Final

Singapore Budget 2018

Members' Wish List

CONTENTS

SICC Budget Wish-List 2018

Singapore's Overall Tax Regime

Taxation affecting Businesses			
(A) Making Singapore's Taxation Regime More Business Friendly			
No.	**Tax Issues**	**Comments**	**Proposed Recommendations**
1	Concessionary withholding tax rate on aircraft lease payments to non-residents of 2%	• The 2% withholding tax is borne by the Singapore based airline making the lease payment which represents a cost to the Singapore based airline rather than the lessor. • Most aircraft lessors now lease to Singapore from Ireland which provides for NIL withholding tax on lease rental payments. • The Reciprocal Tax Exemption on Shipping and Aircraft Income agreement with the US could be relied on by Singapore lessors if the 2% withholding tax is removed. At present, Singapore based aircraft and aircraft engine lessors cannot lease to US airlines without suffering 30% withholding tax on lease payments. As such, the significant US market is effectively closed to them.	To encourage the growth of aircraft operations in Singapore: ▪ we request for an exemption from withholding tax on all aircraft charter payments similar to charter payments for vessels which have not been subject to tax since 2012 ▪ we also request for the withholding tax exemption to be extended to aircraft engine charter payments. These are unique assets that airlines lease independently.
2	Amendment to Section 50(10) of ITA	• Pursuant to section 50(9) of ITA, foreign tax credit (FTC) must be claimed within 2 years from the end of the relevant year of assessment.	To achieve an equitable overall tax position, and for the ease of administration, we hope the law can be amended such that section 50(10) can be claimed even if there is no claim under section 50(9).

		• Pursuant to section 50(10) of the ITA, where there is an adjustment of tax payable (in Singapore or elsewhere), subsequent to making a claim under section 50(9), additional / amended assessments (to reduce or to claim additional FTC) can be made. • The opening words in section 50(10) of ITA "**<u>Where the amount of any credit given under the arrangements</u>** is rendered excessive or insufficient by reason of any adjustment …." indicates that technically, section 50(10) can only apply if FTC has been made under section 50(9). • There may be cases where FTC was not claimed under section 50(9) but, after the lapse of 2 years, an adjustment of the tax payable was made by the CIT or foreign tax authority. Hence, taxpayers cannot apply section 50(10) following the adjustments as no claim has been made under section 50(9).	
3	To accord trusts the same reliefs and exemptions that are currently available only to companies.	Currently, trust income is subject to final tax at the trustee level where: - The income of the trust is derived from a trade or business carried on by the trustee; or - The beneficiaries are not entitled to the trust income.	To provide businesses more flexibility in choosing the investment vehicle that best serves their overall commercial needs, we propose to accord trusts (which are not under the tax transparency treatment), the following reliefs and exemptions that are presently available to companies, e.g.

		The tax rate to be levied on a trustee is the prevailing corporate tax rate and the trustee is not entitled to the partial tax exemption available to companies. The trust entity is also not allowed group relief loss transfer.	- partial tax exemption - stamp duty relief for restructuring - group relief loss transfer
4	Upfront fees for spectrum capacity	As Singapore advances its smart nation initiatives a key result is the proliferation of smart solutions and mobile applications. More and more users are accessing such applications via mobile devices. This, in turn, drives increasing demand for faster and more efficient connectivity. Facility based telecommunications operators (“Telcos”) need to maintain and upgrade their infrastructure to meet this demand. Such investments in infrastructure include payments to the regulators for spectrum capacity, which currently include substantial lump sum amounts that have to be paid upfront. Such upfront fees paid to the regulators for spectrum capacity are regarded as capital payments but, unlike capital investment in tangible fixed assets to produce income, do not qualify for tax depreciation or capital allowances (“CA”). Tax policy has been used to influence behaviour towards desirable social and economic goals; and should complement the government’s smart nation push by ensuring that investments in the underlying infrastructure to enable the smart nation initiatives qualifies for CA. This will align with	It is proposed that Rule 2(3) of the Income Tax (Automation Equipment) Rules re” data communications and network equipment” be amended to include upfront fees for spectrum capacity necessary for the operation of data communications and networking equipment.

		Singapore's vision to improve ICT infrastructure and build strong digital and innovative capabilities for Singapore's future economy.	
5	Medical expenses	Tax deduction for medical expenses is capped at either 1% or 2% of total employee remuneration accrued for the year, depending on whether a qualifying portable medical benefits scheme has been adopted by the company. With a rapidly aging population and increasing medical costs, the above deduction cap should be reviewed to ensure that companies are not penalized for providing better medical coverage for employees. In line with government policy to encourage the employment of older workers, tax policy should be aligned to support companies and to encourage them to provide better medical coverage for employees.	It is proposed to review the current cap for deduction of medical expenses from 1% or 2% to 2% or 4% respectively.
6	Enhance loss carry back relief	The loss carry-back regime was introduced in Budget 2005. Briefly, taxpayers may carry-back current year qualifying losses to be set-off against assessable income of the immediate preceding YA. The cap on qualifying losses eligible for carry-back is $100,000. This cap has remained unchanged for over a decade except for brief enhancements during YA 2010 and YA 2011.	As economic cycles are becoming more volatile, the loss-carry back regime should be permanently enhanced by increasing the quantum eligible for carry-back from S$100,000 to S$300,000. Businesses should also be allowed to carry-back losses against their preceding three years of taxable income.

(B)	**Enhancing Singapore's R&D Taxation Regime to Encourage More R&D Activities**		
No.	**Tax Issues**	**Comments**	**Proposed Recommendations**
1	Enhance existing R&D tax incentives	With the PIC scheme expiring at the end of 2017, the enhanced deduction for incurring qualifying expenditure on R&D would be reduced from 300% to 50% (albeit without a cap, under 14DA). This may hinder the general development of Singapore's R&D capabilities and innovative culture given that Singapore continues to push for the Smart Nation Initiative.	The amount of tax deduction should be increased from the current 50% to 150% to encourage more R&D activities. Other jurisdictions' tax incentives are listed below for comparison purposes: ***Malaysia*** <u>Super-deduction (includes base deduction of 100%)</u> YA16 to YA18: no pre-approval required for double deduction for in-house R&D project expenditure of up to MYR50,000 each YA. <u>Tax holiday</u> 70-100% income tax exemption for 5 to 10 years on eligible R&D income by qualifying taxpayers ***Philippines*** <u>Tax holiday</u> Registered companies undertaking IT R&D activities may apply for an income tax holiday. ***Thailand*** <u>Super-deduction (includes base deduction of 100%)</u> Base 100% + 100% (from Feb 2016) + 100% (till Dec 2019) – R&D service

			provider must be authorized, R&D service recipient must have project certified, operates on a self-assessment basis. <u>Tax holiday</u> Companies may apply for exemption of CIT for 8 years. ***Australia*** <u>Tax credits</u> Refundable tax credit (dollar benefit per $ of qualifying R&D spend) of 15% (43.5% credit less 28.5% forgone) or non-refundable tax credit or 8.5% (38.5% credit less 30% deduction forgone), depending on annual turnover of company, capped at A$100m per year.
(C)	**Business Costs and How to Contain Them**		
No.	**Tax Issues**	**Comments**	**Proposed Recommendations**
1	Corporate Income Tax	Singapore's existing corporate income tax rate of 17% is deemed competitive by global standards. In addition, the global trend for most countries currently is either maintaining or lowering corporate tax rates.	To maintain the current corporate income tax rate of 17% and not raise it.

Review of Existing Taxes and Incentives			
(D) Review of Existing Tax Incentives			
No.	**Tax Issues**	**Comments**	**Proposed Recommendations**
1	Enhanced-Tier Fund (ETF) Tax Incentive Scheme	Under the ETF Scheme, "specified income" derived in respect of "designated investments" is exempted from taxation in Singapore, subject to the fulfillment of certain prescribed conditions. Currently, domestic loans provided by a qualifying fund (e.g. Section 13X, 13CA and 13R of the ITA) to its Singapore intermediate holding companies does not fall within the existing list of "designated investment" prescribed by MAS. This is notwithstanding that the loan would ultimately be used by the Singapore intermediate companies to fund overseas investments. Hence, the interest income arising from the domestic loan would be subject to the standard corporate tax rate at 17% instead of being tax exempt which is the case if the qualifying fund extends interest-bearing loans directly to overseas companies.	Businesses generally prefer the use of interest-bearing or quasi-equity loans vis-à-vis equity as they are more flexible and allow ease of repayment of loans to meet other investment financing needs. The use of Singapore intermediate companies allows businesses to organize their business structure for planning and reporting efficiency, ring-fencing of legal & business risk and, also, allows the flexibility/options to exit an investment at a preferred regulated jurisdiction negotiated by the buyer and seller. If businesses are able to demonstrate that the domestic loan provided by the qualifying fund is intended for the funding of overseas investments, members would appreciate MOF's consideration in allowing such domestic loans to qualify as a form of "designated investment" and the interest income arising from the provision of domestic interest-bearing loans to such Singapore intermediate companies (which would then use these loans to fund overseas investments) be exempt from Singapore income tax.
2	Land Intensification Allowance (LIA)	Based on EDB's guidelines, the LIA incentive is targeted to promote the intensification of industrial land use towards "more land-efficient and high value activities" and caters	To further promote Singapore as an IT hub with sophisticated infrastructure, we recommend the extension of the LIA incentive to the technology, infocomm

		for selected industry clusters primarily involved in manufacturing. The iN2015 report stated that "Growing Storage and Capacity and Sophistication" is a key focus area for Singapore to support the future needs for content owners, IT and Infocomm service providers. IT services such as cloud services, cyber security and other related specified services are typically regarded as high value activities that require sophisticated storage, technology and strict security.	and digital media industry and data centres. This would complement Singapore's Smart Nation drive efforts.
3	Double deduction on internationalization	1. Section 14KA(1)(a) requires that salary expenditure for its employees posted to an overseas establishment be incurred by the Singapore firm or company. We understand that the objective of this incentive scheme is to provide support to businesses looking to expand overseas through deploying their Singaporean employees abroad. These overseas postings are usually done by way of secondment to the overseas establishment, in order to avoid creating an overseas permanent establishment ("PE") exposure for the Singapore firm or company. There are also immigration, personal tax and other considerations which warrant a secondment arrangement. This gives rise to the following issues:	1. The following changes are recommended to increase the take up rate for the incentive: a. Instead of requiring that the salary expenditure be incurred for the Singapore firm's or company's employee, the criterion to be met should be that the individual must be an employee of the firm or company prior to secondment. Alternatively, a bond requiring the individual to return to work for the Singapore firm or company could be implemented. As the salary cost is no longer borne by the Singapore firm or company, double deduction should be accorded to costs

		a. For the duration of the overseas posting, the employee will cease to be an employee of the Singapore firm or company. b. As part of the secondment arrangement, the employee's salary would typically be borne (wholly or partially) by the overseas establishment, although the Singapore firm or company may assist in processing the payment. 2. Section 14KA(18) defines "salary expenditure" to be any expenditure comprising wages and salary for the employee, but excluding any bonus, commission, gratuity, leave pay, perquisite, allowance, or any other prescribed payment (whether in cash or kind). 3. Section 14KA uses the term "country outside Singapore".	incurred in relation to the secondment that are borne by the Singapore firm or company. e.g. relocation allowance or tax equalization. b. It should be clarified if the double deduction is available in the following scenarios: • where the employee's salary expenditure which is borne by the overseas establishment (which may or may not claim a deduction for the expenditure) and recharged to the Singapore firm or company with a mark-up for transfer pricing reasons. • where the overseas establishment does not charge a service fee, but is taxed on a deemed service fee (i.e. a mark-up on the salary expenditure) under domestic tax rules. The expression "territory outside Singapore" should be adopted instead of "country outside Singapore" wherever the latter is used in section 14KA, to be consistent with section 50A.
(E)	**Other countries' tax incentives which might be contextualized for Singapore**		
No.	**Tax Issues**	**Comments**	**Proposed Recommendations**

1	Training costs	Singapore businesses should be incentivized to train and upskill their existing employees.	As the Productivity and Innovation Credit (PIC) scheme expires after the Year of Assessment 2018, the government could consider granting a double deduction for training costs.
Trade and Taxation			
(F) Cross border issues			
No.	**Tax Issues**	**Comments**	**Proposed Recommendations**
1	Tax concessions to help companies "go digital" that are tied to growth	There are hefty costs involved for a company to move into a digital environment. With the impending expiry of the PIC scheme, companies, including start-up enterprises that have yet to benefit from the scheme, will incur expenditure for hardware infrastructure, labour costs of digitizing data, information migration and staff training. Targeted reliefs (e.g. enhanced deductions or capital allowances) would encourage SMEs and those sectors lagging in investments in automation to alleviate the investment cost of "going digital".	To safeguard revenue, the scheme could be tied to actual revenue growth of the claimant. For example, companies which invest in digital technology and are able to demonstrate revenue growth for the year could be given enhanced capital allowances/ deductions.
General Tax Regimes			
(G) GST			
No.	**Tax Issues**	**Comments**	**Proposed Recommendations**
1	A holding company is usually used for listing purposes. As holding companies generally do not make any GST taxable supplies and derive only dividend income, they are not eligible to	The inability to register for GST results in significant amounts of irrecoverable GST on listing expenses and on-going listing maintenance costs.	To promote more IPOs in Singapore, we propose that such holding companies which are listed on SGX be granted similar GST remission currently granted to SREITs which are listed on SGX.

	register for GST even on a voluntary basis.		We would propose that qualifying investment holdcos are allowed to recover 88% amount of their input tax via a periodic statement of claim. The rate is pegged to the annual fixed recovery rate enjoyed by qualifying funds managed by a prescribed fund manager in Singapore, without the fund having to register for GST.
2	The current ACAP regime with its clearly understood benefits and procedures is set to expire in March 2019	The uncertainty over what, if anything, will replace the current ACAP regime is causing some clients to delay going into ACAP. Alternatively, some clients may prefer to go into ACAP sooner if the benefits are lesser in the post March 2019 regime	We request IRAS to consider issuing details of what will be in place for ACAP post March 2019 to provide certainty for clients and advisors.
3	GST registration	The First Schedule to the Goods and Services Tax Act (GST Act) states that a person will not have a GST registration liability under paragraph 1(1)(a) if the Comptroller is satisfied that his/her taxable supplies in the next four quarters will not exceed $1 million. There are situations where a company may, through a significant contract win, make supplies in one year that exceed $1 million but, thereafter, do not make further taxable supplies or make supplies that do not exceed $1 million. The company will be liable to register for GST under para 1(1)(b) [instead of para 1(1)(a)], which states, "…if there are reasonable grounds for believing that the	We would recommend changing the rules so that a person that is liable for GST registration under section 1(1)(b) of the First Schedule to the GST Act should be given an option not to register if he believes that the supplies that exceed $1 million is an one-off event that will not be repeated in the subsequent 12 months.

		total value of his taxable supplies… will exceed $1 million”. Had the company been liable for registration under para 1(1)(a), it would not have to register for GST pursuant to para 1(3). However, as it is liable for GST registration under para 1(1)(b), technically, it would have to register for GST first and then apply to be de-registered from GST thereafter.	
4	Simplified tax invoice for GST	It is time to take into account the inflation factor since IRAS introduced the rule that GST on entertainment expenses relating to food and drink may be claimed based on a simplified tax invoice regardless of the value.	Our recommendation is to increase the dollar value from $1,000 to $2,500 to allow more transactions to come within the requirement for a simplified tax invoice to be issued.
5	Extending GST concession to non-share trades on overseas exchanges	When a broker buys or sells shares on an overseas exchange on behalf of its client, it incurs transaction charges such as brokerage fees charged by the overseas broker and overseas clearing fees. The broker will recover these charges from its client. Applying the normal GST rules, the broker would be required to charge 7% GST on the recovery of the overseas charges from Singapore clients, which would mean increased GST costs to the clients as well as additional GST reporting requirements for the brokers. As such, an administrative concession was granted via a remission in 1996 following industry feedback. To summarize, the concession allows the GST-registered broker to treat the recovery of	We recommend the concession be extended to the recovery of transaction charges relating to other securities traded on overseas exchanges by an amendment to the GST legislation to be treated as neither a supply of goods or services.

		the overseas transaction charges on share trades on overseas exchanges as outside the scope of Singapore GST (subject to conditions). The broker is not required to charge GST on the amounts recovered from its client on the basis that the broker is treated as an agent in receiving the relevant services from the overseas service providers. Apart from brokers, the concession is also applicable to banks and fund managers when they trade on behalf of their clients. The concession presently applies only to share trades (i.e. equity securities). As there are also other securities such as debt securities and derivatives that are traded on overseas exchanges, we recommend that the concession be extended to the recovery of transaction charges relating to other securities traded on overseas exchanges.	
6	Allow GST to be recovered on the acquisition of shares	The issue is that IRAS treats the GST incurred on expenses that are in connection with the acquisition of shares as directly attributable to a future exempt sale of shares and the GST is hence not recoverable as input tax. In the case of an M&A deal, the GST incurred on the professional fees will be substantial if local advisors are used for the deal. Based on the current rules, such GST will be irrecoverable unless the business is certain and able to substantiate that the shares will	We would recommend treating GST incurred on expenses that are in connection with the acquisition of shares as residual input tax instead of directly attributable to an exempt sale of shares.

		be sold to a person belonging outside Singapore or via an overseas exchange. We think it is technically more correct to treat the GST incurred on expenses that are in connection with the acquisition of shares as residual input tax instead of directly attributable to an exempt sale of shares. This is because the actual supply has not happened yet and, hence, the supply can be either a zero-rated or exempt supply. Moreover, the allowance for the recovery of GST will be in line with the government's initiative to promote the expansion of Singapore enterprises (including through M&A activities) and help reduce the GST costs of local businesses. A change in the GST position is more in line with the government's economic policy and income tax incentive. Specifically, the M&A scheme was introduced in 2010 and there were further enhancements thereafter with 2016 being most recent. On the other hand, the GST position clarified in the e-tax guide "GST Guide on Attribution of Input Tax" first published on 30 May 2014 has meant that GST claims would be restricted for M&A related expenses. Looking to the Fund Management industry as an example, there are a number of income tax incentives. Changes were also subsequently introduced on the GST front to complement the	

		government's policies to simulate growth of the industry.	
(H)	**Personal Income Tax**		
No.	**Tax Issues**	**Proposed Recommendations**	**Proposed Recommendations**
1	Foreign Maid Levy (FML) Relief	Currently, FML Relief is given to encourage married women to stay in the workforce. Married women and divorcees/widows with school-going children may claim relief for foreign domestic worker levy paid in the previous year. Singles and married men are not eligible for this relief.	Members propose that MOF consider extending FML Relief to all children (regardless of their marital status and gender) who employ foreign domestic workers. The foreign domestic workers would be able to assist with the care of their parents/parents-in-law so that they are able to stay in the workforce and have greater peace of mind knowing that, while they are at work, someone is at home looking after their parents. The FML Relief would help defray the overall costs associated with elderly care.