ONE FACE ACROSS ASEAN

SINGAPORE BUDGET 2018

THEME

TOGETHER, A BETTER FUTURE

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A Vibrant and Innovative Economy

For Business - Corporate Income Tax (CIT) rebate

To ease business costs & support restructuring

Current Position	Proposed Change
➢ **YA 2018 – CIT rebate at 20% of tax payable, capped at $10,000**	➢ **YA 2018 –** CIT rebate at 40% of tax payable, cap raised to $15,000 ➢ **YA 2019 – CIT rebate at 20% of tax payable, capped at $10,000**

Start-Up Tax Exemption (SUTE) Scheme

To strengthen support for firms to build capabilities

Current Treatment	Proposed Change
➢ A new company can qualify for the following in the first 3 YAs (subject to conditions) ▪ 100% exemption on the first $100,000 of normal chargeable income ▪ 50% exemption on the next $200,000 of normal chargeable income	▪ 75% exemption on the first $100,000 of normal chargeable income ▪ 50% exemption on the next $100,000 of normal chargeable income ▪ Take effect on or after YA 2020

Partial Tax Exemption (PTE) Scheme

broad-based scheme

Current Treatment	Proposed Change
➢ All companies (except those qualifying for SUTE Scheme) can qualify for the PTE Scheme as follows: ▪ 75% exemption on the first $10,000 of normal chargeable income ▪ 50% exemption on the next $290,000 of normal chargeable income	▪ 75% exemption on the first $10,000 of normal chargeable income ▪ 50% exemption on the next $190,000 of normal chargeable income ▪ Take effect on or after YA 2020

Research and Development (R& D) Deduction

Support business to build their own innovations

Current Treatment	Proposed Change
➢ Businesses that have incurred qualifying expenditure on qualifying R & D projects **performed in Singapore** can claim ▪ 150% tax deduction for staff costs and consumables incurred ▪ 100% tax deduction for other qualifying expenditure	▪ 250% tax deduction for staff costs and consumables incurred on qualifying R & D projects **performed in Singapore** ▪ Take effect from YA 2019 to YA 2025

Tax Deduction for Intellectual Property (IP) Related Costs

To encourage businesses, in particular smaller ones, to register and protect their IPs

Current Treatment	Proposed Change
➢ 100% tax deduction on qualifying IP registration cost The scheme is scheduled to lapse after YA 2020	▪ Scheme extended to YA 2025 ▪ 200% tax deduction for the first $100,000 of qualifying IP registration costs incurred for each YA ▪ Take effect from YA 2019 to YA 2025

Tax Deduction for Intellectual Property (IP) Related Costs

To support businesses to in-license new solutions

Current Treatment	Proposed Change
➢ 100% tax deduction on qualifying IP in-licensing costs	▪ 200% tax deduction for the first $100,000 of qualifying IP-licensing costs incurred for each YA ▪ Include payments made to a qualifying person to publicly funded research performers or other businesses but exclude related party licensing payments, or payments for IP where any allowances were previously ▪ Take effect from YA 2019 to YA 2025

Double Tax Deduction for Internationalisation (DTD) Scheme

To further encourage Singapore business to expand overseas

Current Treatment	Proposed Change
➢ 200% tax deduction available on qualifying expansion and investment development expenses, subject to approval from IE Singapore or Singapore Tourism Board (STB) ➢ No prior approval required for qualifying expense of up to $100,000 in respect of: 1. overseas business development trips/missions 2. overseas investment study trips/missions 3. participation in overseas trade fairs/missions 4. participation in approved local trade fairs	▪ Expenditure cap of $100,000 will be increased to $150,000 per YA for claims without prior approval from IE Singapore or STB ▪ Qualifying expenses exceeding $150,000, or on expenses incurred on other qualifying activities will be subject to approval IE Singapore or STB ▪ Take effect from YA 2019 to YA 2025

A Caring and Cohesive Society

Tax Deduction for Donations

to continue to encourage philanthropy and giving back to community

Current Treatment	Proposed Change
➢ 250% tax deduction available on qualifying donations made to the Institutions of a Public Character (IPCS) and other qualifying recipients from 1 January 2016 to 31 December 2016	▪ 250% tax deduction extended to 31 December 2021

Business IPC Partnership Scheme (BIPS)

Current Treatment	Proposed Change
➢ 250% tax deduction on qualifying expenditure such as wages incurred by businesses for sending qualifying employees to volunteer and/or provide services to IPCs (including under secondment arrangements) ➢ Subject to cap S$250,000 per business and S$50,000 per IPC per YA ➢ Applicable from 1 July 2016 to 31 December 2018	➢ 250% tax deduction extended to 31 December 2021 ➢ MOF and IRAS are currently reviewing the administrative processes for BIPS and will release further details in the second half of 2018

A Smart, Green and Liveable City

Carbon Tax

to enhance support for companies to improve energy efficiency

- First announced in Budget 2017
- Signals a change in Singapore's business landscape – companies need to account for additional costs arising from environmental externalities
- Imposed on all facilities producing 25,000 tonnes or more of greenhouse gas emissions in a year.
- Carbon tax of $5 per tonne of greenhouse gas emissions from 2019 to 2023.
- Targeted tax rate of between $10 to $15 per tonne of greenhouse gas emission by 2030.
- $1 billion is expected to be collected in carbon tax revenues in the first five years, and the Government is prepared to spend more this amount to support emissions abatement projects.

Other Sectors

Shipping and Marine Sectors

Infrastructure Sector

WITHHOLDING TAX

Exemption on Container Lease Payments

Current Treatment	Proposed Change
Withholding tax exemption is available: ➢ On lease payments made to non-resident lessors (excluding permanent establishments in Singapore) for the use of qualifying containers for the carriage of goods by sea. ➢ The exemption was first introduced on 19 January 1979	Periodically reviewed, a review date of 31 December 2022.

FOREIGN WORKERS' LEVY

Current Treatment	Proposed Change
➢ In Budget 2017, it was announced that the increase in Foreign Workers' Levy rates for the Marine Shipyard and Process sectors would be deferred to 30 June 2018	➢ As announced in Budget 2018, the increase levy rates for Marine Shipyard and Process Sectors will be deferred for another year

INVESTMENT ALLOWANCE (IA) for Submarine

strengthen Singapore's position as a leading digital connectivity hub

Current Treatment	Proposed Change
➢ Capital expenditure in submarine cable systems currently does not qualify for IA	➢ IA to be extended to productive equipment to capital expenditure incurred on newly-constructed strategic submarine cable systems landing in Singapore ➢ The submarine cable systems can be used outside Singapore and can be leased out under indefeasible rights of use arrangements ➢ To change take effect for capital expenditure incurred between 20 February 2018 and 31 December 2023, inclusive of both dates.

Addressing Infrastructure Demand - Infrastructure Office

Current Treatment	Proposed Change
➢ Asian infrastructure markets are booming at the moment and there is a need to connect infrastructure demand in Asia to infrastructure financing, services and expertise in the region (e.g. China Belt and Road Initiative, and Asia-Africa Growth Corridor)	• Set up Infrastructure Office in Singapore ➢ Provide a centralized platform for eco-system of infrastructure players (i.e. investors, infrastructure developers and multi-lateral agencies)and offers holistic solutions and help Singapore capitalize on the huge regional infrastructure opportunities. • Borrowing by government agencies (e.g. NEA. LTA and CAAS) ➢ Fund huge infrastructure projects by way of public issuance bonds in capital markets to equitably spread costs of heavy investments over future years ➢ Help encourage the creation of a vibrant domestic bond market supported by credible statutory boards issuances for critical long term, large infrastructure projects

Financial and Insurance Sectors

WITHHOLDING TAX EXEMPTIONS

FOR FINANCIAL SECTOR

Current treatment	Proposed Changes
➢ Interest payments made by Singapore tax residents/permanent establishments to non-Singapore tax residents are subject to15% withholding tax. However, there is a range of withholding tax exemptions for the financial sector applicable to different financial institutions for different types of financial transactions	➢ Exemptions have been proposed to: - Set a review date of 31 December 2022 for certain payments; - Legislate the exemptions for certain payments (and setting a review date of 31 December 2022); and - Withdraw the exemption for certain payments ➢ Please refer to the details of changes in the next page

WITHHOLDING TAX

Exemptions to be reviewed on 31 December 2022

Existing Exemptions	**Exemptions to be legislated**
➢ Payments made under cross currency swap transactions made by Singapore swap counterparties to issuers of Singapore dollar debt securities. ➢ Payments made under interest rate or currency swap transactions by financial institutions ➢ Payments made under interest rate or currency swap transactions by MAS ➢ Specified payments ma31 de under securities lending or repurchase agreements by specified institutions ➢ If the exemptions are not extended come 31 December 2022, they will cease to apply on payments liable to be made under agreements entered into on or after 1 January 2023 ➢ For payments liable to be made under agreements entered into on or before 31 December 2022, the exemption shall continue after 31 December 2022	➢ Interest on margin deposits paid by members of approved exchanges for transactions in futures ➢ Interest on margin deposits paid by members of approved exchanges for spot foreign exchange transactions (other than those involving Singapore dollar) ➢ Effective for payments made under agreements entered into on or after 20 February 2018

WITHHOLDING TAX (WHT)

Exemptions to be withdrawn

- Interest from approved Asian Dollar Bonds
- Payments made under over-the-counter financial derivative transactions by companies with FSI-Derivatives Market awards that were approved on or before 19 May 2007
- Effective for payments made under agreements entered into or after 1 January 2019

SINGAPORE VARIABLE CAPITAL CONSUMERS ("S-VACCS")

Develop and strengthen Singapore fund management and domiciliation hub

Current Treatment	Proposed Change
• S-VACC is a new regulatory framework designed for collective investment scheme which was announced in 2016 • In March 2017, MAS published the first consultation paper on proposed framework for S-VACC but no tax considerations were discussed	• An S-VACC will be treated as a company and a single entity for tax purposes • Tax exemption under Sections 13R and 13X of the Income Tax Act will be extended to S-VACs; • FSI-FM 10% concessionary tax rate extended to fund managers of incentivised S-VACCs • The existing GST remission for fund will be extended to incentivised S-VACCs. • MAS will release details of tax framework by October 2018

Enhanced Tier Fund Scheme (Section 13X)

Current Treatment	Proposed Change
• Eligible fund vehicles are catered only to companies, trusts and limited partnerships	• Tax exemption under Enhanced-Tier Scheme will be extended to all funds vehicles constituted in all firms if they meet all qualifying conditions. • Applicable to all new awards approved on or before 20 February 2018 • All other conditions of the scheme remain the same

Singapore-listed Real Estate Investment Trusts Exchange-Traded Funds ("REITs EFTs")

Current Treatment	Proposed Change
• Distributions made by S-REITs out of specified income to REITs ETFs are subject to 17% tax in the hands of REITs ETFs • Investors of REITs ETFs will not be taxed on distributions from such income from REITs ETFs	• To ensure parity in tax treatments between investing in individual S-REIT and via REITs ETF with investments in S-REITs: - Tax transparency treatment on S-REIT distributions received by REITs ETFs - Tax exemption on such REITs EFTs distributions received by individuals, excluding individuals who derive any distribution: 1. through a partnership in Singapore; or 2. from the carrying on of a trade, business or profession; and 3. 10% concessionary rate on such REITs, ETFs distributions received by qualifying non-individuals • With take effect on or after 1 July 2018 • Review date of 31March 2020 • MAS and IRAS will release further details by March 2018 • Application for tax treatment on or after 1 April 2018

Financial and Sector Incentive ("FSI") Scheme

current Treatment	Proposed Change
• 5%/10%/12% concessionary tax rates on income from: - Qualifying banking and financial activities - Qualifying headquarters and corporate services - Qualifying fund management and investment advisory services • Scheduled to lapse after 31 December 2018 • Trading in loans and their related collaterals, excluding immovable property, is a qualifying activity accorded concessionary tax rate of 13.5%	• FSI scheme to be extended till 31 December 2023 • The scope of trading in loans and their related collaterals is expanded to include collaterals that are prescribed infrastructure assets or projects • For new and renewal awards approved on after 1 June 2017, the change will apply to income derived on or 1 January 2019

Insurance Business Development – Insurance Broking Business ("IBD-IBB") Insurance Business Development – Specialised Insurance Broking Business ("IBD-SIBB") schemes

Current Treatment	Proposed Change
• For approved insurance and reinsurance brokers, • **IBD-IBB** grants a concessionary tax rate of 10% on commission and fee income derived from insurance broking and advisory services • **IBD-SIBB** grants a concessionary tax rate of 5% on commission and fee income from specialty insurance broking activities Both schemes scheduled to lapse after 31 March 2018	• IBD-IBB scheme will be extended till 31 December 2023 • IBD-SIBB scheme will lapse after 31 March 2018 • Specialty insurance broking and advisory services will be incentivized under the IBD-IBB scheme and enjoy 10% concessionary tax rate

Impairment and loss allowances of non-credit impaired financial instruments

Current Treatment	Proposed Change
• Under Section 14I of the Income Tax Act, banks and qualifying finance companies can claim tax deduction for: - impairment losses on non-credit-impaired loans and debt securities made under FRS 109, and - any additional loss allowances as required under MAS Notices 612, 811 and 1005, subject to a cap • Scheduled to lapse after: - YA 2019 (for December FYE); or - YA 2020 (for non-December FYE)	• Tax deduction under Section 14I will be extended till: • YA 2024 (for banks and qualifying finance companies with December FYE) or • YA 2025 (for non-December FYE)

Approved Special Purpose Vehicle (ASPV) Scheme

Current Treatment	Proposed Change
➢ ASPV scheme grants the following tax concessions: - Tax exemption on income from approved asset securitization transactions - 76% GST recovery rate on qualifying business expenses; - Withholding tax exemption on payments to qualifying non-residents on OTC financial derivates; and - Remission of stamp duty on transfer of assets to the ASPV ➢ Scheduled to lapse after 31 December 2018	➢ ASPV scheme to be extended till 31 December 2023 ➢ Exception: Stamp duty remission to lapse after 31 December 2018

Qualifying Debt Securities (“QDs”) and Qualifying Debt securities Plus (“QDS”) incentive schemes

Current Treatment	Proposed Change
• **QDS scheme** a. 10% concessionary tax rate for qualifying companies and bodies of persons in Singapore b. Tax exemption for qualifying non-residents and qualifying individuals • **QDS + scheme** Tax exemption for qualifying income derived from QDs that are: a. Debt securities (excluding Singapore Government Securities) with an original maturity of at least 10 years; and b. Islamic debt securities or sukuk • Scheduled to lapse after 31 December 2018	• QDS scheme will be extended till 31 December 2023 • QDS + scheme will be allowed to lapse after 31 December 2018 • Debt securities with tenure beyond 10 years, and Islamic debt securities issued after 31 December 2018 can still enjoy tax concession under the QDS scheme if the conditions of the QDS scheme are satisfied • On or before 31 December 2018 can continue to enjoy the tax concessions under the QDS + scheme if the conditions of the QDS + scheme are satisfied

Income Derived by Primary Dealers from Trading in Singapore Government Securities (SGS)

Current Treatment	Proposed Change
• Tax exemption is granted on income derived by primary dealers from trading in SGS • Scheduled to lapse after 31 December 2018	• Tax exemption to be extended till 31 December 2023

Wage Credit Scheme

Current Treatment	Proposed Change
➢ Government's co-funding of 20% wage increases under the Wage Credit Scheme was due to expire in 2018 (in respect of 2017 wages)	➢ Extended for three more years (i.e. 2018 -2020) ➢ Co-funding of 20%, 15% and 10% of qualifying wage increases * 2018, 2019 and 2020 respectively, subject to conditions • Gross monthly wage increases at least $50 given to Singaporean employees in the qualifying year, up to a gross monthly wage level of $4,000, will receive co-funding • In addition, gross monthly wage increases of at least $50 given in 2017,2018 and 2019, and sustained in subsequent years of the scheme, continue to be co-funded at the respective levels of co-funding

Goods and Services Tax

GOODS AND SERVICES TAX (GST) RATE HIKE

Current Treatment	Proposed Change
• GST rate 7%	• GST rate to be increased to 9% • Sometime between 2021 to 2025 • Indicated to be "earlier rather than later in the period" • Businesses have at least a three-year lead to prepare for the rate hike • The Government will absorb GST on publicly-subsidized education and healthcare, the pemanent GST voucher scheme will be enhanced, and an offset package will be in place to help the population adjust.

GST ON IMPORTED SERVICES

Current Treatment	Proposed Change
• Services bought from overseas vendors are not subject to GST • No requirement for overseas vendors to register for GST	• GST on imported services on or after 1 January 2020 • **Business-to-Business(B2B) imported services will be taxed via a reverse charge mechanism.** - Only applicable for business that: • make exempt supplies • do not make any taxable supplies Local business customer to account for GST to IRAS on the services it imports and in turn claim the GST accounted for as tis input tax, subject to the GST input tax recovery rules. • **Business- to-Consumer (B2C) imported digital services take effect through an Overseas Vendor Registration(OVR)** - Compulsory GST registration for overseas suppliers/electronic marketplace if ▪ Annual global turnover >S$1m ▪ Digital services sales to Singapore >S$100k

Real Estate Sector

Real Estate Sector Buyer's Stamp Duty(BSD) on Residential Property

Current Treatment

- Purchase of properties are currently subject to BSD rates of between 1% to 3%

- Rates:
  - !% for First $180,000
  - 2% for Next $180,000
  - 3% for amount exceeding $360,000

Proposed Change

- With effect from 20 February 2018
  Buyer's stamp duty

Purchase price/ Market value (whichever is higher)	Residential (New*)	Non-Residential
First $180,0000	1%	1%
Next $180,0000	2%	2%
Next $640,000	3%	3%
Exceeding $1,000.000	4%	4%

CONTACT US

ONE FACE ACROSS ASEAN

ADDRESS

1 Raffles Place #17-02

One Raffles Place

Singapore 048616

GENERAL CONTACT

T: +65 62260080

E: info@rtasean.com

KEY CONTACTS

Josephine Lim

Tax Director

E: josephinelim@rtasean.com

D: +65 66038222

Ravi Arumugam

CEO & Managing Partner

E: ravi@rtasean.com

M: +65 98360900