

In this issue we look at some recent developments in the Singapore corporate scene. In the accounting arena, a simplified accounting standard for small entities has been introduced and we consider the standard from the Singapore experience of using the full suite of accounting standards until now. From the fiscal angle, we highlight some key issues from the Singapore Budget 2011 statement.

## **THE SFRS FOR SMALL ENTITIES – DOES SIMPLIFIED MEAN BENEFICIAL?**

Accounting standards provide the rules for the measurement of the financial health of a business. In Singapore, accounting standards are known as Singapore Financial Reporting Standards (SFRS) and are based on the International Financial Reporting Standards (IFRS) issued by the international accounting standard-setter, the International Accounting Standards Board (IASB).

### **The Rules of the Game**

IFRS are increasingly being used as the yardstick to measure the profitability and worth of businesses like listed companies worldwide, and consequently have grown both in length and complexity. To the typical small and medium-sized entity (SME), complying with this complexity and volume can be burdensome. Additionally, SMEs dominate the economies of most, if not all, countries around the globe. In fact in Singapore, if one were to define SMEs as entities that are neither listed companies nor financial institutions, this group could potentially form more than 90% of all business entities in Singapore.

### **Simpler Rules for the SMEs**

Enter the IFRS for SMEs. The IASB issued this standard in July 2009 after five years of deliberation and consultation. In Singapore, the Accounting Standards Council (ASC), the national accounting standard-setter, adopted the IFRS for SMEs as the local equivalent Singapore Financial Reporting Standard for Small Entities (SFRS for Small Entities) on 30 November 2010. The SFRS for Small Entities, as a stand-alone self-contained standard, applies to entities that qualify under criteria spelt out by the ASC and is effective for financial periods from 1 January 2011. Like its international counterpart, the ASC sought feedback from the business and financial community in Singapore as part of its due process before issuing the accounting standard.

The SFRS for Small Entities is aligned to the IFRS for SMEs as the ASC believes that the IFRS for SMEs is a robust and comprehensive standard based on the principles of the full IFRS framework and is internationally recognised as a high quality standard.

## Who can Use and Benefit from the Standard?

So, who can use this standard and will application of the new standard meet the needs and capabilities of smaller businesses?

An entity (meaning a company or foreign company incorporated or registered under the Companies Act) is eligible to use the SFRS for Small Entities if:

- a. it is not publicly accountable (i.e., is not a listed company, an IPO-aspirant, financial institution, public company or charity); and
- b. it publishes general purpose financial statements for external users (i.e., such information is directed towards the common information needs of a wide range of users, for example, shareholders, creditors, credit rating agencies, employees and the public at large); and
- c. it is a small entity.

A small entity is one that meets at least two of the three following criteria for a particular period:

- a. has total annual revenue of S\$10 million or less;
- b. has total gross assets of S\$10 million or less;
- c. has total number of employees of 50 or fewer.

The ASC has explained that the SFRS for Small Entities can only be used from the financial period starting from 1 January 2011 and no earlier. The standard is an option (and not mandatory) for eligible entities that have met the criteria for each of the previous two consecutive years. Once an entity qualifies, it continues to use the standard until it falls out of the criteria for two consecutive years. In line with the government's push for greater entrepreneurship, start-ups can use this standard for their first two years if they are not publicly accountable and do not publish general purpose financial statements.

A subsidiary whose parent uses the full SFRSs, or that is part of a consolidated group that uses full SFRSs, is not prohibited from using the SFRS for Small Entities in its own financial statements if the subsidiary does not have public accountability and meets the qualifying criteria.

The simplifications in the SFRS for Small Entities address the needs of the users of such entities and aims to lessen the compliance costs faced by many small entities because many small entities are owner-managed and have fewer resources.

## What are the Simplifications?

The SFRS for Small Entities is a self-contained framework that is a fraction of the full framework in length. The simplifications are broadly categorised as follows:

- a. Topics not relevant to smaller entities are omitted – the obvious ones relating to earnings per share (EPS), interim reporting and segment reporting have been excluded;
- b. Where the full SFRS has options, only the simpler option has been included – no option to revalue property, plant, equipment or intangibles, cost depreciation model for investment properties unless fair value is readily available without undue cost or effort, and borrowing costs are required to be expensed;

- c. Recognition and measurement simplifications – for example, amortise goodwill, expense all borrowing and R&D costs, use the cost model for associates and jointly-controlled entities, no available-for-sale or held-to-maturity classes of financial assets;
- d. Reduced disclosures as compared to the full SFRS;
- e. Simplified drafting – the SFRS has been written in clearer and more concise language; and
- f. Limited future changes – revisions and amendments to the IFRS for SMEs and hence to the SFRS for Small Entities will be limited to once every three years.

## **Is it Really Beneficial to Smaller Entities?**

This is a key question that needs to be critically evaluated by the small entities before applying the SFRS for Small Entities.

Singapore is different from other jurisdictions that are or are enroute to being IFRS-compliant. Countries like the UK and Hong Kong SAR already have differential accounting frameworks whereas all entities in Singapore regardless of size are required to comply with the full SFRS until now. Consequently, such entities will need to mount a learning curve for the conversion. These entities need to consider whether the cost and effort of switching from full SFRS to the SFRS for Small Entities would be beneficial for them in the medium to long run. Things to consider include the costs and efforts of training accounting staff and modifying current accounting systems and software. Some people view the move from full SFRS to the simplified SFRS for Small Entities as a regressive step.

Generally, those who go into business would want to see their endeavours growing and developing into larger entities. What this means is that if an SME were to use the standard initially and then subsequently grows, the SME would need to change and adapt to using the full SFRS. Businesses thus need to plan for this switch and take into account the costs and efforts of doing so. The same consideration holds for IPO-aspirants.

Companies whose operating and financial results change over periods such that these swing between meeting the qualifying criteria year to year will need to switch back and forth between complying with the full SFRS and the simpler version because of the requirement to be satisfy the criteria for “two consecutive years”. It would be cumbersome to switch between the two accounting frameworks every two years.

Some of the simplifications to the SFRS for Small Entities may mean a lower bottom line (all else being equal) for entities that use this standard. As mentioned above, borrowing costs and R&D costs have to be expensed under the SFRS for Small Entities whereas under full SFRS, these costs may be capitalised if they meet certain criteria.

## **The Decision**

The SFRS for Small Entities is said to be designed to meet the needs and capabilities of smaller entities and may be less complex. On the surface, this should reduce the compliance burden for the smaller entities. Nonetheless, because of the Singapore situation, entities considering adopting the standard should carefully consider the impact of the use of the standard from the perspective of their respective future plans.

## HIGHLIGHTS OF BUDGET 2011

Budget 2011 was seen by many to be quite stunning in light of the healthy fiscal surplus and the possibility of an election anytime now. Not wanting to stoke the fire of inflation given the rising prices of resources, the government gave out hand-outs to the lower income not entirely in the form of cash. Some segments of society like the senior citizens were especially targeted by way of incentivizing the continuing employability of such folk. For the corporate sector, the focus was on the local small and medium enterprise sector and a general 20% corporate tax rebate was introduced for income earned in 2010 subject to a cap of \$10,000 or a cash grant of 5% of turnover subject to a cap of \$5,000. To encourage research and innovation, the Productivity and Innovation Credit (PIC) was enhanced. On the other hand, to reduce reliance on foreign workers, gradual increases in the foreign work levies were introduced.

The following are some of the key features of Budget 2011:

### **One-off Corporate Income Tax Rebate or Cash Grant**

There is no change in the corporate tax rate of 17% but instead a one-off rebate of 20% of corporate income tax payable for income earned in 2010 will be given subject to a \$10,000 cap. For companies that pay little or no tax (many SMEs), a cash grant of 5% of the company's revenue will be given subject to a cap of \$5,000.

### **Enhancements to the PIC scheme**

The PIC scheme was introduced last year to encourage SMEs to invest in innovation, upgrade workers' skills and enhance productivity by way of higher tax deductions for certain expenditure and a cash conversion option. This has been further enhanced this year and the amount of tax deduction is increased to 400% (previously 250%) of qualifying expenditure for the first \$400,000 (previously \$300,000). In addition, businesses can combine this expenditure for future years or opt for a simpler and enhanced cash conversion option.

### **Increase in the employer CPF contribution rate and CPF salary ceiling**

Mandatory employer CPF contributions have been increased to 16% with the income cap increased to \$5,000 from September 2011.

### **Further increase in foreign worker levies (manufacturing, services and construction industries)**

The further increases in foreign worker levies are intended to up skill the local labor force and reduce reliance on foreign labour.

### **Exemption of withholding tax on payment of interest by banks**

To strengthen Singapore's position as a regional funding hub, interest and related payments by certain financial institutions to all non-resident persons will be exempt from withholding tax.

## Consolidation of maritime sector incentives

To emphasise the importance of the maritime sector to the Singapore economy, a new Maritime Sector Incentive was introduced together with certain enhancements to the current packages.

## Personal income tax reductions through a more progressive income tax schedule as well as a tax rebate

There is a reduction in some of the lower marginal income tax rates for income earned in 2011. For income earned in 2010, a tax rebate of 20% of tax payable subject to a cap of \$2,000 will be given.

For further details on Budget 2011, please visit our website at [www.ltc-cpa.com](http://www.ltc-cpa.com).

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