

SINGAPORE 2011 BUDGET HIGHLIGHTS

The following are the salient points for the 2011 Budget Statement delivered by the Minister for Finance in the Parliament on 18 February 2011.

Business Tax

Corporate income tax rebate and SME cash grant

The current corporate income tax rate is 17%. The first \$300,000 of the normal chargeable income is, however, partially exempt from tax as follows:

- On the first \$10,000 of such income, 75% of the income will be exempt from tax.
- On the next \$290,000 of such income, 50% of the income will be exempt from tax.

Recognising that many companies have faced significant cost pressures in the last year, the Minister has announced the following one-off support measures for all companies, for the YA 2011:

- (a) A corporate income tax rebate of 20%, capped at S\$10,000, on the corporate income tax payable for YA 2011; or
- (b) An SME cash grant based on 5% of the company's revenue for YA 2011 capped at \$5,000, whichever is higher.

The SME cash grant will only be granted to companies which have made CPF contributions in YA 2011. Companies will automatically receive the higher of the tax rebate or the SME cash grant when the Inland Revenue Authority of Singapore (IRAS) assesses their YA 2011 corporate income tax returns. IRAS has clarified that the SME cash grant will be given separately and will not be shown as a set-off against tax payable. The setoff will only be for taxes not paid previously (in arrears).

Enhancement of Productivity and Innovation Credit (PIC) Scheme

In the 2010 Budget, the Government introduced a five-year broad-based PIC scheme to provide significant enhanced tax deductions or allowances to all businesses (including Singapore branches or subsidiaries of foreign corporations) for investments in 6 types of qualifying activities along the innovation value chain from YA 2011 to YA 2015, namely:-

- (a) registration of intellectual property rights (IPRs);
- (b) research and development (R&D) done in Singapore;
- (c) costs of training employees to upgrade skills and capabilities;
- (d) investments in approved designs done in Singapore;
- (e) investment in automation equipment (acquisition or leasing of prescribed automation equipment); and

- (f) acquisition of IPRs.

To further encourage pervasive innovation and raise productivity efforts, the Minister has announced the following enhancements to the PIC scheme with immediate effect:

- (a) the total amount of qualifying deduction or allowance is increased from 250% to 400% of the first \$400,000 (up from \$300,000) of the qualifying expenditure incurred for each of the 6 types of qualifying activities for each YA;
- (b) businesses can combine the qualifying expenditure cap to a total of \$800,000 for the YA 2011 and YA 2012, and can also combine the qualifying expenditure cap to a total of \$1,200,000 for YA 2013 to YA 2015, for each of the 6 types of qualifying activities;
- (c) businesses may, in lieu of tax deduction or allowance, opt for a cash payout of up to \$30,000 (up from \$21,000) for the first \$100,000 of qualifying expenditure for each YA for the YA 2011 to YA 2013, and up to \$60,000 for the first \$200,000 of qualifying expenditure for YA 2011 and YA 2012 combined; and
- (d) PIC deduction benefit will be extended to qualifying expenditure incurred on R&D done abroad and the R&D must be related to the existing trade or business of the taxpayer.

Further details will be released by the IRAS in June 2011.

Foreign tax credit (FTC) pooling

Currently, foreign-sourced income is taxable in Singapore to the extent that it is received or deemed received in Singapore, unless it is specifically exempted from tax under the relevant provisions of the Income Tax Act (ITA) or by administrative concessions and clarifications issued by the Inland Revenue Authority of Singapore (IRAS).

To encourage companies which are globalising and earning a larger share of their income overseas to remit their foreign source income to Singapore, the Minister has decided to simplify tax compliance and reduce the taxation of foreign income by introducing a pooling system for the claim of FTCs.

Under the proposed FTC pooling system, FTC is computed on a pooled basis, rather than on a source-by-source and country-by-country basis. The amount of FTC to be granted will be based on the lower of the pooled-foreign taxes paid on the foreign source income and the pooled Singapore tax payable on such foreign source income.

Resident taxpayers can elect for the FTC pooling system if the following conditions are fulfilled:

- (a) foreign income tax is paid on the foreign source income in the foreign jurisdiction from which the foreign is remitted;
- (b) the headline tax rate of the foreign jurisdiction from which the foreign source income is remitted is at least 15% at the time the foreign source income is received in Singapore; and
- (c) there is Singapore tax payable on the foreign source income and the taxpayer is entitled to claim for FTC under Section 50, 50A or 50B of the ITC on that foreign source income.

The FTC pooling system will take effect from YA 2012 and further details will be released by the IRAS by end June 2011.

Streamlining of Section 14B and Section 14K tax deduction schemes

Currently, Sections 14B and 14K of the ITA allow further tax deductions on qualifying expenses incurred for market development activities and qualifying investment development activities respectively. These tax incentives are administered by International Enterprise (IE) Singapore and the Singapore Tourism Board (STB).

In order to help businesses to internationalise and expand overseas, the Minister has proposed to merge the Sections 14B and 14K double tax deduction schemes into a single scheme. The merged scheme will also be simplified to allow more businesses to benefit from the scheme. For instance, businesses can now submit their applications up to the day of their overseas marketing trip, instead of seven days before the trip.

However, a sunset date of 31 March 2016 will be introduced for this scheme to allow the Minister to review the scheme on a regular basis and ensure that it continues to be useful to the industry. The changes will apply to applications submitted and approved on or after 1 April 2011.

Further details will be released by IE Singapore by end March 2011.

Enhancement of the concession for enterprise development – enhancing the claim of pre-commencement expenses

To facilitate the starting up of businesses, the Minister has proposed to enhance the concession to allow businesses to claim pre-commencement revenue expenses incurred in the accounting year immediately preceding the accounting year in which they earn the first dollar of trade receipts. All other existing conditions of the current concession will continue to apply.

The proposed enhancement is effective from YA 2012. Therefore, businesses can claim pre-commencement revenue expenses incurred from accounting year 2010 (YA 2011) if the first dollar of trade receipts is earned in or after accounting year 2011 (YA 2012).

To illustrate, if a company is incorporated on 1 Jun 2010 with accounting year end 31 December and has its accounting periods for the relevant YAs as follows:

- (a) YA 2011: 1 June 2010 to 31 December 2010 (7 months)
- (b) YA 2012: 1 January 2011 to 31 December 2011 (12 months)

Assuming the company earns its first dollar of trade revenue on 15 October 2011 (i.e. YA 2012), with the enhanced concession, the company can claim in YA 2012 expenses incurred during both the periods from 1 June 2010 to 31 December 2010, and from 1 January 2011 to 31 December 2011. Previously, it could only claim expenses incurred from 1 January 2011 to 31 December 2011 in YA 2012.

Further details will be released by IRAS by end June 2011.

Extension of tax deduction to cover cost of parent company's shares acquired through a Special Purpose Vehicle (SPV) set up to administer Employee Equity-Based Remuneration (EERB) scheme

Currently, a company which operates an Employee Equity-Based Remuneration (EEBR) Scheme for the remuneration of employees may incur costs in acquiring shares (being treasury shares in itself or treasury shares of a parent company) for the scheme. The company will be allowed a tax deduction in respect of the costs incurred when the shares are transferred to its employees under the scheme.

In recognition that a company may set up Special Purpose Vehicle (SPV) to act as trustee to acquire the parent company's shares for its EEBR scheme, the Minister has proposed to grant tax deduction to a company for the cost incurred to acquire its parent company's shares through a SPV for the fulfillment of its EEBR obligation where:

- (a) the SPV is set up, as a company or a trust, solely to administer the EEBR scheme(s) for companies within the group; and
- (b) the SPV acquires the parent company's shares from the parent company or the market and holds them in trust for the employees of the companies within the group for the EEBR scheme(s).

The tax deduction is based on the lower of:

- (a) the amount paid by the company to the SPV for the parent company's shares; and
- (b) the cost incurred by the SPV to acquire the parent company's shares, less any amount recovered from the company's employees for the parent company's shares.

The company is eligible to claim a tax deduction with effect from YA 2012 in respect of the shares when:

- (a) the shares are applied for the benefit of its employees under its EEBR scheme through a SPV; or
- (b) the company is liable to pay the SPV for the shares transferred,

whichever is later.

Further details will be released by the IRAS by end June 2011.

Extension of marine hull and liability insurance tax incentive scheme

Currently, an approved marine hull and liability insurer will be exempt from tax on qualifying income derived from the carrying on marine hull and liability insurance business for a period not exceeding 10 years. This scheme currently does not have a sunset date.

To allow the Minister to review of the scheme on a regular basis and ensure that it continues to be useful to the industry, a sunset date of 31 March 2016 will be introduced for this scheme. In addition, an award renewal framework will be introduced for incentive recipients with effect from 19 February 2011.

MAS will release further details by end April 2011.

Extension of captive insurance tax incentive scheme

Currently, an approved captive insurer will be exempt from tax on qualifying income derived from accepting offshore insurance business for a period not exceeding 10 years and the sunset date for this scheme was 16 February 2011.

The Minister has announced that the scheme will be extended until 31 March 2018.

Extension and enhancement of specialised insurance tax incentive scheme

Currently, an approved specialised insurer will be exempt from tax on qualifying income derived from qualifying offshore specialised insurance business for a period not exceeding 5 years. The specialised insurance business are terrorism risks, political risks, energy risks, aviation and aerospace risks. The sunset date for this scheme is 31 August 2011.

The Minister has announced that the scheme will be extended till 31 August 2016.

In addition, the following enhancements will be made to the scheme with effect from 19 February 2011:

- (a) Agriculture insurance will be included as a new qualifying specialised insurance business line; and
- (b) An award renewal framework will be introduced for incentive recipients.

MAS will release further details by end April 2011.

Liberalisation of the withholding tax exemption regime for banks

To facilitate access to a wider range of funding sources for the banks' lending business and strengthen Singapore position as a regional funding centre, the Minister has proposed the following enhancements to the WHT exemption regime for banks with effect from 1 April 2011:

- (a) WHT exemption will be granted on interest and other qualifying payments¹ made to all non-resident persons (excluding permanent establishments in Singapore) if the payments are made for the purpose of the banks' trade or business; and
- (b) entities covered under the exemption will be expanded to include banks licensed under the Banking Act or approved under the MAS Act, finance companies licensed under the Finance Companies Act, and approved financial institutions licensed under the Securities and Futures Act that engage in lending as part of their regulated activity of dealing in securities in Singapore (such as investment banks).

The WHT exemption covered by the enhancements will be applicable for:

- (a) payments liable to be made during the period from 1 April 2011 to 31 March 2021 (both dates inclusive) on contracts which take effect before 1 April 2011; and
- (b) payments liable to be made on contracts which take effect on or after 1 April 2011 to 31 March 2021 (both dates inclusive).

¹ The WHT exemption will cover all payments falling within the ambit of Section 12(6) of the Income Tax Act.

A 31 December 2021 sunset date will be introduced for the enhanced scope of WHT exemption.

MAS will release further details by end March 2011.

Extension of tax incentive scheme for project finance

To strengthen project financing in Singapore, a package of tax incentives for project financing industry was introduced in 2006. This tax incentive scheme was further extended and enhanced in 2008. The package of this tax incentive schemes for project financing include:

- (a) remission of stamp duty payable on the instrument of transfer relating to qualifying infrastructure projects/assets to qualifying entities listed on the SGX;
- (b) tax exemption on qualifying income derived from qualifying project debt securities and on foreign-sourced interest income from offshore qualifying infrastructure projects/assets received by approved entities listed on the SGX;
- (c) concessionary tax rate of 5% on qualifying income derived by a Financial Sector Incentive-Project Finance (FSI-PF) company; and
- (d) concessionary tax rate of 10% qualifying income derived by an approved trustee manager/fund manager from managing qualifying SGX-listed business trusts/infrastructure funds in relation to qualifying offshore infrastructure projects/assets.

The sunset date for these incentives is 31 December 2011.

The Minister has proposed that the above existing package of tax incentive schemes for Project Finance will be extended till 31 March 2017, except for that relating to a FSI-PF company. Financial institutions can enjoy similar tax benefits of the FSI-PF under the FSI-Credit Facilities Syndication and FSI-Bond Market tax incentive schemes.

MAS will release further details by end April 2011.

Enhancement of the tax incentive scheme for trustee company

Currently, an approved trustee company will be subject to a concessionary tax rate of 10% on income derived from providing qualifying trustee and custodian services, trust management and administration services to non-residents in respect of foreign accounts, without any time limitation.

To streamline the scheme and align the administration of the incentive with other tax incentive schemes, the Minister has proposed the following changes to the scheme:

- (a) the tax incentive will be subject to a sunset date till 31 March 2016.
- (b) application approved on or after 1 April 2011 will be granted a 10-year award tenure;
- (c) all existing award recipients will automatically transit to the new framework on 1 April 2011. They will enjoy the scheme for a period of 10-year ending 31 March 2021; and
- (d) with effect from 1 April 2011, the list of qualifying activities will be expanded to include the provision of trustee and custodian services in respect of the issue of units to foreign Collective Investment Schemes and foreign Business Trusts.

MAS will release further details of the changes by end April 2011.

Renewal of tax exemption scheme for income derived from structured products

Currently, income derived by non-resident non-individuals from any structured product offered by a financial institution in Singapore is exempt from Singapore income tax. This tax exemption will apply to payments made on structured products where the contracts take effect, are renewed or extended during the period from 1 January 2007 to 31 December 2011.

In addition, income derived by individuals from any structured product offered by a financial institution in Singapore is exempt from tax, subject to certain conditions.

The Minister has proposed that the current tax exemption scheme for income derived by non-resident non-individuals from structured products by a financial institution in Singapore will be extended to 31 March 2017 while the current tax exemption scheme for individuals will remain the same.

Withdrawal of withholding tax exemption scheme for financial guaranty insurers

Currently, approved financial guaranty insurers are exempted from withholding tax on claim payments made under financial guaranty insurance policies to qualifying non-residents.

As the objective of the scheme has now been assessed to be no longer relevant to merit a tax incentive, the Minister has announced that the withholding tax exemption scheme for financial guaranty insurers will be withdrawn from 19 February 2011.

Maritime Sector Incentive

To promote Singapore as an International Maritime Centre, the Minister has proposed to streamline and consolidate all the following existing maritime tax incentives under a new Maritime Sector Incentive (MSI) with effect from with from 1 June 2011:

- (a) Section 13A of the ITA on tax exemption on qualifying income derived from Singapore flagged and foreign-flagged ships;
- (b) tax exemption on qualifying income derived from operating foreign-flagged ships by an Approved International Shipping Enterprise (AISE) under the AISE scheme;
- (c) tax exemption or concessionary tax rate of 5% or 10% on the relevant qualifying income derived from leasing ships or containers and managing an approved shipping or container investment enterprise under the Maritime Finance Incentive (MFI) scheme;
- (d) concessionary tax rate 10% on incremental qualifying income derived by approved ship agencies, ship management companies, freight forwarders and logistics operators under the Approved Shipping and Logistics (ASL) scheme; and
- (e) concessionary tax rate of 10% on incremental qualifying income derived by approved ship brokers and approved ship broking and forward freight agreement traders under the Ship broking and Forward Freight Agreement (FFA) trading incentive.

The new MSI scheme will consist of three broad categories of incentives as follows:

International shipping operations

This category is to attract ship operators to base their operations in Singapore and encourage the registration of ships with the Singapore Registry of Ships.

A new award will be introduced for qualifying entry players. All approved entities under this category will enjoy similar tax benefits as the current AISE scheme but for a non-renewable tenure of 5 years. They will also enjoy automatic withholding tax exemption on qualifying payments made in respect of qualifying foreign loans taken up to finance the acquisition or construction of Singapore-flagged or foreign-flagged ships subject to certain conditions.

Existing entities that are enjoying incentives under Sections 13A and ASIE scheme will transit into this category of the MSI.

Maritime (ship or container) leasing

This category is to promote the growth and development of ship and container financing in Singapore.

All approved ship lessors will enjoy similar tax benefit as the current MFI scheme and, subject to conditions, will also enjoy automatic withholding tax exemption on qualifying payments made in respect of foreign loans taken up to finance the purchase or construction of Singapore-flagged or foreign-flagged ships.

Existing entities that are enjoying tax benefits under the MFI will transit into this category of the MSI,

Supporting shipping services

To encourage shipping support service providers to base their operations in Singapore and to attract more shipping conglomerates to conduct their ancillary activities in Singapore, a new 5-year incentive award to offer 10% concessionary tax rate on incremental qualifying income derived from the provision of shipping support services including:

- (a) ship management, ship agency, and shipping freight/logistic services (currently under the ASL scheme);
- (b) ship broking and FFA trading (currently under the ship broking and FFA trading incentive);
and
- (c) qualifying corporate services.

Unlike the other two categories, the Minister did not state whether existing entities that are enjoying the tax benefits under the ASL scheme and the Ship Broking and FFA trading incentive will automatically transit into this category of the MSI.

All three categories under the MSI scheme above will have a sunset date of 31 May 2016. The Maritime and Port Authority of Singapore (MPA) will release further details by May 2011.

Enhancement of the Global Trader Programme (GTP)

Currently, tax at the concessionary rate of 5% or 10% will be levied on income of an approved GTP company deriving from prescribed qualifying trades in commodities and commodities futures; and prescribed qualifying structured commodity financing activities.

To facilitate better risk management amongst GTP companies and to strengthen the commodities markets to generate spin-offs for the financial sector, the Minister has proposed the following enhancements and changes:

- (a) the existing list of qualifying derivative instruments under the GTP will be expanded to include all derivative instruments. This enhancement will apply to income from qualifying trades in the new qualifying derivative instruments, derived by a GTP company from YA 2012;
- (b) a sunset date of 31 March 2021 will be introduced for the GTP scheme. The existing sunset clauses for the GTP enhancements will be aligned to a common sunset date of 31 March 2021; and
- (c) a company that is approved as a GTP company or GTP (Structured Commodity Finance) company on or before 31 March 2021 can enjoy the benefits under the various enhancements during their award tenure of up to five years.

IE Singapore will release further details by end April 2011.

Enhancement of Finance and Treasury Centre (FTC) Incentive

Currently, an approved Financial and Treasury Centre (FTC) will enjoy a concessionary tax rate of 10% on income derived from undertaking qualifying activities and providing qualifying services to approved network companies.

To include associated companies located in Singapore as approved network companies of a FTC (known as local network companies or "LNCs"), the total annual revenue of these LNCs must not exceed 10% of the Group's annual total revenue globally ("revenue ratio"). The EDB would determine this revenue ratio at the time of application and will review it subsequently at the mid-term of the FTC award tenure.

The Minister has proposed to enhance the FTC incentive to exclude related party transactions from the revenue ratio used to determine the inclusion of LNCs. This is to be consistent with the global revenue presented in the consolidated financial statements of the ultimate parent company where intercompany transactions are excluded. This alignment is expected to be more accurate and meaningful indicator of the LNCs' contribution towards the group revenue.

A sunset date of 31 March 2016 will be introduced for the FTC Incentive. All other existing conditions of the current concession apply.

Enhanced of tax deduction on donations

To further encourage more community involvement across the charitable sector, the Minister for Finance has announced that the enhanced 250% tax deduction for donations made to approved Institutions of Public Character (IPC) and other approved institutions (such as approved museums, prescribed schools, etc) will be extended for another 5 years from 1 January 2011 to 31 December 2015.

Personal Tax

Personal income tax rates

The Minister has not proposed any reduction in the personal tax rates for YA 2011.

However, the Minister has proposed a more progressive personal income tax rate structure for tax resident individuals, with the reduction of the marginal tax rates for the first \$120,000 of chargeable income with effect from YA 2012.

The personal tax rates tables for tax resident individuals for YA 2007 to YA 2011 and for YA 2012 onwards are as follows:

<i>For YA 2007 to YA 2011</i>				<i>For YA 2012 onwards</i>			
	Chargeable Income* (\$)	Tax Rate (%)	Gross Tax Payable (\$)		Chargeable Income* (\$)	Tax Rate (%)	Gross Tax Payable (\$)
On the first	20,000	0	0	On the first	20,000	0	0
On the next	10,000	3.5	350	On the next	10,000	2	200
On the first	30,000	-	350	On the first	30,000	-	200
On the next	10,000	5.5	550	On the next	10,000	3.5	350
On the first	40,000	-	900	On the first	40,000	-	550
On the next	40,000	8.5	3,400	On the next	40,000	7	2,800
On the first	80,000	-	4,300	On the first	80,000	-	3,350
On the next	80,000	14	11,200	On the next	40,000	11.5	4,600
				On the next	40,000	15	6,000
On the first	160,000	-	15,500	On the first	160,000	-	13,950
On the next	160,000	17	27,200	On the next	40,000	17	6,800
				On the next	120,000	18	21,600
On the first	320,000	-	42,700	On the first	320,000	-	42,350
Excess over	320,000	20		Excess over	320,000	20	

* Chargeable income = Income after personal tax reliefs

Personal income tax rebate

In view of the stronger than expected revenue in 2010, the Minister has announced that a one-off personal income tax rebate of 20%, capped at S\$2,000 per taxpayer, will be granted to all tax resident individual taxpayers for YA 2011.

Changes in tax treatment for alimony and maintenance payments and spouse relief

Currently, taxpayers in receipt of alimony and maintenance payments under a Court Order or a Deed of Separation from their former spouses are liable to tax on such receipts.

Taxpayers who made the alimony and maintenance payments to their former spouses can claim for spouse relief or handicapped spouse relief for the amount paid in the previous year (under Court Order or Deed of Separation), subject to the cap of \$2,000 (\$3,500 if the former spouse is handicapped).

The Minister has proposed to exempt the taxpayers from tax on alimony and maintenance payments they receive under Court Order or Deed of Separation and has also proposed that spouse relief and handicapped spouse relief will no longer be granted to taxpayers for maintaining their former spouses.

The above proposed changes will be effective from YA 2012.

Increase in contribution cap for the Supplementary Retirement Scheme (SRS)

Currently, both an employer and an individual can contribute to the individual's SRS account with an SRS operator up to the prevailing statutory retirement age, subject to the current contribution limits of \$11,475 per year for Singapore citizen and Singapore permanent resident (SPR) employee and \$26,775 per year for foreigner employee.

In line with the increase in the CPF salary ceiling as proposed by the Minister from \$4,500 to \$5,000, the contribution cap for the SRS will also be increased to \$12,750 (i.e. \$5,000 x 17 months x 15%) for Singapore citizen/SPR employee and \$29,750 (\$5,000 x 17 months x 35%) for foreign employee in 2011. These proposed revisions will be effective from YA 2012.

Tax benefits for voluntary CPF medisave contributions by eligible companies to self-employed persons (SEPs)

Currently, it is mandatory for a Singapore citizen and SPR SEP earning a yearly net trade income of more than \$6,000 to make CPF Medisave contributions. Where voluntary contributions are made by companies to their SEP partners' CPF Medisave Accounts, such contributions are not tax deductible to the companies, and are taxable in the hands of the SEPs.

To help the SEPs increase their savings under the CPF scheme to meet their medical and retirement needs, the Minister has proposed to allow tax deduction for eligible companies (such as taxi companies) that make voluntary contributions to their SEP partners' CPF Medisave Accounts from 1 January 2011 (i.e. tax benefits will take effect from YA 2012).

The qualifying conditions for the tax benefits include the following:

- (a) there must be a valid contract between the eligible company and the SEP, which is in force when the contributions are made, and which provides for:
 - (i) the rental or loan of assets by that company to the SEP, for the SEP to carry on his trade, profession, business or vocation; or
 - (ii) the provision of services by the SEP to that company, where the SEP and that company are in the same trade, profession, business or vocation.

- (b) for any calendar year, tax benefits will be given for contributions not exceeding \$1,500 per SEP, and within the CPF Annual Limit and Medisave Contribution Ceiling.

Such contributions will be tax-exempt in the hands of SEPs.

For a SEP who is concurrently an employee, he can enjoy tax exemption on voluntary Medisave contributions up to a maximum of \$1,500 per calendar year made by his employer through the Additional Medisave Contribution Scheme, as well as by the eligible companies.

Goods and Services Tax (GST)

GST measures for Biomedical Industry

To support the growth of local clinical trials and encourage clinical research activities to take root in Singapore, the Minister has proposed to grant GST relief upfront on all clinical trial materials imported into Singapore with effect from 1 October 2011. This GST relief will apply irrespective of whether the clinical trial materials are for local testing, re-export or for disposal in Singapore.

IRAS and Singapore Customs will publish guidance on changes by 1 September 2011.

Expansion and enhancement of Approved Contract Manufacturer and Trader (ACMT) Scheme

Currently, only the ACMT in semiconductor and printing industries are allowed to disregard its supply of value-added services to its overseas customers for GST purposes and for import GST suspension on the importation of raw materials for use in the contract manufacturing process.

To relief irrecoverable GST cost incurred by biomedical contract manufacturers in Singapore for their overseas clients, the Minister has proposed to extend the ACMT scheme to qualifying biomedical manufacturers with effect from 1 October 2011. In addition, the current ACMT scheme will be enhanced such that:

- (a) value-added services performed by the approved contract manufacturer on failed or excess production to overseas customers will be disregarded for GST purposes; and
- (b) GST incurred by overseas customers on local purchases of goods for use in the contract manufacturing process can be recovered by the approved contract manufacturer.

IRAS and Singapore Customs will publish guidance on changes by 1 September 2011.

GST Zero-rating scheme for specialised storage and value-added services

To promote the use of specialised warehouses facilities in Singapore to store high-value goods (like art and antiques) belong to overseas persons, the Minister has proposed a new scheme with effect from 1 October 2011. Under the new scheme, specified services supplied to overseas persons performed on certain goods kept in approved specialised warehouses in Singapore will be zero-rated. To qualify for the zero-rating scheme, the following key conditions (amongst others) must be met:

- (a) the specialised warehouse must have mostly overseas customers (at least 90%); and
- (b) the majority of goods (at least 90%) removed from the warehouse are exported.

Further details of the scheme will be release by IRAS by 1 September 2011.

Expansion of GST zero-rating for the marine industry

To promote Singapore as an International Maritime Centre, the Minister has proposed to expand the zero-rating of GST for the marine industry as follows:

- (a) a new GST scheme will be introduced to allow 'approved marine customers' to buy or rent goods without having to pay GST as long as they are for use or installation on a commercial ship that is wholly for international travel. The supplier may zero-rate the supply of such goods to an approved marine customer without having to maintain the requisite documentary proof;
- (b) zero-rating will be extended to include repair or maintenance services performed on ship parts or components which are delivered to shipyards in Singapore; or approved marine customers. In addition, where the supplier provides a reconditioned ship part or component in exchange for a faulty one to its customer, such arrangements will be treated as a single supply of repair services; and
- (c) to ease GST compliance for ships which are in Singapore for only a short period of time, documentary requirements to support for relief from import GST will be removed for a qualifying ship engaged in pleasure, recreation, sports or other similar events. In addition, relief from import GST will be granted and that documentary requirement also be waived in respect of goods supplied to a qualifying ship.

The above changes will be effective from 1 October 2011. Further details will be released by IRAS and Singapore Customs by 1 September 2011.

Others

Raising the employer's CPF contributions and CPF salary ceiling

To help Singaporeans save more for their medical and retirement needs, the employers' CPF contribution rate will be increased by 0.5% from 15% to 15.5% from March 2011.

As the Singapore economy has recovered strongly and with the outlook for continued growth in 2011, the Minister has proposed to increase the employer CPF contribution rate by a further 0.5%, from 15.5% to 16% which will take effect in September 2011. This will restore the total contribution rate to the level in year 2003 of 36%. The additional 0.5% will go into the Special Account.

In addition, the Minister has also proposed to increase the CPF Salary Ceiling from \$4,500 to \$5,000 per month which will also take effect in September 2011 to keep pace with income growth in recent years.

Special Employment Credit

To encourage employers to attract and keep older Singaporean workers who are covered by the Workfare scheme, the Minister for Finance has proposed to provide employers with a one-off Special Employment Credit to be paid out over three years.

Employers will receive a Special Employment Credit of up to 50% of the employer CPF contributions for workers aged 55 to 59. They will receive a higher credit of up to 80% of the employer CPF contributions for workers aged 60 and above.

More details will be released by the Ministry of Manpower.

Extension of Green Vehicle Rebate (GVR) scheme

The GVR scheme was first introduced in 2001 to encourage the purchase of green vehicles which are more environmentally friendly than the conventional equivalents model. Under the GVR scheme, owners of brand new green vehicles will enjoy a rebate on the Additional Registration Fee (ARF) as follows:

- (a) for hybrid, electric and compressed natural gas (CNG) passenger vehicles: a rebate on the ARF equal to 40% of the Open Market Value (OMV) of the vehicle at registration;
- (b) for hybrid, electric and CNG buses and commercial vehicles: a rebate on the ARF equal to 5% of their OMV at registration; and
- (c) for electric motorcycles, a rebate on the ARF equal to 10% of the vehicle's OMV at registration.

The above GVR scheme will expire on 31 December 2011.

To continue to encourage the adoption of green vehicle, the Minister has proposed to extend the GVR scheme for another year until 31 December 2012. In addition, a comprehensive review on the measures to boost the adoption of green vehicles will be undertaken.

Foreign worker levy

As a measure to encourage businesses to upgrade their operations and increase productivity so as to rely less on lower skilled foreign workers, the Minister had in his 2010 Budget announced an increase in levy rates for Work Permit holders by \$10 to \$30 from 1 July 2010, and to phase in further adjustments in levy rates and tiers in 2011 and 2012. In addition, there will be two levy tiers for S Pass holders instead of one single rate, and that the rates for first and second tiers were \$100 and \$120 respectively effective from July 2010 with further adjustments until the rates reach \$150 and \$250 respectively by July 2012.

As Singapore economy has grown much faster than either the Government or businesses expected, and to prevent the proportion of foreign workers exceeds the long term target of one-third of the workforce, the Minister has proposed to introduce further levy increases for all sectors as follows:

- (a) for the manufacturing sector, the levy will increase by an average of another of \$60 by July 2013 on top the earlier announced increase of about \$100.
- (b) for the service sector, the levy tiers will be tighten and the levy will increase such that the average levy goes up by a further \$180 by July 2013 on top the earlier announced increase of about \$100.
- (c) for the construction sector, the levy will increase by a further of \$200 by July 2013 on top the earlier announced increase of about \$130.
- (d) for S Pass holders, the levy rates will increase from \$50 prior to the adjustments made on 1 July 2010, to \$300 to \$450 by July 2013, depending on the number of S Pass holders hired by the companies.

The overall dependency ratios for all categories of foreign workers (Work Permit and S Pass holders) will remain unchanged.

More details of the levy changes may be obtained from Ministry of Manpower website at: [http://www.mom.gov.sg/Home/Press_Release/Documents/Annexes-%20Changes%20to%20FW%20Levy%20\(230210\).pdf](http://www.mom.gov.sg/Home/Press_Release/Documents/Annexes-%20Changes%20to%20FW%20Levy%20(230210).pdf)

Extension of stamp duty remission for aborted lease contracts or agreements

Currently, under Section 22(6) of the Stamp Duties Act, the ad valorem duty paid upon any contract or agreement for the sale of property may be refunded where the contract or agreement is later rescind or annulled.

Pursuant to the Stamp Duties (Aborted Sale and Purchase Agreements)(Remission) Rules 2005, the stamp duty paid in excess of \$50 (to cover administrative costs) is remitted for aborted Sale and Purchase (S&P) agreements that do not qualify for stamp duty refund under Section 22(6) of the Stamp Duties Act and the purchaser has not procured the rescission or annulment of the contract or agreement for sale with a view to facilitate the transfer of property by the vendor to another person.

To align with the stamp duty treatment for aborted sale contracts or agreements, the Minister has proposed to extend the stamp duty remission in excess of \$50 to cover aborted lease contracts or agreements, subject to qualifying conditions as follows:

- (a) the lease contract or agreement is rescinded or annulled on or after 19 February 2011;
- (b) the lessee has not rescinded or aborted the lease contract or agreement with a view to facilitate the lease of the property by the lessor to another person;

- (c) the executed lease instrument has not been made used for any purpose;
- (d) the lease period of the property has not commenced;
- (e) the application for remission is made within 6 months from the date of annulment or rescission of the lease contract or agreement. The Commissioner of Stamp Duties will be given the discretion to extend the application for remission beyond six months; and
- (f) the original lease contract or agreement is surrendered to the Commissioner of Stamp Duties for cancellation.

IRAS has released an e-tax guide on 18 February 2011.

Stamp duty relief for a company converting into a Limited Liability Partnership (LLP)

To provide businesses with the flexibility in organisational restructuring, the Minister has announced that stamp duty relief will be extended to cover the conversion of an existing company to a LLP.

To qualify for this relief, the following conditions have to be met:

- (a) the shareholders of the existing company remain as the partners of the new LLP as at the date of conversion;
- (b) the assets of the new LLP are those of the existing company as at the date of conversion;
- (c) the percentage of partnership interests of each of the partners in the new LLP have to remain the same as the shareholding percentages of each of the shareholders in the existing company as at the date of conversion; and
- (d) at least 75% of the composition of the partnership interest in the LLP should remain the same for two years from the date of conversion.

The stamp duty relief that has been allowed on the notice of registration upon the conversion of a company to an LLP will be withdrawn under any of the following circumstances:

- (a) where the original partners individually or collectively disposed of more than 25% of his/their partnership interests in LLP within two years from the date of conversion except where the original partner dispose his/their interest to a wholly associated entity, or
- (b) where the LLP disposes of any of chargeable assets that it had acquired from the existing company as at the date of its conversion to its partners.

In line with the new stamp duty relief mentioned above, an additional condition (i.e. at least 75% of the composition of the partnership interest in the LLP should remain the same for two years from the date of conversion) will be imposed for the stamp duty relief for conversion of an existing firm (ordinary partnership) to a LLP.

Following the above, the stamp duty relief that has been allowed will also be withdrawn if the original partners individually or collectively disposed of more than 25% of his/their interest within two years from the date of conversion except where the original partners dispose his/their interest to a wholly associated entity.

All other existing conditions of granting stamp duty relief for conversion of a partnership to a LLP apply.

These reliefs will take effect for a company or firm converting to a LLP on or after 19 February 2011.

IRAS has released an e-tax guide on 18 February 2011.

Removal of nominal/fixed stamp duties for most documents

Currently, prescribed documents not liable for ad valorem stamp duty are liable for nominal/fixed duties of \$2 or \$10. These documents could be documents for a transaction on which an ad valorem duty had already been paid, documents for transactions that effectively do not confer a change in beneficial ownership interest in the underlying properties or documents relating to transactions on which stamp duty remission in excess of \$10 had been granted.

The Minister has announced that payment of stamp duty at fixed or nominal rates on most instruments executed on or after 19 February 2011 will no longer be required.

IRAS has released an e-tax guide on 18 February 2011.

Contacts

For more information or if you have any queries, please do not hesitate to contact:

Ms. Katherine Chan, Director, Head of Taxation
Telephone: 65 66038219
Email: katherinechan@ltc-cpa.com

or

Chua Chin Kon, Director of Taxation
Telephone: 65 66038231
Email: chuack@ltc-cpa.com