

## CLIENT UPDATE 2016 APRIL



### TAX

## Budget 2016 – Tax Updates

### Introduction

Budget 2016 was delivered by the Minister for Finance, Mr. Heng Swee Keat, on 24 March 2016. This budget laid the road map for Singapore's next 50 years, towards SG100. The main aim of this year's budget is to assist Small and Medium Enterprises ("SMEs").

A new incentive scheme called Automation Support Package was introduced to boost the productivity of Singapore's economy. In addition, in order to help SMEs to address short-term concerns or explore mid-term expansion plans, Budget 2016 extended and enhanced incentive plans such as the Corporate Income Tax Rebate, Mergers & Acquisitions ("M&A") scheme and Double Tax Deduction for Internationalisation scheme.

We are pleased to highlight the tax changes announced in Budget 2016.

### Addressing Near Term Concerns

#### Corporate Income Tax ("CIT") Rebate

In order to help companies, especially SMEs, the CIT rebate will be raised from 30% to 50% for Year of Assessments ("YAs") 2016 and 2017, subject to a cap of \$20,000 rebate per YA.

### Transforming Enterprises

#### Automation Support Package ("ASP")

In order to encourage companies to automate, drive productivity, and scale up, the government has introduced a new ASP. The ASP will consist of the following four components:

- (a) Capability Development Grant, administered by SPRING, will be expended to support the roll-out or scaling up of automation projects at up to 50% of the qualifying cost. The grant is capped at \$1 million;
- (b) Qualifying projects may be eligible for an Investment Allowance ("IA") of 100% on the amount of approved capital expenditure, net of grants. This IA is in addition to the existing capital allowance for plant and machinery. The approved capital expenditure is capped at \$10 million per project;
- (c) Financing support will be enhanced. For qualifying projects, the government will bear 50% to 70% on the associated risks on equipment loan with participating financial institutions for SMEs and non-SMEs; and
- (d) IE Singapore will work together with SPRING where relevant to help businesses to access overseas markets.

#### Enhancing the Mergers & Acquisitions ("M&A") Allowance Scheme

To support more M&As, the existing cap for qualifying M&A deals will be doubled from \$20 million to \$40 million, such that:

- (a) Tax allowance of 25% will be granted for up to \$40 million of the consideration paid for qualifying M&A deals per YA; and
- (b) Stamp duty relief will be granted for up to \$40 million of consideration paid for qualifying M&A deals per financial year.

---

## CLIENT UPDATE 2016 APRIL

---

### TAX

This change will take effect for qualifying M&A deals made from 1 April 2016 to 31 March 2020.

The Inland Revenue Authority of Singapore (“IRAS”) will release more details of the change by June 2016.

#### **Extending the Upfront Certainty of Non-Taxation of Companies’ Gains on Disposal of Equity Investments**

To provide upfront certainty to companies in their corporate restructuring, the scheme under section 13Z of the Income Tax Act (“ITA”) will be extended till 31 May 2022 (to cover disposal of equity investments from 1 June 2017 to 31 May 2022). All conditions of the scheme remain the same. Insurance companies are not eligible under this scheme.

#### **Extending the Double Tax Deduction (“DTD”) for Internationalisation Scheme**

To encourage higher industrial land productivity, the LIA scheme will be extended to buildings used by a user or multiple users, who are related, for one or multiple qualifying trades or business, if certain conditions are met.

The qualifying capital expenditure for which an allowance may be made excludes any expenditure incurred before 25 March 2016. EDB will release more details of the change by July 2016.

A new criterion requiring LIA applicants to be related to the qualifying user or users of the building will also be introduced.

These changes will take effect for LIA applications if:

- (a) The application for LIA is made from 25 March 2016; and
- (b) The application for planning permission or conservation permission for the construction or renovation is made from 25 March 2016.

### **Transforming Through Innovation**

#### **Providing an Election for the Writing Down Period for Intellectual Property Rights (“IPRs”)**

Under section 19B of the ITA, companies or partnerships can claim writing-down allowance (“WDA”) on the acquisition cost of qualifying IPRs over a period of five years.

To recognise the varying useful lives of IPRs, while maintaining a simple and certain tax regime, companies or partnerships may elect for their WDA under section 19B of the ITA to be claimed over a writing-down period of 5, 10 or 15 years. The election must be made at the point of submitting the tax return of the YA related to the basis period in which the qualifying cost is first incurred. The election, once made, is irrevocable.

This change will apply to qualifying IPR acquisitions made with the basis period for YAs 2017 to 2020. IRAS will release more details of the change by 30 April 2016.

#### **Introducing an Anti-Avoidance Mechanism for IPR Transfers under Section 19B of the ITA**

To ensure that the WDA under section 19B of the ITA are granted based on transacted values that are reflective of the open market value (“OMV”) of an IPR, an anti-avoidance mechanism for IPR transfers

---

## CLIENT UPDATE 2016 APRIL

---

### TAX

will be included under section 19B of the ITA to empower the Comptroller of Income Tax to make the following adjustments to the transacted price of the IPR, if the IPR is not transacted at OMV:

- (a) If the acquisition price of the IPR is higher than the OMV of the IPR, the Comptroller may substitute the acquisition price with the OMV of the IPR and restrict the writing-down allowance based on the OMV of the IPR; and
- (b) If the disposal price of the IPR is lower than the OMV of the IPR, the Comptroller may substitute the disposal price with the OMV of the IPR for the purpose of computing balancing charge.

This change will apply to acquisitions, sales, transfers or assignments of IPRs that are made from 25 March 2016.

### Shift from Broad-Based Support

#### Allowing the Productivity and Innovation Credit (“PIC”) Scheme to Lapse and Lowering the Cash Payout Rate

The cash payout rate will be lowered from 60% to 40% for qualifying expenditure incurred from 1 August 2016. All other condition of the scheme remained unchanged.

The PIC scheme, which has been extended from YAs 2016 to 2018, will expire thereafter. It will not be available from YA 2019.

Strengthening Singapore’s Competitiveness across Various Industries

#### Extending and Enhancing the Finance and Treasury Centre (“FTC”) Regime

To enhance activities in the area of finance and treasury, the FTC scheme will be extended till 31 March 2021 with the following enhancements:

- (a) The concessionary tax rate will be lowered to 8% (from the current 10%). The substantive requirements to qualify for the scheme will be increased;
- (b) To qualify for the concessionary tax rate, the FTCs will be allowed to obtain funds indirectly from approved offices and associated companies. Safeguards will be put in place to address the risks of round-tripping; and
- (c) The scope of tax exemption granted under section 13(4) of the ITA will be expanded to cover interest payments on deposits placed with the FTC by its non-resident approved offices and associated companies, provided the funds are used for the conduct of qualifying activities or services.

These changes will take effect from 25 March 2016. EDB will release more details of the change by June 2016.

#### Extending and Refining the Tax Incentive Scheme for Trustee Companies

The scheme will be subsumed under the Financial Sector Incentive (“FSI”) scheme from 1 April 2016. The scope of qualifying activities will be expanded to align with trustee activities covered under the FSI-Standard Tier (“FSI-ST”) scheme from 1 April 2016 for new and current incentive recipients. A concessionary tax rate of 12% will apply to new awards from 1 April 2016. The current incentive recipients will continue to enjoy existing benefits till the expiry of their awards and may apply for renewal of their awards under the FSI scheme thereafter.

This change will take effect from 1 April 2016. The Monetary Authority of Singapore (“MAS”) will release more details of the change by June 2016.

## CLIENT UPDATE 2016 APRIL

### TAX

#### Extending and Refining the Tax Incentive Schemes for Insurance Companies

To streamline and simplify the tax incentives for the insurance sector, while ensuring the continued growth of high-value insurance activities in Singapore, the tax incentive schemes for Marine Hull and Liability Insurance, Specialised Insurance Business and Captive Insurance will be subsumed under the Insurance Business Development (“IBD”) umbrella scheme with the following changes :

Insurance business	Current Treatment	Proposed treatment
Marine Hull and Liability Insurance	Under the Tax Incentive Scheme for Marine Hull and Liability Insurance, approved insurers are granted tax exemption or a concessionary tax rate of 5% on qualifying income derived from carrying on of marine hull and liability insurance business. The scheme will lapse after 31 March 2016.	The Marine Hull and Liability Insurance scheme will be subsumed under the IBD umbrella scheme from 1 April 2016. A concessionary tax rate of 10% will apply to new and renewal awards from 1 April 2016.
Specialised Insurance	Under the Tax Incentive Scheme for Specialised Insurance Business, approved insurers are granted tax exemption on qualifying income derived from carrying on of offshore specialised insurance business. The scheme will lapse after 31 August 2016.	<p>The Specialised Insurance Business scheme will be subsumed under the IBD umbrella scheme as an enhanced tier award from 1 September 2016, up till 31 Aug 2021.</p> <p>A concessionary tax rate of 8% will apply to new awards from 1 September 2019. As a transitional measure, a concessionary tax rate of 5% will apply to new awards from 1 September 2016 to 31 August 2019. A concessionary tax rate of 10% will apply to renewal awards from 1 September 2016.</p> <p>The scope of qualifying activities will be expanded to cover business of underwriting both onshore and offshore specialised risks from 1 September 2016 for new and current approved insurers.</p>
Captive insurance	Under the Tax Incentive Scheme for Captive Insurance, approved insurers are granted tax exemption on qualifying income derived from carrying on of offshore captive insurance. The scheme will lapse after 31 March 2018.	The Captive Insurance scheme will be subsumed under the IBD umbrella scheme from 1 April 2018. A concessionary tax rate of 10% will apply to new and renewal awards from 1 April 2018.

---

## CLIENT UPDATE 2016 APRIL

---

### TAX

The current approved insurers will continue to enjoy benefits under their existing insurance awards till the expiry of their awards, and may apply for renewal under the IBD scheme thereafter. MAS will release more details of the change by June 2016.

#### **Enhancing the Global Trader Programme (Structured Commodity Finance) [“GTP(SCF)”] Scheme**

To strengthen Singapore’s trade finance capabilities, and to encourage more SCF activities to be done in Singapore, the GTP(SCF) scheme will be enhanced to include the following qualifying activities:

- (a) Consolidation, management and distribution of funds for designated investments;
- (b) Mergers & Acquisitions advisory services; and
- (c) Streaming Financing.

This change will take effect from 25 March 2016. IE Singapore will release more details of the change by June 2016.

#### **Enhancing the Maritime Sector Incentive (“MSI”)**

To further develop Singapore as an International Maritime Centre, the MSI will be enhanced as follows:

- (a) The MSI-Shipping Enterprise (Singapore Registry of Ships) (“**MSI-SRS**”) and MSI- Approved International Shipping Enterprise (“**MSI-AIS**”) award will cover income derived from operation of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activities relating to exploration or exploitation of offshore energy or offshore minerals.
- (b) The MSI-Maritime Leasing (Ship) [“**MSI-ML(Ship)**”] award will cover income derived from leasing of ships used for exploration or exploitation of offshore energy or offshore minerals, or ancillary activities relating to exploration or exploitation of offshore energy or offshore minerals.
- (c) The restriction on the qualifying counterparty’s requirement under MSI-ML(Ship) award will be removed. Therefore, tax exemption will be granted on income derived from leasing of ships used for qualifying activities to any counterparties for use outside the port limits of Singapore.

The above changes will take effect from 25 March 2016. Maritime Port Authority of Singapore will release more details of the change in (a) and (b) by June 2016.

### **Nurturing a Caring and Resilient Society**

#### **Introducing the Business and Institution of Public Character Partnership Scheme (“BIPS”)**

To incentivise employee volunteerism through businesses, a pilot BIPS will be introduced from 1 July 2016 to 31 December 2018.

Under BIPS, businesses will enjoy a 150% tax deduction on wages and incidental expenses (in addition to expenses incurred for corporate social responsibility activities that are deductible as revenue expenditure) when they send their employees to volunteer and provide services to IPCs, including secondments. This will be subject to the receiving IPCs’ agreement, with a yearly cap of \$250,000 per business and \$50,000 per IPC on the qualifying costs.

MOF and IRAS will release more details of the change by June 2016.

## CLIENT UPDATE 2016 APRIL

### TAX

#### Other Changes

##### **Providing the Allocation of Expenses under Section 14U of the ITA and Pre-Commencement Expenses under Part V of the ITA**

To ensure fair allocation of section 14U and pre-commencement expenses to pre-incentive and incentive income derived by businesses enjoying tax incentives, and provide certainty on the allocation method to be used:

- (a) Section 14U and pre-commencement expenses that are directly incurred to derive the pre-incentive income or incentive income will be specifically identified and set off against the relevant income; and
- (b) For all remaining section 14U and pre-commencement expenses, they will be allocated between the pre-incentive and incentive income based on income proportion (e.g. using turnover, gross profit).

This change will take effect for section 14U and pre-commencement expenses that are incurred from 25 March 2016. IRAS will release more details of the change by June 2016.

##### **Introducing Mandatory Electronic-Filing (“e-Filing”) for Corporate Income Tax Returns (Including Estimated Chargeable Income, Form C and Form C-S)**

In line with Government’s push for more effective delivery of public services, and in accordance with Singapore’s Smart Nation effort to harness technology to enhance productivity, mandatory e-Filing of Corporate Income Tax returns will be implemented in the following stages:

YA	Target Group
2018	Companies with turnover of more than \$10 million in YA 2017
2019	Companies with turnover of more than \$1 million in YA 2018
2020	All companies

##### **Introducing Mandatory e-Filing for PIC Cash Payout Application**

To streamline and expedite processing of PIC cash payout applications, mandatory e-Filing of PIC cash payout applications will be introduced. The mandatory e-Filing of PIC cash payout applications will be effective from 1 August 2016.

##### **Withdrawing the Approved Investment Company Scheme under Section 10A of the ITA**

As the scheme is assessed to be no longer relevant, the Approved Investment Company scheme will be withdrawn from YA 2018.

##### **Extending the Not-for-Profit Organisation (“NPO”) Tax Incentive under Section 13U of the ITA**

To continue promoting Singapore as a hub for NPOs, the NPO tax incentive will be extended till 31 March 2022.

## **CLIENT UPDATE**

### **2016 APRIL**

---

#### **TAX**

#### **Withdrawing the Tax Exemption on Income Derived by Non-Residents Trading in Singapore in Specified Commodities via Consignment Arrangements**

As the scheme is assessed to be no longer relevant, the tax exemption for non-residents trading in Singapore in specified commodities via consignment arrangements will be withdrawn from YA 2018.

#### **Tax Changes for Individuals**

##### **Introducing a Cap of \$80,000 on Personal Income Tax Reliefs**

To make our Personal Income Tax regime more progressive, the total amount of personal income tax reliefs that an individual can claim will be capped at \$80,000 per YA. This is targeted at working mothers.

This change will take effect from YA 2018.

##### **Removing the Tax Concession on Home Leave Passages for Expatriate Employees**

The tax concession of taxing only 20% of the value of home leave passages for expatriate employees will be removed with effect from YA 2018.

#### **Reference Material**

The 2016 Budget Speech is available from the Budget website at <<http://www.singaporebudget.gov.sg>>, last accessed 28 March 2016.

## CLIENT UPDATE 2016 APRIL

---

### Contacts



**Liu Hern Kuan**  
Partner

D (65) 6232 0937  
F (65) 6428 3495

[hern.kuan.liu@rajahtann.com](mailto:hern.kuan.liu@rajahtann.com)



**Vikna Rajah**  
Partner

D (65) 6232 0597  
F (65) 6428 3494

[vikna.rajah@rajahtann.com](mailto:vikna.rajah@rajahtann.com)

---

**Ong Zhong Teck**  
Tax Accountant

D (65) 6232 0179  
F (65) 6225 7725

[zhong.teck.ong@rajahtann.com](mailto:zhong.teck.ong@rajahtann.com)

---

Please feel free to also contact Knowledge and Risk Management at [eOASIS@rajahtann.com](mailto:eOASIS@rajahtann.com)

#### ***ASEAN Economic Community Portal***

With the launch of the ASEAN Economic Community (“AEC”) in December 2015, businesses looking to tap the opportunities presented by the integrated markets of the AEC can now get help a click away. Rajah & Tann Asia, United Overseas Bank and RSM Chio Lim Stone Forest, have teamed up to launch “Business in ASEAN”, a portal that provides companies with a single platform that helps businesses navigate the complexities of setting up operations in ASEAN.

By tapping into the professional knowledge and resources of the three organisations through this portal, small- and medium-sized enterprises across the 10-member economic grouping can equip themselves with the tools and know-how to navigate ASEAN’s business landscape. Of particular interest to businesses is the “Ask a Question” feature of the portal which enables companies to pose questions to the three organisations which have an extensive network in the region. The portal can be accessed at <http://www.businessinasean.com/>.

## Our regional presence



## Our regional contacts

**RAJAH & TANN** | *Singapore*

**Rajah & Tann Singapore LLP**  
 9 Battery Road #25-01  
 Straits Trading Building  
 Singapore 049910  
 T +65 6535 3600 F +65 6225 9630  
 sg.rajahtannasia.com

**R&T SOK & HENG** | *Cambodia*

**R&T Sok & Heng Law Office**  
 Vattanac Capital Office Tower, Level 17, No. 66  
 Preah Monivong Boulevard, Sangkat Wat Phnom  
 Khan Daun Penh, 12202 Phnom Penh, Cambodia  
 T +855 23 963 112 / 113 F +855 963 116  
 kh.rajahtannasia.com  
*\*in association with Rajah & Tann Singapore LLP*

**RAJAH & TANN REPRESENTATIVE OFFICE** | *China*

**Rajah & Tann Singapore LLP  
 Shanghai Representative Office**  
 Unit 1905-1906, Shui On Plaza, 333 Huai Hai Middle Road  
 Shanghai 200021, People's Republic of China  
 T +86 21 6120 8818 F +86 21 6120 8820  
 cn.rajahtannasia.com

**RAJAH & TANN NK LEGAL** | *Myanmar*

**Rajah & Tann NK Legal Myanmar Company Limited**  
 Myanmar Centre Tower 1, Floor 07, Unit 08,  
 192 Kaba Aye Pagoda Road, Bahan Township,  
 Yangon, Myanmar  
 T +95 9 73040763 / +95 1 657902 / +95 1 657903  
 F +95 1 9665537  
 mm.rajahtannasia.com

**ASSEGAF HAMZAH & PARTNERS** | *Indonesia***Assegaf Hamzah & Partners***Jakarta Office*

Menara Rajawali 16th Floor  
Jalan DR. Ide Anak Agung Gde Agung Lot #5.1  
Kawasan Mega Kuningan, Jakarta 12950, Indonesia  
T +62 21 2555 7800 F +62 21 2555 7899  
www.ahp.co.id

*Surabaya Office*

Pakuwon Center, Superblok Tunjungan City  
Lantai 11, Unit 08  
Jalan Embong Malang No. 1, 3, 5, Surabaya 60261, Indonesia  
T +62 31 5116 4550 F +62 31 5116 4560

*\*Assegaf Hamzah & Partners is an independent law firm in Indonesia and a member of the Rajah & Tann Asia network.*

**CHRISTOPHER & LEE ONG** | *Malaysia***Christopher & Lee Ong**

Level 22, Axiata Tower, No. 9 Jalan Stesen Sentral 5,  
Kuala Lumpur Sentral, 50470 Kuala Lumpur, Malaysia  
T +60 3 2273 1919 F +60 3 2273 8310  
www.christopherleeong.com

*\*in association with Rajah & Tann Singapore LLP*

**RAJAH & TANN** | *Thailand***Rajah & Tann (Thailand) Limited**

973 President Tower, 12th Floor, Units 12A-12F  
Ploenchit Road, Lumpini, Pathumwan  
Bangkok 10330, Thailand  
T +66 2 656 1991 F +66 2 656 0833  
th.rajahtannasia.com

**RAJAH & TANN** | *Lao PDR***Rajah & Tann (Laos) Sole Co., Ltd.**

Phonexay Village, 23 Singha Road, House Number 046/2  
Unit 4, Saysettha District, Vientiane Capital, Lao PDR  
T +856 21 454 239 F +856 21 285 261  
la.rajahtannasia.com

**RAJAH & TANN LCT LAWYERS** | *Vietnam***Rajah & Tann LCT Lawyers***Ho Chi Minh City Office*

Saigon Centre, Level 13, Unit 2&3  
65 Le Loi Boulevard, District 1, HCMC, Vietnam  
T +84 8 3821 2382 / +84 8 3821 2673 F +84 8 3520 8206

*Hanoi Office*

Lotte Center Hanoi - East Tower, Level 30, Unit 3003,  
54 Lieu Giai St., Ba Dinh Dist., Hanoi, Vietnam  
T +84 4 3267 6127 F +84 4 3267 6128  
www.rajahtannlct.com

Rajah & Tann Singapore LLP is one of the largest full service law firms in Singapore, providing high quality advice to an impressive list of clients. We place strong emphasis on promptness, accessibility and reliability in dealing with clients. At the same time, the firm strives towards a practical yet creative approach in dealing with business and commercial problems. As the Singapore member firm of the Lex Mundi Network, we are able to offer access to excellent legal expertise in more than 100 countries.

Rajah & Tann Singapore LLP is part of Rajah & Tann Asia, a network of local law firms in Singapore, Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, Thailand and Vietnam. Our Asian network also includes Singapore-based regional desks focused on Japan and South Asia.

The contents of this Update are owned by Rajah & Tann Singapore LLP and subject to copyright protection under the laws of Singapore and, through international treaties, other countries. No part of this Update may be reproduced, licensed, sold, published, transmitted, modified, adapted, publicly displayed, broadcast (including storage in any medium by electronic means whether or not transiently for any purpose save as permitted herein) without the prior written permission of Rajah & Tann Singapore LLP.

Please note also that whilst the information in this Update is correct to the best of our knowledge and belief at the time of writing, it is only intended to provide a general guide to the subject matter and should not be treated as a substitute for specific professional advice for any particular course of action as such information may not suit your specific business and operational requirements. It is to your advantage to seek legal advice for your specific situation. In this regard, you may call the lawyer you normally deal with in Rajah & Tann Singapore LLP or e-mail Knowledge & Risk Management at [eOASIS@rajahtann.com](mailto:eOASIS@rajahtann.com).