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SINGAPORE BUDGET 2009

Finance Minister, Mr Tharman Shanmugaratnam, unveiled Singapore Budget 2009 on 22 January 2009. Many people called it the "pro-business Budget". It is an extraordinary Budget for this extraordinary period of difficulty and uncertainty. The Budget comprises a "Resilience Package" of S$20.5 billion aimed at reducing wage costs, facilitating lending to viable companies and providing support, especially to lower income households. It will have an overall budget deficit of S$8.7 billion for financial year 2009. The budget also strives to prepare Singapore to emerge with strength when the global economy recovers, and enhances her capabilities and competitiveness in the long term.

Highlights of the budget announcements, especially tax measures, are as follows:-

1. Tax for Businesses

1.1 Corporate income tax rate

1.1.1 The current corporate income tax rate is 18%.

1.1.2 With effect from Year of Assessment ("YA") 2010
(for companies with financial year ending in 2009),
the corporate income tax rate will be reduced to 17%.

1.1.3 As a comparison, the current corporate income tax rate for Australia is 30%, China 25%, Malaysia 25% and Hong Kong 16.5%.

1.2 Partial tax exemption for companies

1.2.1 The current threshold for partial tax exemption available to all companies, remains at $300,000:

first	$ 10,000	-	75% exempted or	$ 7,500
next	$ 290,000	-	50% exempted or	$145,000
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	$300,000			$152,500
	========			========

Chargeable income in excess of $300,000 will be taxed at 17%.

1.2.2 Effective tax rate for a company's first $300,000 chargeable income for YA 2010 therefore is 8.36% (25,075/300,000 x 100) instead of 17%.

1.3 Claim for capital allowances

1.3.1 Currently, qualifying capital expenditure incurred on most plant and machinery for the purposes of a trade, business, profession are allowed claim for capital allowance over 3 years. This excludes specified equipment eligible for 1-year claim.

1.3.2 To support businesses that invest in new plant and machinery in preparation for recovery of the economy, claim for capital allowances on qualifying capital expenditure incurred in the basis periods for YAs 2010 and 2011 will be allowed accelerated write-down over 2 years as follows:-

- 75% write-off in the first year of claim;
- 25% in the next year of claim.

1.4 Tax deduction for renovation and refurbishment ("R&R") works

1.4.1 Currently, qualifying R&R expenses (except for those costs relating to structural works and expansion of space) incurred during the period from 16 February 2008 to 15 February 2013 are tax deductible over 3 years, on a straight-line basis, subject to a cap of $150,000 for every 3 years.

1.4.1 To encourage businesses to refit their business premises this year and the next, they can claim qualifying R&R expenses incurred in the basis periods for YAs 2010 and 2011 in 1 year instead of over 3 years.

1.4.2 The cap of $150,000 for every 3 years will remain unchanged.

1.5 Loss carry-back relief scheme

1.5.1 Currently, businesses can carry-back current year unabsorbed capital allowances and tax losses of up to a cap of $100,000 to setoff against the assessable income of the YA immediately preceding that YA in which the capital allowances were granted or the tax losses incurred.

1.5.2 To help businesses which are making trade losses in this recession, current year unabsorbed capital allowances or tax losses will be allowed to be carried back for up to 3 YAs immediately preceding that YA in which the capital allowances were granted or the tax losses incurred.

1.5.3 The order of setoff against the assessable income will be first to the 3rd YA, followed by the 2nd YA and then the YA immediately preceding the YA in which the capital allowances were granted or the tax losses incurred

1.5.4 The cap of carry-back of $100,000 will be increased to $200,000.

1.5.5 The current requirement of the loss carry-back relief of substantial shareholding test will continue to apply. The current requirement of same business test for the carry-back of capital allowances will also remain unchanged.

1.6 Scope of foreign-sourced income exemption expanded

1.6.1 Currently, foreign-sourced dividends, branch profits and service income remitted to Singapore by resident non-individuals or resident individuals through a partnership in Singapore are exempted from income tax, subject to the following conditions:-

(a) the specified foreign income has been subjected to tax in the foreign jurisdiction;

(b) headline tax rate of the foreign jurisdiction at the time of remittance is at least 15%; and

(c) IRAS is satisfied that the tax exemption would be beneficial to the resident person.

1.6.2 To assist businesses to tap on financing from their overseas investment and operations to meet their business requirements in Singapore, resident non-individuals and resident partners of partnerships in Singapore will be exempted from tax on their remittance of **all** foreign-sourced income earned / accrued outside Singapore on or before 21 January 2009, provided the income is remitted into Singapore during the period 22 January 2009 to 21 January 2010 (both dates inclusive).

1.6.3 The conditions currently required for tax exemption of foreign-sourced income remitted into Singapore will be temporarily lifted.

1.6.4 IRAS will announce more details at a later date.

1.7 Start-up exemption scheme

1.7.1 Currently, qualifying **new** companies will enjoy tax exemption on the first $300,000 of their normal chargeable income in any of the first 3 consecutive YAs as follows:-

first $ 100,000	-	100% exempted or	$100,000
next $200,000	-	50% exempted or	$100,000
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$300,000			$200,000
========			========

A qualifying company is a new company (other than a company limited by guarantee) that meets all the under-mentioned conditions:

(i) it is incorporated in Singapore;

(ii) is a tax resident of Singapore for that YA;

(iii) throughout the basis period relating to the YA of claim, its total share capital is beneficially held directly by no more than 20 shareholders, all of whom are individuals or at least one is an individual holding at least 10% of the total number of issued ordinary shares of the company.

1.7.2 To support the growth of companies limited by guarantee set up by social entrepreneurs, the above start-up exemption will be extended to companies limited by guarantee with effect from YA 2010.

1.7.3 To enjoy the tax exemption, companies limited by guarantee will be subjected to the same conditions as imposed on companies limited by shares.

1.8 New tax framework for corporate amalgamations

1.8.1 Currently, the amalgamating companies are treated as separate entities. Hence, tax consequences are often triggered as the amalgamating companies are treated as having ceased businesses and disposed of their assets and liabilities, and the new amalgamated company having acquired or commenced new business.

1.8.2 Tax consequences triggered may include:

(i) the need to calculate balancing adjustments on assets for which capital allowances have been claimed;

(ii) bad debts taken over by the amalgamated company being treated as not claimable.

1.8.3 To minimize the tax consequences arising from amalgamation, a new tax framework for qualifying amalgamations will be introduced.

1.8.4 The new framework will apply to qualifying corporate amalgamations where, amongst other conditions, the amalgamated company takes over all assets and liabilities of the amalgamating companies and the amalgamating companies cease to exist.

1.8.5 IRAS will release details of the new tax framework for public consultation in February 2009.

1.9 Incentives for financial services enhanced

1.9.1 The Financial Sector Incentive-Headquarter Services ("FSI-HQ") scheme will be enhanced for the period of 22 January 2009 to 31 December 2013 (both dates inclusive). The enhancements are to further encourage financial institutions to manage and control their regional / global operations from Singapore.

1.9.2 The Commodity Derivatives Trader ("CDT") scheme will be extended and enhanced. These changes are to capitalize on the success of the CDT scheme and to strengthen our efforts to encourage the development of the exchange-traded market.

1.9.3 The lists of specified income and designated investments under the following financial sector tax incentive schemes will be enhanced:-

(i) Foreign trust scheme;
(ii) Fund management incentives;
(iii) Approved trustee company scheme;
(iv) Financial sector incentive – standard tier scheme;
(v) Financial sector incentive – fund management scheme.

The enhancements will enable our tax incentives to keep up with industry development and changes.

1.9.4 A new enhanced tier to the existing fund management incentives for funds with a minimum fund size of $50 million at the point of application, amongst other conditions, taking effect from 1 April 2009 to 31 March 2014 will be introduced.

1.9.5 Tax deduction for general impairment provisions made by banks, merchant banks and finance companies will be extended for a further 3 years.

1.9.6 MAS will release details of the above incentives.

1.10 Enhancement of Global trader programme

1.10.1 Currently, an approved global trading company may enjoy a concessionary tax rate of either 5% or 10% on qualifying income derived from qualifying transactions carried out with specified counterparties.

1.10.2 The counterparty restriction will be removed for qualifying trades carried out on exchanges during the period 27 February 2009 to 31 December 2013 (both dates inclusive).

1.11 Withholding tax exemption

1.11.1 To encourage the growth of the Singapore Registry of Ships ("SRS") and to reap the strategic and economic benefits of a sizeable shipping registry, withholding tax exemption can be granted, subject to terms and conditions, on interest payable on an offshore loan taken by a shipping enterprise to acquire a ship that is new entrant to SRS and registered with the SRS from 1 January 2009 to 31 December 2013 (both dates inclusive).

1.11.2 In addition, this withholding tax exemption will be extended to interest payable on an offshore loan taken to finance the acquisition of 100% of the shares in a Special Purpose Company that owns 100% of a ship, that is a new entrant to the SRS and registered with the SRS from 1 January 2009 to 31 December 2013 (both dates inclusive).

1.12 Promoting media and digital entertainment businesses

1.12.1 To encourage media and digital entertainment ("MDE") businesses to actively exploit their intellectual property ("IP") rights from Singapore, subject to conditions, the writing period for accelerated writing-down allowances in respect of capital expenditure incurred by MDE company or partnership in acquiring qualifying IP rights for MDE content will be reduced from 5 years to 2 years.

1.12.2 The accelerated writing-down allowances will be granted on an approval basis by Economic Development Board for qualifying IP rights for MDE content acquired during the period 22 January 2009 to 31 October 2013 (both dates inclusive).

1.12.3 Approval for the accelerated writing-down allowances on IP rights for MDE content is required for all instances, including cases where both economic and legal ownership of the IP rights for MDE content are acquired.

2. Tax changes for Individuals

2.1 Personal income tax rates and rebate

2.1.1 No change to the personal income tax rates for *resident* individuals. The tax rates for YA 2009 are the same as that for YA 2007 and YA 2008.

2.1.2 Tax-free for the first $20,000 chargeable income derived by a resident individual while the top marginal tax rate remains at 20% for chargeable income in excess of $320,000.

2.1.3 Please see the marginal tax rates for all income brackets for each year from YA 2005 to 2009 in the attached Appendix.

2.1.4 As in YA 2008, a one-off income tax rebate of 20% will be allowed to all resident individuals for YA 2009, subject to a cap of $2,000.

2.1.5 Employment income derived by *non-resident* individuals is still liable to Singapore income tax at 15% while for other sources of income derived by non-resident individuals, the applicable flat rate will be 20%.

2.1.6 Tax resident individuals who lost their jobs in 2008 and 2009 will be allowed to pay their personal income tax for YA 2009 in monthly installments of up to 24 months, instead of the current 12 months.

2.2 Property tax rebate for owner-occupied residential properties

To help households cope with the economic downturn, a 40% property tax rebate will be given for owner-occupied residential properties for calendar year 2009.

2.3 Removal of income tax on Net Annual Value ("NAV")

2.3.1 Currently, the NAV of a property is taxable if it is used by the owner or on behalf of the owner for residential purposes and not for business purposes.

2.3.2 An annual exemption threshold of up to $150,000 is allowed on the NAV of one owner-occupied property only. Any excess of NAV above $150,000 is subject to income tax.

2.3.3 With effect from YA 2010, the income tax on NAV will be removed.

2.3.4 This will benefit property owners who are paying the income tax on NAV while not collecting any gain or profit from the occupation of their residential property.

3. Other changes

3.1 Goods and services tax ("GST")

3.1.1 To promote fund management and administration services in Singapore, qualifying funds that are managed by a prescribed fund manager in Singapore will be allowed to claim a substantial portion of their input GST on prescribed expenses by way of remission. Qualifying period for the remission will take effect from 22 January 2009 to 31 March 2014 (both dates inclusive). MAS will release more details in due course.

3.1.2 Zero-rating for the aerospace industry will be expanded as follows:-

(i) Scope of qualifying aircraft will be expanded to include all aircrafts (including private aircrafts) that are wholly used or intended to be wholly used for international transportation of goods and passengers.

(ii) Zero-rating is extended to cover the sale, maintenance or repair services of aircraft components or systems as long as they form part of a qualifying aircraft.

(iii) A new GST relief scheme will be introduced to facilitate the import of aircraft components or systems for qualifying aircrafts.

(iv) The above changes will take effect from 1 April 2009 and IRAS will provide more details.

3.1.3 To promote specialized storage facilities and auctions / exhibitions in Singapore, with effect from 1 April 2009, GST and duty will be suspended on goods (including wine) temporarily removed from a zero-GST or licensed warehouse for auctions or exhibitions, even if the goods are sold during the auction or exhibition, provided the goods are returned subsequently to the warehouses. Singapore Customs will release more details shortly.

3.1.4 To develop the wine industry and promote wine trading activities in Singapore, with effect from 1 April 2009, GST relief and duty exemption will be granted on up to 3 bottles of wine per label per day for each exhibitor and the main conference organizer at approved wine exhibitions and conference events. Singapore Customs will provide more details.

3.2 Jobs credit scheme

3.2.1 To reduce wage costs and preserve jobs, all active employers (excluding local and foreign government organizations), will receive a 12% cash grant on the first $2,500 of each month's wages for each employee on their CPF payroll (ie. maximum grant of $300 per employee).

3.2.2 The cash grant is for one year and employers will receive the grant in 4 payments: March, June, September and December 2009.

3.2.3 Employers need not apply for the cash grant and they can expect to receive their first payment by 31 March 2009 from IRAS. The cash grant is only applicable to employees who are Singaporeans and Singapore Permanent Residents who contribute to CPF.

3.3 Tax deduction on donations enhanced

3.3.1 Currently, qualifying donations are allowed double tax deduction (ie. 200% of the donation amount).

3.3.2 To encourage greater charitable giving in Singapore during this difficult period, the tax deduction for qualifying donations made during the period 1 January 2009 to 31 December 2009 will be increased from 200% to 250%.

3.3.3 All existing rules to qualify for tax deduction on donations remain unchanged.

3.4 Property tax

3.4.1 A 40% property tax rebate will be given for commercial and industrial properties for calendar year 2009.

3.4.2 To help hoteliers, the property tax assessment rate for hotel rooms will remain at 20% (instead of an increase to 25%) for calendar year 2009.

3.4.3 Property tax deferral of up to 2 years will be available to business owners of land approved for development.

The above is prepared by our Tax Department on 30 January 2009.
It is based primarily on the budget speech announced.
It serves only as highlights with salient information.
More details of the tax changes will be released by IRAS
or other relevant Authority in due course.
In the meantime, should you require urgently additional information or advice,
we shall do our utmost to render further assistance.