Grant Thornton
An instinct for growth™

Singapore Budget 2016

Our observations and analysis: Partnering for the future

Agenda

1. Recent Tax Changes and Budget highlights
   Eng Min Lor & David Sandison
2. Economic analysis of the budget
   Francis Tan, Economist at UOB
3. OECD BEPS Action Points – Responses of tax authorities in South East Asia
   Peter Godber, Head of Tax
4. Q & A session

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Business Tax

Corporate Income Tax Rebate

Current

YA 2016 and YA 2017

- 30% Corporate Income Tax 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

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Corporate Income Tax Rebate

Proposed

YA 2016 and YA 2017

- Corporate Income Tax Rebate has been increased to **50%** of tax payable, capped at $20,000 per YA

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Corporate Income Tax Rebate

YA 2016

		$		$
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
Less:				
50% Corporate tax rebate, capped @S$20,000		(4,038)		(20,000)
Net tax payable		4,038		124,075
Effective tax rate		4.04%		12.41%

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

PIC – lower cash payout and lapse of PIC scheme

Current

- PIC was introduced in 2010 Budget for YA 2011 to YA 2015 to encourage productivity and innovation activities
- Subsequently extended to YA 2018
- 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
- Total allowances amount to 400% of each dollar of qualifying expenditure
- In lieu of allowances, businesses may choose to convert qualifying expenditure of up to $100,000 for each YA into cash
- Cash payout rate is 60% of the qualifying expenditure incurred for YA 2013 to YA 2018

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

PIC – lower cash payout and lapse of PIC scheme

Proposed

- Cash payout rate will be lowered from 60% to 40% for qualifying expenditure incurred on or after 1 August 2016
- No changes to the other conditions of the PIC scheme
- PIC scheme will not be extended beyond YA 2018

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Industry Transformation Programme

Current

This is a new initiative

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Industry Transformation Programme

Proposed

SPRING's capability development grant

- Expanded to support roll-out or scaling up of automation projects at up to 50% of qualifying cost
- Grant is capped at S$1 million

Investment allowance

- 100% of approved capital expenditure
- Capital expenditure capped at $10 million per project, net of grants

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Industry Transformation Programme

Proposed

Enhanced financing support through

- SPRING's Local Enterprise Finance Scheme - expanded to cover equipment loans for non-SMEs to a 50% risk-share with participating financial institutions
- For SMEs the percentage increases to 70%

Access to overseas markets

- IE Singapore will work together with SPRING to help businesses access overseas markets

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

M&A Allowance

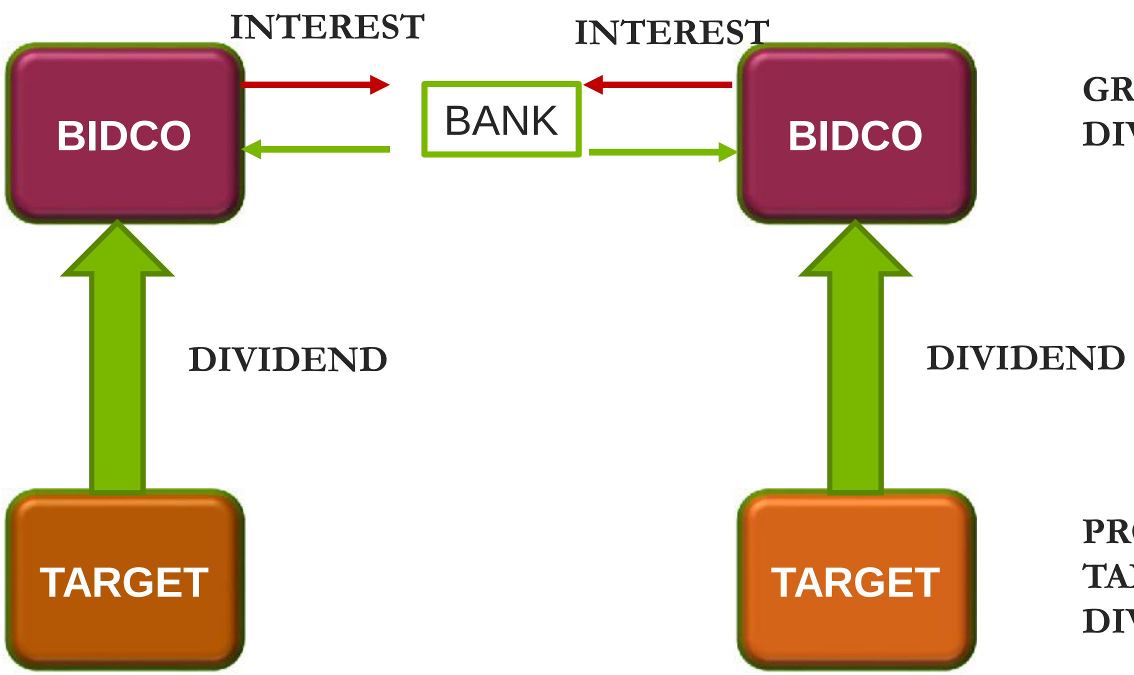
Current

- Introduced in 2010 to encourage Singapore companies to grow through acquisitions
- Tax deductions = 25% of the cost of qualifying acquisitions (up to $20M), i.e., $5 million allowance over a 5-year period
- Stamp duty relief – max - $40,000
- Double deductions for transaction costs on maximum of $100,000 of qualifying costs

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Origins of the M&A Allowance

GROSS DIVIDEND	100
INTEREST	(100)
TAXABLE	NIL
TAX PAYAYBLE	NIL
TAX REFUND	(20)



GROSS EXEMPT DIVIDEND	80

PROFITS	100
TAX	(20)
DIVIDEND	80

PROFITS	100
TAX	(20)
DIVIDEND	80

GROUP PROFITS	NIL
GROUP TAX PAID	NIL

GROUP PROFITS	NIL
GROUP TAX PAID	(20)

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

M&A Allowance

Proposed

- $20 million deal size ceiling increased to $40 million
- Tax deductions = max $10M over a 5-year period
- Stamp duty relief – max - $80,000
- Effective date: expenditure incurred on or after 1 April 2016
- Expiry: 31 March 2020

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Exemption for gains on disposals of equity investments

Current

- Singapore does not tax capital gains
- Lots of efforts expended to deal with this issue
- Safe Harbour provision was first introduced on 1 July 2012
- Divesting company must own at least 20% of the ordinary shares of the investee company and the ordinary shares must be held for at least 24 months
- Acquisition from 1 June 2015 unprotected
- For disposals made on or before 31 May 2017

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Exemption for gains on disposals of equity investments

Proposed

- Scheme will be extended, based on existing conditions, until 31 May 2022.
- Effective date: Immediate
- Expiry: Disposals made on or before 1 June 2022 (thus last qualifying acquisition 1 June 2020)

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Writing-down allowances for IP

Current

- Section 19B - a five-year straight-line writing down allowance for the cost of acquiring intellectual property
- Introduced to encourage businesses to locate their intellectual property in, and exploit from, Singapore
- Excess allowances can be group relieved or carried forward

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Writing-down allowances for IP

Current

- Susceptible to forfeiture on change in ownership
- PIC also available for same cost over same period
- Income earned typically in the form of royalties – subject to withholding tax from overseas licensees

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Writing-down allowances for IP

Proposed

- Now possible to spread the allowance straight-line over five, 10, or 15 years
- At option of taxpayer but irrevocable
- Effective date: expenditure incurred in the basis periods for YAs 2017 to 2020

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Anti-avoidance under section 19B

Current

- Section 19B - subject to abuse in 2 ways:
  - acquiring the IP from a related party who has already had tax deductions for the cost of development, and was not taxed on the sale. **Result: double tax deductions**
  - acquiring the IP at inflated prices or selling it at below market value. **Result: inflated allowances and/or reduced clawback**
- Currently the first issue is covered

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Anti-avoidance under section 19B

Proposed

- New market value rules will be introduced to remove the scope for price manipulation both when the IP is acquired or when it is subsequently sold
- Effective date: Transactions made from 25 March 2016

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Enhancing the LIA scheme

Current

- First introduced in Budget 2010
- IA of 25% and AA of 5%
- Land must be zoned as Business 1 or Business 2 (excluding white site)
- Must carry out qualifying activities
- Must meet the GPR benchmark relevant to the qualifying activities or exceed the current GPR by 10% (if already qualifying)
- At least 80% of the total floor area is used by a single user

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Enhancing the LIA scheme

Proposed

- Enhanced to allow multiple users, who are related, for one or multiple qualifying trades or businesses, if certain conditions are met

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Extending and Refining the Tax Incentive Schemes for Insurance Companies

Current

Business lines that are affected by the 2016 Budget are:

- Marine Hull and Liability Insurance (MHL)– 5% tax rate
- Specialised Insurance Business (SI) - Exempt
- Captive Insurance (CI) - Exempt
- Insurance Business Development (IBD)– 10%

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Extending and Refining the Tax Incentive Schemes for Insurance Companies

Proposed

MHL, SI and CI to be subsumed under IBD, subject to the following changes:

MHL – from 1 April 2016 - tax rate will increase to 10%

SI – from 1 September to 31 August 2021

- 8% from 1 September 2019
- 5% for new awards
- 10% for renewal awards from 1 September 2016

CI – from 1 April 2018, the tax rate will be increased to 10%

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Extending and Enhancing the FTC Scheme

Current

- Aimed at encouraging use of Singapore as a FTC
- Interest and fee income from qualifying services from approved associated entities taxed at 10%
- Withholding tax exemptions for interest payments to these same entities
- To qualify for the concessionary tax rate, funds managed and redeployed by the FTC have to be sourced directly by the FTC

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

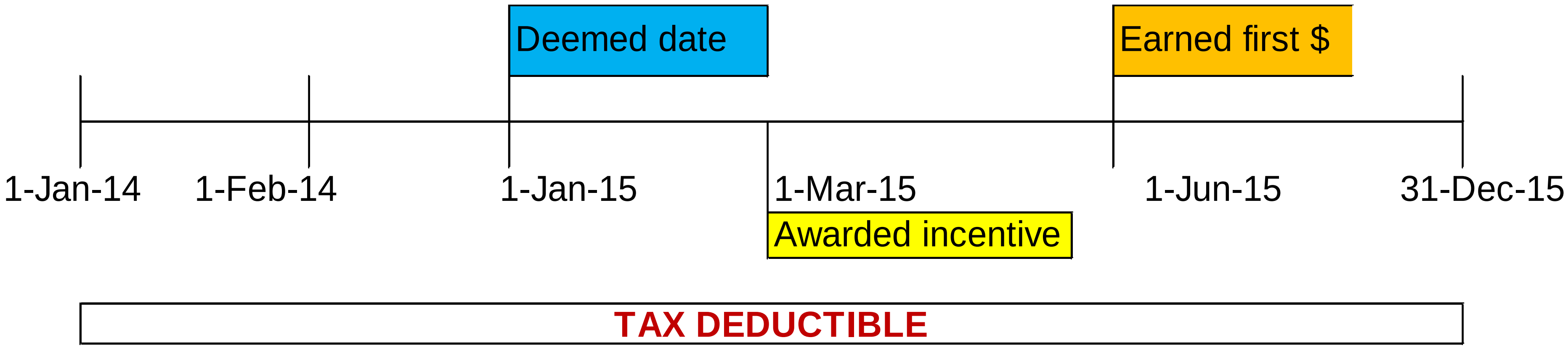
Extending and Enhancing the FTC Scheme

Proposed

- Scheme extended until 31 March 2021.
- Concessionary rate reduced to 8%, - but additional substance requirements
- Fund sourcing rules relaxed
- Measures to preventing round-tripping
- Withholding tax exemption to include interest on deposits placed by approved entities, provided funds used for qualifying purposes
- Effective date: 25 March 2016

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Allocation of Section 14U and pre-commencement expenses



Current

Section 14 U Part V of ITA	- not specifically required to allocate expenses between pre incentive and incentive income

Proposed

Direct expense	To be identified and set off against the relevant income
Indirect expense	To be allocated based on income proportion (e.g., using turnover, gross profit)

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Business and IPC Partnership Scheme (BIPS)

Current

- This is a new initiative
- Currently, only certain cash and approved non cash donations to an IPC may qualify for a 250% deduction
- Cost incurred for CSR activities are deductible if conditions for deduction are satisfied

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Business and IPC Partnership Scheme (BIPS)

Proposed

- Additional 150% tax deduction on wages and incidental cost of employees deployed to volunteer and provide (including secondment) any services to the IPCs.
- Any unutilised donations can be carried forward for a period of 5 YAs.
- Qualifying expenses will be capped at $250,000 per business and S$50,000 per IPC annually.
- Applicable for the period from 1 July 2016 to 31 December 2018

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Mandatory Electronic-Filing ("e-filing")

Current

Corporate tax returns PIC cash payout

- Option to efile or paper file

GST returns

- Must efile

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Mandatory Electronic-Filing ("e-filing")

Proposed

Corporate tax returns

E-filing mandatory with effect from : -

YA 2018 - Companies with turnover of more than $10 million in YA2017

YA 2019 - Companies with turnover of more than $1 million

YA 2020 - All companies

PIC cash payout

E- application with effect from 1 August 2016

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Extension

Double Tax Deduction for Internationalisation (DTD) Scheme

The DTD scheme will be extended for an additional four years from 1 April 2016 to 31 March 2020

The Not for Profit Organisation (NPO) tax incentive

Under Section 13U of the ITA, the NPO tax incentive will be extended till 31 March 2022

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Enhancement

GTP(Structured Commodity Finance) scheme has been enhanced to include the following qualifying activities

- Consolidation, management and distribution of funds for designated investments;
- M & A advisory services; and
- Streaming Financing

MSI scheme has been enhanced

- to cover income derived from operations and leasing of ships from the operation of ships used for exploration or exploitation of offshore energy or minerals, or ancillary activities
- Qualifying counterparty requirement for ship leasing income has been removed

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Withdrawal of incentive/exemption

Approved Investment Company Scheme

- Originally introduced to promote the investment management industry.
- The scheme was assessed to be no longer relevant and will be withdrawn from YA 2018

Exemption on Income Derived by Non-Residents Trading in Specified Commodities

- Exemption on trading through consignees in the commodities (such as Gambier/ Rubber, Copra, etc.)that are produced outside Singapore
- The scheme was assessed to be no longer relevant and will be withdrawn from YA 2018

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Goods and Services Tax

GST Rate

- Current standard rate of 7% remains
- Extracts of budget speech

  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"

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

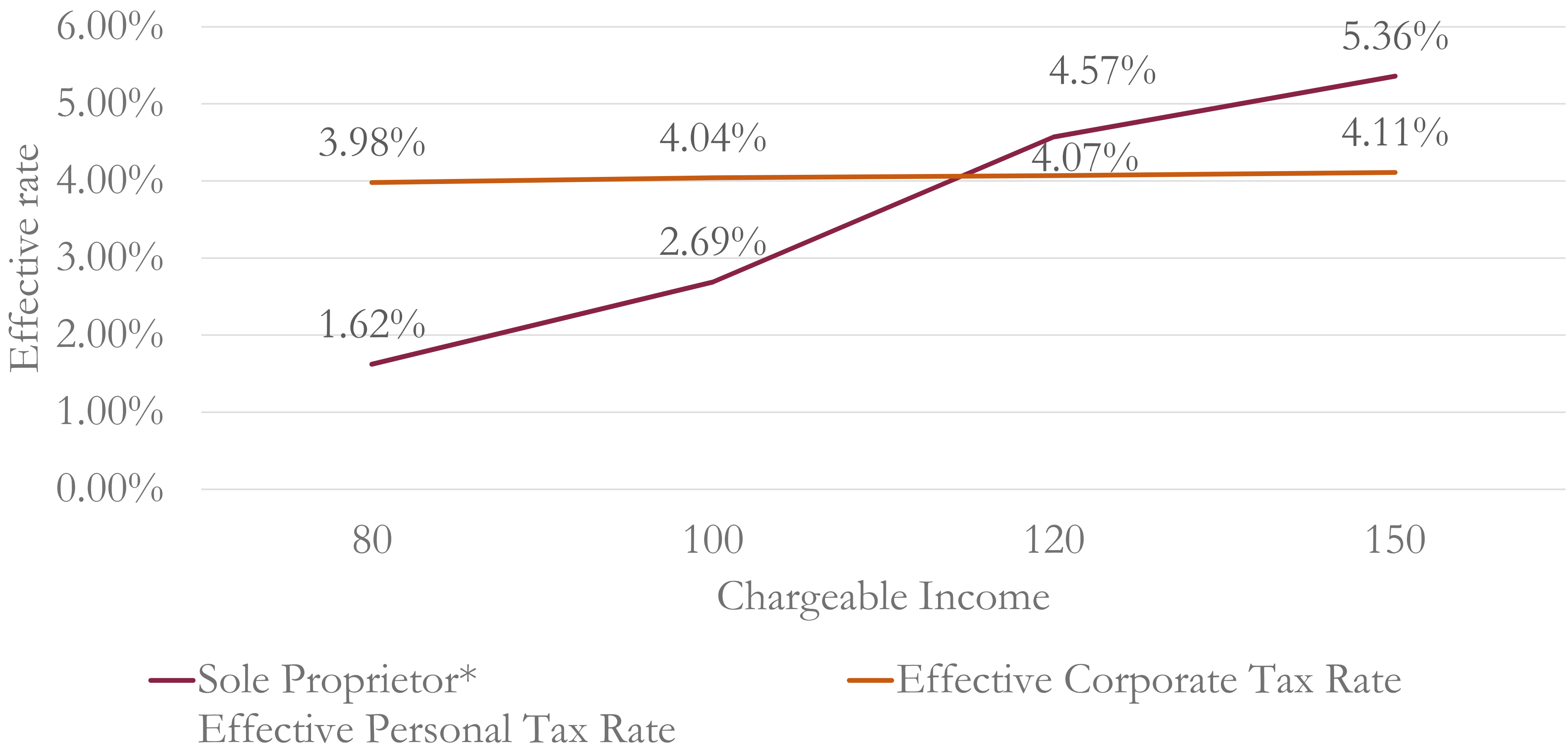
Personal Income Tax

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 ?

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Tax Rates



*** Wife not working / 2 kids / CPF contribution per statutory note**

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Introduction of a cap on personal income tax relief claims

Current

There is no limit on personal relief claims

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Introduction of a cap on personal income tax relief claims

Proposed

- Cap of $80,000 on personal relief claims
- With effect from the YA 2018
- To enhance the progressivity of the personal tax regime

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Personal Relief Cap

	YA 2017	YA 2018
Assessable Income (Employment Income)	150,000	150,000
Less: Personal Reliefs		
Earned income relief	1,000	1,000
Qualifying/handicapped child relief	-	
Working mother's child relief (3 kids)	90,000	90,000
Parent/handicapped parent relief	-	-
CPF/provident Fund relief	14,400	14,400
Foreign maid levy relief	-	-
NSman(Self/wife/parent) relief	-	-
Total Personal Reliefs	105,400	80,000
Chargeable Income	44,600	70,000
Tax Payable on Chargeable Income	872	2,650

Total Personal Reliefs (capped at $80,000)

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Removal of home leave passage concession for expatriate employees

Current

- Home leave for expatriates normally paid by employer
- Currently, only 20% of the travel costs is assessable on the employee as a benefit
- Applies for one passage each for husband-and-wife and two for each qualifying child
- Applies only to "expatriates" – neither Singapore citizens nor PRs

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Removal of home leave passage concession for expatriate employees

Proposed

- Concession removed with effect from YA 2018
- Such benefits will be taxed in full

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Grant Thornton
An instinct for growth™

OECD BEPS Action points –

Responses of Tax Authorities in South East Asia

BEPS – the overall response

- 80 country support; final reports are in
- Plenty of "actions" but not yet a lot of resolutions
- Support by consensus for the OECD direction
- Unilateral country responses rising to the surface
- Expectations affect strategic tax planning

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

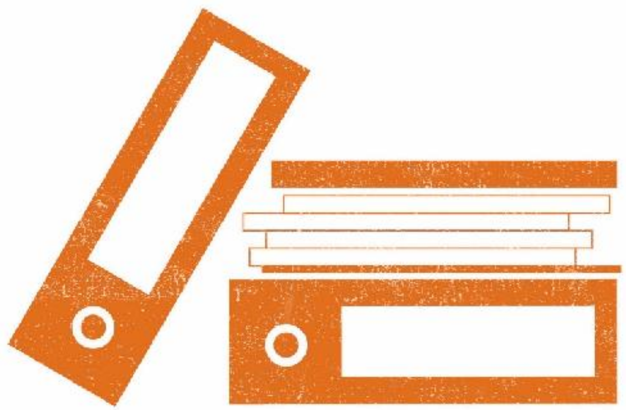
BEPS – key areas that might affect you

- Digital economies
- Permanent establishment definitions
- More CFC rules
- Hybrids and interest deduction limitations
- Substance reigns over form
- Developed transfer pricing rules
- Double tax treaties and multilateral treaties

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

BEPS – the business response

- Too much uncertainty and real change a long way off?
- Global business on an unlevel playing field – unilateral action risk
- SMEs at a disadvantage – lack of resources
- Good time to plan for the inevitable
- Prepare for life in a transparent tax world



© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

BEPS – ASEAN responses to date

- Singapore – all about "substance"
- Malaysia – thin capitalisation rules coming in 2018
- Indonesia – transfer pricing and tax amnesties
- Thailand – not a lot of action
- Vietnam – again, transfer pricing the focus
- Philippines – being very consultative!

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

Example – BEPS Action 4

- Limiting interest deductions
- What is interest – include payments of same economic substance
- Limit interest payments or debt levels?
- Fixed ratio solutions
  - Net interest to EBIT ratios
- Company group calculations
- Low threshold relief

© 2016 Grant Thornton Singapore Private Limited. All rights reserved.

© 2016 Grant Thornton Singapore Pte Ltd. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provides assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton Singapore Pte Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication.

grantthornton.sg