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# SINGAPORE BUDGET 2019

## *„Building a strong, united Singapore“*

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# Agenda

A. **Key budget facts**
B. **Corporate Income Tax**
C. **Goods and Services Tax**
D. **Transfer pricing documentation**
E. **Personal Income Tax**
F. **Immigration & Employment**
G. **Business Support Programmes**

# Key budget facts

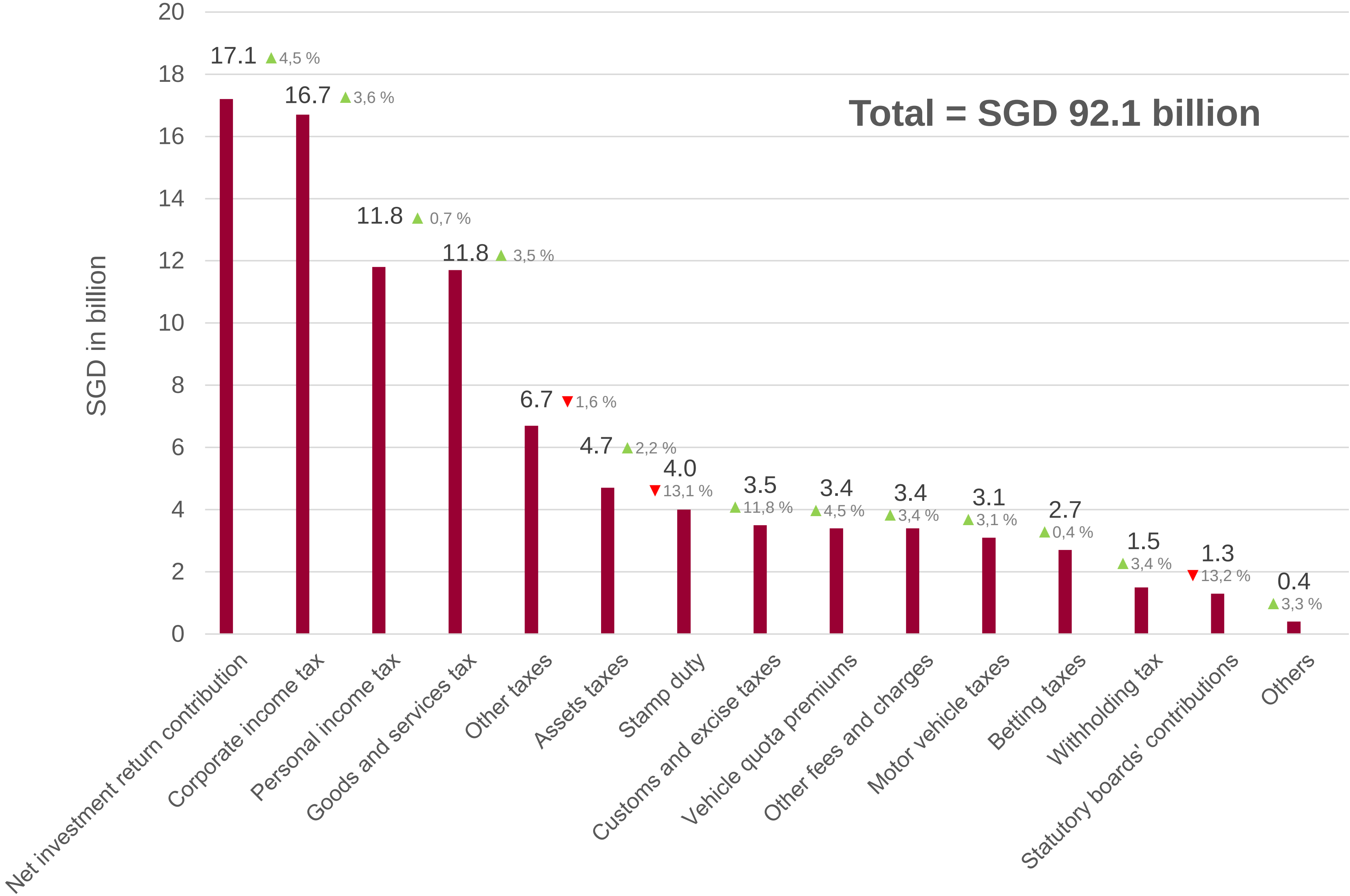
# Key budget facts

- Singapore’s budget year starts on 1 April and ends on 30 March of the following year.
- For the budget year ending 30 March 2019 an overall surplus of SGD 2.1 billion is expected, a SGD 2.7 billion increase from the SGD 600 million deficit that was forecasted.
- The surplus of SGD 2.1 billion is equivalent to about 0.4% of Singapore’s gross domestic production.
- The revenue in 2018 is expected to be SGD 73.1 billion which is SGD 1 billion more than originally estimated.
- The economy grew by 3.2% in 2018.

# Key budget facts

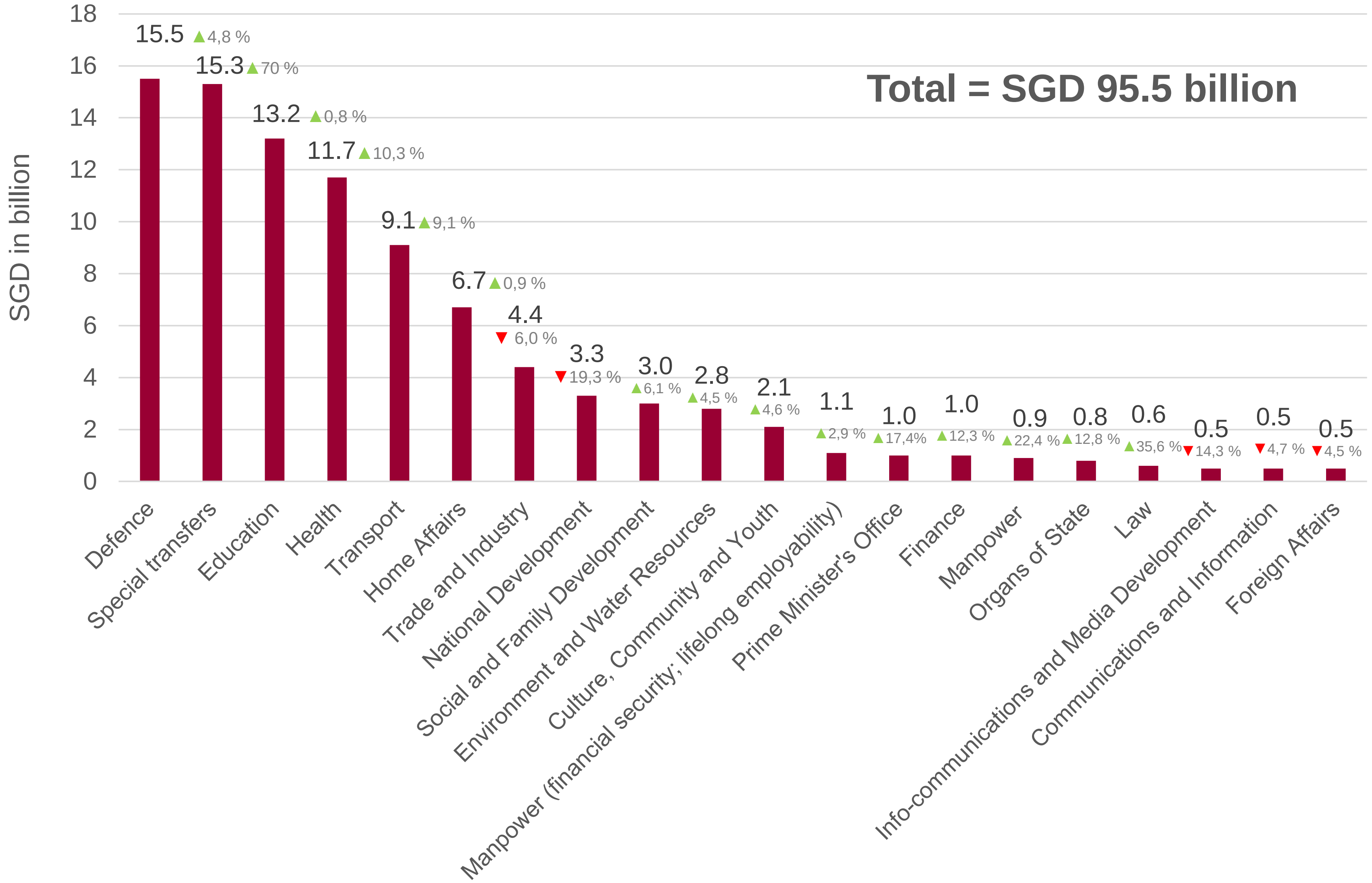
- For the new budget year starting on 1 April 2019 the Finance Minister of Singapore plans with an overall spending of SGD 80.3 billion (without considering special transfers).
- The deficit for the new budget year is planned to amount to SGD 3.5 billion.
- The deficit resembles about 0.7% of Singapore's gross domestic production.
- The Ministry of Trade and Industry has maintained the growth forecast at 1.5% to 3.5%.
- We have prepared an overview of the income streams of the budget on the next slide.

# Revenue



Total = SGD 92.1 billion
SGD in billion
20
18
16
14
12
10
8
6
4
2
0
17.1 ▲4,5 %
16.7 ▲3,6 %
11.8 ▲ 0,7 %
11.8 ▲ 3,5 %
6.7 ▼1,6 %
4.7 ▲2,2 %
4.0 ▼13,1 %
3.5 ▲11,8 %
3.4 ▲4,5 %
3.4 ▲3,4 %
3.1 ▲3,1 %
2.7 ▲0,4 %
1.5 ▲3,4 %
1.3 ▼13,2 %
0.4 ▲3,3 %
Net investment return contribution
Corporate income tax
Personal income tax
Goods and services tax
Other taxes
Assets taxes
Stamp duty
Customs and excise taxes
Vehicle quota premiums
Other fees and charges
Motor vehicle taxes
Betting taxes
Withholding tax
Statutory boards' contributions
Others

# Expenditure

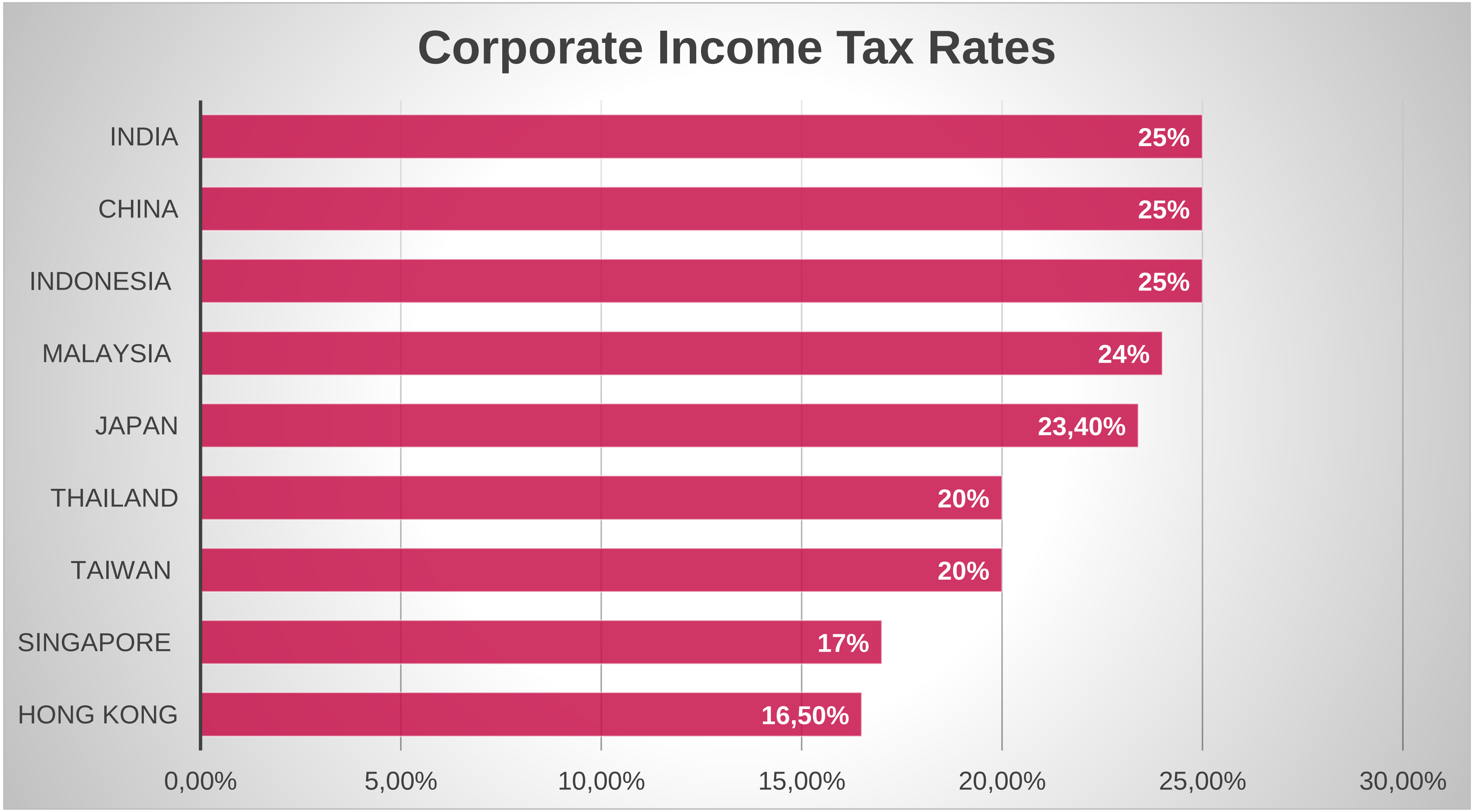


# Corporate Income Tax

# Overview

- Tax rate comparison
- Extension of writing down allowances for capital expenditure incurred on qualifying intellectual property rights
- Extending 100% Investment Allowance under the Automation Support Package
- Extend the concessions for S-REITs and REITs ETFs to 31 December 2025 and remove sunset clause
- Extend and refine the tax incentive schemes for qualifying funds managed by Singapore-based fund managers to 31 December 2024

# Tax rate comparison with selected countries



# Writing down allowance

- According to Section 19B Income Tax Act (“**ITA”**) a company may, where it has incurred capital expenditure in acquiring intellectual property rights (“**IPR**”) for the use in trade or business, claim writing down allowances.
- The term intellectual property rights covers patents, trademarks, registered designs, copyrights, geographical indications, lay-out designs of integrated circuits, trade secrets or information that has commercial value.
- In order to apply the writing down allowance the tax payer must acquire the legal and economical ownership of the IPRs.

# Writing down allowance

- Such intellectual property rights can be written-down on a straight line basis over a period of 5, 10 or 15 years based on the choice of the tax payer.
- The tax payer has to make an irrevocable election in the Year of Assessment ("**YA**") in which the capital expenditure for the acquisition of the IPRs incurred.
- The writing down allowance is extended by five years to cover expenditure incurred in respect of qualifying IPRs acquired on or before the last day of the basis period for the YA 2025.

# 100% Investment Allowance

- In the Budget 2016 the Automation Support Package was introduced with the aim to support companies to automate, drive productivity and scale up.
- Among other measures the Automation Support Package included a 100% Investment Allowance for automation equipment.
- The 100% Investment Allowance was originally limited to a period of three years.
- To maintain support to companies in this respect the 100% Investment Allowance will be extended by two years for projects approved by Enterprise Singapore from 1 April 2019 to 31 March 2021.
- The approved expenditure will remain capped at SGD 10 million per project.

# Concession for S-REITs

- Singapore has the aim to be the number one place for Real Estate Investment Trusts ("**REITs**") in Asia.
- To continue to promote the listings of REITs in Singapore and to strengthen Singapore's position as a REITs hub in Asia, certain tax concession were extended to 31 December 2025.
- The tax concession includes a concessionary income tax rate of 10% for REITs distributions received by non-resident non-individual investors and a tax exemption on qualifying foreign-sourced income.
- The tax concessions for Singapore-listed REIT Exchange-Traded Funds ("**ETFs**"), which will also be extended, include the tax transparency treatment on distributions received by REITs ETFs and a 10% concessionary tax rate on such REITs ETFs distributions received by qualifying on-resident non-individuals.
- The current sunset clause of 31 March 2020 for the tax exemption of REITs and REITs ETFs distributions received by individuals will be removed.

# Tax incentives of funds

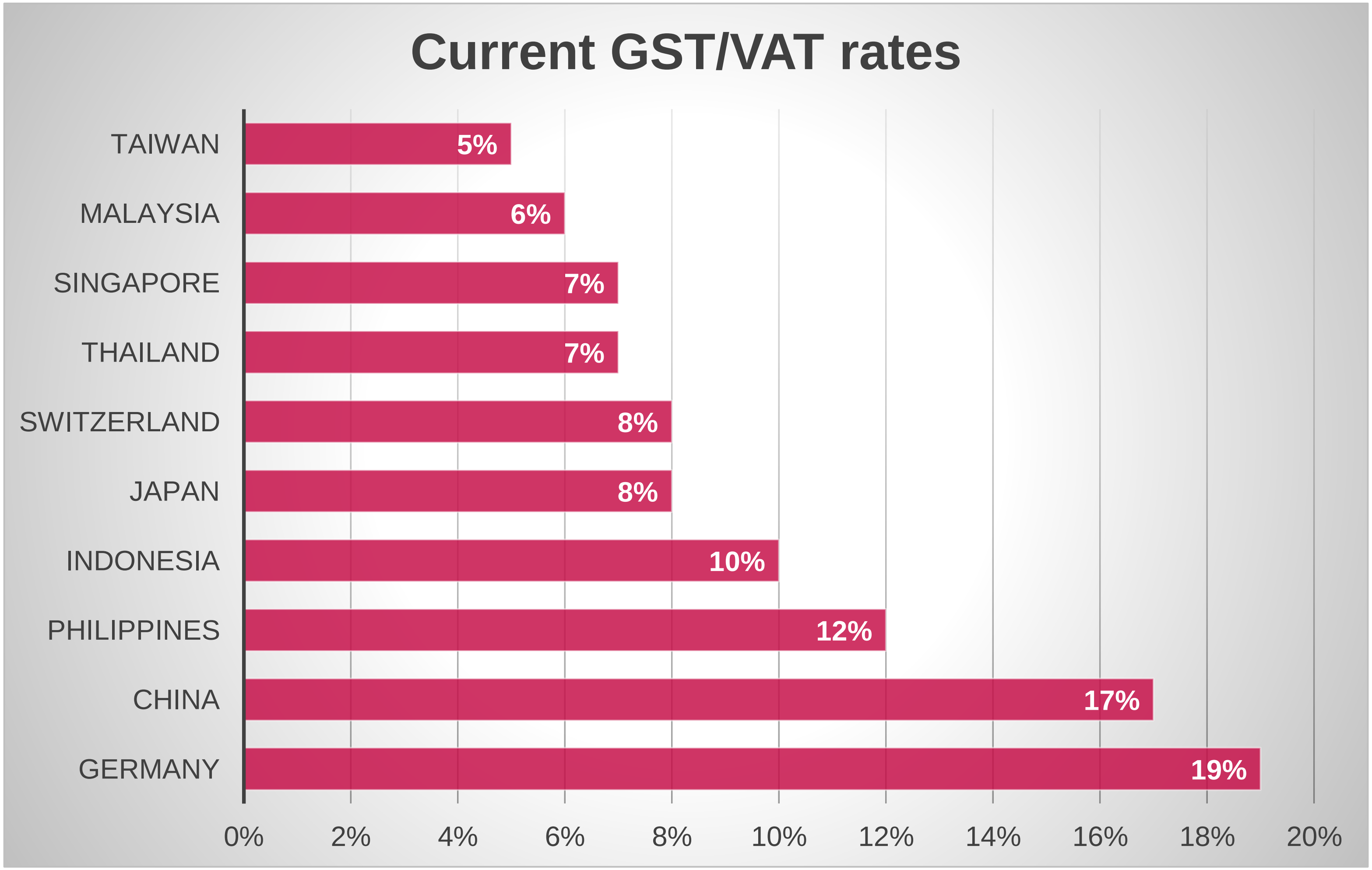
- Subject to conditions, qualifying funds are granted tax exemption on specified income derived from designated investments ("**DIs**") and withholding tax exemption on interest and other qualifying payments made to non-residents.
- These incentives were scheduled to lapse after 31 March 2019 but will now be extended to 31 December 2024.
- Furthermore the respective provisions in the Income Tax Act will slightly be refined to keep the schemes relevant and to ease the compliance burden.

# Goods and Services Tax

# Overview

- Tax rate comparison
- Relevant changes
- GST on imported services

# Tax rate comparison with selected countries



# Relevant changes

- The budget speech did not contain any major changes with respect to the Goods and Services Tax (“**GST**”).
- The Finance Minister confirmed his plans to raise the GST in the years between 2021 and 2025 from 7% to 9%.
- A GST rate of 9% would still not be high compared to other countries in the ASEAN region.
- The GST import relief for travelers and the duty-free allowances will change.
- Travelers will have lower allowances on the GST and duty-free import of goods into Singapore.

# Imported Services

- On imported services provided by overseas suppliers without establishment in Singapore no GST is currently applied.
- To enable a fair competition between resident and non-resident companies, especially with respect to the digital economy, from 1 January 2020 onwards GST will be imposed on imported services.
- A Reverse Charge Mechanism (“**RSM**”) will be implemented for business to business services (e.g. digital marketing, accounting, management services).
- The new GST on imported services should not have any effect on companies in Singapore that have only taxable supplies.

# Imported Services

- The RCM will work as follows:
  - The GST-registered recipient of the imported services accounts for GST on the services as if he were the supplier.
  - Afterwards, he may be entitled to claim the GST as his input tax subject to the normal input tax recovery rules.
- As outlined RCM will not affect businesses making wholly taxable supplies which may nevertheless opt to apply the RCM.
- Companies having wholly or partly GST exempt supplies (banks, insurances, holding companies) will have to prepare to apply the RCM from 1 January 2020 onwards.

# Imported Services

- For business to customer services (e.g. video/music streaming, listing fees on electronic marketplaces, software and online subscription fees) the overseas vendor will generally be liable to GST in Singapore.
- Overseas vendors need to register for GST, if
  - annual global turnover exceeds SGD 1 million and
  - sales volume of digital services to consumers in Singapore exceeds SGD 100,000.
- Once registered, the vendors are required to charge and account for GST on the digital services supplied.

# Transfer pricing documentation

# Requirements

- Companies are obliged to apply the arm’s length principle on transactions with related parties.
- Two persons are related parties if either one person, directly or indirectly, controls the other person; or both persons are, directly or indirectly, controlled by a common person.
- From the YA 2019 onwards companies resident in Singapore will be required to prepare a transfer pricing (“**TP**”) documentation if their gross revenue from trade or business is over SGD 10 million or if a TP documentation is required to be prepared for the previous basis period.
- There are a number of exemptions if the related party transaction does not exceed certain thresholds (i.e. purchase of goods SGD 15 million, services SGD 1 million).

# Requirements

- The TP documentation has to be prepared by the date for filing the tax return of the company (30 November or 15 December, respectively).
- Singapore follows the new OECD TP documentation rules which are based on BEPS Action 13 to a very large extent.
- This means that Singapore applies a three-tiered structure:
  - Documentation at group level (so called "**Masterfile**")
  - Documentation at entity level (so called "**Local File**")
  - Country-by-Country-Report
- None preparation of a TP documentation can be punished with penalties of up to SGD 10,000.

# Personal Income Tax

# Overview

- Taxable and non-taxable income
- Taxation in different employment scenarios
- The Not Ordinarily Resident Scheme
- Personal income tax rebate

# Taxable and non-taxable income

- General rule: all income earned in or derived from Singapore is taxable
- Possible sources of income:
  - employment
  - trade, business, profession or vocation
  - property or
  - other sources (e.g. annuities, royalties)

**Overseas Income**

- Overseas income is in general not taxable, even if it is paid to a SG bank account.
- Exception: overseas employment incidental to Singapore employment i.e. duties or services rendered overseas are for the benefit of the Singapore entity.

# Taxation in different employment scenarios

- **Tax exemption for short term employment**
  - Non-Residents who exercise employment in Singapore for 60 days or less in a year
  - Employment income is exempt from tax
- **(Possibly) higher tax rates for non-tax resident employees**
  - Taxation at flat rate of 15% or the progressive resident rates, whichever results in a higher tax amount.
  - Exceptions possible (e.g. director's fees taxed at a rate of 22%).
- **Progressive tax rates for tax resident employees**

# Income tax rates for tax-residents (since YA 2017)

| Chargeable Income | Income Tax Rate (%) | Gross Tax Payable ($) | | Chargeable Income | Income Tax Rate (%) | Gross Tax Payable ($) |
|---|---|---|---|---|---|---|
| **First $20,000** | **0** | **0** | | **First $160,000** | **8.72** | **13,950** |
| Next $10,000 | 2 | 200 | | Next $40,000 | 18 | 7,200 |
| **First $30,000** | **0.66** | **200** | | **First $200,000** | **10.58** | **21,150** |
| Next $10,000 | 3.50 | 350 | | Next $40,000 | 19 | 7,600 |
| **First $40,000** | **1.38** | **550** | | **First $240,000** | **11.98** | **28,750** |
| Next $40,000 | 7 | 2,800 | | Next $40,000 | 19.5 | 7,800 |
| **First $80,000** | **4.19** | **3,350** | | **First $280,000** | **13.05** | **36,550** |
| Next $40,000 | 11.5 | 4,600 | | Next $40,000 | 20 | 8,000 |
| **First $120,000** | **6.63** | **7,950** | | **First $320,000** | **13.92** | **44,550** |
| Next $40,000 | 15 | 6,000 | | In excess of $320,000 | 22 | |

# The Not Ordinarily Resident Scheme (“**NORS**”) (1/3)

- Scheme designed to attract high income foreign talent by granting benefits after relocation
- NOR status granted upon application. Qualifying criteria:
  - Non-resident in the past 3 years of assessment
  - Tax resident in the YA in which applicant first qualifies for NOR status
- Benefits under NORS can be enjoyed for 5 consecutive YAs, if employee is a tax resident in this year and conditions of the concessions are met.
- NORS will be lapsed from YA 2021. Last NOR status to be granted in YA 2020 (with expiry in YA 2024).

# The Not Ordinarily Resident Scheme ("**NORS**") (2/3)

**Benefit 1: Time apportionment of employment income**

- No income tax on employment income corresponding to days spent outside Singapore for business reasons
- Qualifying conditions:
  - At least 90 days outside Singapore for the performance of duties for SG employer
  - Total Singapore employment income of at least SGD 160,000
  - Tax not borne by employer
- Presence in SG for any part of the day is counted as day inside Singapore (possible exception: date of departure)
- "**10% floor rate**": tax on non-exempt income at a rate of at least 10%

# The Not Ordinarily Resident Scheme (“**NORS**”) (3/3)

**Benefit 2: Tax exemption on contributions to overseas pension fund (“OPF”)**

- *Mandatory* contributions by Singapore employer to OPF are non-taxable (if no deduction is claimed by employer)
- *Non-mandatory* contributions are taxable, unless NORS applies
- Qualifying conditions for NOR tax exemption of non-mandatory contributions:
  - Total Singapore employment income of at least SGD 160,000
  - Employer does not claim a deduction on contribution to OPF
  - Employee must not be a Singapore citizen or PR
- Maximum amount of qualifying contribution under NORS: employer’s compulsory CPF contribution in case of a Singapore citizen/PR

# Personal income tax rebate

- Income tax rates remain unchanged
- Tax rebate
  - YA 2018: No tax rebate
  - YA 2019: Tax rebate of 50% for all tax resident individuals (capped at SGD 200)
  - YA 2019 rebate benefits taxpayers with an annual salary of more than SGD 20,000. Maximum benefit reached at an annual salary of (approx.) SGD 36,000.

# Immigration & Employment

# Reduction of Dependency Ratio Ceiling ("**DRC**") in service sector

- DRC = proportion of foreign workers a firm can employ

| | CURRENT | JAN 1, 2020 | JAN 1, 2021 |
|---|---|---|---|
| DRC | 40% | 38% | 35% |
| S Pass Sub-DRC | 15% | 13% | 10% |

*(Source: Ministry of Finance)*

# Business Support Programmes

# Scale Up Programme

- Programme by Enterprise Singapore in cooperation with the public and private sector
- Target Group: “Aspiring, high-growth local firms”
- Customised support to help companies to
  - identify and build new capabilities,
  - innovate,
  - grow, and
  - Internationalise.

# Innovation Agents Programme

- Programme by Enterprise Singapore
- Two-year pilot for enterprises to obtain advice on innovation opportunities from Innovation Agents
- Innovation Agents = Individuals with deep expertise in technology, strong track record in growing businesses, and access to global industry networks
- Target group: enterprises that aspire to use technology to improve existing businesses or build new ones

# Conclusion

# Do you have any further questions?
# - Feel free to contact us!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