

ANNEX A: Budget 2007 Tax Changes

General Tax Changes

Name of Tax Change	Current Treatment	New Treatment
Reduction in Corporate Tax Rate	Currently, the corporate tax rate is 20%.	<p>The corporate tax rate will be reduced to 18% with effect from year of assessment (YA) 2008. In line with the reduction in corporate tax rate to 18%, the following tax rates which are presently pegged at 20% will also be correspondingly reduced to 18% with effect from YA 2008:</p> <ul style="list-style-type: none">(a) tax rate for non-resident persons [other than non-resident individuals and non-resident Hindu joint family, which will remain at 20%];(b) rate at which tax is withheld for payments (other than those subject to the 10% or 15% final withholding tax) to non-resident persons other than non-resident individuals/ Hindu joint family;(c) tax rate for trustees (other than trustees of incapacitated persons) and executors;(d) rate of deduction of tax from Singapore franked dividend paid during the period from 1 January

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		<p>2007 to 31 December 2007⁶; (see next item)</p> <p>(e) rate of tax to be used to compute the effective company tax rate for a body of persons.</p>
<p>One-tier Corporate Tax System/ Payment of Singapore Franked Dividends in 2007</p>	<p>A) The one-tier corporate tax system took effect on 1 January 2003. Companies were given five years from that date till 31 December 2007 to use up their unutilized section 44A tax credits to frank dividends. After 31 December 2007, the unutilized balances will be nullified. To mitigate the adverse effects of the one-tier corporate tax system, we also introduced concessions that effectively allowed the interest expense attributable to one-tier exempt dividends to be deducted while companies restructured their operations. These concessions are available up to 31 December 2007.</p> <p>B) Currently, the rate of deduction of</p>	<p>A) In order to preserve what is seen as a consistent and fair regime and to reinforce our intention to move to the one-tier corporate tax system as soon as possible, there will not be further extension to the five-year transitional period for:</p> <p>i) utilization of section 44A tax credits; ii) transitional concessions; and iii) utilization of section 44 charges.</p> <p>B) With the reduction in corporate tax rate, the rate of</p>

⁶ With the reduction in the corporate tax rate, the rate at which credit is granted for franked dividends under section 46(1)(a) of the Income Tax Act shall not exceed 18%. Where tax on franked dividends paid in 2007 has been deducted at 20%, the net dividends received by the shareholder is deemed to have been paid without deduction of tax and will be grossed-up at the rate of 18% to determine the gross dividends assessable to tax. The difference between the amount of tax deducted at 20% from such dividends and the tax deemed to be so deducted will be credited to the 44A balance of the company declaring the dividends and will be available for franking future dividends before 31 December 2007.

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	<p>tax from Singapore franked dividends is 20%.</p>	<p>deduction of tax from Singapore franked dividends for 2007 will be 18%. Despite the reduction of corporate tax rate, the tax rate for non-resident individuals/ Hindu joint family will remain at 20%. This is to align with the top marginal tax rate for resident individuals/ Hindu joint family.</p> <p>Hence, when a non-resident individual/ Hindu joint family receives a Singapore franked dividends for the year 2007 (which has tax deducted at source at the rate of 18%), the franked dividend received is to be subjected to tax at 20%. The company paying the franked dividends would be required to withhold and remit 2% of the gross dividends to the Comptroller of Income Tax.</p> <p>To alleviate the administrative burden of companies that remain on the imputation system for the purpose of paying franked dividends, the rate of tax on franked dividends received by non-resident individuals/ Hindu joint family will be reduced to 18% of the gross amount of such dividends. This reduced tax rate of 18% will be a final tax. However, in recognition that non-resident individuals/ Hindu joint family may claim expenses incurred to earn the income from Singapore, non-resident individuals/ Hindu joint family are allowed the option to be taxed at 20% of net dividends instead of 18% of gross dividends.</p>

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Tax Deduction for Borrowing Costs	Generally, deduction of an expense is allowed if the expense is revenue in nature and is incurred in the production of income. In the case of borrowings used to acquire a capital asset, and where the capital asset is used to acquire income, only the interest cost is currently deductible under section 14(1)(a) against the income generated from the capital asset. Other borrowing costs associated with such borrowings do not qualify for any tax deduction.	Specified borrowing costs, other than interest, which are incurred on a borrowing that is used to acquire a capital asset used to produce income will be deductible for tax purposes, provided these costs are paid as a substitute for interest or to reduce interest costs. The tax change will take effect from YA2008. IRAS will release more details by May 2007.
Increase in Partial Tax Exemption Threshold	Currently, 75% of the first \$10,000 of normal chargeable income (excluding Singapore franked dividend), and 50% of the next \$90,000 of a company is tax exempt. This Partial Tax Exemption (PTE) scheme is generally available to all companies.	The threshold for PTE will be increased to \$300,000, as follows: <ul style="list-style-type: none"> • 75% exemption of up to the first \$10,000 of normal chargeable income (excluding Singapore franked dividend); and • 50% exemption of up to the next \$290,000 of normal chargeable income (excluding Singapore franked dividend). This tax change will take effect from YA2008.
Lifting the Sunset Clause for the Income Tax Exemption Scheme for New Companies	Full income tax exemption is granted on the normal chargeable income (excluding Singapore franked dividend) up to \$100,000, for tax resident exempt	The sunset date of YA2009 is lifted. Tax resident EPCs incorporated in Singapore will hence be granted tax exemption on their normal chargeable income up to \$100,000 for the full three consecutive YAs regardless of

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	private companies (EPCs) incorporated in Singapore. The tax exemption scheme is currently applicable to the new company's first three consecutive YAs falling within YAs 2005 to 2009.	whether any of these first three YAs falls beyond YA 2009.
Extension of Section 15 Stamp Duty Relief	Section 15 Stamp Duty Relief is only available to intra-group transfers of assets involving companies with limited liability and registered business trusts.	Section 15 Stamp Duty Relief on intra-group transfers will be extended to unlimited companies, Limited Liability Partnerships (LLPs) where all the partners are companies and Statutory Boards. IRAS will be issuing a guide on the new treatment in February 2007.
Accelerated Depreciation Allowance for Replacement of Pre-Euro IV Diesel Goods Vehicles and Buses	Currently, capital expenditure incurred on new diesel driven goods vehicles and buses that replaced old ones that were registered before 1 January 1991 are allowed to be written-off in one year instead of over three or six years under section 19A(9) of the Income Tax Act (ITA). However, capital expenditure incurred on diesel driven goods vehicles and buses meeting the new Euro-IV emission standard that replace existing pre Euro IV vehicles registered on or after 1 January 1991 are allowed to be written-off over either three or six years.	New goods vehicles and buses acquired to replace the old ones that do not meet with the new Euro- IV emission standard and which were registered on or after 1 January 1991 will qualify for one-year write-off for income tax purposes. The incentive will be granted for five years and will take effect for new vehicles registered from 15 February 2007 to 14 February 2012.

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Extension of Section 19B Writing Down Allowance	No writing down allowance will be given for any capital expenditure incurred to acquire intellectual property rights by any company after 31 Oct 2008.	The writing down allowance concession for acquired intellectual property rights will be extended by another five years, till 31 October 2013.
Enhancement to Investment Allowance Scheme	Currently, under the Investment Allowance (IA) scheme administered by SPRING and EDB, the maximum qualifying period (i.e. period within which the fixed capital expenditure must be incurred in order to qualify for the IA) is five years from the investment day specified in the certificate issued. For companies that purchase equipment on hire purchase, any capital expenditure incurred (i.e. hire purchase instalments made) beyond the qualifying period will not qualify for the IA.	The maximum qualifying period for companies that purchase equipment on hire purchase would be extended from five years to eight years. This change will take effect for equipment purchased on or after 15 February 2007.

Legal Services

Name of Tax Change	Current Treatment	New Treatment
International Arbitration Tax Incentive	N.A.	<p>Approved law firms will be granted a 50% income tax exemption on qualifying incremental income derived from international arbitration work.</p> <p>This scheme will be available from 1 July 2007 to 30 June 2012. The incentive duration will be up to five years.</p> <p>The Ministry of Law will release further details by May 2007.</p>

Financial Services

Name of Tax Change	Current Treatment	New Treatment
Enhancements to the Tax Exemption Schemes for Income from Funds Managed for Foreign Investors	Tax exemption is granted on specified income derived by a foreign investor from funds (both resident and non-resident) managed by any fund manager in Singapore in respect of designated	<p>With effect from 15 February 2007, the list of designated investments will be expanded to include the following:</p> <ul style="list-style-type: none">a) qualifying loans;b) commodity derivatives (both over-the-counter and

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	investments.	<p>exchange-traded) and physical commodities where:</p> <ul style="list-style-type: none"> - the trade volume of physical commodities do not exceed 15% of the total trade volume of commodity derivatives and physical commodities for each year of assessment throughout the incentive period; and - the trading of physical commodities is in connection with and incidental to any related commodity derivatives trading. <p>Specified income derived on or after 15 February 2007 by a foreign investor from the types of designated investments stated in paragraphs (a) and (b) will be tax exempt.</p> <p>In addition, the tax exemption schemes will also be expanded to cover Collateralised Debt/Loan Obligations.</p> <p>MAS will release details by May 2007.</p>
Enhancement to Financial Sector Incentive (FSI)	Fees and commissions derived by a FSI-(fund management) company or FSI-(standard-tier) company from the following activities are taxed at a concessionary tax rate of 10%:	Fees and commissions derived on or after 15 February 2007 by a FSI (fund management) company or FSI (standard-tier) company from providing investment advisory services in relation to a foreign investor or to a foreign fund manager under a fund delegation arrangement will qualify for the concessionary rate of tax

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	<p>a) managing the funds of foreign investors for the purpose of designated investments;</p> <p>b) providing investment advisory services to foreign investors in relation to designated investments; and</p> <p>c)arranging on behalf of foreign investors any loan of designated securities under a securities lending arrangement in writing to another FSI(fund management) company or FSI (standard-tier) company.</p>	<p>of 10%.</p> <p>MAS will release details by May 2007</p>
<p>Enhancements to the Finance and Treasury Centre (FTC) incentive</p>	<p>An approved FTC is granted a concessionary tax rate of 10% on its income derived from the provision of qualifying services to its approved offices and approved associated companies, and from qualifying activities carried out on its own account.</p>	<p>With effect from 15 February 2007, the list of FTC qualifying activities will be expanded to include transacting and investing in the units in any qualifying unit trust. For the purposes of the scheme, a qualifying unit trust is one which engages wholly in qualifying activities that an FTC can carry out on its own account under the FTC incentive.</p> <p>MAS will release details by May 2007.</p>

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<p>Extension of the tax exemption on Over-The-Counter (OTC) Financial Derivative Payments made to a non-resident</p>	<p>Tax exemption is granted on payments related to financial derivatives in <i>any currency</i> that are traded over-the-counter, made to persons who are neither residents of nor permanent establishments in Singapore. The exemption applies to payments which –</p> <p>a) a <i>financial institution</i>⁷ (“FI”) in Singapore is liable to pay to non-residents from 27 February 2004 to 19 May 2007 (both dates inclusive); and</p> <p>b) an approved special purpose vehicle which engages in asset securitisation transaction is liable to pay to non-residents from 27 February 2004 to 19 May 2007 (both dates inclusive).</p>	<p><u>Changes for -</u></p> <p>a) <u>Financial Institutions</u></p> <p>The tax exemption will be extended by another five years to 19 May 2012.</p> <p>In addition, tax exemption will be applied to all payments made on contracts which are entered into from 15 February 2007 to 19 May 2012 (both dates inclusive). The tax exemption will apply to OTC financial derivative payments made by FIs to non-residents for the entire duration of such contracts.</p> <p>b) <u>Approved Special Purpose Vehicle (“ASPV”)</u></p> <p>The tax exemption will be extended to 31 December 2008, to coincide with the expiration of the ASPV scheme.</p> <p>The tax exemption will be applied on a contract basis i.e. for contracts entered into during the period from 15 February 2007 to 31 Dec 2008 (both dates inclusive). The tax exemption will apply to OTC financial derivative payments made by an ASPV to non-residents for the entire duration of the contracts.</p>

⁷ A financial institution refers to any institution licensed or approved by the MAS, or exempted from such licensing or approval under any Act administered by the MAS, and includes an institution approved as a Finance and Treasury Centre under Section 43G of the Income Tax Act (Cap 134).

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		MAS will release details by May 2007.
Enhancement to Qualifying Debt Securities Scheme	The Qualifying Debt Securities Scheme accords tax exemption or concessionary tax rates on interest and discount derived by investors from Qualifying Debt Securities, subject to conditions.	With effect from 15 February 2007, the Qualifying Debt Securities Scheme will accord tax exemption or concessionary tax rates on <i>prepayment fee</i> , <i>redemption premium</i> and <i>break cost</i> that are derived by investors from Qualifying Debt Securities, subject to conditions. This is applicable to all Qualifying Debt Securities issued on or after 15 February 2007. MAS will release details by May 2007.

Growing Singapore as a Philanthropy Hub

Name of Tax Change	Current Treatment	New Treatment
1) Income Tax exemption for Registered Charities	1) Charities are required to spend at least 80% of their annual receipts on charitable objects in Singapore within two years in order to be exempt from income tax.	1) Registered charities will enjoy income tax exemption without having the need to meet the 80% spending rule.
2) Double tax deductions for donors to foundations and grantmakers	2) Individuals and companies can obtain double tax deductions (DTD) for donations to organisations with Institutions of Public Character (IPC)	2) Individuals and companies that donate to foundations and grantmakers will be eligible for double tax deductions, if the donations are channeled to Institutions of Public Character in Singapore within a specified

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	status.	timeframe. Details will be announced by September 2007.
Tax Exemption Scheme for Not-for-Profit Organisations (NPOs)	N.A.	NPOs approved by Economic Development Board (EDB) will be granted income tax exemption for an initial period of not more than 10 years. The incentive may be renewed subject to approval by EDB. Eligible NPOs will include those that promote the economic development of Singapore, such as standards organizations and research bodies. The scheme takes effect from 15 February 2007.

Logistics, Maritime and Aviation Services

Name of Tax Change	Current Treatment	New Treatment
Enhancement to the Approved Shipping Logistics Enterprise Scheme (ASL)	Ship agencies, ship management companies and shipping logistics companies under the Approved Shipping Logistics Enterprise Scheme (ASL) are granted a 10% concessionary tax rate on qualifying income for a period of five years.	The incentive period for ASL companies will be extended from five years to ten years with effect from 15 February 2007. MPA will release details by May 2007.
Enhancement to the Approved	Aircraft leasing companies which are	With effect from 1 March 2007 to 29 February 2012, the

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<p>Aircraft Leasing Scheme (ALS)</p>	<p>approved under the ALS enjoy a concessionary tax rate of 10% for a period of five years <i>on income from offshore leasing of aircrafts</i>.</p> <p>The 10% concessionary tax rate is also granted on income derived from the performance of ancillary activities such as:</p> <ul style="list-style-type: none"> a) Management of aircraft leases. b) Advisory and agency services relating to the sale of leasing of aircraft. 	<p>ALS will be enhanced as follows:</p> <ul style="list-style-type: none"> a) Grant a concessionary tax rate of 5% (in addition to existing 10% rate) on qualifying lease income for a period of five years; b) Extend the concessionary tax rates to registered business trust or an approved company under an aircraft or aircraft engine financing arrangements. c) Expand the scope of income qualifying for the concessionary tax rate to include: <ul style="list-style-type: none"> i) income from leasing of aircraft engines; and ii) income from leasing of aircraft or aircraft engines to any person in Singapore i.e. onshore leasing. <p>Details will be released by EDB by May 2007.</p>
<p>Zero-rating of GST for servicing, sale and lease of containers. ['servicing' refers to repairs, maintenance and management services of containers]</p>	<p>The supply of servicing, sale and lease of air and sea containers can only be zero-rated if the customer is foreign-based and the containers will be shipped overseas to a specific destination. The problem is that the customer may not know where his container will be shipped at the point of billing.</p>	<p>Given that sea or air containers are primarily used for the international transportation of goods, the supply of servicing, sale and lease of containers are recognised as international services and therefore qualify for zero-rating. Thus, both foreign and local customers will not pay any GST.</p> <p>The tax treatment will take effect from 1 April 2007.</p>

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	Furthermore, local customers have to pay GST even though the containers will eventually be used for international transportation of goods.	IRAS will be issuing a guide on the new treatment in March 2007.