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Singapore Budget 2017
Moving Forward Together

Our observations and analysis

Agenda

1. Opening Address
   Rodger Flynn, CEO
2. Recent Tax Changes and Budget highlights
   Eng Min Lor & David Sandison
3. Economic analysis of the budget
   Francis Tan, Economist at UOB
4. Recent Developments on Transfer Pricing and related issues
   Lorraine Parkin
5. Q & A session

CFE's recommendation

Review and reshape Singapore's tax system

Budget 2017

Extensions

Withdrawals

Refinements

Lapses

Enhancements

Green Tax

Budget 2017 – Key messages

- Singapore supports the BEPS project
  - Existing scheme may be reviewed
  - New standards may be implemented
- Singapore needs to raise revenues through new taxes or raise tax rates
  - Introduce new taxes
  - Raise tax rates

Budget 2017
Business Tax

Corporate Income Tax Rebate

Current

YA 2016 and YA 2017

- 50% CIT rebate capped at $20,000 per YA.
- For all companies (including Registered Business Trusts) regardless of their tax residency status and eligibility for the concessionary corporate tax rate

Corporate Income Tax Rebate

Proposed

YA 2017 and YA 2018

- The CIT rebate will be enhanced and extended :

a) The CIT rebate cap will be increased from $20,000 to $25,000 for YA 2017 (with the rebate rate unchanged at 50%); and

b) The CIT rebate will be extended to YA 2018, but at a reduced rate of 20% of tax payable and capped at $10,000 rebate.

Corporate Income Tax Rebate

YA 2017

		$		$
Chargeable income before exemptions		100,000		1,000,000
Less: Partial income exemption				
First $10,000 @ 75%	7,500		7,500	
Next $ 90,000 / $ 290,000 @ 50%	45,000	(52,500)	145,000	152,500
Chargeable income after exemptions		47,500		847,500
Tax payable @ 17%		8,075		144,075
50% Corporate tax rebate, capped @S$25,000		(4,038)		(25,000)
Net tax payable		4,038		119,075
Effective tax rate		4.04%		11.91%

Enhancing the GTP

Current

- a concessionary tax rate of 5% or 10% on qualifying income derived by approved global trading companies from qualifying transactions.

Enhancing the GTP

Proposed

GTP will be enhanced as follows:

a) Qualifying counterparties condition will be removed;
b) Physical trading income derived from transactions in which the commodity is purchased for use in Singapore included;
c) Other valued added activities in Singapore or improvement; and
d) the substantive requirements to qualify for the GTP will be increased.

Introducing a safe harbour rule for payments under Cost Sharing Arrangement (CSA)for R&D projects

Current

- Payments made under a CSA are subject to specific restriction rules for certain categories of expenditure disallowed under Section 15 of the ITA
- Breakdown of the expenditure covered by the CSA payments is required so as to exclude the disallowed expenditure

Introducing a safe harbour rule for payments under CSA for R&D projects

Proposed

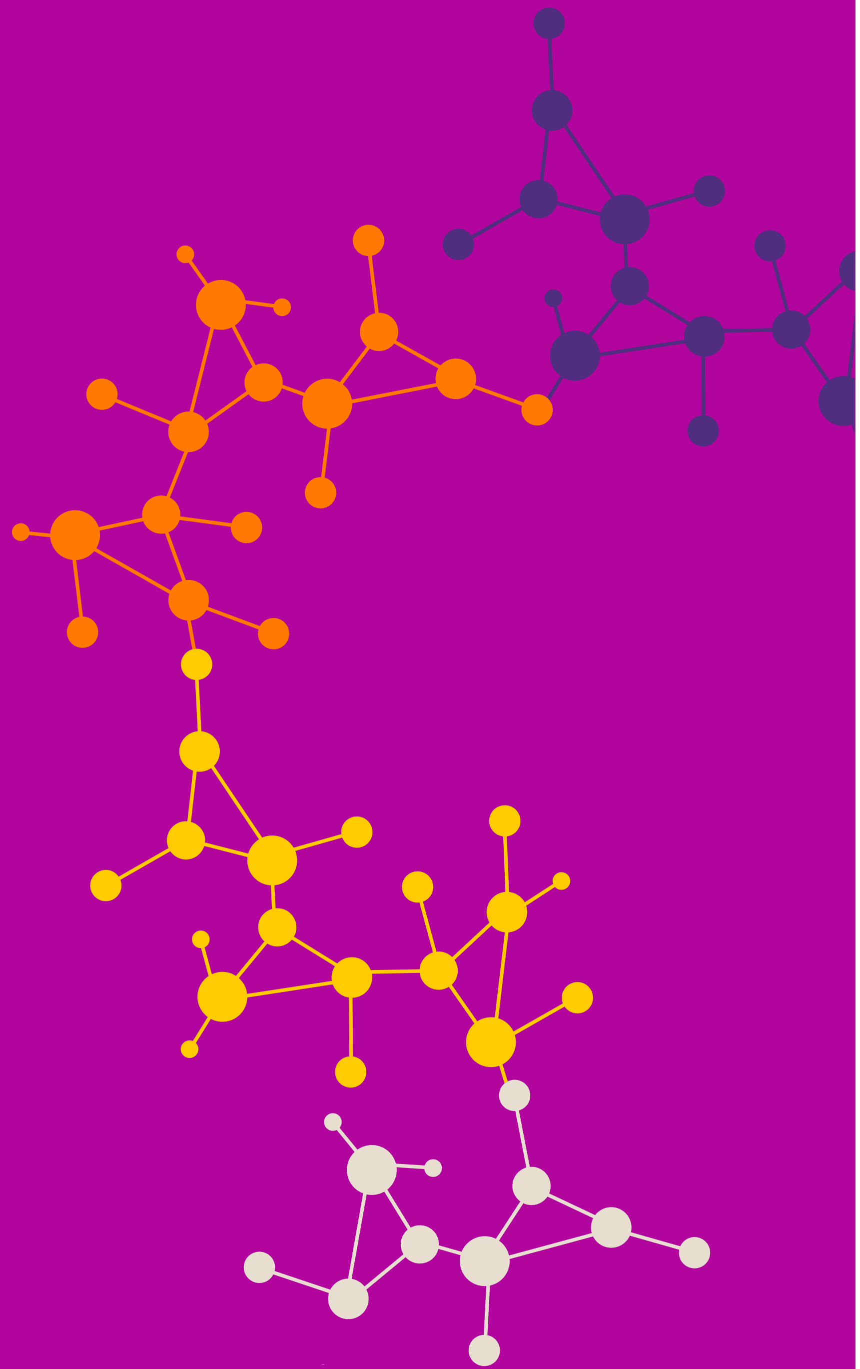
- Taxpayers may opt to claim tax deductions under Section 14D for 75% of the payments made under a CSA for qualifying R&D projects instead of providing a breakdown of the expenditure covered by the payments and without having to examine the detail of whether those payments would otherwise qualify
- The change will apply to CSA payments made on or after 21 February 2017

Budget 2017 Goods and Services Tax

GST rate

- Current standard rate of 7% remains but until ?

Budget 2017
Personal Income Tax



PIT rebate for resident individuals

Current

None

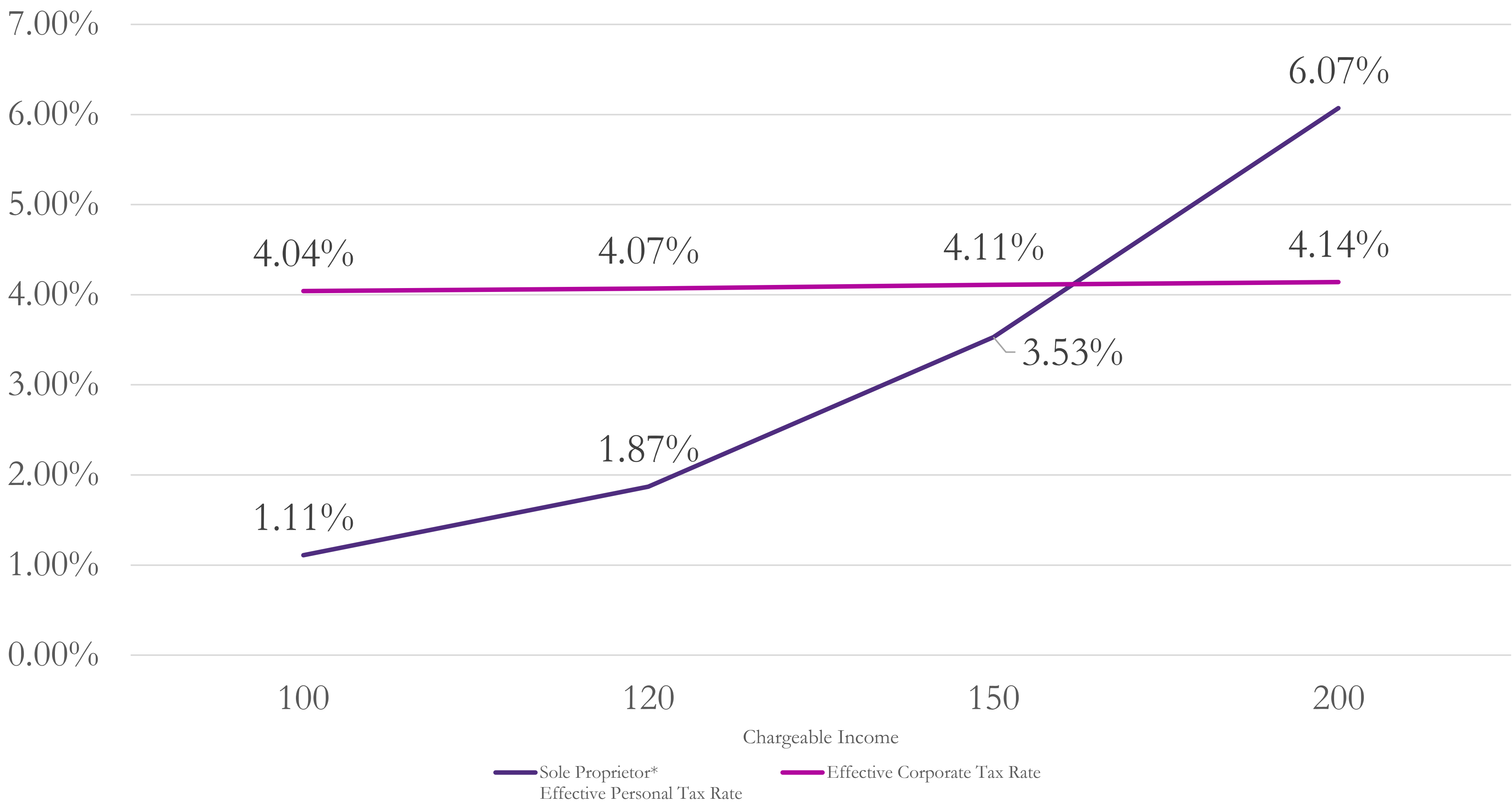
Proposed

A PIT rebate of 20% of tax payable, capped at $500, will be granted to all resident individuals for YA 2017 (calendar year 2016 income).

Personal income tax rate

- As announced in Budget 2015, the new personal income tax rate structure will apply from YA 2017
- Individuals earning at least $160,000 will pay higher tax
- Top marginal rate has been increased from 20% to 22% for individuals with a chargeable income above $320,000
- Given the 5% difference between the corporate tax rate of 17% and the top marginal tax rate of 22%, should self employed individual corporatize his/her business ?

Tax Rates


7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
6.07%
4.04%
4.07%
4.11%
4.14%
3.53%
1.87%
1.11%
100
120
150
200
Chargeable Income
Sole Proprietor*
Effective Personal Tax Rate
Effective Corporate Tax Rate

Budget 2017
Green Tax

Widening / enhancing of tax base

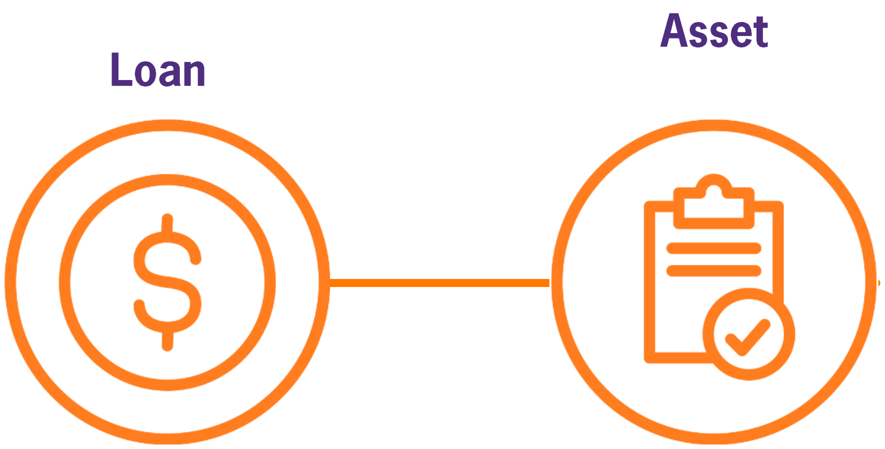
- Carbon Tax to be implemented from 2019 (S$10-20 per tonne of greenhouse gas emissions)
- Increase diesel taxes ($0.10 per liter)

Recent Development

Total Asset Method for Interest Adjustment

Deduction of interest expenses

- Direct identification
- Interest expense to be deducted against the income
- Types of income
  - Dividend income (local/foreign)
  - Interest income (local/foreign)
  - Trade income



Interest adjustment

- Monies are fungible
- Cannot track the use
- Direct identification cannot be used to track the usage of the loan
- Concession
  - Use the total asset method to attribute the interest expense to the asset

Interest adjustment

- Asset value – if the Company is on FRS39
  - Can choose historical cost or valuation per Balance Sheet
  - Once FR39 valuation adopted, irrevocable

Interest

$$\frac{8}{20} \times 1000 \quad 400$$

$$\frac{12}{20} \times 1000 \quad 600$$

1,000

Asset Value

Share investment

8,000

Other assets (trade)

12,000

PIC - Lapse of PIC scheme in YA 2018

- PIC - Grants businesses which invest in specified productivity and innovation activities, allowances of up to $400,000 of qualifying expenditure incurred in each specified activity per YA
- Consider to make qualifying acquisition before the end of your financial year

Industry Transformation Programme

- Targeted
- 23 industries under 6 clusters
- Different agencies for different industries
- Automation support packages offered by Spring Singapore
  - Registered and operating in Singapore
  - At least 30% local shareholding

Budget 2017 Increasing Tax Revenues

Increasing tax revenues

- Extracts of budget speech on trends in GST rates:

Budget 2011 – "will not be revised for the next 5 years"

Budget 2015 – "..., the revenue measures we have undertaken will provide … for increased spending needs we planned for till the end of this decade"

Budget 2017 – "will have to raise revenues through new taxes or **raise tax rates**"

Increasing tax revenues

"Madam Speaker, apart from managing our resources prudently, we must grow our revenues to finance our growing expenditures.

Growing our economy is the first and most important step to increasing our revenues sustainably. We need to achieve this growth by implementing the strategies set out in the CFE.

Next, we need to strengthen our revenue base in a pro-growth and progressive manner. Over the past five years, we have revised our tax structure as well as the Net Investment Returns framework to ensure that we have sufficient revenue for our increased spending needs till 2020".

Increasing tax revenues – The problem

How to milk this

Without cooking that

Increasing tax revenues

- Only so many options:
  - Increase rates on current taxes
  - Introduce new taxes
  - Reduce infrastructure costs and cost of collection

Increasing tax revenues – Current taxes

- Corporate income tax: Raising when other countries reducing?
- Personal income tax:
  - Largely political
  - Discourages investment
  - Motivates evasive behaviour
  - Can't get too out of step with corporate rates
  - Only one-third of those in the workforce pay tax

Increasing tax revenues – Current taxes

- GST?
- Most likely canididate
  - Blow gradually being softened
  - Requires no additional infrastructure
  - Restricted planning opportunities
  - Greater ROI for investigations
    - In 2015, 3,200 audits yielded $211.6m in tax and penalties, as opposed to $49.5m from 4,000 personal tax and $131.5m from 4,100 corporate tax audits
- GST has a largely captive audience

Increasing tax revenues – Current taxes

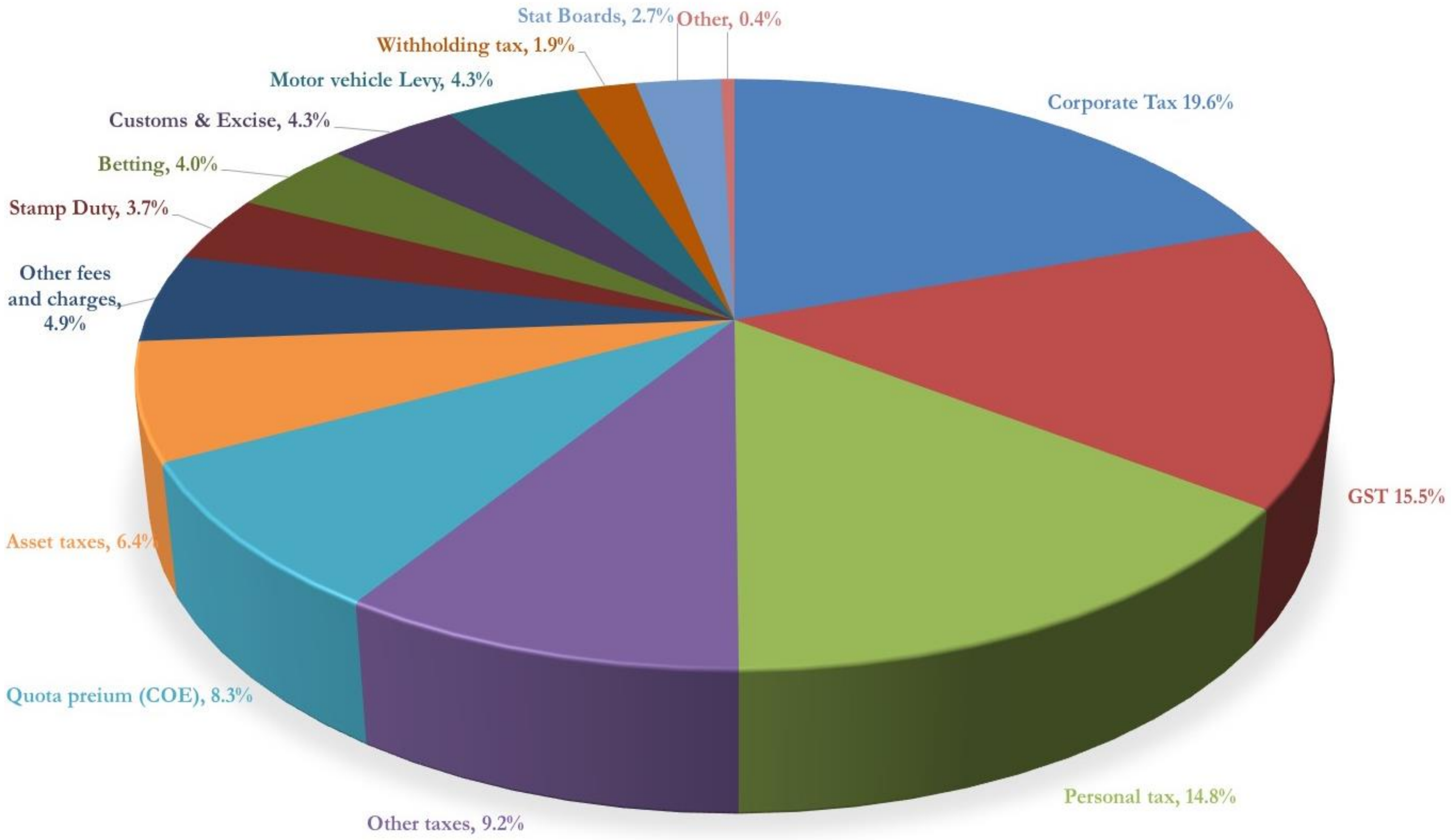
- Increasing the GST take
  - Increase the rate (to 10%)?
  - Increase the scope:
    - Already very broad based, so limited opportunities
    - Minister hinted at "imposing GST on the digital economy"

"Countries, large and small, are also reviewing their corporate tax regimes to keep them competitive. With increasing digital transactions and cross-border trade, some countries have taken steps to adjust their GST system, to ensure a level playing field between their local businesses which are GST-registered, and foreign-based ones which are not. We are studying how we can do likewise."

Increasing tax revenues – Current taxes

- Increasing the GST take (cont...)
  - Introduce the reverse charge?
    - Impact only on partially exempt registered businesses
  - Make foreign suppliers of digital goods and services register:
    - In every country on earth, if everyone signs up?
    - What if e.g. Indian providers also charge GST in India (i.e. supplies to international customers are not zero rated)?
    - How to police\enforce?
    - It is hoped the Minister studies it carefully...
- So how many taxes do we already have?

Singapore tax revenues 2016



Increasing tax revenues – Current taxes

- What else could be increased? – the low hanging fruit
  - Sin taxes – the three B's:
    - Betting
    - Booze
    - Baccy
  - Motor vehicle taxes
    - Already account for 12.6% of revenues – nearly as much as personal tax
  - All pretty low elasticity

Increasing tax revenues – Current taxes

- What else could be increased? – the low hanging (but maybe controversial) fruit

  - Capital gains tax on property other than PPR
  - Enhanced property tax on unoccupied second properties

Increasing tax revenues – Current taxes

- What else could be increased? – the less likely
  - Withholding taxes
    - affects international competitiveness
  - Import duties
    - same issue
  - Stamp duty
    - already high and so-called "temporary measures".
    - ultimately self-defeating

Increasing tax revenues – New taxes

Carbon Tax

"But the most economically efficient and fair way to reduce greenhouse gas emissions is to set a **carbon tax,** so that emitters will take the necessary actions.

Singapore has studied this option for several years. We intend **to implement a carbon tax on the emission of greenhouse gases.** We will consult widely with stakeholders, and aim to implement the carbon tax **from 2019**. The tax will generally be applied upstream, for example, on power stations and other large direct emitters, rather than electricity users.“

"We will study a carbon tax, change the tax structure for diesel, and adjust vehicle incentive schemes. We will also increase the price of water to reflect the latest costs of water supply".

Increasing tax revenues – New taxes

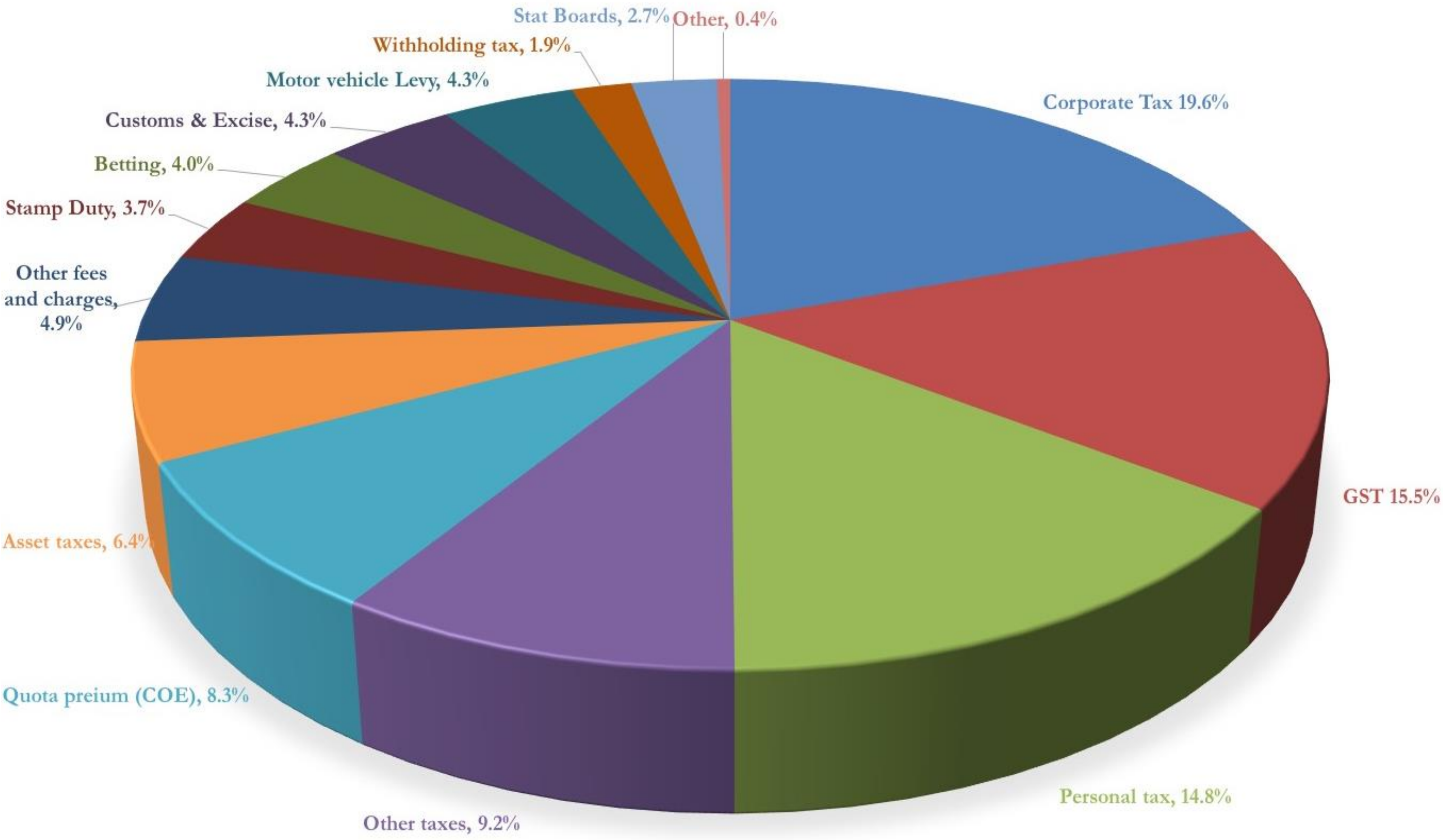
Summary of Budget proposals

- Study a carbon tax (and possibly implement 2019);
- Change the tax structure for diesel;
- Adjust vehicle incentive schemes; and
- Increase the price of water to reflect the latest costs of water supply.

Increasing tax revenues – New taxes

- What else could be considered?
- And do we not already have enough?

Singapore tax revenues 2016



Increasing tax revenues – New taxes

Taxes currently collected by IRAS

- Corporate tax
- Personal tax
- Withholding tax
- GST
- Property tax
- Stamp Duty
- Betting taxes

Increasing tax revenues – New taxes

Taxes currently collected by other bodies

- Customs duty
- Motor vehicle levies
- COE
- Stat Board contributions
- Other fees and charges
- Other taxes

Increasing tax revenues – New taxes

Other fees and charges

- Licenses
- Permits
- Service fees
- Sales of goods
- Fines and forfeitures

Other taxes

- Foreign workers levy
- Skills development levy
- Water conservation tax
- Development charge
- Annual tonnage tax
- Entertainments duty?

Add them all up and you have at least 22!

Increasing tax revenues – New taxes

- Not going to hazard a guess at what might be introduced, but the signs are that there are enough already
- Government trend has been towards reducing the number of taxes rather than increasing them
  - (abolition of Cess, utilities tax, telecoms tax, film hire duty,
  - entertainment duties etc)

- Any new taxes must meet clear criteria:
  - They are easy to collect; and
  - They require no new infrastructure or manpower

Increasing tax revenues – Reducing costs

- As noted, any new taxes introduced must not require additional resources
- Self assessment for income tax?
  - GST already there
  - Many other taxes collected at "point of sale" (e.g. Stamp Duty)
  - Signs already apparent:
    - Stand alone tax returns with financial info
    - Risk based approach
    - Shorter open years
    - Voluntary disclosure

Increasing tax revenues – Reducing costs

- Benefits of self assessment?
  - Allows focus on "low hanging fruit"
  - Fewer "foot soldiers" required
  - Self policing by taxpayer
  - Higher penalties

And some thoughts from the wishlist...

- Attracting "job creators" as opposed to "job takers"
- Pensions revamp
- Real estate shake-up
  - Capital gains tax
  - Higher property tax
  - CPF used for housing

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Recent Developments on Transfer Pricing and related issues

Lorraine Parkin

Agenda

1. Intellectual Property Regime
2. Developments on Transfer Pricing and
3. Country by Country Reporting

Intellectual Property Regime

Current

- The Pioneer Incentive and the Development and Expansion Incentive provide tax rates ranging from 0% to 15% on the creation of qualifying IP
- These rates are applicable to income such as royalties developed as a result of qualifying activities
- Qualifying activities include: leading edge technology and contributions to the growth of R&D and innovation in Singapore, leading to a positive spin off into the economy.

Intellectual Property Regime

Proposed

- Income from IP developed from qualifying activities will be carved out and dealt under the IP Development Incentive (IDI)
- This is to align Singapore with BEPS Action 5 of the OECD BEPS Actions (Countering Harmful Practices)
- The aim of Action 5 is to pro-rate the incentivised IP income by reference to where the costs were incurred that created the IP
- Therefore, incentivised tax rates will only apply to that portion of the total income arising in Singapore that the expenditure which was incurred in Singapore bears to the total R&D expenditure globally that contributed to the creation of the IP.

Intellectual Property Regime example

Global expenditure on IP development	Singapore element of expenditure on IP development	Singapore % of expenditure on IP development as a % of global expenditure
$2,000,000	$500,000	25%
Global income generated from IP development	Singapore income generated from IP development	Singapore element of income entitled to incentivized tax rate
$10,000,000	$1,000,000	$250,000

Intellectual Property Regime

Proposed

- The IDI will take effect for applications approved on or after 1 July 2017 and will be administered by the EDB
- The existing incentive recipients will continue to be covered by their current arrangements until 30 June 2021
- There is no indication, at present, on the applicable tax rates.
- An attractively low rate may encourage MNEs to divert their R&D/qualifying activities to Singapore.

Intellectual Property Regime- top innovating countries

2015 Top 10 *1	Innovative Countries	IP Tax Rates *2
1	Switzerland	8.5%
2	United Kingdom	10%
3	Sweden	-
4	Netherlands	5%
5	United States	10.15% (proposal)
6	Finland	-
7	Singapore	0%-15%
8	Ireland	6.25%
9	Luxembourg	5.84%
10	Denmark	-

*1 Insead research

*2 Grant Thornton research

Developments on Transfer Pricing

- Updated Guidelines issued 12 January 2017
- A selection of the updates:
  - IRAS has reinforced its commitment to the OECD's BEPS initiative
  - IRAS has aligned the Guidelines with its e-tax Guide on Country-by-Country Reporting
  - Unilateral and bilateral/multilateral advanced pricing arrangements to which IRAS is not a party, but are related to related party transactions subject to transfer pricing documentation in Singapore, are required to be provided to IRAS
  - IRAS has introduced a safe-harbour admin practice on cross-border related party loans not exceeding SGD15 million

CbC Reporting BEPS Action 13

Received most comments and feedback

3 Tiered Approach

- Master file – High level overview
- Local file – Detailed info on specific transactions
- Country by country report
  - Aggregate, jurisdiction-wide information on global allocation of income, taxes paid, indicators of economic activity
  - Useful for transfer pricing risk assessment and for evaluating other BEPS-related risks

Risk assessment tool (especially CbCR)

NB: Master file available to local jurisdictions

Background

Why	BEPS creates an alarming situation - annual tax losses estimated at around USD 100 to 240 Bn
Who	G20 countries and OECD join hands to tackle BEPS - OECD comes out with detailed reports on 15-point Action Plan to revamp international taxation
How	Action 13 provides guidance on TP documentation and CbC reporting - suggests a three tier documentation structure: master file, local file, and CbCR
What	Overview of allocation of income, taxes, economic activity, etc. between members of MNE CbCR to be maintained by MNE's having global consolidated turnover in excess of €750mn (SGD1,125mn) Enhanced transfer pricing documentation and increased exchange of information between countries lies at the heart of CBCR.
Next	Singapore's commitment to BEPS project : - The Finance Minister committed to joining the OECDs inclusive BEPS measures in June 2016 - Guidelines in line with OECD's recommendations First Singapore Masterfile deadline 31 December 2018 for FYE 2017

Implementation of CbCR - Singapore

Threshold	CbCR - Applies to MNEs where (i) the ultimate parent entity of the MNE group is a tax resident in Singapore; (ii) Consolidated group revenue for the MNE group in the **preceding** financial year is at least S$1,125 million; and (iii) the MNE group has subsidiaries or operations in at least one foreign country. IRAS is expected to issue decree on applicability of Master File and Local File.
Applicable from ?	Regulations are applicable for fiscal years beginning on or after 1st January 2017. Since many jurisdictions have implemented CbCR for fiscal years beginning on or after 1 Jan 2016; to address the transition issue arising from this, affected Singapore-headquartered MNEs may file a CbC Report for fiscal years beginning on or after 1 Jan 2016 to IRAS on a voluntary basis.
Compliance Due Date	CbCR must be filed within 12 months from the end of the ultimate parent entity's financial year.
Contents	Contents to be included in the CbCR have been notified by the IRAS in its e-Tax guide on CbCR dated 10th October 2016. IRAS is expected to issue guidance on mode of filing of CbCR and voluntary filing of CbCR.
Penalty	Failure to file CbCR within statutory deadline may attract fine up to $1000. Furnishing of false / misleading information in CbCR may attract fine up to $100,000 and/or imprisonment up to two years.

Master file

Org. structure	Description of MNE's business	MNE's intangibles	MNE's financial activities	MNE's financial & tax positions
Chart showing legal & ownership structure & geo. location of operating entities	Important drivers of business profit	Overall strategy: Development, over-sight, & exploitation, including location of R&D facilities & management	Description of how the MNE is financed, including arrangements with third-party lenders	Annual consolidated financial statement for FY
	Description of supply chain for material products & services	List of IP and entities that own IP	***Financial transfer pricing policies***	List & description of *unilateral* APAs & other tax rulings relating to allocation of income
	List & description of service arrangements among MNE members other than R&D, ***including policies***	Agreements related to IP, including CSAs	Identify central financial function, country of org. & management of entity providing function	
	Main geographic markets for products and services	***IP*** and R&D transfer pricing ***policies***		
	Functional analysis describing contributions to value creations by individual entity	Material transfers of IP among MNE members during FY, including details		
	Business restructurings, acquisitions, divestitures in FY			

CbC reporting template

Table 1: Overview of allocation of income, taxes and business activities by tax jurisdiction

Tax jurisdiction	Revenues			Profit (loss) before income tax	Income tax paid (on cash basis)	Income taxes accrued – current year	Stated capital	Accumulated earnings	Number of full time employees	Tangible Assets (other than cash and cash equivalents)
	Unrelated party	Related party	Other							

Notes:

1. Revenues: Should exclude payments received from other constituent entities that are treated as dividends in the payor's country.
2. Income tax paid (on cash basis): Should also include withholding taxes paid by other entities (related and unrelated) with respect to payments made to the constituent entity(ies).
3. Income tax accrued - current year: Tax accrual should only reflect operations in the current year and should not include deferred taxes or provisions for UTPs.
4. Full time employees: This is seeking 'full time equivalents' and should include independent contractors. This may be reported on any basis, as long as it is consistent across countries.

CbC reporting template

Table 2: List of all constituent entities of the MNE group included in each aggregation per tax jurisdiction

Tax jurisdiction	Constituent entities resident in the tax jurisdiction	Tax jurisdiction of organisation or incorporation, if different from tax jurisdiction of residence	Main business activity(ies)												
			Research and Development	Holding or Managing intellectual property	Purchasing or Procurement	Manufacturing or Production	Sales, Marketing or Distribution	Administrative, Management or Support Services	Provision of Services to unrelated parties	Internal Group Finance	Regulated Financial Services	Insurance	Holding shares or other equity instruments	Dormant	Other

Local file

Provides more detailed information relating to specific intercompany transactions

Requires inclusion of the following information:

1. Detail on local management reporting lines
2. Business restructurings or IP transfers in current or immediately past year
3. Key competitors
4. Amount of payments and receipts for each category of controlled transactions involving the local entity
5. Copies of all material intercompany agreements concluded by local entity
6. Copy of existing unilateral/ bilateral/multilateral APAs and other tax rulings to which the local tax jurisdiction is not a party and which are related to the local file controlled transactions
7. Reconciliation of the financial data used in applying the TP policies to the financial statements

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