



## **TAX BULLETIN**

**To: Our Clients**

### **SINGAPORE BUDGET 2011**

The 2011 Budget was presented by Dr Tharman Shanmugaratnam, Minister for Finance in Parliament on 18 February 2011 .

### **PART I - ECONOMIC PERFORMANCE AND OUTLOOK**

#### **Global economy**

##### **2010**

Most other Asian economies had recovered from the crisis by the end of the year

The US, the Eurozone and Japan faced challenges with recovery expected to take at least 4 years

##### **2011**

Growth in the emerging economies expected to remain strong, but troubled with inflationary pressures and political uncertainties

The recovery in the advanced economies is picking up with business investment and manufacturing activity strengthening. However, these growth prospects are being weighed down by structural difficulties (long-term unemployment, weak housing markets and housing debts). Also, heavy budget cutting and the withdrawal of fiscal stimulus would dampen their growth

## **Singapore**

**2010**

### **Recovery was faster than most economies**

GDP grew by 14.5%

Unemployment went down to the level as seen in early 2008

**2011**

Economy will grow more slowly and is expected to be between 4% and 6%

Investments are still flowing in especially from Asia and these will help create 21,300 new skilled jobs

Inflation is still a key concern. CPI was 4.6% year-on-year in December 2010, and is expected to be around 3% to 4% this year.

## **PART II - KEY INITIATIVES**

### **(A) Growing incomes and strengthening our society**

- a. Becoming a first-rate developed economy a decade from now
- b. Share surpluses with Singaporeans

### **(B) Grow incomes for all Singaporeans**

- a. Government aims to raise incomes by 30% in real terms over this decade
- b. Enhance support for companies to invest in workers' skills and productivity
- c. Assist companies to venture abroad and to entrench high-value economic clusters

### **(C) Strengthening our society**

- a. **Approach to centre on opportunities, not entitlements**
- b. **Expand support for the lower- and middle-income Singaporeans**
- c. **Help the low-income group through education, employment and home ownership**

**d. Provide top quality long -term care for the elderly**

**e. To deal with inflation**

**f. Changing how we grow**

- (i) Our local workforce will expand slowly and we should not become ever more dependent on foreign labour
- (ii) Must restructure our economy and raise our skills
- (iii) Target to improve our productivity by 2% to 3% a year or 30% cumulatively over 10 years

**g. Boosting skills and productivity**

- (i) Top-up National Productivity Fund by \$1 billion
- (ii) Further enhancement of Productivity & Innovation Credit

**h. Expanding training support**

- To strengthen support for professionals, managers, executives and technicians ( PMETs)
- To increase the Continuing Education & Training (CET) plan by 60%

**i. Adjusting to higher labour costs**

- (i) Raising Employer CPF Contribution Rate from 15.5 % to 16% , restoring total contribution to 36%
- (ii) Raising CPF Salary Ceiling from \$4,500 to \$5,000
- (iii) Raising the contribution cap within the Supplementary Retirement Scheme (SRS)
- (iv) Help self-employed to increase their savings under the CPF scheme

#### **j. Managing our Reliance on Foreign Labour**

- (i) To check the proportion of foreign workers from rising over time, exceeding the long term target of 1/3 of the workforce, introduce further levies for all sectors:
- (ii) Manufacturing and Services sectors raised by about \$100 between 2010 and 2012 (announced in 2010)
- (iii) Manufacturing sector further increase by about \$60 by July 2013
- (iv) Services sector – goes up by further \$180 by July 2013
- (v) Construction sector – goes up by further \$200
- (vi) S Pass holders - increase from \$50 to \$300 to \$450 by July 2013

#### **k. Helping Companies with Rising Costs**

One-off Special Employment Credit for older Singaporean workers covered by workfare to be paid out over 3 years to their employers to enable them to attract and retain them. Employers will receive a Special Employment Credit of up to 50% of employer CPF contributions for workers aged 55 to 59 and 80% for workers aged 60 and above.

#### **l Supporting Enterprise Growth**

- (i) Grooming enterprises
  - ❖ \$850 million in grants under the Enterprise Development Fund over the next 5 years
  - ❖ Foreign Tax Credit Pooling to encourage remittance of foreign income
  - ❖ Catalysing Cross-Border Financing to strengthen project financing, offer political risk insurance, trade financing
  - ❖ Reaping Economic Value from R & D
  - ❖ To support private sector R & D activity and commercialization
    - towards a high-value economy and a broad base of innovative enterprises, the National Research Fund will be topped up by \$1 billion

**m. Strengthening Clusters**

(i) Becoming a Global-Asia Hub

- ❖ About 51% of international companies registered in Singapore in 2009 were from Asia. \$2.5 billion to be set aside under the Economic Development assistance Scheme over the next 5 years to further strengthen Singapore's value proposition as an Asian base

**n. Enhancing Competitiveness of our Business Hub**

- ❖ Introduce key tax changes in strategic business sectors (financial, maritime, biomedical, commodity markets )

**o. Package of benefits for Singaporeans**

- Package adds up to \$6.6 billion
  - Grow and Share Package \$3.2 billion for households
  - \$3.4 billion for long-term social investments

**p. Rewarding Working Singaporeans**

- \* Workfare Special Bonus –
  - 50% more WIS for work done in 2010
  - 25% more WIS for work done in 2011
  - 25% more WIS for work done in 2012
- \* Reduction of Personal Income Tax

**q. Supporting families with children**

- (i) New \$90 million Child Development Care Scheme (for Singaporean children aged six and below)
  - i. For pre-school, childcare and medical
    - \* 80% of families will receive \$400 per child
    - \* 20% will receive \$300

- (ii) Additional support to lower-income families – Enhancements to The Kindergarten Financial Assistance Scheme and the Centre-based Financial Assistance Scheme for Childcare
- (iii) Support for School and Tertiary Students
  - a. Edusave Top Ups and Grants
  - b. Top Ups to School Advisory Committees and School Management Committees Funds
  - c. Financial Assistance to Special Education Schools
    - \* Enhanced Bursaries for Polytechnic and University Students

**r. Providing the best care for the Seniors**

- (i) Transforming Long-Term Care
- (ii) Top up to ElderCare Fund ( by \$700 million)
- (iii) A new \$1 billion Community Silver Trust to match government grants for donations to the long-term care sector.
- (iv) Support for Programmes to help the Elderly Immobile
  - \* Set aside \$10 million for community organizations
- (v) Helping with Medical Expenses
  - \* Top-up of CPF Medisave Accounts of between \$200 and \$700 for those above 45 depending on the Annual Value of Residence

**s. Helping the Needy**

- (i) Enhancing the Comcare Fund by additional \$500 million
- (ii) Increase in Public Assistance and Singapore Allowance
- (iii) Additional funding to VWOs and Self Help Groups
- (iv) Support Community Giving

**t. Enhancing Homes and our Quality of Life**

- \* First-time HDB flat buyers with household income of up to \$2,250 per month will get a special CPF housing grant

**u. Rejuvenating our Heartland**

- \* \$10 billion on upgrading homes and estates over the next 10 years

**v. Building a Vibrant Arts and Culture Environment**

- \* \$365million to be spent over the next 5 years on arts and culture

**w. Grow & Share Package**

- \* Growth dividends for all Singaporeans ranging from \$100 to \$800 (total \$1.5 billion ) to be given out by 1 May 2011

**x. Help with Household Expenses**

- (i) Each (1 and 2 room) HDB household will get a U-Save rebate of \$360 this year
- (ii) Households in 1 – 4 room HDB flats will get S & CC rebates of between 1 and 3 months

**PART III - BUDGET POSITION**

**FY 2010**

Our strong growth has yielded an improved fiscal position

Overall budget deficit expected to be close to \$300 million (0.1% of GDP)

**FY 2011**

- (i) With the recovery and a stronger fiscal position, Government has decided to return \$4.9 billion drawn earlier for the 2009's Resilience Package to the past reserves
- (ii) Expects a basic deficit of \$2.2 billion (about 0.7% of GDP)

## PART IV - HIGHLIGHTS OF TAX CHANGES

### Corporate Tax

- (a) Enhancing the tax deduction for pre-commencement expenses (effective YA 2012). IRAS will release further details by Jun 2011
- (b) Tax deduction for purchases through the special purpose vehicle set up as trustee solely to administer the Equity-Based Remuneration Scheme (effective YA 2012). IRAS will release details by Jun 2011
- (c) The 250% tax deduction for donations made to Institutions of Public Character will be extended for 5 another years (1 Jan 2011 to 31 December 2015)
- (d) A one-off 20% rebate, capped at \$10,000 for YA 2011;

SME has option of one-off cash grant (5% of total revenue), capped at \$5,000 for YA 2011 (Must have made CPF contributions in YA 2011) whichever is the higher amount

- (e) For YA 2011, tax deduction of 400% ( up from 250%) productivity and innovation credit for the first \$400,000 spent on each qualifying activity
  - Businesses allowed to combine the \$400,000 cap per year for YA 2013 to YA 2015 into a new ceiling of \$1,200,000 over the 3 years
  - Cash conversion option of up to \$30,000 ( up from \$21,000) for the first \$100,000 of qualifying expenditure

IRAS will release details by Jun 2011

- (f) Tax deduction for eligible companies making voluntary contributions to the Medisave Accounts of self-employed persons from 1 Jan 2011
- (g) Renewal of Tax Exemption Scheme for income derived from structured products to 31 Mar 2017
- (h) Effective YA 2012, a foreign tax credit (FTC) pooling system is introduced to give businesses greater flexibility in their claim for FTCs. Under the new system, FTC is computed on a pooled basis rather than on a source –by-source and country-by-country basis
- (i) Streamlining of section 14B and Section 14K Tax Deduction Schemes for applications made on or after 1 April 2011. A sunset clause introduced for the scheme – 31 Mar 2016. IE Singapore will release detail; by Mar 2011

- (j) For Banks -
- (i) Liberalisation of the Withholding Tax Exemption Regime for banks, Finance companies and investment banks effective 1 Apr 2011  
 MAS will release details by Mar 2011
  - (ii) Extension of Tax Incentive Schemes for Project Finance to 31 Mar 2017. However, the FSI-PF scheme will lapse on 31 Dec 2011  
 MAS will release details by Apr 2011
- (k) For insurance companies
- Extension of Captive Insurance Tax Incentive Scheme till 31 Mar 2018
  - An award renewal framework introduced - effective 19 Feb 2011  
 MAS will release details by Apr 2011
  - Marine Hull & Liability Insurance Tax Incentive Scheme  
 Sunset clause introduced - 31 Mar 2016  
 Award renewal framework introduced – effective 19 Feb 2011  
 MAS will release details by Apr 2011
  - Extension & Enhancement of Specialised Insurance Tax Incentive Scheme till 31 Aug 2016  
 Agriculture insurance included (from 19 Feb 2011)  
 Award renewal framework introduced (from 10 Feb 2011)  
 MAS will release details by Apr 2011
  - Withholding Tax Exemption for Financial Guaranty Insurers withdrawn from 19 Feb 2011
- (l) For Shipping Industries
- Streamlining and consolidating the Maritime Sector Incentive Scheme (covering international shipping operations, ship or container leasing and supporting shipping services)  
 MPA will release details by May 2011

(m) For Trustee Companies

- Enhancement to the Tax Incentive Scheme

Sunset clause introduced – 31 Mar 2016

Award recipients on or after 1 Apr 2011 offered a 10 year award tenure

Existing award recipients automatically transit to new framework on 1 Apr 2011 for a period of 10 year ending 31 Mar 2021

To include provision of trustee and custodian services re issue of units to foreign Collective Investment Schemes and foreign Business Trusts - effective 1 Apr 2011

MAS will release details by Apr 2011

(n) For Global Traders

To encourage risk management activities,

- existing qualifying derivative instruments under the GTP expanded to include all derivative instruments - effective YA 2012
- Sunset clause introduced for the GTP scheme – 31 Mar 2021

IE Singapore will release details by Apr 2011

(o) For Finance & Treasury Centre

(i) Enhancement of the Finance & Treasury Centre Incentive (revenue ratio to determine Local Network Company)

(ii) Sunset clause introduced – 31 Mar 2016

## Personal income tax

- (i) Marginal tax rates reduced for the first \$120,000 of chargeable income

New Tax Structure effective YA 2012

Tax structure with effect from YA 2012			
	Chargeable Income	Tax Rate	Gross Tax payable
On the first:	20,000	0	0
On the next	10,000	2	200
On the first:	30,000	-	200
On the next	10,000	3.5	350
On the first:	40,000	-	550
On the next:	40,000	7	2,800
On the first:	80,000	-	3,350
On the next:	40,000	11.5	4,600
On the next:	40,000	15	6,000
On the first:	160,000	-	13,950
On the next:	40,000	17	6,800
On the next:	120,000	18	21,600
On the first	320,000	-	42,350
In excess of:	320,000	20	

- (i) Tax rebate of 20%, capped at \$2,000 for resident taxpayers for YA 2011
- (ii) The 250% Tax deduction for donations made to Institutions of Public Characters will be extended for another 5 years for donations made from 1 Jan 2011 to 31 Dec 2015
- (iii) Effective YA 2012, alimony and maintenance payments under Court Order or Deed of Separation will be tax exempt in the hands of the recipient taxpayers and not allowable to taxpayers as spouse relief for maintaining their former spouses
- (iv) Effective 1 September 2011, annual Supplemental Retirement Scheme contribution cap increased to \$12,750 for Singaporean/SPR and \$29,750 for foreigner
- (v) Effective 1 September 2011, employer's compulsory CPF contribution rate increased to 16% and current CPF monthly salary ceiling increased to \$5,000
- (vi) Voluntary cash contributions by companies to the Medisave Accounts of self-employed persons on or after 1 Jan 2011 will be exempt from tax in the hands of the self-employed

## **Goods & Services Tax**

- (i) Effective 1 Oct 2011 – new GST scheme to allow approved marine customers to buy or rent goods without having to pay GST provided the goods are for use or installation on a commercial ship operating in international travel.
- (ii) Expand scope of zero-rating of repairs and maintenance services for ship parts or components - section 21(3(p))
- (iii) For the biomedical industry - effective 1 Oct 2011, new GST relief for clinical trial materials imported into Singapore and enhancement of the Approved Contract Manufacturer and Trader scheme for contract manufacturers
- (iv) Effective 1 Oct 2011 – GST registered businesses may zero-rate the supply of prescribed services performed on high-value collectible items stored in specialized warehouses approved under the scheme

## **Stamp Duty**

- A Company converting to a Limited Liability Partnership on or after 19 Feb 2011 will enjoy stamp duty relief for the transfer of assets
- The amount of stamp duty payable, upon granting of remission, on leases aborted on and after 19 Feb 2011 will be \$50
- From 19 Feb 2011 removal of –
  - (i) fixed and nominal stamp duties on prescribed documents
  - (ii) \$10 duty where remission is given under Stamp Duties \*(Transfer of HDB Flat Within Family) (Remission) Rules 2007
  - (iii) Fixed duty of \$10 on Declaration of Trust where no change in beneficial ownership
- Remission of stamp duty on instrument relating to the transfer of qualifying infrastructure projects/assets to qualifying entities listed or to be listed on the SGX till 31 Mar 2017.

**Other changes**

- (i) TV and Radio licence fees removed from 1 January 2011
- (ii) The Green Vehicle Rebate Scheme will be extended for one year till 31 December 2012

Note: These Notes are designed to update our Clients of the tax changes proposed. They are of a general nature and are not intended to be comprehensive. Our Clients are advised that before acting on any specific issue, they should discuss their particular factual situation with our Firm. No liability can be accepted for any action thereon without our prior consultation.

If you have any specific enquiry, please contact our Mr Yee Fook Hong ( Tax Partner )or Ms Cheang Wai Mang ( Tax Manager )

21 February 2011