

# SINGAPORE BUDGET 2017 SPECIAL

*A summary of the tax and other changes announced on 20 February 2017*

Tax Alert

## COMPANIES AND BUSINESSES

### 1. Enhancing the corporate income tax rebate (“CIT rebate”)

The cap on the CIT rebate has been increased from \$20,000 to \$25,000 for Year of Assessment (“YA”) 2017. The rebate rate remains unchanged at 50% of tax payable.

The CIT rebate will be extended to YA 2018 at a reduced rate of 20% with a cap of \$10,000.

### 2. Extending withholding tax (“WHT”) exemptions

Payments to non-resident non-individuals for:	Qualifying period
Structured products offered by financial institutions	1 April 2017 to 31 March 2021
International telecommunications submarine cable capacity	27 February 2018 to 31 December 2023

### 3. Extending the tax incentive schemes for Project and Infrastructure Finance

The package of tax incentive schemes for Project Infrastructure Finance includes:

- Exemption of qualifying income from qualifying project debt securities (“QPDS”);
- Exemption of qualifying income from qualifying infrastructure projects/assets received by approved entities listed on the Singapore Exchange (“SGX”);
- Concessionary tax rate of 10% on qualifying income derived by an approved Infrastructure Trustee Manager/Fund Management Company from managing qualifying SGX-listed Business Trusts/ Infrastructure funds in relation to qualifying infrastructure projects/assets; and
- Remission of stamp duty payable on the instrument of transfer relating to qualifying infrastructure projects/assets to qualifying entities listed, or to be listed, on the SGX.

With the exception of the stamp duty remission in (d) which will be allowed to lapse after 31 March 2017, the above existing package of tax incentive schemes will be extended till 31 December 2022.

MAS will release further details of the extension by May 2017.

### 4. Introducing an Intellectual Property (“IP”) Regime that encourages the exploitation of IP arising from research & development (“R&D”) activities of the taxpayer

To encourage the use of IPs arising from taxpayer’s R&D activities, IP income will be incentivised under a new IP Regime named the IP Development Incentive (“IDI”).

Accordingly, such income will be removed from the scope of Pioneer–Services/Headquarters Incentive and the Development and Expansion Incentive–Services/Headquarters for new incentive awards approved on or after 1 July 2017. Existing incentive recipients will continue to have such income covered under their existing incentive awards till 30 June 2021.

The IDI will take effect on or after 1 July 2017, and will be administered by EDB.

EDB will release further details of the change by May 2017.

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## **5. Refining the Finance and Treasury Centre (“FTC”) scheme 100% Investment Allowance (“IA”) under the Automation Support Package (“ASP”)**

The qualifying counterparties for certain transactions of approved FTCs will be streamlined to help ease the compliance burden of approved FTCs. The change will apply to new or renewal incentive awards approved on or after 21 February 2017.

EDB will release further details of the change by May 2017.

## **6. Enhancing the Global Trader Programme (“GTP”)**

The GTP scheme will be enhanced and applied to qualifying income derived on or after 21 February 2017 by approved global trading companies from qualifying transactions as follows:

- (a) The requirement for qualifying transactions to be carried out with qualifying counterparties will be removed. Consequently, concessionary tax rate will be granted to approved global trading companies on income derived from qualifying transactions with any counterparty;
- (b) Concessionary tax rate will be granted to approved global trading companies on physical trading income derived from transactions in which the commodity is purchased for the purposes of consumption in Singapore or for the supply of fuel to aircraft or vessels within Singapore;
- (c) Concessionary tax rate will be granted to approved global trading companies on physical trading income attributable to storage in Singapore or any activity carried out in Singapore which adds value to commodity by any physical alteration, addition or improvement (including refining, blending, processing or bulk-breaking); and
- (d) The substantive requirement to qualify for the GTP will be increased.

IE will release further details of the change by May 2017.

## **7. Introducing a safe harbour rule for payments under Cost Sharing Agreements (“CSAs”) for R&D projects**

Taxpayers may opt to claim tax deduction under Section 14D for 75% of the payments made under a CSA incurred for qualifying R&D projects instead of providing the breakdown of the expenditure covered by the CSA payments made on or after 21 February 2017.

IRAS will release further details of the change by May 2017.

## **8. Extending and refining the Aircraft Leasing Scheme (“ALS”)**

- (a) The ALS will be extended till 31 December 2022;
- (b) The scope of qualifying ancillary activities for approved aircraft lessors under Section 43Y of the Income Tax Act will be updated to cover incidental income derived from the provision of finance in the acquisition of aircraft or aircraft engines by any lessee; and
- (c) The concessionary tax rate on income derived from leasing of aircraft or aircraft engines and qualifying ancillary activities will be streamlined from 5% and 10% to a single rate of 8%.
- (d) The enhancement for (b) will apply to income derived on or after 21 February 2017 for all incentive recipients.

The refinement in (c) will apply to new or renewal incentive awards approved on or after 1 April 2017.

In addition, the automatic withholding tax exemption regime will be extended to qualifying payments made on qualifying loans entered into on or before 31 December 2022.

EDB will release further details of the change by May 2017.

## 9. Withdrawal and Extension of certain schemes and incentives

Scheme	Effective YA/ Date
Computer deduction scheme	Withdrawn after 20 February 2017
Accelerated depreciation allowance for energy efficient equipment and technology scheme	To be withdrawn after 31 December 2017
Accelerated writing-down allowances for acquisition of intellectual property rights for media and digital entertainment content scheme	To be lapsed after 31 December 2017
International arbitration tax incentive	To be lapsed after 30 June 2017
Approved building project scheme	To be lapsed after 31 March 2017
Integrated investment allowance scheme	Extended till 31 December 2022. In addition, the qualifying productive equipment may be used by the overseas company primarily to manufacture products for the qualifying company under an approved project on or after 21 February 2017.

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## INDIVIDUALS

### 10. Granting a personal income tax rebate

All individual tax residents will receive a personal income tax rebate of 20% of tax payable at a cap of \$500 for YA 2017.

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## OTHERS

### 11. Foreign worker levy (FWL)

The FWL increases for the Marine and Process sectors will be deferred for one more year from 1 July 2017 to 30 June 2018.

### 12. Withdrawing the GST Tourist Refund Scheme ("TRS") for tourists departing by international cruise

Tourists departing by international cruise from the Marina Bay Cruise Centre Singapore and the International Passenger Terminal at Harbourfront Centre and whose purchases are made on or after 1 July 2017 will no longer be eligible for tourist refunds under the GST TRS.

Tourists who are departing by international cruise from the cruise terminals will have until 31 August 2017 to claim refunds on purchases made before 1 July 2017.

IRAS will release further details of the change by April 2017.

### 13. Additional Special Employment Credit ("ASEC")

ASEC will be extended for two and a half years, from 1 July 2017 to 31 December 2019.

This will: (i) continue to support workers older than the re-employment age, and (ii) support those who are above 65 years old as of 1 July 2017 and hence not covered by the increase in re-employment age to 67. Table 1 explains who is eligible for ASEC, and when they are eligible for it.

**Table 1: Eligibility for the ASEC**

Age Criteria		Period of Eligibility for ASEC
Date of Birth	Age as of 1 July 2017	
Before 1 July 1952 <i>(not covered by the new re-employment age)</i>	65 or older	In the month they turn 65, till 31 December 2019
On or after 1 July 1952 <i>(covered by the new re-employment age until they turn 67)</i>	Younger than 65	In the month they turn 67, till 31 December 2019

**TAX CHANGES FOR VEHICLES****14. Diesel taxes**

With effect on or after 20 February 2017, volume-based duty at \$0.10 per litre will be imposed on automotive diesel, industrial diesel and the diesel component in biodiesel.

The annual special tax on diesel cars and taxi will be permanently reduced by \$100 and \$850 respectively to offset the impact of diesel duty for the majority of drivers.

With effect on or after 20 February 2017, diesel will be removed from the Industrial Exemption Factory Scheme. Industrial diesel will be subject to volumetric diesel duty of \$0.10/litre.

To ease the transition to the re-introduction of diesel duty, three years of road tax rebates will be provided for commercial diesel vehicles:

- 1 August 2017 – 31 July 2018: 100% road tax rebate
- 1 August 2018 – 31 July 2019: 75% road tax rebate
- 1 August 2019 – 31 July 2020: 25% road tax rebate

In addition to the three-year road tax rebate, diesel school buses will be given yearly cash rebates to ease the impact of diesel duty on school bus fees.

**15. Introduction of tiered ARF for motorcycles**

Currently, ARF for motorcycles is a flat rate of 15% of open market value (“OMV”).

Tiered ARF for motorcycles will be introduced to improve the progressivity of the vehicle tax system. The following tiered ARF rates will apply to all motorcycles registering with Certificates of Entitlement (“COEs”) obtained from the second COE bidding exercise in February:

OMV	ARF rates
First \$5,000 of the OMV	15%
Next \$5,000 of the OMV (i.e. \$5,001 to \$10,000)	50%
Remaining OMV above \$10,000	100%

For motorcycles that do not need to bid for a COE (e.g. classic motorcycles), the new tiered ARF rates will apply on or after 21 February 2017.

### How we can assist

If you need assistance or advice on the above, we are here to assist you.

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This summary of changes announced at the Singapore Budget 2017 is for clients and associates to keep abreast of the developments in taxation and related areas. It has been written in general terms and should not be acted upon without seeking professional advice.

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