect, and whether additional conditions will be imposed for the 5% concessionary rate.
- A different set of minimum turnover and business spending criteria will have to be established for the medium-sized trading companies.

# Business Tax

## Use Of Submarine Cable Capacity

### Current

Contracts for the use of submarine cable capacity are in themselves complex subjects. By and large, these contracts either entail the grant of an IRU of submarine cable capacity or of the capacity rights in international leased circuits or bandwidth. In the telecommunications industry, an IRU is commonly understood to be a right to use a specified amount of capacity of a cable network system for a specified period of time. Terms of 10 to 25 years are common. Contract terms shorter than 10 years are generally in the form of international leased circuits or bandwidth.

Falling prices coupled with technological advances made IRUs and capacity rights agreements increasingly popular in the broadcasting and telecommunications industries. They have also become increasingly complex, with new variants introduced from time to time to meet the needs and circumstances of the contracting parties. The terms of IRU or capacity use contracts can vary considerably and these terms can materially affect the characterisation of the contract as a sale of property, a lease of property or a provision of services. If the contract is characterised as one for the sale of property or the provision of services performed outside Singapore, the question of withholding tax does not arise. If it is characterised as a lease of property, a 15% withholding tax liability is attracted.

It is not always possible to decide whether such a contract should be a sale of property, a provision of services or a lease of property. Without official guidelines from the authorities, this classification effort is made all the more difficult. Hence there are instances of uncertainty whether there is in fact a liability to withholding tax.

Historically, IRUs were used to witness the shared economic ownership in the underlying submarine cable network assets. Entitlement to capital allowances was then not an issue. Given the evolution in the telecommunication industry and the needs and circumstances of the contracting parties, this shared economic ownership is not always clearly evident in all cases. Also, absent official guidelines, there will increasingly be instances where entitlement to capital allowances is open to doubt.

### Proposed

To boost the broadcasting and telecommunications industries and to encourage broadcasting and telecommunications operators to invest in international submarine cable capacity, certainty of tax treatments is now proposed as follows:

- with immediate effect, payments for the use of capacity on submarine cable operated by non-resident persons will be exempt from withholding tax for an initial period of 5 years; and
- with effect from the YA 2004, payments for IRUs for submarine cable systems will be granted a writing-down allowance over the period of use.

## Commentary

- The payments for IRUs and the use of submarine cable capacity are often significant in amounts. A liability to withholding tax will increase the cost of these payments since the industry practice is that any such liability is to be borne by the payer. The proposed exemption from withholding tax removes both this potential cost escalation and the uncertainty over the appropriate tax treatment going forward.
- Telecommunications operators in countries such as Australia, New Zealand, the United Kingdom and Ireland have been given writing-down allowances or deductions on IRU payments. The definitive entitlement to writing-down allowances on these payments will level the international playing field for our domestic players who are operating a Singapore business in what is truly a worldwide environment.

## Clarification required

- Although IRUs have become increasingly popular, the term “IRU” has yet to receive a common law meaning fully descriptive of the underlying subject matter covered by it. It remains to be seen how the term “IRU” will be defined in the relevant legislation.
- The proposed changes apply to submarine cable systems but there is no distinction between dark and lit fibre. In the context of the announcement, we believe the distinction is not necessary. However, depending on how “submarine cable system” is defined in the legislation, it may or may not include the ducts and the portion of the cable that is on land or what is commonly referred to as the “dry portion”. We urge that this term be defined to cover the entire length of the submarine cable including the protective ducts that surround the cables to protect them from damage.
- The proposed changes apply only to submarine cable systems. Given the pace of technological changes within the telecommunications sector, we believe that significant demand for IRUs in things other than cable will emerge. The transmission media in the near future may no longer be wholly or principally submarine cable based. If the proposed changes apply only to capacity rights and IRUs for submarine cable systems, these may soon be obsolete and the legislation will then become unnecessarily restrictive. It may also create distortions in the market for telecommunications capacity, as one type of transmission medium may be favoured over another. A wider and more progressive definition of IRU that extends to non-submarine cable modes of transmission such as wired, radio and future transmission media is therefore preferred. Whether this will be so remains to be seen.

# Business Tax

## Overseas Talent Recruitment

### Current

The Double Tax Deduction (DTD) for Overseas Talent Recruitment Scheme was introduced in 1998 to deal with the challenges of mounting global economic competition and the need to attract overseas talent to supplement Singapore's own work force. Under the Scheme employers can claim DTD for:

- recruitment and relocation costs incurred in hiring P1 employment pass talent from abroad;
- relocation costs for hiring P2 employment pass talent from abroad; and
- recruitment and relocation costs for hiring returning Singapore citizens and permanent residents of standing equivalent to P employment pass holders.

### Proposed

- With effect from 28 February 2003 the amount of DTD that employers can claim is expanded to include the relocation costs incurred to relocate the spouse and up to 2 children of the employee.
- The additional relocation costs allowable under the scheme for the spouse and each child (up to a maximum of 2 unmarried children under the age of 21 years) are \$5,000 and \$2,500 respectively. The revised deduction cap for the cost of recruiting and relocating a qualifying P1 employment pass holder is therefore now increased from \$15,000 to \$25,000 whilst the revised deduction cap for the cost of recruiting a P2 employment pass holder is now similarly increased from \$5,000 to \$15,000.
- The total deduction that an employer can claim for qualifying expenses incurred has also been increased from \$150,000 to \$275,000 per year.

### Commentary

- Recruitment of foreign talent in situations where the employee has a family will be facilitated or made less costly for the employer by this measure.

# Business Tax

## Property Tax Rebate

### Current

All commercial and industrial properties currently enjoy a fixed property tax rebate of up to \$8,000 per annum, or \$4,000 for the 6-month period from 1 January 2003 to 30 June 2003. In addition, a 30% rebate is given for the balance of property tax payable for the same period.

### Proposed

A fixed property tax rebate of up to \$2,000 will be granted for all commercial and industrial properties for the 6-month period from 1 July 2003 to 31 December 2003. In addition, a 15% rebate will be given for the balance of property tax payable for the same period.

### Commentary

- The new set of property tax rebates represents a reduction in the rebate currently available for commercial and industrial properties.
- According to the IRAS' press statement issued on 28 February 2003, owners of commercial and industrial properties can expect to receive their revised property tax bills by the end of March 2003. Owners paying their property tax through GIRO will also receive their revised GIRO instalment plans. Owners can expect to receive a refund of any excess property tax paid by the end of April 2003.

# Personal Income Tax

## CPF Changes

### Current

The CPF employer and employee contribution rates for employees aged 55 and below are 16% and 20% respectively. The monthly ceiling for CPF contributions on ordinary wages is \$6,000 for private sector employees, \$7,000 for public sector (non-pensionable) and \$9,333 for public sector (pensionable) employees.

### Proposed

The ERC's recommendation to defer the restoration of the current CPF contribution rate of 36% for two years was accepted by the Government. In addition, the Minister announced that the phase-in of other changes to the CPF system would proceed.

- Defer restoration of CPF employer contribution rate for 2 years
  - ◆ The rate will be restored progressively to the full 40% after 2 years. The pace and timing will depend on prevailing economic conditions.
- Lower the CPF salary ceilings over 2 years
  - ◆ Reduction in the CPF salary ceilings will be phased in over 2 years. For private sector employees, the CPF salary ceiling will be lowered to \$5,500 in January 2004, and further to \$5,000 in January 2005.
  - ◆ The lower CPF salary ceilings are as follows:

CPF salary ceiling	Current	From 1 January 2004	From 1 January 2005
Private Sector	\$6,000	\$5,500	\$5,000
Public Sector (Non-Pensionable)	\$7,000	\$5,500	\$5,000
Public Sector (Pensionable)	\$9,333	\$8,000	\$6,667

- ◆ This change will refocus the CPF scheme on the basic needs of the majority of the population, rather than the higher income earners who are better able to plan and provide for their future financial needs.

- ◆ Employers are encouraged to pass on part of their cost savings to deserving workers through the variable component of wages, e.g. bonus or other variable payments.
- Lower CPF employee contribution rate for workers aged 50-55
  - ◆ The employee contribution rate for older workers aged 50-55 will be lowered from 20% to 18% in January 2004 and further to 16% in January 2005.
  - ◆ The lower CPF contribution rates for workers aged 50-55 are as follows:

CPF Contribution Rates	Current	From 1 January 2004	From 1 January 2005
Employer	16%	16%	16%
Employee	20%	18%	16%
Total	36%	34%	32%

The freezing of the employer CPF contribution for this group of workers at 16% will reduce the salary costs of older workers, therefore enhancing their employability. In addition, this will enable older workers to take home more of their pay and will help them when their companies phase out seniority based wage structures.

- Increase Special Account and Medisave Account contributions for all Singaporeans from 1 January 2004, over 3 years
  - ◆ This change strengthens savings for old age and healthcare.
  - ◆ The increased contribution rates to Special and Medisave Accounts are as follows:

CPF Contribution Rates	Current	From 1 January 2004	From 1 January 2005	From 1 January 2006
<b>For workers aged 35 years and below</b>				
Special Account	4%	5%	5%	5%
Medisave Account	6%	6%	7%	7%
<b>For workers aged above 35-45 years</b>				
Special Account	6%	7%	7%	7%
Medisave Account	7%	7%	8%	8%
<b>For workers aged above 45-55 years</b>				
Special Account	6%	7%	8%	9%
Medisave Account	8%	8%	8%	9%

- ◆ CPF members who purchased their properties before 1 January 2004 will have continued access to their Special Accounts to top up their CPF mortgage payments, to the extent that these payments are affected by the changes.

## Commentary

- Progressive restoration of the CPF contribution rates (after the 2 year deferral) ensures that the burden on employers is not increased before the economy has fully recovered. Companies are less likely to retrench workers or move out of Singapore if their business costs are not increasing.
- Whilst the Government has announced continued access to the Special Account to top up CPF mortgage payments, this is only applicable to individuals who purchased their properties before 1 January 2004. As a consequence of the combined effect of the reduction of the CPF salary ceilings and the increase in the Special and Medisave Account contributions, individuals who purchase property on or after 1 January 2004 would have reduced funds in their Ordinary Account to service mortgage repayments.
- With the reduction in the CPF salary ceilings, middle income employees who earn more than \$6,000 per month currently will have more take-home pay since the absolute amount of their employee CPF contribution will be reduced.
- However, their personal income taxes will increase with the corresponding reduction in their personal relief. [The maximum personal relief deduction on ordinary wages will decrease from \$14,400 in YA2003 to \$13,200 in YA2004 and subsequently to \$12,000 in YA2005.] It is likely that there will be corresponding changes to the calculation of the limit to CPF contributions on additional wages, e.g. bonus payments.
- The impact of the lowering of the CPF salary ceiling and CPF employee contribution rate for workers aged 50 – 55 is threefold :
  - (a) increases an individual's personal income tax liability as above stated;
  - (b) increases his take-home income; and
  - (c) decreases his overall income (due to the reduction in employer CPF contributions).

Based on the illustrations on the next page, although there is an increase in the individual's take home pay as a result of the reduced employee's contribution to CPF, the individual will suffer a drop in his overall net income due to the increased taxes and reduced employer's CPF contributions.

- The SRS was introduced in the Budget Statement FY 2001 to encourage supplementary savings for retirement over and above CPF savings on a voluntary basis. Currently, the maximum contribution that may be made by a Singapore citizen to SRS is 15% of his wages (in accordance with the CPF capping rules). With the reduction of the CPF salary ceilings, there may be corresponding changes to the amount of SRS contributions that can be made. This will then impact the amount which can be put aside for retirement and the personal tax relief that can be claimed.

## Clarification required

- Currently, CPF contributions (including voluntary contributions by individuals who are self employed) are limited to the higher of the mandatory contributions or \$28,800 per year. With the reduction in the CPF salary ceilings, clarification is required as to whether the amount will be correspondingly lowered.

INCOME IMPACT OF PROPOSED CPF CHANGES ON AN INDIVIDUAL AGED BELOW 50

<b>Tax Calculation</b>			
	<b>YA 2004 Current S\$</b>	<b>YA 2005 Proposed S\$</b>	<b>YA 2006 Proposed S\$</b>
Salary (ordinary wages)	150,000	150,000	150,000
Bonus (additional wages)	20,000	20,000	20,000
<b>Total taxable employment income</b>	<b>170,000</b>	<b>170,000</b>	<b>170,000</b>
Less :			
Personal reliefs :			
Earned Income	(1,000)	(1,000)	(1,000)
Wife	(2,000)	(2,000)	(2,000)
Child	(4,000)	(4,000)	(4,000)
CPF	(18,400)	(17,200)	(16,000)
<b>Chargeable Income</b>	<b>144,600</b>	<b>145,800</b>	<b>147,000</b>
<b>Tax Payable</b>	<b>14,290</b>	<b>14,470</b>	<b>14,650</b>

<b>Calculation of Take-Home Income</b>			
Employment Income	170,000	170,000	170,000
Less : Tax costs	(14,290)	(14,470)	(14,650)
Less : Employee's CPF	(18,400)	(17,200)	(16,000)
<b>Take-Home income (net of tax)</b>	<b>137,310</b>	<b>138,330</b>	<b>139,350</b>
<b>Increase in Take-Home income</b>		<b>1,020</b>	<b>2,040</b>

<b>Calculation of Overall Income</b>			
Employment Income	170,000	170,000	170,000
Add : Employer's CPF	14,720	13,760	12,800
Less : Tax costs	(14,290)	(14,470)	(14,650)
<b>Overall income</b>	<b>170,430</b>	<b>169,290</b>	<b>168,150</b>
<b>(Decrease) in Overall income</b>		<b>(1,140)</b>	<b>(2,280)</b>

**Assumptions :**

- 1) Taxpayer is a Singaporean, aged below 50 years.
- 2) Married with 2 dependent children.
- 3) Wife has no taxable income.
- 4) Base salary of \$12,500 per month.
- 5) Employer's CPF contribution rate remains at 16%.
- 6) No change in tax rates over the years.

# Personal Income Tax

## Domestic Interest Income

### Current

- Currently, the following types of interest income received by individuals are tax exempt:-
  - ◆ Interest income derived during the period 1 January 2002 to 31 December 2004 from savings account deposits aggregating up to \$100,000 maintained with the POSB Bank
  - ◆ Interest derived from certain qualifying debt securities by non-residents
  - ◆ Interest earned by non-residents from deposits with approved banks in Singapore and/or from Asian Dollar Bonds

### Proposed

- The Minister has decided to exempt from tax interest paid to individuals derived from standard domestic savings, current and fixed deposits. The exemption will be implemented in 2 phases: -
  - ◆ With effect from YA 2004, in addition to the depositors with POSBank who already enjoy tax exemption on the interest income from the first \$100,000 of their deposits, interest from amounts exceeding the first \$100,000 in each of the standard savings, current and fixed deposit accounts of individuals will be exempt from tax.
  - ◆ With effect from YA 2006, the tax exemption on interest income will be extended to the full amount of the standard domestic savings, current and fixed deposits of individuals.
- More details will be released by IRAS by April 2003

### Commentary

- The current exclusive tax exemption benefit on interest income derived from deposits not exceeding \$100,000 held with the POSBank will be phased out by 31 December 2004.
- Individuals who hold deposits with other Singapore banks will also enjoy exemption on the interest income earned from the deposits exceeding \$100,000 from 1 January 2003.
- Currently only non-resident individuals enjoy exemption from tax in respect of interest income from deposits held with approved Singapore banks. With effect from 1 January 2005, interest income derived by all individuals (both residents and non-residents) from deposits held with Singapore banks will be tax exempt. This would place the resident individuals on the same tax position with the non-residents in respect of interest income.

## Clarification required

- It remains to be seen as to whether interest income received from deposits with finance companies or from other companies which are not banks could also enjoy the tax exemption proposed above.
- The proposed change also raises other interesting questions like:
  - ◆ What is meant by “standard domestic savings, current and fixed deposits”?
  - ◆ For YA 2004 and YA 2005, will the \$100,000 exclusion be applied very strictly on a “per account basis”? In other words, regardless of the number of accounts held by the individual within the same bank, will the exclusion be applied separately to each account? If so, the individual would only be able to enjoy the tax exemption benefits on the interest from amounts exceeding \$100,000 in each account with the same bank.
  - ◆ Alternatively, could the \$100,000 exclusion be applied on a “per individual basis”? In other words, will all deposit accounts held by an individual with the same bank be aggregated for application of the exclusion?

# Personal Income Tax

## Enhanced Course Fee Relief

### Current

Currently, a person may deduct up to \$2,500 for course fees in a year provided:

- ◆ He/she undertakes a course leading to an approved academic or professional qualification, or other approved course; and
- ◆ The course has to be related to his/her existing trade, business, profession or employment.

Any expenses incurred for attending a seminar or conference currently does not qualify for course fee relief.

### Proposed

- The course fee relief will be increased to \$3,500 with effect from YA 2004.
- In addition, the scope of the course fee relief is expanded to include costs for attending seminars and conferences.
- The relief is extended to include courses not directly related to one's current profession. However, to qualify for this relief, the applicant has to establish that the course resulted in a career switch to a relevant job within a period of 2 years.
- Resident taxpayers who complete courses, seminars or conferences starting from 1 January 2003 will enjoy the enhanced course fee relief.

### Commentary

- The purpose of granting the increased course relief is to encourage life-long learning and training to maintain employability in this volatile and uncertain economic environment.
- Individuals and professionals who incur expenses personally on attendance at conferences and seminars in order to meet the requirement for minimum Continuing Professional Education hours will benefit from these changes as it will result in reduced personal taxes.

### Clarification required

- It is not clear as to whether the relief for fees on courses that are not related to an individual's trade/business/employment is to be given in the year in which the expense is incurred or at a later date when the individual is able to establish that the course taken earlier has helped in a career switch.

# Personal Income Tax

## Childcare Benefits

### Current

Currently, any subsidy or cost incurred by the employer to provide childcare benefits to the employee is strictly speaking, considered an employee benefit and hence would be taxable to the employee as part of employment income.

### Proposed

With effect from YA 2004, employer-subsidised childcare benefits paid to licensed childcare centres are tax-exempt.

### Commentary

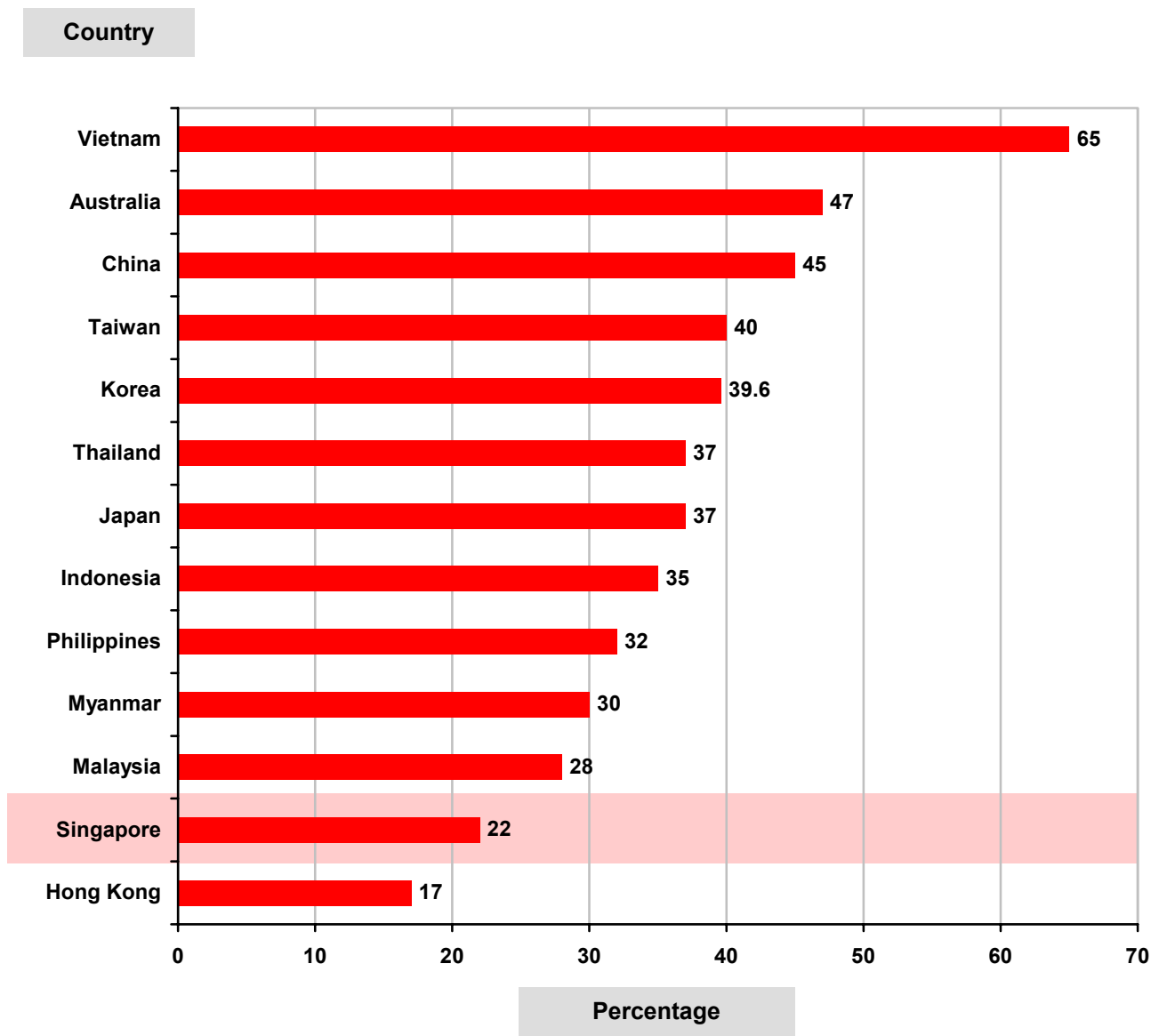
- The proposed change is to encourage parents to stay in the workforce.
- This is good news to working parents since the benefit is no longer taxable.

### Clarification required

- Is there any condition that both parents must be working before the benefit is tax exempt?
- Does the exemption only apply to a working employee who is the mother? How about a working father?

# Personal Income Tax

## Comparison Of Top Marginal Income Tax Rates In Selected Countries In The Region



Notes: The above is based on latest tax rates as at 31 Jan 2003

# Goods & Services Tax

## Alignment Of Qualifying Conditions For Income Tax Exemption And Zero-Rating Of Trustee Services

### Current

Currently, trustee services (other than those supplied directly in connection with land or goods located in Singapore and services provided by any agent to execute or administer the trust on behalf of the trustee) qualify for zero-rating under Section 21(3)(r) of the GST Act subject to the following conditions:

- not less than 80% of the settlors and not less than 80% of the beneficiaries consist of either or both of the following:
  - ◆ individuals who are not Singapore citizens; and
  - ◆ companies which are neither incorporated nor belong in Singapore, and the whole of whose issued capital is beneficially owned, directly or indirectly, by foreign persons; and
- not less than 80% of the value of the trust property (whether in Singapore or elsewhere) is contributed by settlors who belong in a country other than Singapore.

### Proposed

With effect from 1 June 2003, the set of conditions for zero-rating of trustee services provided to foreign trusts will be aligned to that in the Income Tax Regulations.

### Commentary

- The alignment of the definition of what is a foreign trust between GST and the Income Tax Regulations will simplify the compliance procedures and costs.

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## Extension Of GST Relief To Trust Administration Services

### Current

Trustee services (e.g. custodian/management/administration) provided by a Singapore trust company to a foreign trust, as presently defined, qualify as international services under Section 21(3)(r) of the GST Act and are zero-rated. However, the zero-rating under Section 21(3)(r) of the GST Act currently excludes the services provided by any agent to execute or administer the trust on behalf of the trustee i.e. where the trustee employs an agent to transact any business or do any act required to be transacted or done, in the execution or administration of the trust.

## Proposed

With effect from 1 June 2003, the zero-rating provision in respect of trustee services will be extended to cover the services of a Singapore trust company of which it is not a trustee but is appointed to execute or administer the trust (on behalf of a foreign trustee).

## Commentary

- The extension of GST relief to trust administration services will certainly help enhance the Trust industry.
  - While the services provided by any agent to execute or administer the trust on behalf of the trustee were previously excluded from zero-rating under Section 21(3)(r) of the GST Act, such services could still qualify for zero-rating under Sections 21(3)(e), (f) or (j) of the GST Act if they are services supplied directly in connection with land or goods outside Singapore or are supplied for and to a person who belongs outside Singapore, not being services directly in connection with land or goods in Singapore. This extension of GST relief will lower the costs of using the services of a Singapore trust company thus leveling the playing field with foreign trust companies who currently enjoy zero-rating under their domestic law.
- 

## Approved Third Party Logistics Company Scheme

### Current

- Third party logistics (“3PL”) companies undertake vendor-managed inventory operations where they import and hold goods belonging to foreign principals, and deliver the goods to customers in and outside Singapore only upon instruction by the foreign principals.
- Under the existing GST legislation, a 3PL company will be able to operate as the GST agent (commonly known as the Section 33(2) agent) on behalf of a foreign principal. As the GST agent for the foreign principal, the 3PL company will be responsible for:
  - ◆ The GST payable to the Customs and Excise Department upon the importation of the goods into Singapore, if the 3PL company does not have the Major Exporter Scheme (“MES”) status;
  - ◆ Charging the GST on the subsequent delivery of the goods to local customers of the foreign principal; and
  - ◆ Accounting for the goods imported into Singapore and the subsequent supply to customers in and outside Singapore in its GST returns.

## Proposed

- In line with the ERC's vision of developing Singapore into a leading global integrated logistics hub, the Approved 3PL Company Scheme will allow qualifying 3PL companies to:
  - ◆ import the goods belonging to them or foreign principals without payment of GST; and
  - ◆ supply the goods to local customers with the MES status or other qualifying 3PL companies without charging GST.

GST will be levied only on goods that are released into the local market for consumption.

- To be eligible for this scheme, a 3PL company's proportion of exports and supplies to local customers with MES status and other qualifying 3PL companies must exceed 50% of its total supplies.
- The scheme will be effective from 1 January 2004 and IRAS is expected to announce the details of the scheme in June 2003.

## Commentary

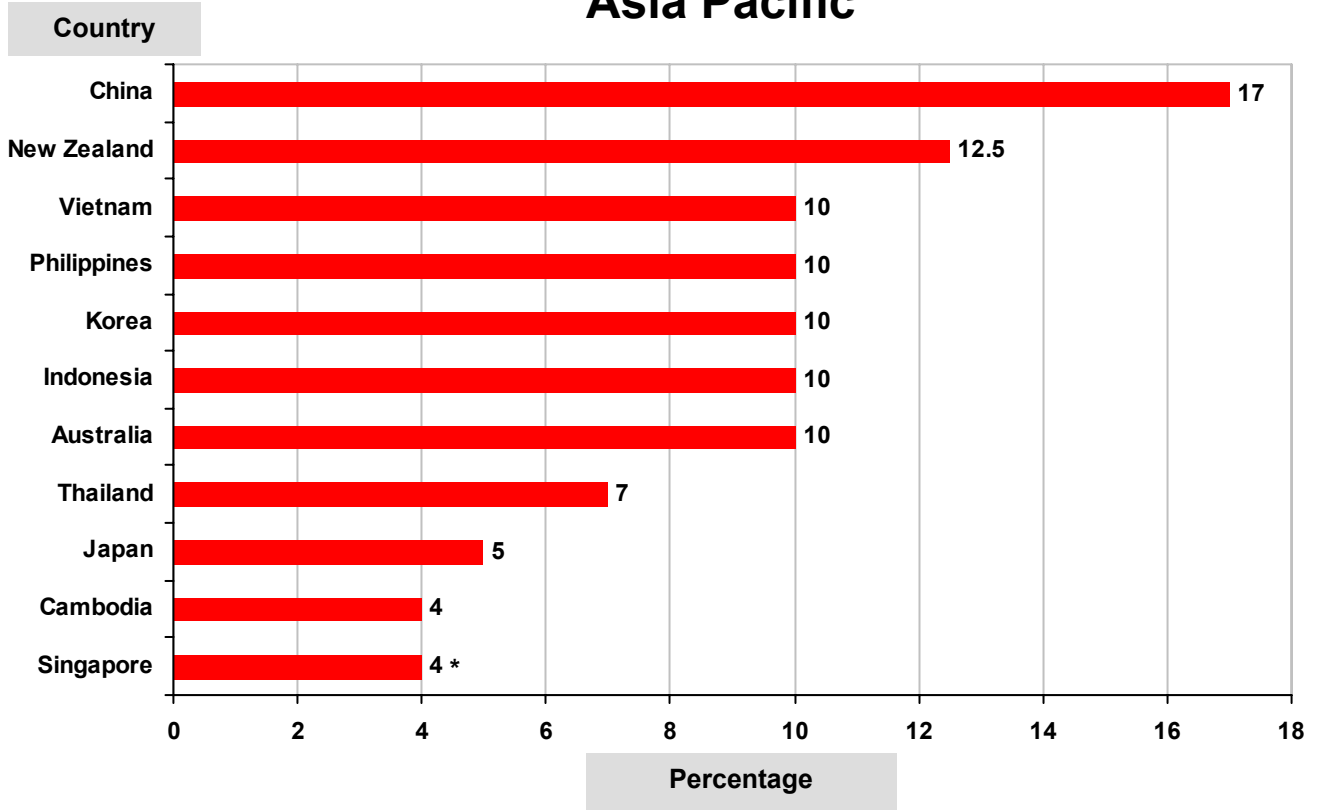
- This new scheme is similar to the Goods Removed From Bonded Warehouse Scheme (Waiver Scheme) that was introduced in 1999, where the GST on goods removed by a MES trader from bonded warehouses operated by approved logistics companies will be waived. Unlike the Waiver Scheme however, there is no requirement under the Approved 3PL Company Scheme for the goods to be imported into a bonded warehouse. This new scheme may replace the Waiver Scheme by removing the stringent requirements and costs of operating a bonded warehouse.
- This new scheme will remove the cashflow disadvantage faced by local customers with MES status from having to pay GST on goods supplied by foreign principals in Singapore.
- It should be noted that this new scheme only applies to goods imported into Singapore and does not apply to goods purchased by foreign principals in Singapore for resale to their customers.

## Clarification required

- Under the current MES scheme, companies have to renew their MES status once every 3 years. It is unclear if similar renewal requirements will apply under this new scheme.
- The MES status requires an external auditors' positive assurance report that the value of imports, exports and the total supplies declared in the MES new/renewal application form are fair. It is unclear whether a similar auditors' report is required.
- Clarification is required on whether the 3PL company will be required to account for the goods imported into Singapore and the subsequent supply to customers in as well as outside Singapore in its GST returns.

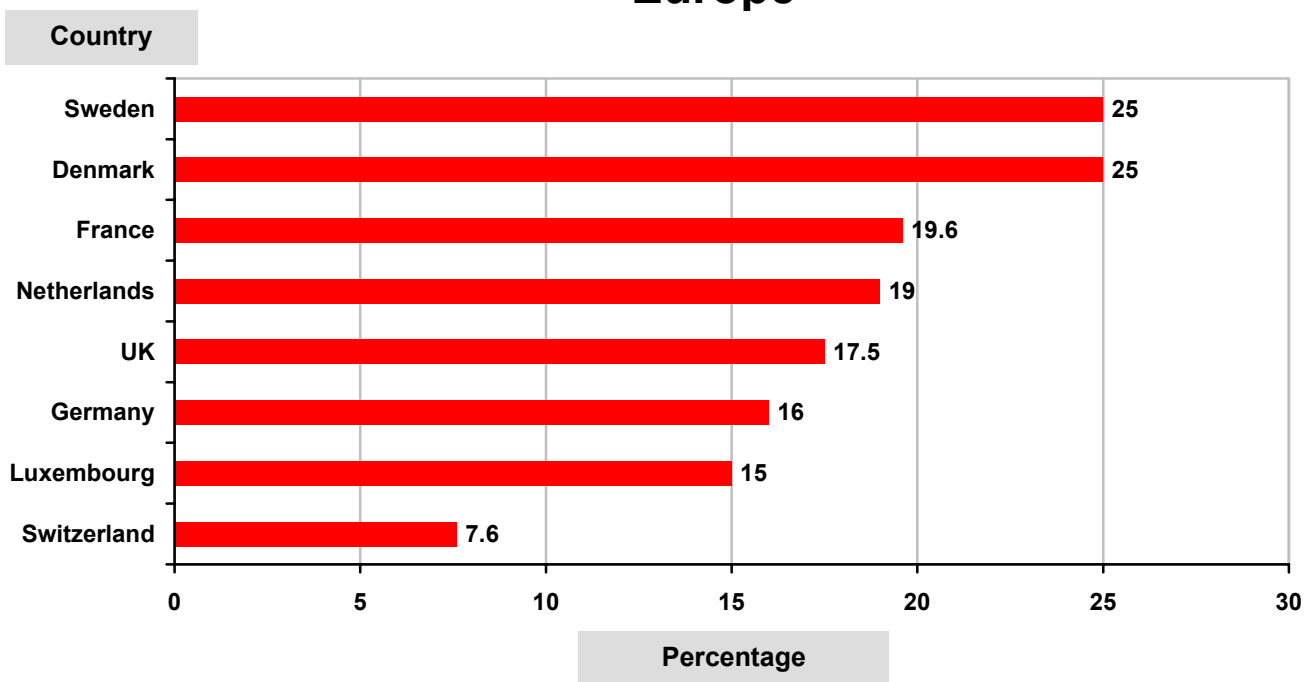
# GST Rates in Selected Countries

## Asia Pacific



\* revised to 5% with effect from 1 January 2004

## Europe



# Miscellaneous

## Companies Act Amendments

### Current

- Businesses are generally carried out in Singapore in the form of a sole proprietorship, partnership, branch or incorporated company.
- Companies incorporated in Singapore are currently required to appoint professionally qualified company secretaries.
- Companies incorporated in Singapore and branches of foreign companies registered in Singapore are required to submit annual audited financial accounts.

### Proposed

- Two new business vehicles will be introduced in 2004 – Limited Partnership and Limited Liability Partnership structures. These vehicles offer limited liability to the partners as well as the flexibility of being structured as partnerships.
- Although private companies will still have to appoint a company secretary, the statutory requirement that the company secretary be professionally qualified will be removed.
- Audited accounts will no longer be required for dormant companies, and for exempt private companies with small annual turnovers. The annual turnover threshold for exempt private companies will initially be set at \$2.5 million, and will be raised to \$5 million after one year.

### Commentary

- The effective date of the above proposals is expected to be provided in the legislative changes to the Companies Act, which will be issued shortly.
- Limited Partnerships are typically used for private equity and fund investment activities, while Limited Liability Partnerships are often used as professional and business investment vehicles. Both vehicles accord passive investors with limited liability, privacy and often tax transparency, the income being directly taxed in the hands of the investor.
- Currently audited accounts are required to accompany tax return filings. To effectively reduce the compliance costs, the removal of the statutory requirement for audited accounts for dormant and smaller exempt private companies should also extend to the administrative requirement of IRAS in requiring such audited accounts. If so, it is likely that IRAS may request submission of alternative supporting documentation, such as management accounts certified by the company's director or officer.

# Miscellaneous

## Liquor And Tobacco Duties

To rationalise liquor taxes and bring the taxes in line with Singapore's international obligations, excise duties will be raised for some types of liquors, and reduced for other types, with effect from 28 February 2003.

To discourage smoking, and in particular to deter the young from picking up the habit, excise duties on all tobacco products will also be raised with effect from 28 February 2003. For example, the excise duty for cigarettes will be increased from \$210 per kg to \$255 per kg. In addition, a new system of taxation for cigarettes will be implemented from 1 July 2003, whereby excise duty will be levied on cigarettes by sticks rather than by weight.

The limit for bringing in tobacco products into Singapore without a permit will also be lowered from 2 kg to 400g with effect from 1 April 2003.

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## Motor Vehicle Taxes

### Current

Motor vehicles imported into Singapore are subject to ARF and excise duty. The current method for valuing motor vehicles for the purpose of these charges is the Brussels Definition of Value (BDV) method.

### Proposed

The Customs Valuation Code (CVC) method will replace the BDV method. The CVC method excludes certain expenses, such as advertising, promotion, warranties, showroom and warehousing costs, from the taxable value of a vehicle. The effect is to decrease the ARF and excise duty for most vehicles by 3% to 5%. The change takes effect from 1 April 2003.

The Government has also announced that the cost of wheelchair lifts and other costs associated with the installation of such lifts will be excluded from the open market value (OMV) of the vehicle when computing ARF and excise duty. This change will take effect from 28 February 2003 and is intended to help the elderly and disabled persons meet their transport needs.

### Commentary

- The Government's stated policy is to lower the costs of car ownership and to increase costs of car usage. However, the cost of a car also includes the cost of a COE, which is a function of a variable demand for vehicles and a controlled number of COEs. Depending on the demand for cars, the effect of the lowering of ARF and excise duty may be partly or fully negated by an increase in the price of COEs.

# Miscellaneous

## Stamp Duty Exemption On Leases

### Current

All property leases are levied with stamp duty.

### Proposed

It is proposed that from 1 April 2003 onwards, leases with annual rents that do not exceed \$1,000 be exempted from stamp duty. This is intended to benefit households who either start a new lease or renew the lease of 1- or 2-room HDB rental flats. The exemption will also cover the fixed duty levied on 99-year leases entered into for the purchase of flats from the HDB.

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## Abolition Of Seller's Stamp Duty

### Current

Stamp duty on transfer of immovable properties is normally paid by the buyer. In May 1996, an additional stamp duty was imposed on the seller of a residential property sold within 3 years of purchase. This measure was introduced to curb property speculation and to stabilize the property market. In November 1997, the additional duty was suspended when the property market cooled down.

### Proposed

Since the property market is stable now, the Government has decided to abolish the seller's stamp duty.

# Miscellaneous

## Promoting Philanthropy

### Current

The existing measures to promote philanthropy include a single or double (where certain conditions are satisfied) deduction for:

- a donation of money to an approved IPC in Singapore;
- an individual's donation of shares listed on the SGX or units in unit trusts traded in Singapore to an IPC in Singapore;
- a company's donation of a computer (including computer software and peripherals) approved by the MoF to a prescribed educational, research or other institution in Singapore;
- an approved artefact donation to an approved museum; and
- donation of a sculpture to the nation under the Public Sculptures Donation Scheme. Donations of public sculptures made from estates are also exempted from estate duty.

### Proposed

The following new measures are proposed:

- income tax deductions will be given for donations of buildings and parcels of land to IPCs with effect from 1 April 2003. A donor will have the option of donating the sales proceeds of the asset or the asset itself. Both options will give the same amount of tax deduction.
- an IPC will no longer be required to pay stamp duty on the transfer of any immovable properties and shares donated to the IPC with effect from 28 February 2003.
- the Public Sculpture Donation Scheme will be enhanced with effect from 1 July 2003 to incentivise donors to adopt existing sculptures, commission and donate sculptures or publicly display sculptures from their private collections. Details of the enhanced scheme will be released by the National Heritage Board by 1 July 2003.

### Clarification required

- It remains to be seen whether any donation of land and buildings to an IPC would attract a single or double income tax deduction.
- The method of determining the value of donations of buildings and parcels of land will need to be clarified.

## Annex A – Changes To Excise Duties For Petrol

Grades of Petrol	Current Excise Duties	Excise Duties with effect from 28 Feb 2003
Premium	35% of pump price without GST, or \$0.44 per litre (whichever is higher)	\$0.44 per litre
Intermediate	35% of pump price without GST, or \$0.41 per litre (whichever is higher)	\$0.41 per litre
Regular	35% of pump price without GST, or \$0.37 per litre (whichever is higher)	\$0.37 per litre

Source: Budget Statement 2003

## Annex B – Utilities Save Rebates (From July 2003 To June 2004)

Month	1-room	2-room	3-room	4-room	5-room
July 03	\$35	\$35	\$35	\$35	\$35
August 03	---	---	---	---	---
September 03	\$35	\$35	---	---	---
October 03	---	---	\$35	---	---
November 03	\$35	\$35	---	---	---
December 03	---	---	---	---	---
January 04	\$35	\$35	\$35	\$35	---
February 04	---	---	---	---	---
March 04	\$35	\$35	---	---	---
April 04	---	---	\$35	---	---
May 04	\$35	\$35	---	---	---
June 04	---	---	---	---	---

Source: Budget Statement 2003

# Recent Singapore Tax Developments

## Qualifying Debt Securities Scheme

On 19 February 2003, the MoF extended the QDS scheme for another 5 years to expire on 27 February 2008. Under the QDS scheme, the following tax incentives are available:-

- tax exemption on interest income received by non-resident investors, provided the QDS are not purchased using funds from Singapore operations;
- concessionary tax rate of 10% on interest income received by financial institutions, companies and bodies of persons such as management corporations, town councils, trade and industry associations, and clubs in Singapore; and
- tax exemption on income derived by primary dealers from trading in SGS.

For the purpose of the extended scheme, the QDS (which include SGS) must be issued during the period from 28 February 2003 to 27 February 2008.

# Recent Singapore Tax Developments

## Financial Sector Incentive Scheme

In the 2002 Budget delivered on 3 May 2002, the Minister announced the consolidation of several existing tax incentive schemes into a single FSI scheme. On 27 February 2003, the MAS issued a circular to explain the broad framework and concept of the FSI scheme. Other details, including the qualifying activities and application process, will be released in a subsequent circular to be issued in March 2003.

### Framework of the FSI scheme

The FSI scheme will merge seven of the existing tax incentive schemes into one. The main features of these seven schemes are as follows:

1. ABIs – debt securities which are arranged by ABIs and issued within a specified period are automatically treated as QDS – see section on QDS Scheme. ABIs are exempt from tax on fee income earned from arranging, underwriting and distributing the QDS.
2. ACUs – qualifying income derived by an ACU of a financial institution is generally taxed at the concessionary rate of 10%, if certain specified criteria on the types of transactions, the currency in which the transactions are denominated and the counter-parties to the transactions are satisfied. Certain types of income derived by the ACU are taxed at 5% or are exempt from tax, if other specified conditions are satisfied.
3. ADTs – income derived from qualifying derivatives services and transactions by ADTs is taxed at a concessionary tax rate of 5%. Payments on qualifying derivatives made by ADTs to non-residents are exempt from tax.
4. AFMs – a 10% concessionary tax rate is accorded to AFMs on qualifying income from funds managed, investment advisory services provided, and loans of securities arranged by the AFMs in Singapore, if certain conditions are met.
5. ECMIs – ECMIs can enjoy a 5% or 10% concessionary tax rate on their qualifying income derived from specified services and transactions relating to securities.
6. OHQs – approved OHQs are taxed at the concessionary rate of 10% on income derived from providing qualifying headquarters services to overseas related companies.
7. Syndicated Facilities – tax exemption is accorded on qualifying fee and interest income derived from arranging, underwriting and participating in approved Syndicated Facilities.

The qualifying activities under the FSI scheme will be categorised as follows:

- (a) Enhanced Tier (“ET”) qualifying activities that are taxed at 5%
  - These will be high growth, high value-added activities.
  - Qualifying activities will be classified under 4 different awards - bond market (“FSI-BM”), derivatives market (“FSI-DM”), equity market (“FSI-EM”), and credit facilities syndication (“FSI-CFS”).
  - These qualifying activities will include those that are currently taxed at 0% or 5% under ABI, ADT, ECMI, and Syndicated Facilities incentive schemes.
- (b) Standard Tier (“ST”) qualifying activities that are taxed at 10%
  - These cover a broader range of financial activities that are important to Singapore’s financial sector development objectives.
  - The qualifying activities will include those that are currently taxed at 10% under the existing tax incentive schemes.

## Salient Features

1. Counter-party and currency restrictions will be removed for capital market activities and certain financial advisory services. The FSI scheme will cover these qualifying activities and services even if the income is derived from transactions denominated in Singapore dollars, and regardless of whether the transactions are with counter-parties in or outside Singapore.
2. For loans and related lending activities, the FSI scheme will grant a 10% concessionary tax rate on income derived from these activities where the transactions are denominated in non-Singapore dollars, regardless of whether the counter-parties are in or outside Singapore and whether the loans are used in or outside Singapore.
3. The scope of the existing tax incentive for fund managers and the qualifying criteria remain unchanged under the FSI scheme.
4. A qualifying base for ST activities, to be taxed at the normal corporate tax rate, needs to be computed every 3 years. The qualifying base will be computed based on income from the past 3 years of assessment. Income streams to be included in the qualifying base are those that are currently taxed at the prevailing corporate tax rate but will be taxed at a reduced rate under the FSI scheme. Details for computing the qualifying base will be released at a later date.
5. The qualifying base will not apply to qualifying activities where the currency and counter-party restrictions are not removed. Specifically, income derived by fund managers and income derived from qualifying HQ services by ACUs will not have a qualifying base.
6. All companies carrying out the qualifying activities in Singapore may apply for the FSI awards.
7. The tenure of the FSI awards will be based on the headcount and the scope of activities undertaken by the applicant. Initial award periods may vary from 5, 7 and 10 years. Companies may renew their incentive awards upon expiry of the initial awards. This will be based on the activities and incremental headcount in Singapore.

Details on the application process and qualifying criteria will be provided in a subsequent MAS circular.

## Transitional Arrangement

1. The FSI scheme will take effect from 1 January 2004.
2. The tax exemption granted to ABIs on the income derived from arranging, underwriting and distributing any QDS has been extended from 27 February 2003 to 31 December 2003. Existing ABIs as of 27 February 2003 will continue to enjoy the ABI status up to 31 December 2003 without the need to submit any application to MAS. Existing ABIs as well as other financial institutions wishing to enjoy the 5% tax rate on this activity after 31 December 2003 will have to apply for FSI-BM.
3. The tax exemption for syndicated credit and underwriting facilities will expire on 31 March 2003. This tax incentive is now extended to 31 December 2003. Financial institutions wishing to enjoy the 5% tax rate for this activity after 31 December 2003 will have to apply for the FSI-CFS award.
4. The existing ABI, ADT, AFM, ECMI and OHQ incentive schemes will continue to apply until 31 December 2003 before merging into the FSI scheme on 1 January 2004. Financial institutions currently enjoying these incentives will be automatically granted the respective ST or ET awards up to the expiry of their existing awards. These financial institutions are required to continue meeting the conditions set out under their existing incentive awards. The qualifying base will apply on income derived from ST qualifying activities from 1 January 2004.
5. ACUs will be automatically granted the ST award (without any conditions) from 1 January 2004 to 31 December 2008, with the qualifying base applying from 1 January 2004. Thereafter, financial institutions wishing to enjoy the 10% concessionary tax rate will have to apply for the FSI scheme. This effectively introduces an expiry date for the 10% concessionary tax treatment for ACUs.

Further details on the FSI scheme are expected to be available in March 2003.

# Recent Singapore Tax Developments

## Enhanced Headquarters Incentive

On 7 January 2003, the EDB<sup>27</sup>) unveiled a new and enhanced programme to attract more multinational companies (“MNCs”) to set up their regional headquarters (“HQ”) operations in Singapore, as well as to anchor those with existing HQ operations in Singapore.

The HQ program (previously classified into Operational Headquarters, Business Headquarters, Global Headquarters and Manufacturing Headquarters) is now streamlined into an International Headquarters (“IHQ”) Award and a Regional Headquarters (“RHQ”) Award.

MNCs may enjoy incentive rates of 0% - 15% on incremental qualifying income depending upon the amount of commitment (as translated into headcount, business spending, quality of people hired, etc) given to Singapore. Qualifying income refers to foreign income from sales, services, royalties, franchise fees, management fees, commissions, and potentially dividends and interest income. However, these items must be earned from non-Singapore customers or payers.

A special feature of the RHQ Award is that the application will almost certainly receive fast-track approval so long as the applicant commits to satisfying all the specified criteria of the award, and the application has been reviewed and verified by a practising CPA (such as Ernst & Young) or a lawyer in Singapore. This represents a radical departure from the practice for all other incentive awards, where the norm is extensive negotiations with the EDB to arrive at agreed terms and conditions on a case-by-case basis.

For further details regarding the above, please refer to the Ernst & Young News Alert dated 7 January 2003 which is available in our website: [www.ey.com/sg](http://www.ey.com/sg).

## Benefits To Company Directors From Interest-Free/Subsidised Loans

The IRAS circular dated 1 November 2002 provides details on the computation of deemed interest benefit from interest-free or interest-subsidised loans made to directors of a company. (For background on this issue and a discussion on the situation where the director is also a shareholder, please refer to the Ernst & Young Newsflash dated 24 July 2002, which is available in our website: [www.ey.com/sg](http://www.ey.com/sg).)

## Computation of Interest Benefits

The IRAS circular provides for the value of interest benefit to be computed based on the prime interest rate. For purposes of simplicity in computation, IRAS generally accepts computation of interest benefit based on the amount of loan outstanding as at 31 December of each year multiplied by the average prime lending rate for that year. If the loan is taken for less than one calendar year, the interest benefit would be computed according to the number of months in that year for which the loans remain outstanding.

For subsidised loans, any interest payable by the directors should be deducted from the value of interest benefit as computed above to arrive at the taxable interest benefit.

## Prime Interest Rate

Information on prime lending rates for each relevant year is available on the MAS website at [www.mas.gov.sg](http://www.mas.gov.sg). For taxpayer's convenience, IRAS has computed, based on the information from the MAS website, the average prime lending rates for the following years:

Year	Average prime lending rate (%)
1995	6.37
1996	6.26
1997	6.32
1998	7.44
1999	5.80
2000	5.83
2001	5.66

## Declaration in Corporate Income Tax Return

The IRAS has now incorporated into the income tax return, Form C, to be filed by all companies, a requirement to make a declaration concerning the amount of interest-free/subsidised loans to individual directors and shareholders as at the end of the company's financial year. This is in addition to the requirement by the company to report the benefit derived by each director in his Form IR8A (Return of Employee's Remuneration).

## New Double Taxation Agreements ("DTAs")

### New DTAs ratified

The DTAs with Austria and Romania were ratified in 2002. The DTA with Austria has effect in Singapore in respect of taxes on income relating to the calendar year 2003 (including accounting periods beginning in 2003) and subsequent years. The DTA with Romania has effect in Singapore in respect of taxes on income from YA 2004 onwards.

The dates of signing and ratification are as follows:

<u>Country</u>	<u>Date of signing</u>	<u>Date of ratification</u>
Austria	30 November 2001	22 October 2002
Romania	21 February 2002	28 November 2002

Please refer to the table below for the withholding tax rates specified in the DTAs.

### **DTA with Finland replaced**

A new DTA with Finland has also been ratified on 26 December 2002. This new DTA replaces the old one which was ratified in 1982, and has effect in Singapore in respect of taxes chargeable from YA 2004 onwards.

Please refer to the table below for the new withholding tax rates.

Under the new DTA, the furnishing of services, including consultancy services, by a resident of a State through employees or other personnel will constitute a permanent establishment only if the services are provided for a period or periods aggregating more than 183 days within any twelve-month period. Under the old DTA, there was no period specified.

<b>Country</b>	<b>Withholding tax on</b>		
	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
	%	%	%
<b>Austria</b>	0/10 (a) (c)	5 (c) (d)	5
<b>Finland</b>	0/5/10 (b) (c)	5 (c)	5
<b>Romania</b>	5 (c)	5 (c) (d)	5

#### **Notes:**

- (a) Exempt if the beneficial owner holds directly at least 10% of the capital of the company paying the dividend.
- (b) The 5% rate applies if the beneficial owner is a company which controls directly at least 10% of the voting power in the company paying the dividend. However, dividends paid by a company which is a resident of Finland to a resident of Singapore are exempt in Finland as long as an individual resident in Finland is under Finnish tax law entitled to a tax credit in respect of dividends paid by the company resident in Finland.
- (c) Exempt if paid to the Government of the other State.
- (d) Exempt in Austria and Romania respectively under certain specified circumstances.

### **Other DTAs signed**

Singapore has also signed new DTAs with Kuwait, Mongolia and the Russian Federation. However, no details are available at this point in time as these DTAs are yet to be ratified.

# Glossary of terms

1. The following definitions apply throughout this Budget Synopsis unless otherwise stated:

ABI	– Approved Bond Intermediary
ACU	– Asian Currency Unit
ADT	– Approved Derivatives Trader
AFM	– Approved Fund Manager
ARF	– Additional Registration Fee
ATC	– Approved Trustee Company
COE	– Certificate of Entitlement
CPF	– Central Provident Fund
ECMI	– Equity Capital Market Intermediary
EDB	– Singapore Economic Development Board
ERC	– Economic Review Committee
ERC Sub Committee	– ERC Sub Committee on policies related to Taxation, the CPF System, Wages & Land
FSI scheme	– Financial Sector Incentive Scheme
FY	– Financial Year
GST	– Goods and Services Tax
GTP	– Global Trader Program
HDB	– Housing Development Board
IDA	– Infocomm Development Authority of Singapore
IE Singapore	– International Enterprise Singapore
IP	– Intellectual property
IPC	– Institution of public character that is approved by the Minister for Finance
IRAS	– Inland Revenue Authority of Singapore
IRU	– Indefeasible Rights of Use
JTC	– Jurong Town Corporation
MAS	– Monetary Authority of Singapore
Minister	– Minister for Finance
MoF	– Ministry of Finance
OHQ	– Operational Headquarters
QDS	– Qualifying debt securities
R&D	– Research and development
SGS	– Singapore Government securities
SGX	– Singapore Exchange
SICOM	– Singapore Commodity Exchange
SRS	– Supplementary Retirement Scheme
Syndicated Facilities	– Syndicated Offshore Credit and Underwriting Facilities
UTC	– Unilateral tax credit
YA	– Year of Assessment

2. All amounts are in Singapore Dollars unless otherwise indicated.

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