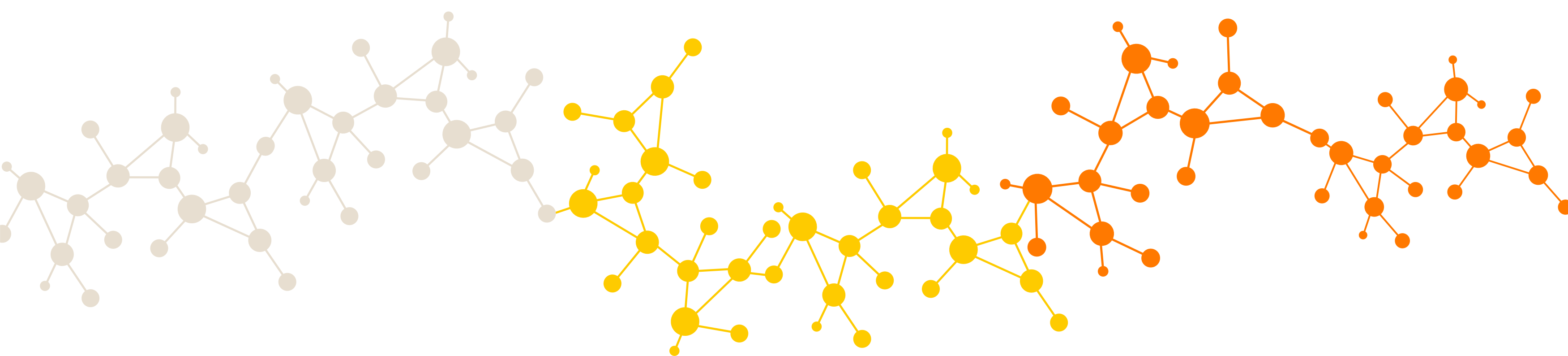
Grant Thornton
An instinct for growth™

Singapore Budget 2017
Our observations and analysis

February 2017



© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Lorraine Parkin

Head of Indirect Tax and Value Chain Services APAC

This was not a budget for generalists. Minister Heng gave us a "deep dive" budget delivering a specific set of short, medium and long term measures that remain true to the Government's three Budget principles of being simple, progressive and fiscally sustainable and gave support to certain sectors that have been performing weakly in the current global environment.

These are difficult times in an uncertain world with global changes occurring at a rapid pace. Global shifts create both opportunity and challenges. Minister Heng is seeking to position Singapore to remain strong and relevant in this changing environment. The key areas of focus in this Budget were around digitalisation, innovation and scaling up to take advantage of the opportunities generated globally.

"Adapt and Grow", an initiative launched last year by the Ministry of Manpower, encapsulates the objectives to excel in key areas on the global stage.

In his speech the Minister said that he needed to strengthen the revenue base in a pro-growth and sustainable manner. He made it clear that he needed to increase revenue to go for 2020 growth. He also made it clear that he would have to raise taxes or introduce new streams of revenue, indicating more than once that he is looking at the tax systems in other countries to study the options for Singapore.

You may be wondering why you have an indirect tax specialist writing this forward. Well, there were few substantive direct tax changes while, at the same time, the Minister alluded to potentially significant indirect tax changes on the horizon, hinting that this is where he may head to raise revenues.

He announced a number of "Green" measures, including a Carbon Tax on emissions that is likely to be modelled on Carbon Taxes elsewhere in the world. This may well herald more environmentally friendly taxes in the future such as Climate Change Levy, Air Passenger Duty and taxes on wastage.

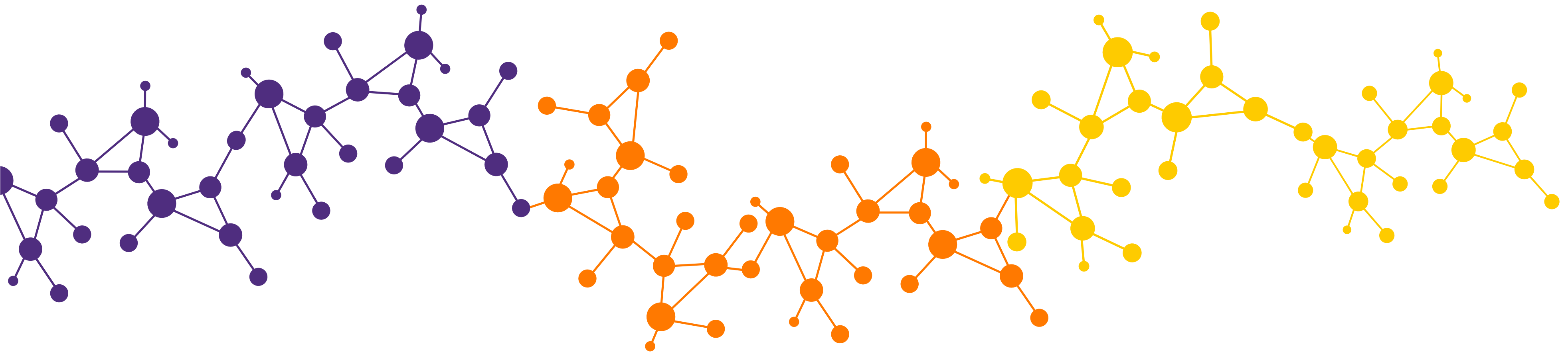
These are all indirect taxes, based on use and consumption, designed to raise social awareness and to change business and consumer behaviours.

As Governments seek to create and maintain competitive environments for business, there is a general shift from direct tax raising measures to direct tax incentives and indirect tax raising measures.

In this modern world of e-commerce the Minister also noted that countries have taken steps to adjust their GST systems. He announced that Singapore is looking at how it can do likewise and is studying options. Other countries have introduced a number of measures recently. For example, where a foreign supplier is selling goods and/or services to a local customer, other countries have introduced legislation to compel the foreign supplier to register for their GST or VAT system the moment they start to make supplies to the consumer, B2C supplies, in their territory.

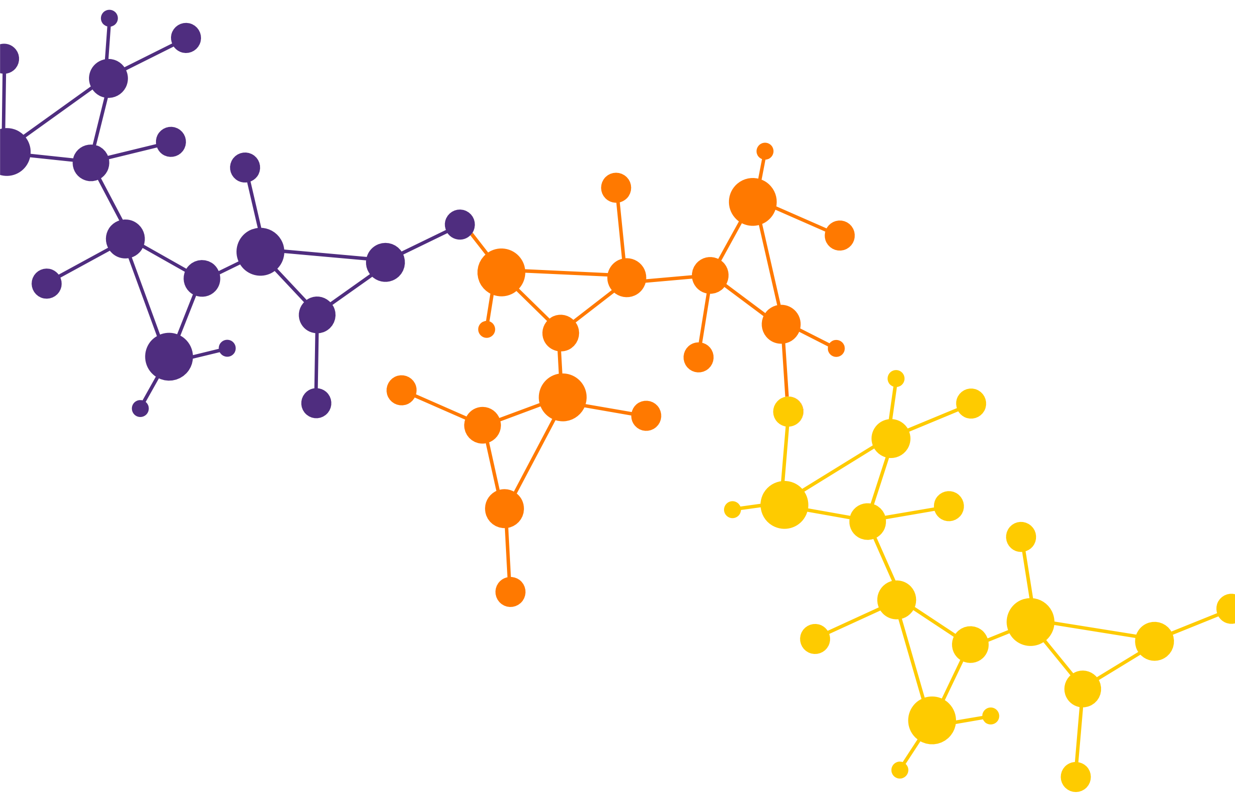
Business appreciates fiscal and regulatory certainty. One curious aspect of this 2017 Budget is that, unusually, a number of potential areas of change were mentioned but not elaborated upon. There were no details around the revenue raising options being considered and no time frames. However, with a low birth rate, rapidly aging population, decelerating GDP trend and increased costs for healthcare and infrastructure, it seems pretty clear that increased indirect taxes are on their way soon.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved



© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Contents



Section	Page
Corporate Income Tax • CIT rebate • Extension of WHT exemption for structured products by FIs • Extension of tax incentive schemes for project and infrastructure finance • IP regime • Refining the FTC scheme • Enhancing the GTP • Introducing a safe harbor rule for CSA payments • Extension of WHT exemption for IRU payments • Extending and refining the ALS • Extending and refining the IIA scheme	06
Personal Tax • PIT rebate for resident individuals	16
GST • Withdrawal of TRS for cruise terminals	17
Environmental Tax • Restructuring of diesel taxes and introduction of carbon tax	18
Lapses, Withdrawals and Refinements • Tax deduction for computer donation scheme • AADA-EEET Scheme • Accelerated WDA for acquisition of IPRs for MDE • IArb • ABP Scheme	19
Tax team leads	24
Glossary	25

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

CIT rebate

Current	Proposed
YA 2016 and YA 2017 All companies are granted a 50% CIT rebate capped at $20,000 per YA.	**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. The changes will be effective immediately.

Observations

It is not a surprise that the headline tax rate of 17% has remained unchanged. The increased cap in the tax rebate will help companies, only if they are in a tax payable position. Companies that are in a tax loss position will not benefit from the rebate.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Extension of WHT exemption for structured products offered by FIs

Current	Proposed
Under Section 13(1)(zj) of the ITA, any payments made to a non-resident by a FI in respect of the structured products offered during the period from 1st January 2007 to 31 March 2017 (both dates inclusive) are exempted from withholding tax.	The WHT tax exemption will be extended to 31 March 2021.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Extension of tax incentive schemes for project and infrastructure finance

Current	Proposed
The income derived from qualifying project and infrastructure finance currently enjoys an array of tax incentives. These include: a) the exemption of qualifying income earned by non-residents; b) the exemption of qualifying income from infrastructure projects or assets received by approved entities listed on the SGX; c) a concessionary tax rate of 10% for qualifying income derived by an approved Infrastructure Manager/Fund Management Company from managing SGX-listed Business Trusts or Infrastructure funds in relation to qualifying infrastructure projects/assets; and d) a remission of stamp duty payable on the transfer of qualifying infrastructure projects or assets to qualifying entities listed, or to be listed, on the SGX. The scheme is scheduled to lapse on 31 March 2017.	All aspects of the scheme will be extended to 31 December 2022, with the exception of the stamp duty remission which will be allowed to lapse on its due date. There are no changes to the conditions of the scheme and the MAS will release further details by May 2017.

Observations

The removal of the stamp duty exemption is disappointing, however, the extension of the other features of the schemes are welcome.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

IP regime

Current	Proposed
The Pioneer-Services/Headquarters Incentive and the Development and Expansion Incentive-Services/Headquarters provide tax rates ranging from 0% - 15% on the creation of qualifying IP. This includes income such as royalties from IP developed as a result of qualifying activities.	Income from IP developed from qualifying activities will no longer be dealt with under the existing incentives, but will be carved out and dealt with under the IDI. This is in order to align Singapore's approach with the BEPS modified nexus approach under Action 5, of the OECD BEPS Actions that Singapore signed up to last year. The intention of Action 5 is to pro-rate the incentivised IP income by reference to where the costs that created it were incurred; and to tax the balance at the normal rate. This means that the incentivised tax rates will only apply to that proportion of the total income that the expenditure which was incurred in Singapore bears to the total R&D expenditure that contributed to the creation of that IP globally. The IDI will take effect for applications approved on or after 1 July 2017, and will be administered by the EDB. Existing incentive recipients will continue to be covered by their current arrangements until 30 June 2021.

Observations

There is no indication at present as to what the applicable concessionary rates might be under the new regime, although it is likely that they will be set by reference to the level of spending and commitment in Singapore.

If set suitably low, this may encourage MNCs to divert their R&D activities to Singapore.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Refining the FTC scheme

Current	Proposed
The FTC scheme grants a concessionary rate of tax of 8% on qualifying income derived by approved FTCs. Qualifying services must be provided to the FTC's offices and associated companies outside Singapore, or, such of its offices and associated companies in Singapore as are approved on or after 18 February 2005. The initial period for the incentive is 10 years with potential extensions not exceeding 10 years at any one time.	The new proposals are to streamline the qualifying counterparties for certain transactions undertaken by the approved FTC in order to ease the compliance burden. The changes will apply to new or renewal applications for the incentive approved on or after 21 February 2017. EDB will release further details by May 2017.

Observations

It is not clear from the information received so far as to what these changes will imply. It could include automation of the approval process for associated offices and companies. However, which transactions the streamlining will apply to is not clear at this point.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Enhancing the GTP

Current	Proposed
The GTP grants a concessionary tax rate of 5% or 10% on qualifying income derived by approved global trading companies from qualifying transactions.	The GTP will be enhanced as follows: a) the requirement for qualifying transactions to be carried out with qualifying counterparties will be removed; b) the 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 use in Singapore; c) the concessionary tax rate will be granted to approved global trading companies on physical income attributable to storage in Singapore or any activity carried out in Singapore which adds value to the commodity by any physical alteration, addition or improvement (including refining, blending, processing or bulk-breaking); and d) the substantive requirements to qualify for the GTP will be increased. The enhancements in a) to c) will apply to qualifying income derived on or after 21 February 2017 by approved global trading companies from qualifying transactions. The enhancement in d) will apply to new or renewal incentive awards approved on or after 21 February 2017. IE Singapore will release further details of the change by May 2017.

Observations

Removing the counterparty restrictions will simplify the compliance requirements of the GTP company.

Including trading activities in Singapore as part of a GTP qualifying trade will increase the depth of the physical trading activities in Singapore.

Extending the GTP incentive to cover ancillary revenue such as storage and value-added activities will also increase the depth of trading activities in Singapore, as well as remove the need for valuing the value-add.

The above enhancement comes with an added "cost" – an increase in the substantive requirements to be met. Details on the added requirements will be announced in due course.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

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

Current	Proposed
Taxpayers claiming tax deductions for R&D expenditure under Section 14D of the ITA for payments made under a CSA are subject to specific restriction rules for certain categories of expenditure disallowed under Section 15 of the ITA. As such, the breakdown of the expenditure covered by the CSA payments is required so as to exclude the disallowed expenditure.	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. IRAS will release further details of the change by May 2017.

Observations

The change will ease the compliance burden of providing an analysis of the expenses to identify the non qualifying expenditure unless it is beneficial to the taxpayer to do so.

It is unclear if the option to claim tax deductions on 75% of the CSA payments can be made on a year by year basis or on a per CSA basis.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Extension of WHT exemption on payments for international telecommunications submarine cable capacity

Current	Proposed
Payments to non-residents for the use of international submarine cable capacity under the IRU agreements are subject to withholding tax under Section 12(7) of the ITA. However, WHT exemption had been granted to encourage telecommunications operators to provide international connectivity for payment made during the period from 28 February 2003 to 27 February 2018 (both dates inclusive).	The WHT exemption will be further extended by another five years, until 31 Dec 2023.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Extending and refining the ALS

Current	Proposed
Approved aircraft lessors that qualify under the ALS enjoy a concessionary tax rate of either 5% or 10% on the income they derive from the leasing of aircraft or aircraft engines, and on qualifying ancillary activities, depending on the size of their fleet. In addition, approved aircraft managers who manage the business of the approved aircraft lessor enjoy a concessionary tax rate on their fee income from managing those same qualifying activities. Qualifying ancillary activities include incidental income derived from the provision of finance to airline companies for the purpose of acquiring aircraft or aircraft engines. Finally, qualifying payments (e.g. interest) made by approved aircraft lessors to non-residents in respect of qualifying loans entered into on or before 31 March 2017 to finance the purchase of aircraft or aircraft engines are granted an automatic WHT exemption. The scheme is scheduled to lapse on 31 March 2017.	The ALS will be extended to 31 December 2022. The scope of qualifying ancillary activities will be extended, with effect from 21 February 2017, to cover incidental income from the provision of finance to any lessee rather than simply to airline companies. The concessionary tax rate of 5% or 10% has been replaced by a single rate of 8%. Finally, the automatic WHT exemption will be extended to qualifying payments made on qualifying loans entered into on or before 31 December 2022. The EDB will release further details of the change by May 2017.

Observations

It is debatable how much impact these changes will have on the aircraft leasing industry in Singapore.

One of the attractions of an aircraft leasing business is the availability of significant capital allowances which typically shelter the tax on the income for significant periods.

In addition, where the company has other businesses in Singapore taxed at the full corporate rate, the value of losses that could be transferred under the group relief provisions are proportionately diminished by a concessionary rate.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Extending and refining the IIA scheme

Current	Proposed
The IIA caters for a situation where qualifying productive equipment is placed with an overseas company for the sole purpose of manufacturing products for the Singapore based owner of the equipment. This was an allowance given in addition to normal capital allowances for the expenditure on the qualifying equipment.	The scheme, which was due to lapse on 28 February 2017, has been extended to 31 December 2022. In addition, the requirement that the equipment be solely used for the purpose of an approved project has been modified such that it is only now required for it to be "primarily" so used. The liberalisation in the qualifying requirement will apply to expenditure incurred on qualifying productive equipment acquired for a project approved on or after 21 February 2017. The EDB administers the scheme.

Observations

It is not clear what "primarily" means in this context or how it will be determined. Presumably this will be spelled out in a letter of approval.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

PIT rebate for resident individuals

Current	Proposed
There is no current PIT rebate.	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).

Observations

With a cap of $500, the personal income tax rebate targets the middle income taxpayer group. It will not materially reduce the effective tax rate of taxpayers who are in the higher income bracket.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Withdrawal of TRS for cruise terminals

Current	Proposed
TRS available for departure via air and cruise Eligible tourists may claim GST refunds on goods purchased in Singapore under the GST TRS when departing from Singapore. The refunds could be initiated by tourists when departing by air via Changi International Airport and Seletar Airport or departing by cruise via the Marina Bay Cruise Centre and the International Passenger Terminal at Harbourfront Centre - cruise terminals.	**TRS available for departure via air only** The GST TRS will be withdrawn for tourists departing by international cruise from the cruise terminals in relation to purchases made on or after 1 July 2017. Tourists departing by international cruise will have until 31 August 2017 to claim GST refunds on purchases made before 1 July 2017 as the TRS facilities at the cruise terminals will be removed after 31 August 2017. The withdrawal is due to very low volumes of GST TRS transactions initiated at the cruise terminals since inception on January 2013. The Government considers the impact on tourism to be minimal. Further details on the change will be released by IRAS by April 2017.

Observations

We agree that this measure is likely to have minimal impact on tourism.

The low volume of TRS transactions at the cruise terminals may be due to the cruises out of Singapore, being round trip cruises or "cruises to nowhere" and failing to meet the TRS conditions. In addition, many of the tourists on the cruises may be Singaporeans and, therefore, not entitled to the TRS.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Restructuring of diesel taxes and introduction of carbon tax

Current	Proposed
Lump sum based Special Tax Diesel cars and diesel-based taxis are currently levied a lump sum Special Tax regardless of the amount of diesel used. The Special Tax currently levied on diesel cars is dependent on the type of European or Japanese emission standards of the car and is calculated on a per cc basis of $0.20 for Euro V or JPN2009 compliant cars or $0.625 for Euro IV compliant cars. For pre-Euro IV compliant cars, the Special Tax is 6 times the amount of road tax paid. For diesel-based taxis, the Special Tax levied is $5,100 per year.	**Diesel duty based on usage** To incentivise users to reduce diesel consumption, a volume-based duty at $0.10 per litre on automotive diesel, industrial diesel and the diesel component in biodiesel will be introduced effective from 20 February 2017. The annual Special Tax will be permanently reduced for diesel cars and diesel-based taxis by $100 and $850 respectively.

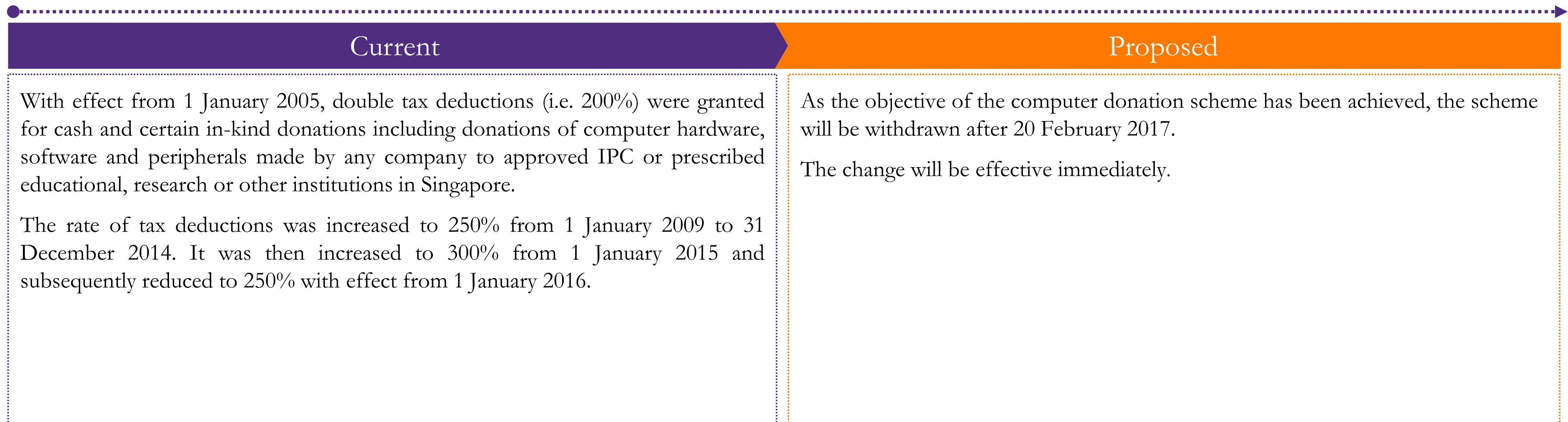
Observations

The proposed move to a diesel duty based on usage is in line with the Government's continued effort to improve further the air quality and safeguard public health. This is also consistent with NEA's effort to reduce emission of air pollutants such as fine particulate matter (PM2.5) and nitrogen oxides (NOx) emission from diesel vehicles.

In addition to the proposed diesel change, two other 'Green' measures were announced; a carbon tax where further detail is awaited, and a rise in water charges. These indicate a trend towards increasing indirect taxation to address global environmental issues.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

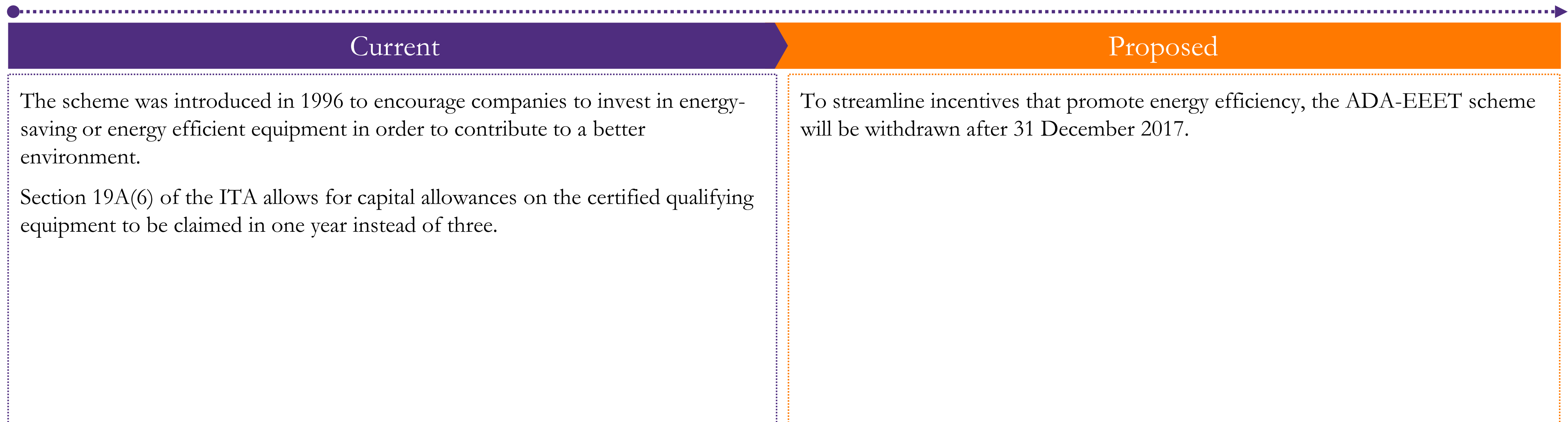
Withdrawal of tax deduction for computer donation scheme



Current	Proposed
With effect from 1 January 2005, double tax deductions (i.e. 200%) were granted for cash and certain in-kind donations including donations of computer hardware, software and peripherals made by any company to approved IPC or prescribed educational, research or other institutions in Singapore. The rate of tax deductions was increased to 250% from 1 January 2009 to 31 December 2014. It was then increased to 300% from 1 January 2015 and subsequently reduced to 250% with effect from 1 January 2016.	As the objective of the computer donation scheme has been achieved, the scheme will be withdrawn after 20 February 2017. The change will be effective immediately.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Withdrawal of the ADA-EEET



Current	Proposed
The scheme was introduced in 1996 to encourage companies to invest in energy-saving or energy efficient equipment in order to contribute to a better environment. Section 19A(6) of the ITA allows for capital allowances on the certified qualifying equipment to be claimed in one year instead of three.	To streamline incentives that promote energy efficiency, the ADA-EEET scheme will be withdrawn after 31 December 2017.

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Withdrawal of accelerated WDA for acquisition of IPRs for MDE

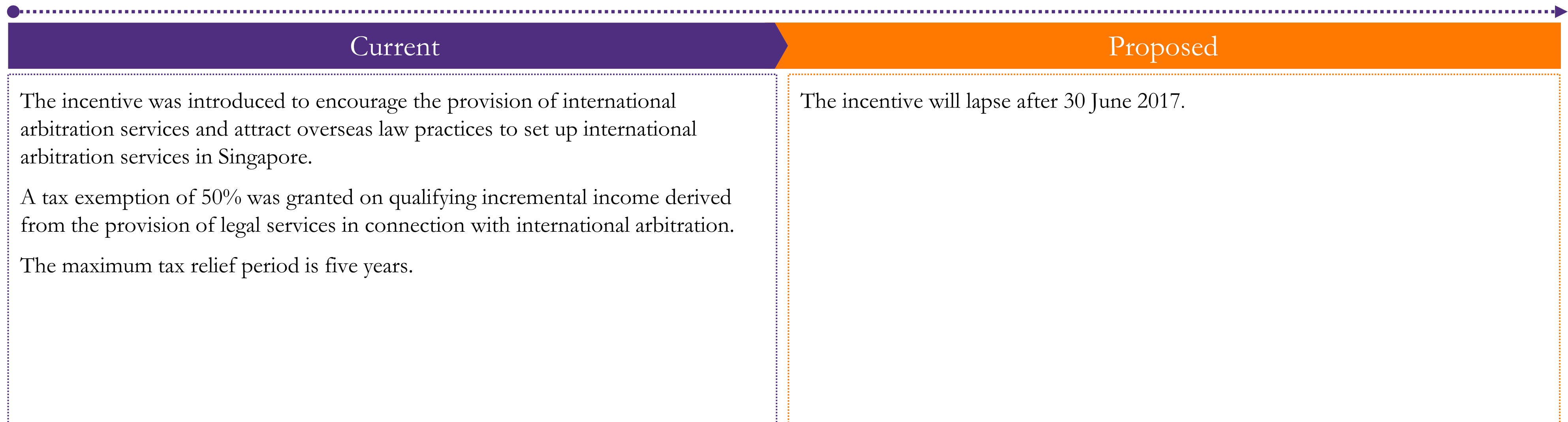
Current	Proposed
The WDA allowed under of Section 19B of the ITA applies to capital expenditure incurred by a company from 1 November 2003 to the last day of the basis period for YA 2020 (i.e. FY 31 December 2019) in acquiring IPRs for use in its trade or business. Approved IPRs acquired from 22 January 2009 on capital expenditure incurred on MDE content such as films, television programmes, digital animations or games or other media and digital entertainment contents are granted an accelerated WDA over two years. With effect from YA 2017, taxpayers are allowed the flexibility to choose their WDA period over a 5, 10 or 15-year period (on a straight line basis). This is an irrevocable election made by the taxpayer.	The accelerated WDA for the MDE content scheme is scheduled to lapse on the last day of the basis period for YA 2018 (i.e. 31 December 2017). Thereafter, taxpayers may elect to claim WDA over a writing-down period of 5, 10 or 15 years on capital expenditure on qualifying IPRs under Section 19B of the ITA. The change will be effective from YA 2019.

Observations

The change will simplify the Section 19B claim. It, however, has removed the option for taxpayers to make accelerated WDA claims on MDE expenditure.

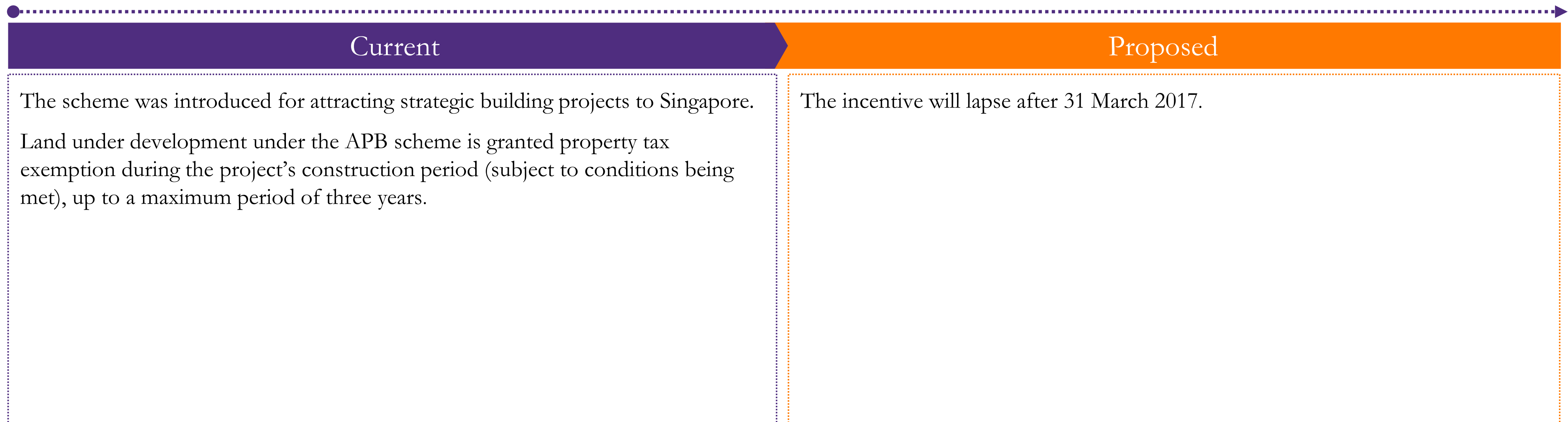
© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Lapsing of the IArb



© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Lapsing of the ABP scheme



© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Tax team leads

Peter Godber

Partner
Head of Tax
E peter.godber@sg.gt.com

Lorraine Parkin

Partner
Head of Indirect Tax and Value Chain Services APAC
E lorraine.parkin@sg.gt.com

David Sandison

Senior Consultant
Tax Services
E david.sandison@sg.gt.com

Eng Min Lor

Director
Tax Services
E engmin.lor@sg.gt.com

Adrian Sham

Assoicate Director
Global Mobility
E adrian.sham@sg.gt.com

Nicole Baxter

Manager
Indirect Tax and Value Chain Services APAC
E nicole.baxter@sg.gt.com

Shareen Tan

Senior Manager
Indirect Tax
E shareen.tan@sg.gt.com

Rachel Yeo

Senior Manager
International Tax
E rachel.yeo@sg.gt.com

Join us for our Budget seminar

1:30pm – 5:00pm, Wednesday 8 March
Carlton Hotel
Empress 5, Level 2
76 Bras Basah Road, 189558

© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Glossary

ADA-EEET – Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology Scheme

ALS – Aircraft Leasing Scheme

ABP – Approved Building Project

B2C – Business to Consumer

BEPS – Base Erosion Profit Shifting

CIT – Corporate Income Tax

CSA – Cost Sharing Agreement

EDB – Economic Development Board

FI – Financial Institutions

FTC – Finance and Treasury Centre

FY – Financial year

GST – Goods and Services Tax

GTP – Global Trader Programme

IArb – International Arbitration Tax Incentive

IDI – IP Development Incentive

IE Singapore – International Enterprise Singapore

IIA – Integrated Investment Allowance

IP – Intellectual Property

IPR – Intellectual Property Right

IPC – Institution of Public Character

IRAS – Inland Revenue Authority of Singapore

IRU – Indefeasible Rights of Use

ITA – Income Tax Act

MAS – Monetary Authority of Singapore

MDE – Media and Digital Entertainment

MNCs – Multi-National Corporations

NEA – National Environment Agency

OECD – Organisation for Economic Cooperation and Development

PIT - Personal income tax

QPDS – Qualifying Project Debt Securities

R&D – Research and Development

SGX – Singapore Exchange

TRS – Tourist Refund Scheme

VAT – Value Added Tax

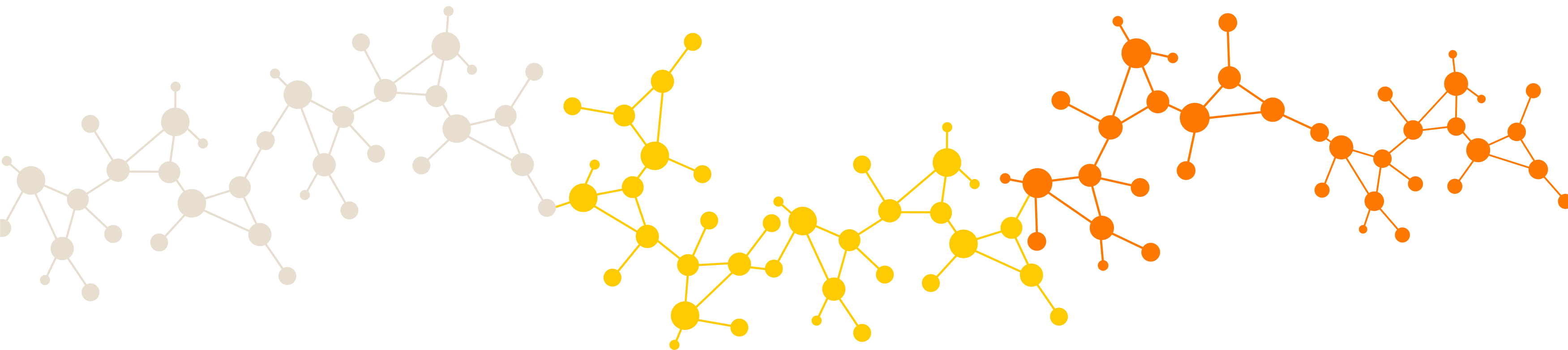
WDA – Writing down allowance

WHT – Withholding tax

YA(s) – Year(s) of Assessment

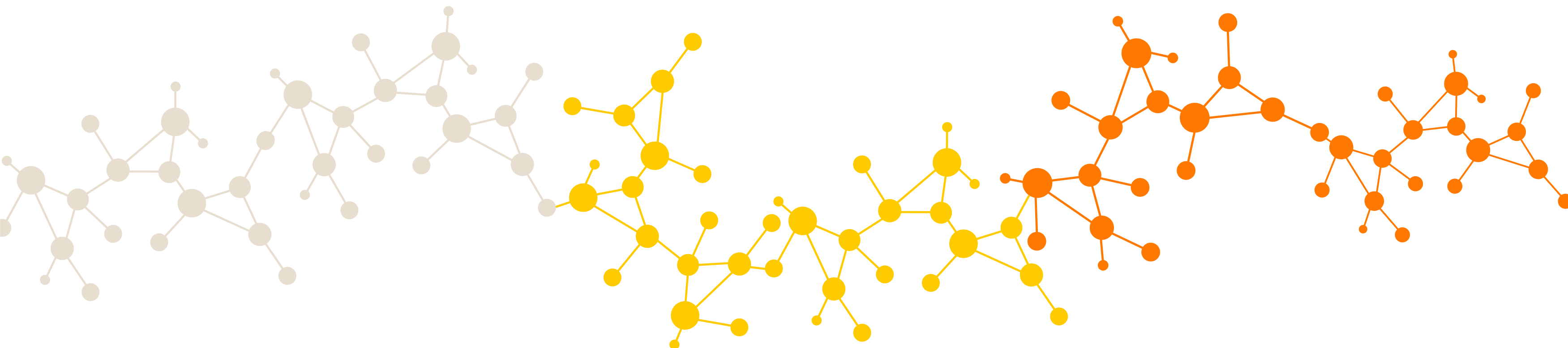
© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Notes



© 2017 Grant Thornton Singapore Private Limited. All rights reserved

Notes



© 2017 Grant Thornton Singapore Private Limited. All rights reserved

© 2017 Grant Thornton Singapore Private Limited. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide 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 presentation is made by Grant Thornton Singapore Pte. Ltd. All information in this presentation is strictly for guidance and cannot be relied on as advice.

grantthornton.sg