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FOR CLIENTS' INFORMATION ONLY 19 February 2018

Dear Sirs

THE 2018 SINGAPORE BUDGET COMMENTARY

The Minister for Finance presented a focused budget with a strategic and integrated plan to position Singapore for the future to meet global and regional competition for trade and the uncertainty arising from US nationalism, and the challenges posed by the new age digital technologies as well as the rapidly ageing population of Singapore.

To support businesses to develop and innovate by using new technologies, besides the Productivity Solutions Grant, the government has proposed various initiatives including double tax deductions for protection of Intellectual Property as well as 250% tax deduction for Research and Development activities carried out from Singapore.

With the overall budget surplus of $9.6 billion arising from 2017, the government has declared $100 to $300 "hongbao" to all Singaporeans.

On this happy note, we are pleased to highlight in the following pages the tax and certain other changes as proposed in the 2018 Budget. It should be noted that the views expressed in this commentary are based on our interpretation of the Finance Minister's Budget Speech. Until the proposals are enacted, we cannot be definitive about the proposed changes.

Please do not hesitate to contact us should you require any assistance.

Yours faithfully

Wendy Wong

WENDY WONG
DIRECTOR OF TAXES

Enc.

2018

BUDGET

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A CORPORATE TAXATION

1. CORPORATE TAX RATE

Current : 17% since the Year of Assessment ("YA") 2010. Also, partial tax exemption is granted as follows on up to $300,000 of a company's normal chargeable income ("CI"):

(i) 75% exemption on the first $10,000 CI; and
(ii) 50% exemption on the next $290,000 CI.

The partial tax exemption does not apply to the following:

(i) CI of a company that is subject to tax at a concessionary tax rate;

(ii) Income earned by a non-resident company that is subject to a final withholding tax. Such income earned by a non-resident company, which includes interest and royalties, are taxed at the rates of 15% and 10% respectively or the reduced rate provided in a tax treaty; and

(iii) All dividends received from Singapore companies. With effect from 1 January 2008, all dividends paid by Singapore companies are already exempt from tax in the hands of shareholders.

Proposed : The scheme will be adjusted where partial tax exemption is to be granted on up to $200,000 of a company's CI as follows:

(i) 75% exemption on the first $10,000 CI; and
(ii) 50% exemption on the next $190,000 CI.

All other conditions of the scheme remain unchanged.

Effective : From YA 2020.

Commentary : The reduction in the ceiling on the partial tax exemption scheme from $300,000 to $200,000 would potentially increase a company's tax liability by $8,500 per YA.

2. CORPORATE INCOME TAX REBATE

Current : A 50% corporate income tax rebate is granted subject to a cap of $25,000 for the YA 2017 and a 20% corporate tax rebate capped at $10,000 for the YA 2018.

Proposed : To raise the rebate cap from $10,000 to $15,000 with the rebate rate enhanced to 40% for the YA 2018.

The rebate will be extended for another year to YA 2019 with a rebate rate of 20% of tax payable and capped at $10,000.

Commentary : The rebate is enhanced and extended to help companies cope with business costs and support restructuring by companies.

3. START-UP TAX EXEMPTION SCHEME

Current : Full tax exemption on the first $100,000 of CI and 50% tax exemption of up to the next $200,000 CI for qualifying new companies including companies limited by guarantee for the first 3 consecutive YA upon incorporation.

A qualifying new company must fulfil the following conditions:

(a) It is incorporated in Singapore;
(b) It is a tax resident of Singapore; and
(c) It has total share capital which is beneficially held directly by no more than 20 shareholders

   (i) all of whom are individuals; or
   (ii) at least one of whom is an individual holding at least 10% of the total number of issued ordinary shares of the company

throughout the basis period relating to the YA of claim.

However, the start-up tax exemption scheme is no longer available to the following companies incorporated after 25 February 2013:-

(i) Property development companies that buy or lease land and arrange for a building to be built on the land in order to lease, manage or sell the building; and

(ii) Investment holding companies whose principal activity is that of investment holding and derive only investment income such as rental, dividend or interest income.

Property development and investment holding companies will still be able to enjoy the partial tax exemption available to all companies.

Proposed : The start-up tax exemption scheme will be adjusted where partial tax exemption is granted on up to $200,000 of a qualifying new company's CI for the first 3 consecutive YA upon incorporation as follows:

(i) 75% exemption on the first $100,000 CI; and
(ii) 50% exemption on the next $100,000 CI.

All existing conditions of the start-up tax exemption scheme remain unchanged.

Effective : From YA 2020.

Commentary : Where a new qualifying company's first YA is 2019, the current start-up tax exemption will apply in YA 2019 while the new parameters will apply in YAs 2020 and 2021.

4. ENHANCING THE TAX DEDUCTION FOR QUALIFYING EXPENDITURE ON QUALIFYING RESEARCH AND DEVELOPMENT (“R&D”) PROJECTS PERFORMED IN SINGAPORE

Current : Taxpayers are allowed R&D tax deductions as follows:

(i) **Section 14(D)(1)** – 100% base deduction on R&D:

(a) related to the trade or business;

(aa) undertaken in Singapore not related to the trade or business incurred during YA 2009 to YA 2025;

(b) payments to R&D organisation undertaken in Singapore related to the trade or business;

(ba) payments to R&D organisation undertaken partly in Singapore and partly outside Singapore related to the trade or business;

(c) payments to R&D organisation undertaken in Singapore not related to the trade or business incurred during YA 2009 to YA 2025;

(d) payments to R&D organisation undertaken outside Singapore related to the trade or business;

(e) payments made under any cost-sharing agreement related to the trade or business during YA 2012 to YA 2017;

(f) payments made under any cost sharing arrangement in Singapore not related to the trade or business incurred during YA 2012 to YA 2017; and

(g) payments made under any cost-sharing agreement during YA 2018 or a subsequent YA for any R&D.

(ii) **Section 14DA(1)** – 50% additional deduction on R&D undertaken in Singapore during YA 2009 to YA 2025, and

(iii) **Section 14E** – Further deduction for R&D projects approved on or before 31 March 2020.

The total amount of deduction allowed under Sections 14, 14D, 14DA or 14E must not exceed 200% of the R&D expenditure.

For qualifying expenditure on R&D undertaken in Singapore, businesses can claim:

(a) 150% tax deduction for staff costs and consumables incurred (i.e. Section 14D(1) plus Section 14DA(1)); and

(b) 100% tax deduction for other qualifying expenditure (i.e. Section 14D(1)).

Proposed : The Minister proposed to increase the tax deduction on staff costs and consumables incurred on qualifying R&D projects undertaken in Singapore from 150% to 250%.

All other conditions of the scheme remain unchanged.

Effective : From Years of Assessment 2019 to 2025.

Commentary : The enhancement of the R&D tax measures is to support businesses to innovate across the entire value chain by building their own innovations.

5. ENHANCING THE TAX DEDUCTION FOR COSTS ON PROTECTING INTELLECTUAL PROPERTY ("IP")

Current : Taxpayers are allowed 100% tax deduction on costs incurred to register the following qualifying Intellectual Property ("IP"):

(a) Patent;
(b) Trademark;
(c) Designs; and
(d) Plant varieties.

Qualifying IP costs means the fees paid to:

(a) The Registry of Patents, Registry of Trade Marks, Registry of Designs or Registry of Plant Varieties in Singapore or an equivalent registry outside Singapore for the –
   (i) filing of an application for a patent for registration of a trademark or design, or for the grant of protection of a plant variety;
   (ii) search and examination report on the application for a patent;
   (iii) examination report on the application for grant of protection of a plant variety; or
   (iv) grant of a patent; and

(b) Any person acting as an agent for:
   (i) applying for any patent, for the registration of a trademark or design, or for the grant of protection of a plant variety, in Singapore or elsewhere;
   (ii) preparing specifications or other documents for the purposes of the Patents Act (Cap. 221), the Trade Marks Act (Cap. 332), the Registered Designs Act (Cap. 266) or the Plant Varieties Protection Act (Cap. 232A) or the IP law of any other country relating to patents, trademarks, designs or plant varieties; or
   (iii) giving advice on the validity or infringement of any patent, registered trademark, registered design or grant of protection of a plant variety.

The above Section 14A tax deduction scheme is scheduled to lapse after YA 2020.

Proposed : The Minister proposed the following:

(i) Extend the scheme till YA 2025; and

(ii) Enhance the tax deduction to 200% for the first $100,000 of qualifying registration costs incurred for each YA from YA 2019 to YA 2025. 100% tax deduction will continue to be allowable on qualifying IP registration costs incurred in excess of $100,000 for each YA from YA 2019 to YA 2025.

Effective : From YA 2019 to YA 2025.

Commentary : The above is to encourage businesses, especially smaller ones, to register and protect their IP.

6. ENHANCING THE TAX DEDUCTION FOR COSTS ON IP IN-LICENSING

Current : Businesses can claim 100% tax deduction on qualifying IP in-licensing costs incurred for use in their trade or business under Section 14 or Section 14D of the Income Tax Act ("ITA") if it is used for the purpose of a qualifying R&D project.

Qualifying IP in-licensing expenditure refers to licence fees incurred on licensing of qualifying Intellectual Property Rights ("IPRs") from another person but excludes:

(a) Any part of the expenditure that is subsidised by grants or subsidies from the Government or a statutory board;

(b) Expenditure on the transfer of ownership of the rights; and

(c) Legal fees and other costs related to the licensing of each right.

Qualifying IPRs for IP in-licensing covers:

(i) Patents
(ii) Copyrights (excluding any rights to the use of software)
(iii) Registered designs
(iv) Geographical indications
(v) Lay-out designs of integrated circuit
(vi) Trade secrets or information that has commercial value; and
(vii) Plant varieties.

Proposed : The Minister proposed to enhance the tax deduction from 100% to 200% for the first $100,000 of qualifying IP in-licensing costs incurred for each YA from YA 2019 to YA 2025. 100% tax deduction will continue to be allowed on qualifying IP in-licensing expenditure incurred in excess of $100,000 for each YA.

The above enhancement will not apply to:

(a) IP in-licensing expenditure not allowable as a deduction under Section 14 or 14D of the ITA;
(b) All related party licensing arrangement; or
(c) Any IPRs where a writing-down allowance has been previously made to the person under Section 19B of the ITA.

Effective : From YA 2019 to YA 2025.

Commentary : The above aims to support businesses to buy and use new solutions.

7. ENHANCING THE DOUBLE TAX DEDUCTION FOR INTERNATIONALISATION SCHEME

Current : Under the double tax deduction for internationalisation scheme, businesses are allowed automatic double tax deduction, on up to $100,000 per YA for qualifying expenses incurred from 1 April 2012 to 31 March 2020 on the following qualifying activities:

(i) Overseas business development trips/missions;
(ii) Overseas investment study trips/missions;
(iii) Participation in overseas trade fairs; and
(iv) Participation in approved local trade fairs.

Businesses may also apply to International Enterprise ("IE") Singapore or Singapore Tourism Board ("STB") to claim double tax deduction on qualifying expenditure that exceeds the above $100,000 cap, or on qualifying expenditure incurred on other qualifying activities, on a case-by-case basis.

Proposed : The expenditure cap for claims without prior approval from IE Singapore or STB will be raised to $150,000 per YA.

The change will apply to qualifying expenditure incurred on or after YA 2019.

Businesses can continue to apply to IE Singapore or STB to claim double tax deduction on qualifying expenditure exceeding $150,000, or on expenses incurred on other qualifying activities.

All other conditions of the scheme remain the same.

IE Singapore and STB will release further details of the change by April 2018.

Effective : From YA 2019

Commentary : The objective is to further encourage internationalisation.

8. EXTENDING THE BUSINESS AND INSTITUTIONS OF A PUBLIC CHARACTER ("IPCs") PARTNERSHIP SCHEME ("BIPS")

Current : Under BIPS, businesses will enjoy a 250% tax deduction on qualifying expenditure incurred when they send their qualifying employees to volunteer and provide services to IPCs, including secondments.

The qualifying expenditure includes:

(a) Basic wages;

(b) Related expenses incurred only because of the services provided to IPCs and meet certain requirements.

The qualifying expenditure is subject to a cap of $250,000 per business per YA.

A qualifying expenditure cap of $50,000 is also imposed on each IPC per calendar year.

Owners of businesses, i.e. sole-proprietors, partners and shareholders who are also directors of the same company are not considered qualifying employees.

The scheme applies to qualifying expenditure incurred from 1 July 2016 to 31 December 2018.

Proposed : The Minister has proposed to extend BIPS till 31 December 2021.

In addition, Ministry of Finance and IRAS will review the administrative processes for BIPS based on feedback received. Details of any change will be announced in the second half of 2018.

Effective : Up to 31 December 2021.

Commentary : The scheme is extended to continue supporting employee volunteerism through businesses.

9. INTRODUCING A TAX FRAMEWORK FOR SINGAPORE VARIABLE CAPITAL COMPANIES ("S-VACCs")

Current : Funds structured as companies, trusts and limited partnerships are exempt from tax under Sections 13CA, 13R and 13X of the Income Tax Act ("ITA") and these incentivized funds are given GST remission, which allows them to claim GST at a fixed recovery rate.

Funds managers approved under the Financial Sector Incentive – Fund Management ("FSI-FM") scheme can qualify for 10% concessionary tax rate on the income derived from managing an incentivised fund.

Proposed : An S-VACC is a new structure designed for collective investment schemes, and will accommodate a variety of traditional and alternative asset classes and investment. The Minister has proposed to introduce a tax framework for S-VACC to complement the regulatory framework:

(a) An S-VACC will be treated as a company and a single entity for tax purposes;

(b) Tax exemption under sections 13R and 13X of the ITA will be extended to S-VACCs;

(c) 10% concessionary tax rate under the FSI-FM scheme will be extended to approved fund managers managing an incentivised S-VACC; and

(d) The existing GST remission for funds will be extended to incentivised S-VACCs.

Monetary Authority of Singapore ("MAS") will release further details of the tax framework for S-VACCs by October 2018.

Effective : The changes will take effect on or after the effective date of the S-VACC regulatory framework.

Commentary : The Government wants to further develop and strengthen Singapore's position as a hub for both fund management and fund domiciliation.

10. ENHANCING THE ENHANCED-TIER FUND SCHEME UNDER SECTION 13X OF THE ITA

Current : Tax exemption under the Enhanced-Tier Fund Scheme is available for companies, trusts and limited partnerships, subject to qualifying conditions.

Proposed : Tax exemption under the Enhanced-Tier Fund Scheme will be extended to all fund vehicles constituted in all forms. Besides companies, trusts and limited partnerships, all fund vehicles will be able to qualify for the Enhanced-Tier Fund Scheme if they meet all qualifying conditions.

All other conditions of the scheme remain the same.

MAS will release further details of the extension by May 2018.

Effective : New awards approved on or after 20 February 2018.

Commentary : The Government is continuing to cater for more diverse fund structures in order to deepen and enhance Singapore as a wealth management hub.

11. EXTENDING AND ENHANCING THE FINANCIAL SECTOR INCENTIVE ("FSI") SCHEME

Current : The FSI scheme grants 5%, 10%, 12% and 13.5% concessionary tax rate on income from qualifying banking and financial activities, headquarters and corporate services, fund management and investment advisory services.

The trading in loans and their related collaterals, excluding immovable property, is a qualifying activity that is accorded a concessionary tax rate of 13.5%.

The FSI scheme is scheduled to lapse after 31 December 2018.

Proposed : The Minister has proposed to extend the FSI Scheme till 31 December 2023. Further, the scope of trading in loans and their related collaterals is expanded to include collaterals that are prescribed infrastructure assets or projects.

MAS will release further details of the change by May 2018.

Effective : Apply to income derived on or after 1 January 2019 in respect of new or renewal awards approved on or after 1 June 2017.

Commentary : This is to strengthen Singapore's position as a leading financial centre.

12. EXTENDING THE TAX INCENTIVE SCHEME FOR APPROVED SPECIAL PURPOSE VEHICLE ("ASPV") ENGAGED IN ASSET SECURITISATION TRANSACTIONS ("ASPV SCHEME")

Current	:	The ASPV scheme grants the following tax concessions to an ASPV engaged in asset securitisation transactions: (a) Tax exemption on income derived by an ASPV from approved asset securitisation transactions; (b) GST recovery on its qualifying business expenses at a fixed rate of 76%; (c) WHT exemption on payments to qualifying non-residents on over-the-counter financial derivatives in connection with an asset securitisation transaction; and (d) Remission of stamp duties on the instrument relating to transfer of assets to the ASPV for approved asset securitisation transactions. The scheme is scheduled to lapse after 31 December 2018.
Proposed	:	The Minister proposed that the ASPV scheme will be extended till 31 December 2023, with the exception of stamp duty remission in (d). The stamp duty remission in (d) will be allowed to lapse after 31 December 2018. All other conditions of the scheme remain the same. MAS will release further details of the extension by May 2018.
Effective	:	Extended from 31 December 2018 to 31 December 2023, except for stamp duty remission which will lapse after 31 December 2018.
Commentary	:	The move is aimed to continue developing the structured debt market in Singapore.

13. EXTENDING THE QUALIFYING DEBT SECURITIES ("QDS") INCENTIVE SCHEME AND ALLOWING THE QUALIFYING DEBT SECURITIES PLUS ("QDS+") INCENTIVE SCHEME TO LAPSE

Current : The QDS scheme offers the following concessions on qualifying income from QDS:

(a) 10% concessionary tax rate for qualifying companies and bodies of persons in Singapore;

(b) Tax exemption for qualifying non-residents and qualifying individuals.

To qualify as QDS, debt securities must be substantially arranged by financial institutions in Singapore.

The QDS+ scheme grants tax exemption for all investors on qualifying income derived from QDS that are:

(a) Debt securities (excluding Singapore Government Securities) with an original maturity of at least 10 years;

(b) Islamic debt securities or sukuk.

The QDS and QDS+ schemes are scheduled to lapse after 31 December 2018.

Proposed : The Minister has proposed to extend the QDS scheme till 31 December 2023. However the QDS+ scheme will be allowed to lapse after 31 December 2018.

Debt securities with tenure beyond 10 years and Islamic debt securities that are issued:

(a) After 31 December 2018 can enjoy tax concessions under the QDS scheme if the conditions of the QDS scheme are satisfied;

(b) On or before 31 December 2018 can continue to enjoy the tax concessions under the QDS+ scheme if the conditions of the QDS+ scheme are satisfied.

MAS will release further details of the change by May 2018.

Effective : From 1 January 2019 to 31 December 2023.

Commentary : This is to continue supporting the development of Singapore's debt market.

14. EXTENDING THE TAX TRANSPARENCY TREATMENT FOR SINGAPORE-LISTED REAL ESTATE INVESTMENT TRUSTS ("S-REITS") TO SINGAPORE-LISTED REAL ESTATE INVESTMENT TRUSTS EXCHANGE-TRADED FUNDS ("REITS ETFS")

Current : Distributions made by S-REITs to REITs ETFs out of specified income derived by S-REITs are subject to tax at the prevailing corporate tax rate of 17% in the hands of REITs ETFs. All investors of REITs ETFs will not be taxed on the distributions made out of such income from REITs ETFs.

Proposed : To have parity in tax treatments between investing in individual S-REIT and via REITs ETF with investments in S-REITs, the following tax treatment will be accorded to REITs ETFs:

(a) Tax transparency treatment on the distributions received by REITs ETFs from S-REITs which are made out of the latter's specified income;

(b) Tax exemption on such REITs ETFs distributions received by individuals, excluding individuals who derive any distribution:

(i) through a partnership in Singapore; or
(ii) from the carrying on of a trade, business or profession; and

(c) 10% concessionary tax rate on such REITs ETFs distributions received by qualifying non-resident non-individuals.

The tax transparency treatment means that the trustee of the REITs ETFs is not subject to tax on the specified income that is distributed to the unit holders. Instead such distributions are taxed in the hands of the unit holders depending on their profit.

MAS and IRAS will release further details of the change by March 2018.

Effective : Subject to conditions, the tax concessions for REITs ETFs will take effect on or after 1 July 2018, with a review date of 31 March 2020 which is the same as that for other tax concessions for S-REITs.

Application for the tax transparency treatment can be submitted to IRAS on or after 1 April 2018.

15. EXTENDING THE TAX EXEMPTION ON INCOME DERIVED BY PRIMARY DEALERS FROM TRADING IN SINGAPORE GOVERNMENT SECURITIES ("SGS")

Current : Tax exemption is granted on income derived by primary dealers from trading in SGS.

The tax exemption is scheduled to lapse after 31 December 2018.

Proposed : The tax exemption on income derived by primary dealers from trading in SGS will be extended till 31 December 2023.

MAS will release further details of the extension by May 2018.

Commentary : The extension of the tax exemption is in line with the Government's effort to encourage trading in SGS and strengthen the primary dealer network.

16. EXTENDING THE INVESTMENT ALLOWANCE ("IA") SCHEME TO INCLUDE QUALIYFYING INVESTMENT IN SUBMARINE CABLE SYSTEMS LANDING IN SINGAPORE

Current : Capital expenditure incurred on submarine cable systems does not qualify for IA.

Proposed : The Minister has proposed to extend IA in respect of productive equipment to capital expenditure incurred on newly constructed strategic submarine cable systems landing in Singapore, subject to qualifying conditions.

All other conditions of the AI scheme apply, except for the following which will be permitted:

(a) The submarine cable systems can be used outside Singapore; and

(b) The submarine cable systems, on which IA has been granted, can be leased out under the indefeasible rights of use arrangements.

Effective : Capital expenditure incurred from 20 February 2018 to 31 December 2023 inclusive of both dates.

Commentary : This is to strengthen Singapore's position as a leading digital connectivity hub.

17. EXTENDING THE INSURANCE BUSINESS DEVELOPMENT – INSURANCE BROKING BUSINESS ("IBD-IBB") SCHEME AND ALLOWING THE INSURANCE BUSINESS DEVELOPMENT – SPECIALISED INSURANCE BROKING BUSINESS ("IBD-SIBB") SCHEME TO LAPSE

Current	:	IBD-IBB grants approved insurance and reinsurance brokers a concessionary tax rate of 10% on commission and fee income derived from insurance broking and advisory services. IBD-SIBB grants insurance and reinsurance brokers a concessionary tax rate of 5% on commission and fee income from specialty insurance broking activities. The two schemes are scheduled to lapse after 31 March 2018.
Proposed	:	The IBD-IBB scheme will be extended till 31 December 2023. All conditions of the IBD-IBB scheme remain the same. To streamline and simplify the insurance tax incentives, the IBD-SIBB scheme will be allowed to lapse after 31 March 2018. With the lapsing of IBD-SIBB scheme, specialty insurance broking and advisory services will be incentivised under the IBD-IBB scheme, at a concessionary tax rate of 10%. MAS will release further details of the change by May 2018.
Effective	:	The IBD-IBB scheme will be extended till 31 December 2023, while the IBD-SIBB will be allowed to lapse after 31 March 2018.
Commentary	:	The objective of the extension and streamlining of the scheme is to further strengthen Singapore's position as a leading insurance and reinsurance centre.

18. EXTENDING THE TAX DEDUCTION FOR BANKS AND QUALIFYING FINANCE COMPANIES FOR IMPAIRMENT AND LOSS ALLOWANCES MADE IN RESPECT OF NON-CREDIT-IMPAIRED FINANCIAL INSTRUMENTS

Current : Under Section 14I of the ITA, banks (including merchant banks) and qualifying finance companies can claim a tax deduction for impairment losses on non-credit-impaired loans and debt securities made under Financial Reporting Standard ("FRS") 109, and any additional loss allowances as required under MAS Notices 612, 811 and 1005 (collectively referred to as "MAS Notices"), subject to a cap.

The tax deduction under Section 14I is scheduled to lapse after YA 2019/ YA 2020:

Proposed : The Minister has proposed to extend tax deduction under Section 14I of the ITA till YA 2024/ YA 2025.

For banks and qualifying finance companies	**Tax deduction for impairment losses and loss allowances in respect of non-credit-impaired financial instruments available till**	
	Current	**Extended**
With December financial year end ("FYE")	YA 2019	YA 2024
With non-December FYE	YA 2020	YA 2025

All other conditions of the scheme remain the same.

MAS will release further details of the change by May 2018.

Effective : The scheme will be extended to YA 2024 / YA 2025.

Commentary : The extension of the scheme aims to promote the overall robustness and stability of the Singapore financial system.

19. RATIONALISING THE WITHHOLDING TAX ("WHT") EXEMPTIONS FOR THE FINANCIAL SECTOR

Current : Interest payments made by a tax resident or permanent establishment in Singapore to non-tax-residents are subject to WHT at a rate of 15% in general.

There is a range of WHT exemptions for the financial sector which applies to different financial institutions for payments made under different types of financial transactions.

Proposed : The following changes will be made:

(a) To ensure that the relevance of the tax concessions is periodically reviewed, a review date of 31 December 2022 will be introduced for the WHT exemptions for the following payments:

(i) Payments made under cross currency swap transactions made by Singapore swap counterparties to issuers of Singapore dollar debt securities;

(ii) Payments made under interest rate or currency swap transactions by financial institutions;

(iii) Payments made under interest rate or currency swap transactions by MAS; and

(iv) Specified payments made under securities lending or repurchase agreements by specified institutions;

(b) The following WHT exemptions will be legislated, along with a review date of 31 December 2022:

(i) Interest on margin deposits paid by members of approved exchanges for transactions in futures; and

(ii) Interest on margin deposits paid by members of approved exchanges for spot foreign exchange transactions (other than those involving Singapore dollar).

The change in (b) will take effect for payments under agreements entered into on or after 20 February 2018.

(c) The WHT exemptions for the following payments will be withdrawn:

(i) Interest from approved Asian Dollar Bonds; and

(ii) Payments made under over-the-counter financial derivative transactions by companies with FSI-Derivatives Market awards that were approved on or before 19 May 2007.

The change in (c) will take effect for payments under agreements entered into on or after 1 January 2019.

Unless the WHT exemptions under (a) and (b) are extended, the WHT exemptions will cease to apply to payments that are liable to be made under agreements entered into on or after 1 January 2023. WHT exemptions will continue to apply to payments that are liable to be made on or after 1 January 2023, under agreements entered into on or before 31 December 2022.

All other conditions of the schemes remain the same.

MAS will release further details of the changes by May 2018.

Commentary : The above changes are made as part of the Government's process to continually review tax concessions to ensure relevance and usefulness.

20. INTRODUCING A REVIEW DATE FOR THE WITHHOLDING TAX ("WHT") EXEMPTION ON CONTAINER LEASE PAYMENTS MADE TO NON-RESIDENT LESSORS

Current : WHT exemption is allowed on lease payments made to non-resident lessors (excluding permanent establishment in Singapore) for the use of qualifying containers for the carriage of goods by sea.

Proposed : A review date of 31 December 2022 will be introduced.

This means that unless the scheme is extended, such payments accruing to a non-resident lessor under any lease or agreement entered into on or after 1 January 2023 in respect of the use of a qualifying container for the carriage of goods by sea will be subject to WHT.

Commentary : The introduction of a review date is to ensure that the relevance of the scheme is periodically reviewed.

B GOODS AND SERVICES TAX ("GST")

1. RAISING GST BY TWO PERCENTAGE POINTS

Current : Goods and Services Tax ("GST") is a broad-based consumption tax levied on the import of goods, as well as nearly all supplies of goods and services in Singapore, unless specifically exempted, or outside the scope of the GST Act.

Supplies for GST purposes can be broadly classified into the following categories:

Taxable supply

(a) Standard-rated Supply

GST is charged at the prevailing rate of 7% by GST-registered businesses on all sales of goods and services made in Singapore.

(b) Zero-rated Supply

GST is charged at 0% on the following two categories of zero-rated supply:
(i) exports of goods;
(ii) provision of international services.

Non-taxable supply

(c) Exempt Supply

These are supplies that are specifically exempted from GST under the Fourth Schedule to the GST Act. They include the provision of financial services, sale and lease of residential properties and local supply of investment precious metals.

(d) Out-of-scope Supply

Out-of-scope supplies refer to supplies which are outside the scope of the GST Act. They also include supplies where the place of supply is outside of Singapore.

Proposed : The Minister proposed to raise the rate of GST on standard-rated supplies by two percentage points from 7% to 9%.

The GST increase will be implemented in a progressive manner, with the following measures:

(i) Continue to absorb GST on publicly-subsidised education and healthcare;

(ii) Enhance the permanent GST Voucher ("GSTV") scheme when the GST is increased;

(iii) Implement an offset package for a period to help Singaporeans adjust to the GST increase where the lower- and middle-income households will receive more support.

Effective : The increase in GST will be implemented sometime in the period from year 2021 to 2025. The exact timing will depend on the state of the economy, how much the nation's expenditures grow and how buoyant the existing taxes are.

Further details will be released when the timing of the GST increase is determined.

Commentary : GST was last raised in year 2007, from 5% to 7%. This proposed GST increase is necessary to help manage the nation's future recurrent expenditures, including healthcare, security, and other social spending and will contribute an estimated 0.7% of Singapore gross domestic product per year.

The Minister commented that the raise is expected to be implemented earlier rather than later in the period.

2. INTRODUCING GST ON IMPORTED SERVICES

Current : GST is currently applicable on imported services provided by an overseas supplier that has an establishment in Singapore. However, if the overseas supplier does not have an establishment in Singapore, GST is not applicable.

GST is levied on the import of all goods into Singapore, with certain exceptions such as the import of goods via air or post and the value of which is below $400.

Proposed : The Minister proposed to introduce GST on imported services from 1 January 2020.

The GST will be imposed on business-to-business ("B2B") and business-to-consumers ("B2C") imported services, but will not affect e-commerce on physical goods below $400.

For B2B services, these include marketing and accounting, IT and management. B2B imported services will be taxed via a reverse charge mechanism and only applicable to businesses that:

(i) make exempt supplies, or
(ii) do not make any taxable supplies

Thus, majority of businesses making taxable supplies would not be affected by this reverse charge mechanism.

The reverse charge mechanism requires the local business customer to account for GST to IRAS on the services it imports. The local business customer can in turn claim the GST accounted for as its input tax, subject to the GST input tax recovery rules.

For B2C services, these could mean video and music streaming, apps, listing fees on electronic marketplaces or app stores, software and online subscription fees.

The taxation of B2C imported services will take effect through an Overseas Vendor Registration ("OVR) mode. This requires overseas suppliers and electronic marketplace operators which make significant supplies of digital services to local consumers to register with IRAS for GST.

IRAS will release further details by end-February 2018.

Effective : From 1 January 2020.

Commentary : With the advent of technology and the digital economy, it has become increasingly common for services consumed in Singapore to be obtained from overseas suppliers that do not have a presence here. The above seeks to ensure that Singapore's tax system remains fair and resilient in a digital economy.

C INDIVIDUAL TAXATION

1. PERSONAL TAX RATES

Current	:	Residents are taxed at graduated rates from 0% to 22% (refer to attached **Appendix I)** from the YA 2017. A one-off personal income tax rebate of 20%, subject to a cap of $500 per taxpayer, is given to all resident individual taxpayers for the YA 2017.
Proposed	:	No change to the existing personal income tax rates. The one-off personal income tax rebate granted for the YA 2017 will not be granted for the YA 2018.

D OTHERS

1. CENTRAL PROVIDENT FUND ("CPF") CONTRIBUTION RATES

Current : The employer's and employee's CPF contribution rates effective 1 January 2016 are as follows:

Employee Age (Years)	Contribution Rates (for monthly wages ≥ $750)		
	Employer %	Employee %	Total %
55 and below	17	20	37
Above 55 to 60	13	13	26
Above 60 to 65	9	7.5	16.5
Above 65	7.5	5	12.5

Proposed : No change to the CPF contribution rates.

2. EXTENDING THE ENHANCED TAX DEDUCTION ON DONATIONS

Current : Tax deduction of 250% is granted for qualifying donations made to Institutions of a Public Character ("IPCs") and other qualifying recipients from 1 January 2016 to 31 December 2018.

Proposed : The Minister proposed to extend the enhanced tax deduction of 250% for another three years, i.e. from 1 January 2019 to 31 December 2021.

Existing rules to qualify for the enhanced tax deduction remain the same.

Effective : Up to 31 December 2021

Commentary : The above is to encourage Singaporeans to give back to community.

3. EXTENDING THE WAGE CREDIT SCHEME ("WCS")

Current : The WCS was introduced in Budget 2013 and extended in Budget 2015.

Under the current WCS as announced in Budget 2015, the government co-funded 20% of wage increases given to Singaporean employees earning a gross monthly wage of up to $4,000. Wage increases that are given in 2016 and 2017 are eligible for the WCS.

Once an employee's gross monthly wage exceeds $4,000, the portion of the wage increase that brings the gross monthly wage above $4,000 is not eligible for co-funding under WCS.

	Current WCS
Qualifying years	2016 and 2017
Level of co-funding	20% of qualifying wage increases
Qualifying wage increases	• Gross monthly wage increases of at least $50 in the qualifying year (2016-2017) will qualify for 20% co-funding, up to a gross monthly wage level of $4,000. • In addition, gross monthly wage increases of at least $50 – given in 2015 and sustained in 2016/2017, and wage increases given in 2016 and sustained in 2017, will continue to be co-funded at 20%
Others	• All other parameters remain the same. • Employers do not need to apply for WCS. They will receive payouts automatically in March of the following year.

Proposed : The Minister has proposed that the WCS be extended for three more years (2018 to 2020). The government co-funding of qualifying wage increases will be 20% in 2018 and will be tapered in subsequent years.

	Extension of WCS
Qualifying years	2018, 2019 and 2020
Level of co-funding	• 20% of qualifying wage increases in 2018 • 15% of qualifying wage increases in 2019 • 10% of qualifying wage increases in 2020
Qualifying wage increases	• Gross monthly wage increases of at least $50 in the qualifying year (2018-2020) will qualify for 20% / 15% / 10% co-funding, up to a gross monthly wage level of $4,000. • In addition, gross monthly wage increases of at least $50 – given in 2017 and sustained in 2018/2019/2020, as well as wage increases given in 2018 and sustained in 2019/2020 and wage increases given in 2019 and sustained in 2020, will continue to be co-funded at 20%/15%/10%.
Others	• All other parameters remain the same. • Employers do not need to apply for WCS. They will receive payouts automatically in March of the following year.

Effective : For 3 years (2018, 2019 and 2020).

Commentary : The above aims to support firms in coping with near-term cost pressures.

4. ADJUSTING THE FOREIGN DOMESTIC WORKER (“FDW”) LEVY

Current : The normal FDW levy is $265 per month and the concessionary FDW levy is $60 per month.

A FDW employer will qualify for FDW levy concession if he/she:

(a) has a young child or grandchild (Singapore Citizen) below 16 years old; or

(b) himself/herself is an elderly (Singapore Citizen / Permanent Resident) aged 65 years or above; or

(c) has an elderly family member (Singapore Citizen / Permanent Resident) aged 65 years or above staying together based on NRIC-registered address; or

(d) has disability / has a family member with disability (Singapore Citizen) staying together based on NRIC-registered address.

Proposed : The Minister proposed 3 changes, effective 1 April 2019:

(i) For the first FDW who is employed without levy concession, the monthly levy will be raised from $265 to $300.

(ii) For the second FDW who is employed without levy concession, the monthly levy will be raised from $265 to $450.

(iii) The qualifying age for levy concession under the aged person scheme will be raised from 65 to 67 years.

Type of Levy		**Current Monthly Rate**	**Revised Monthly Rate (from 1 Apr 2019)**
Normal	1st FDW	$265	$300
	2nd FDW	$265	$450
Concessionary		$60	$60 (no change)

However, all households with persons aged 65 and 66, which are enjoying or have enjoyed the levy concession under the aged person scheme before 1 April 2019, will continue to pay the monthly levy rate of $60 on and after 1 April 2019.

Effective : 1 April 2019

Commentary : The above seeks to ensure that FDW demand is commensurate with need and avoid an over-dependency on FDWs.

5. RAISING BUYER'S STAMP DUTY ("BSD") ON THE VALUE OF RESIDENTIAL PROPERTY IN EXCESS OF $1 MILLION

Current : Purchase of properties are currently subject to BSD rates of between 1% to 3%.

Purchase price/market value (whichever is higher)	BSD Rates^
First $180,000	1%
Next $180,000	2%
Exceeding $360,000	3%

^ BSD is to be rounded down to the nearest dollar

Proposed : With effect from 20 February 2018, the BSD rates are differentiated between residential and non-residential properties.

The top marginal Buyer's Stamp Duty rate will be raised from 3% to 4%, and applied on the value of residential property in excess of $1 million. The revised rates will apply to all residential properties acquired on or after 20 February 2018.

<table>
<tr><th rowspan="2">Purchase price/ market value (whichever is higher)</th><th colspan="2">New BSD Rates^</th></tr>
<tr><th>For residential component</th><th>For non-residential component</th></tr>
<tr><td>First $180,000</td><td>1%</td><td>1%</td></tr>
<tr><td>Next $180,000</td><td>2%</td><td>2%</td></tr>
<tr><td>Next $640,000</td><td>3%</td><td rowspan="2">3%</td></tr>
<tr><td>Exceeding $1,000,000</td><td>4%</td></tr>
</table>

^ BSD is to be rounded down to the nearest dollar

Under the transitional remission for the BSD changes, if a buyer of a residential property:

(a) has been granted an Option to Purchase on or before 19 February 2018; and

(b) exercises it on or before the earlier of 12 March 2018 or the date of expiry of the validity period (without any extension of the validity period or variation to the option on or after 20 February 2018) of the Option,

the buyer or his/her legal representative may apply to IRAS for remission to apply the BSD rates prior to 20 February 2018.

Effective : From 20 February 2018.

Commentary : Similar to the property tax system for residential properties which was made more progressive in 2013, the raise in the top marginal BSD rate for residential properties aims to improve the progressivity of the stamp duty regime.

6. INTRODUCING CARBON TAX

Proposed : The Minister has proposed to apply a carbon tax on the total Greenhouse Gas (GHG) emissions of facilities that produce 25,000 tonnes or more carbon dioxide-equivalent (tCO_2e) of emissions in a year. The carbon tax will apply uniformly to all sectors, without exemption.

The carbon tax will take the form of a fixed-price credits-based ("FPCB") mechanism. Taxable facilities will pay the tax by purchasing and surrendering the number of carbon credits corresponding to their GHG emissions. The credits will be issued by the National Environment Agency ("NEA") at the prevailing carbon tax rate.

The carbon tax rate will be set at $5 per tCO_2e of emissions in the first instance from 2019 to 2023. The first payment of the carbon tax will be in 2020, based on emissions in calendar year 2019.

The Government will review the carbon tax rate by 2023 and intends to increase the carbon tax rate to $10-$15 per tCO_2e of emissions by 2030.

More details on the carbon tax framework will be announced by the Ministry of the Environment and Water Resources' Committee of Supply.

Effective : From 2019 onwards.

Commentary : The above aims to encourage businesses to take measures to reduce carbon emissions and explore new opportunities in areas like sustainable energy and clean technology.

APPENDIX I

RATES OF INCOME TAX
FOR RESIDENT INDIVIDUALS (SINGAPORE)

Tax Rates from YA 2012 to YA 2016				Tax Rates from YA 2017 onwards			
	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	2	200	On the next	10,000	2	200
On the first	30,000	-	200	On the first	30,000	-	200
On the next	10,000	3.5	350	On the next	10,000	3.5	350
On the first	40,000	-	550	On the first	40,000	-	550
On the next	40,000	7	2,800	On the next	40,000	7	2,800
On the first	80,000	-	3,350	On the first	80,000	-	3,350
On the next	40,000	11.5	4,600	On the next	40,000	11.5	4,600
On the first	120,000	-	7,950	On the first	120,000	-	7,950
On the next	40,000	15	6,000	On the next	40,000	15	6,000
On the first	160,000	-	13,950	On the first	160,000	-	13,950
On the next	40,000	17	6,800	On the next	40,000	18	7,200
On the first	200,000	-	20,750	On the first	200,000	-	21,150
On the next	120,000	18	21,600	On the next	40,000	19	7,600
On the first	320,000	-	42,350	On the first	240,000	-	28,750
In excess of	320,000	20		On the next	40,000	19.5	7,800
				On the first	280,000	-	36,550
				On the next	40,000	20	8,000
				On the first	320,000	-	44,550
				In excess of	320,000	22	

* Chargeable income = Income after tax reliefs

Note: For the Year of Assessment 2013, a one-off income tax rebate is granted to resident individual taxpayers. The amount of rebate granted depends on the age of the resident individual as at 31 December 2012, subject to a cap of $1,500:

(a) 30% for resident individuals aged below 60; and

(b) 50% for resident individuals aged 60 and above.

For the Year of Assessment 2015, a one-off tax rebate of 50% of tax payable, subject to a cap of $1,000, is granted to resident individual taxpayers.

For the Year of Assessment 2017, a one-off tax rebate of 20% of tax payable, subject to a cap of $500, is granted to resident individual taxpayers.

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