

# **WELCOME TO BUDGET SEMINAR 2002**



INLAND REVENUE  
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# OVERVIEW OF TAX CHANGES

## Income Tax Changes for Companies:

- Reduction in company tax rate
- Replacement of current imputation system with one-tier corporate tax system
- Unlimited flow-through of dividends paid out of tax exempt concessionary income
- Introduction of group relief system



# OVERVIEW OF TAX CHANGES

Income Tax Changes for Companies (continued):

– Enhancement of the following incentives:

- Development & Expansion Incentive
- Incentive for R&D expenses
- Approved International Shipping Enterprise (AISE) scheme
- Fund Management Incentives
- Incentives to promote Treasury Industry
- Incentives to promote Equity Capital Market
- Approved Trustee Companies (ATC) incentive



# OVERVIEW OF TAX CHANGES

## Income Tax Changes for Companies (continued):

- Tax deduction for special reserve (offshore insurance)
- Umbrella tax incentive scheme for Financial Sector



# OVERVIEW OF TAX CHANGES

## Income Tax Changes for Individuals:

- Revision of individual income tax rate structure
- Increase in relief for maintenance of handicapped parents
- Increase in relief for NSmen, their parents and their wives
- Allowing divorcees to claim STR/FTR
- Withdrawal of Double Child Relief



# OVERVIEW OF TAX CHANGES

## Income Tax Changes for Individuals (continued):

- Withdrawal of Tax Remission on allowances paid to Members of Parliament (MPs)
- New tax treatment of Employee Stock Options and other forms of Employee Share Ownership plans
- Taxation of non-resident (NR) professionals
- Taxation of non-resident (NR) arbitrators
- Introduction of Not Ordinarily Resident (NOR) Taxpayer Scheme



# OVERVIEW OF TAX CHANGES

## Income Tax Changes for Businesses, Individuals and Bodies of Persons:

- Extension of scope of unilateral tax credit under section 50A of the Income Tax Act
- Extension of 10% concessional rate of tax to interest derived by bodies of persons from qualifying debt securities (QDS)
- Granting double tax deduction for donations to approved recipients



# OVERVIEW OF TAX CHANGES

Income Tax Changes for Businesses,  
Individuals and Bodies of Persons (continued):

- Granting single tax deduction for donations with naming opportunities to approved recipients
- Allowing the carry forward of unutilized tax deduction for donations to approved recipients
- Extending approved IPC status to qualifying private foundations



# OVERVIEW OF TAX CHANGES

## Other Tax Changes:

- Estate duty exemption for donation not provided in the Will
- Estate duty exemption for movable assets of non-domiciles in Singapore
- Increase in GST rate



# OVERVIEW OF PRESENTATION

## Part 1

Income Tax Changes for Companies

## Part 2

- \* Income Tax Changes for Individuals
- \* Income Tax Changes for Businesses, Individuals and Bodies of Persons
- \* Other Tax Changes



# **Income Tax Changes for Companies**



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# REDUCTION IN COMPANY TAX RATE

## Current Position

- **24.5% effective from YA 2002**

## Tax Change

- **22% effective from YA 2003**

## Objective of Tax Change

- **To maintain Singapore's tax competitiveness**



# REDUCTION IN COMPANY TAX RATE

## Consequential Tax Changes:

- Reduction of rate to 22%
- Franking dividends paid on or after 1.1.2002
- S46 credit to be granted for TDS from dividends paid on or after 1.1.2002
- Trustees and Executors (YA 2003)
- Non-resident persons (YA 2003)
- Withholding tax for payments due and payable to NR on or after 1.1.2002 (other than those subject to 15% final withholding tax)



# ONE-TIER CORPORATE TAX SYSTEM

Full details have been released on

15 August 2002

on

IRAS website (<http://www.iras.gov.sg>)



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# UNLIMITED FLOW-THROUGH OF DIVIDENDS PAID OUT OF CONCESSIONARY INCOME

Current position:

- Certain tax exempt dividends paid out of tax exempt concessionary income have restriction of unlimited flow-through

Tax change (wef 1 Jan 2003):

- Companies that remain on the imputation system during the 5-year transition period are allowed to flow exempt dividends paid out of tax exempt concessionary income to all tiers of shareholders without restriction



# UNLIMITED FLOW-THROUGH OF DIVIDENDS PAID OUT OF CONCESSIONARY INCOME

## Reasons for Tax Change:

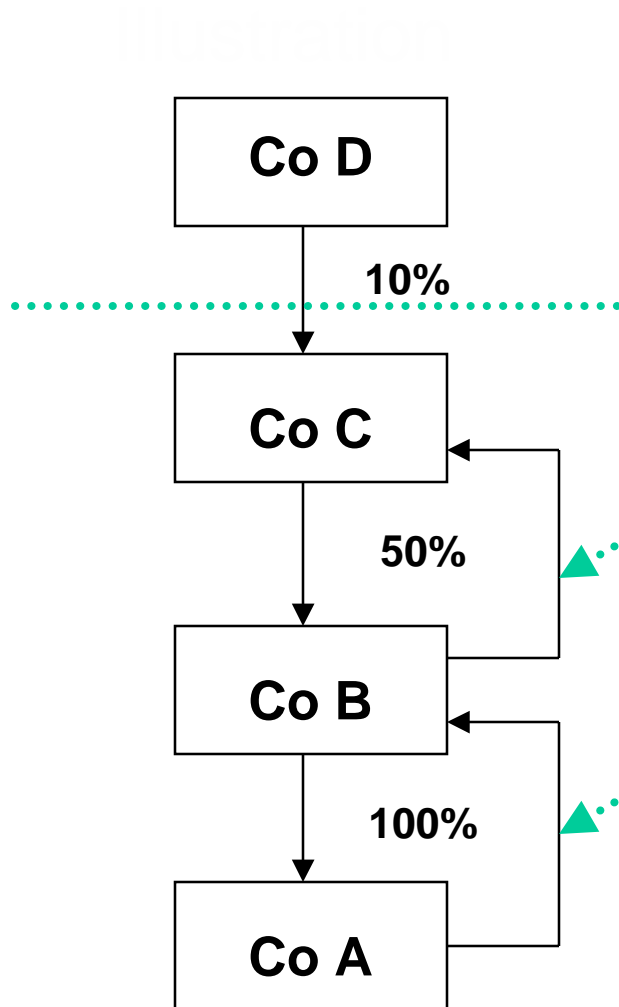
- Result of the Government's review of the current policy on restriction of unlimited flow-through of exempt dividends paid out of tax exempt concessionary income
- Consequence of the introduction of the one-tier corporate tax system

## Effect of Tax Change:

- Accord uniform tax treatment of exempt dividends paid out of tax exempt concessionary income, regardless of whether such exempt dividends are paid by companies on the imputation system or on the one-tier corporate tax system



# UNLIMITED FLOW-THROUGH OF DIVIDENDS PAID OUT OF CONCESSIONARY INCOME



## Co. A – YA 2002

Concessionary income  
(S43F – AOT income) \$10,000

Tax at 10% \$ 1,000

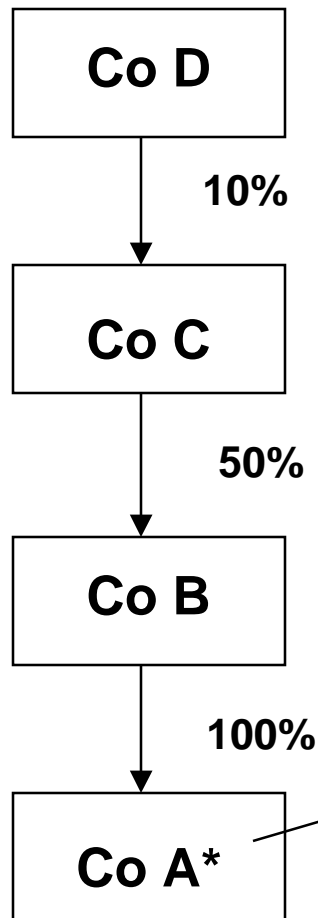
Tax exempt concessionary income  
= \$10,000 - \$1,000 = \$9,000

⇒ Can be used to pay tax exempt dividend to Co. B, which in turn can be flowed up to Co. C only

⇒ Reason: Current law allows flow through up to only 2 tiers, with requirement of at least 50% shareholding



# UNLIMITED FLOW-THROUGH OF DIVIDENDS PAID OUT OF CONCESSIONARY INCOME



Co. A – ~~YA 2002~~ – YA 2004

Concessionary income  
(S43F – AOT income) \$10,000

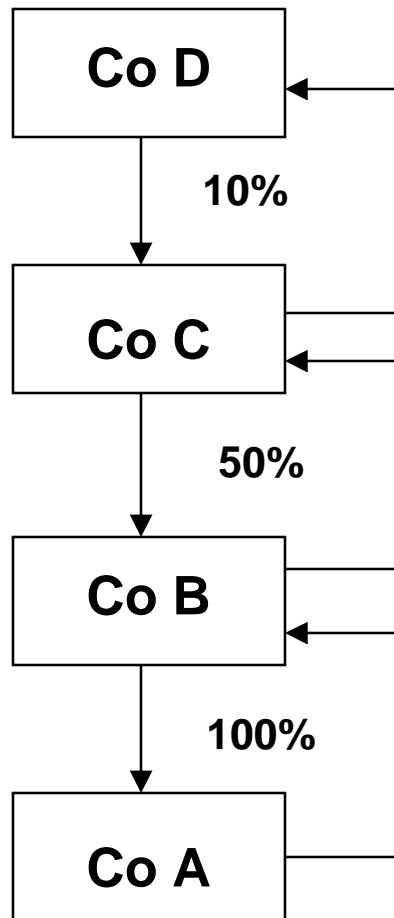
Tax at 10% \$ 1,000

Tax exempt concessionary income  
= \$10,000 - \$1,000 = \$9,000

\*Remain on the tax imputation system during the 5-year transition period



# UNLIMITED FLOW-THROUGH OF DIVIDENDS PAID OUT OF CONCESSIONARY INCOME



Co. A – ~~YA 2002~~ – YA 2004

Concessionary income  
(S43F – AOT income) \$10,000

Tax at 10% \$ 1,000

Tax exempt concessionary income  
= \$10,000 - \$1,000 = \$9,000

⇒ Can be used to pay tax exempt dividend to Co. B, which in turn can be flowed up to Co. D (and beyond, if appl.)

⇒ Reason: Tax change allow Cos remaining on imputation syst. to flow exempt div. paid out of concessionary inc. to all tiers of shareholders without restriction

# GROUP RELIEF SYSTEM

Full details have been released on  
23 October 2002

on

IRAS website (<http://www.iras.gov.sg>)



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# ENHANCEMENT OF DEVELOPMENT & EXPANSION INCENTIVE (DEI)

## Current position:

- Approved companies enjoy a concessionary rate of tax of not less than 10%
- Only income from specific qualifying activities above a pre-determined base enjoy tax concession



# ENHANCEMENT OF DEVELOPMENT & EXPANSION INCENTIVE (DEI)

## Tax change:

- Concessionary rate of tax be reduced to not less than 5%
- Income from all qualifying activities above a pre-determined base enjoy tax concession
- Change applicable to new applications approved on or after 3 May 2002



# **ENHANCEMENT OF DEVELOPMENT & EXPANSION INCENTIVE (DEI)**

## **Objective of Tax Change:**

- **Give EDB flexibility to attract business activities to Singapore by customizing and designing innovative packages for investor companies**

## **Enquiry may be made to EDB:**

- **68 326 790 or 68 326 881**



# ENHANCEMENT OF INCENTIVE FOR R&D EXPENDITURE

Current position:

- Section 14D(1)(b) allows single tax deduction
  - Any person carrying on a manufacturing trade/business, or trade/business for the provision of any specified services
  - Incur expenditure on R&D activities outsourced to approved R&D organization
- Section 14E(1)(c) allows double tax deduction
  - Any person carrying on a trade/business for the provision of any specified services
  - Incur expenditure on approved R&D project
- Specified services are defined under S14D(3)



# ENHANCEMENT OF INCENTIVE FOR R&D EXPENDITURE

Tax change (wef YA 2003):

- Remove the specified services requirement under sections 14D & 14E
  - Tax deduction is extended to any person carrying on a trade or business for the provision of any service



# ENHANCEMENT OF INCENTIVE FOR R&D EXPENDITURE

Tax change (wef YA 2003) – continued:

- Remove requirement that only expenses for R&D activities outsourced to approved R&D organization can qualify for tax deduction stipulated under S14D
  - Tax deduction is extended to R&D outsourced to an overseas R&D organization on condition that ownership rights of any intellectual property created belong to business entity in Singapore which incurs the expenditure



# ENHANCEMENT OF INCENTIVE FOR R&D EXPENDITURE

- To encourage Singapore-based companies to tap on R&D capabilities globally to upgrade their operations in Singapore
  
- EDB will release by 2 Jun 2002



# ENHANCEMENT OF APPROVED INTERNATIONAL SHIPPING ENTERPRISE (AISE) SCHEME

Current position:

- Tax exemption for a period of up to 10 years
  - Income derived from operation or charter of non-Singapore flag vessels outside Singapore
  - Dividends from approved overseas subsidiaries and associated shipping companies paid out of shipping profits
- To qualify for AISE status, Co must satisfy certain qualifying criteria



# ENHANCEMENT OF APPROVED INTERNATIONAL SHIPPING ENTERPRISE (AISE) SCHEME

Tax change:

- With effect from YA 2003, expansion of scheme to cover income derived from the operation or charter (other than within the limits of the port of Singapore) of:
  - Towage vessels
  - Salvage ships
  - Dredgers
  - Seismic vessels
  - Semi-submersible oil rigs



# ENHANCEMENT OF APPROVED INTERNATIONAL SHIPPING ENTERPRISE (AISE) SCHEME

Tax change – continued:

– Streamline qualifying criteria:

- Manpower requirement for operators of FPSO/FSO is lifted with effect from YA 2003
- Requirement to register at least 10% of a company's fleet under the Singapore flag is lifted with effect from 3 May 2002



# ENHANCEMENT OF APPROVED INTERNATIONAL SHIPPING ENTERPRISE (AISE) SCHEME

## Objectives of Tax Change:

- To exploit new opportunities in the whole arena of shipping
- To build diversity within our maritime cluster
- To help ship operators expand their operations in Singapore



# FINANCIAL SECTOR INCENTIVES - OVERVIEW

Tax Change (wef YA 2003):

- Enhancement of Existing Incentives
  - Fund Management Incentives
  - Incentives To Promote Treasury Industry
  - Incentives To Promote Equity Capital Market
  - Approved Trustee Companies Incentive
  
- Tax Deduction for special reserves (Offshore Insurance)

Tax Change (wef YA 2004):

- Umbrella Tax Incentive Scheme for Financial Sector



# FUND MANAGEMENT INCENTIVES

## Current Position:

**Approved Fund  
Managers (AFM)**

- **Fee income: 10%**
- **Fee income exempt for specified period if foreign funds under management are substantial**

**Approved Boutique  
Fund Managers (ABFM)**

- **Fee income: 24.5%**

**Managing funds for**

**Foreign Investors**

- **Income from designated investments managed by both AFM and ABFM are tax exempt.**



# FUND MANAGEMENT INCENTIVES

NEW Position:



**Managing funds for non-resident investors**

- **Revised qualifying criteria including commitment to growth plans**
- **Fee income: 10%**
- **Incentive period of 5 years, with extension for further 5-year period**



# FUND MANAGEMENT INCENTIVES

## Income of Foreign Investors from designated investments

- Funds managed by ALL fund managers in Singapore who hold an Investment Advisor's Licence or are exempted from holding such a licence
- Accruing on or after 3 May 2002 will be tax exempt
- List of designated investments under the new AFM scheme is extended to cover certain S\$ denominated hedging instruments



# FUND MANAGEMENT INCENTIVES

Tax Change (continued):

## Objective

- To accord greater certainty to foreign investors
- To attract more foreign funds to be located and managed in Singapore

## Administering Agencies

- MAS
- More details, including transitional provisions for existing AFMs/ABFMs will be released by MAS by 2 Jul 2002.



# FINANCIAL SECTOR INCENTIVES - OVERVIEW

Tax Change (wef YA 2003):

- Enhancement of Existing Incentives
  - ~~Fund Management Incentives~~
  - Incentives To Promote Treasury Industry
  - ~~Incentives To Promote Equity Capital Market~~
  - Approved Trustee Companies Incentive
  
- Tax Deduction for special reserves (Offshore Insurance)

Tax Change (wef YA 2004):

- Umbrella Tax Incentive Scheme for Financial Sector



# TREASURY INDUSTRY INCENTIVES

## PART I

Activity	Entity	Period
Trading/providing services as an intermediary in respect of transactions in non-S\$ denominated derivatives with specified counterparties	ACUs - 10%	YA 2001 to 2005
	Extended to ASC – 10%	YA 2003 to 2005

### Objective of Tax Change

- To promote the growth of the financial derivatives market



# TREASURY INDUSTRY INCENTIVES

## PART II

- Approved Derivatives Trader Scheme for approved ACUs or ASCs
- Substantial commitments in the treasury value-added chain, e.g. expertise in originating, structuring and trading of financial derivatives.
- Scheme provides for:
  - (a) concessionary rate of 5% on income from trading/providing services as intermediary for transactions in non-S\$ over-the-counter (OTC) financial derivatives with qualifying counter-parties
  - (b) withholding tax exemption on non-S\$ OTC financial derivative payments made to non-residents



# TREASURY INDUSTRY INCENTIVES

## PART II (continued)

- ✓ **Scheme will run from 20 May 2002 to 19 May 2007**
- ✓ **Companies will enjoy incentive for a 5-year period effective from date of approval**

## Objective of Tax Change

- **To further bolster Singapore's position as Asia's Treasury hub outside Japan by attracting players to base their product specialists and structurers here.**



# TREASURY INDUSTRY INCENTIVES

## Administering Agency

- **MAS – further details are available in MAS circular released on 17 May 2002 on MAS website [www.mas.gov.sg](http://www.mas.gov.sg).**



# FINANCIAL SECTOR INCENTIVES - OVERVIEW

## Tax Change (wef YA 2003)

- Enhancement of Existing Incentives
  - Fund Management Incentives
  - Incentives To Promote Treasury Industry
  - Incentives To Promote Equity Capital Market
  - Approved Trustee Companies Incentive
- Tax Deduction for special reserves (Offshore Insurance)

## Tax Change (wef YA 2004)

- Umbrella Tax Incentive Scheme for Financial Sector



# **EQUITY CAPITAL MARKET INCENTIVES**

**Overview - Three broad changes:**

- **PART I : Provision of advisory services relating to financial matters**
- **PART II: Extension of existing concessions to promote listing of securities on SGX and encourage transactions in such securities**
- **PART III: Revamp of existing incentive for top 20 SGX corporate futures members**



# **EQUITY CAPITAL MARKET INCENTIVES (Part I)**

## **Current Position:**








- **ACUs enjoy a concessionary tax rate of 10% on income from provision of advisory services relating to financial matters to persons outside Singapore.**

## **Tax Change:**

- **Extend existing concession to Approved Securities Companies (ASCs) providing advisory services relating to financial matters e.g. on corporate finance, to persons outside Singapore**
- **Applicable from YA 2003 to YA 2007**








# EQUITY CAPITAL MARKET INCENTIVES (Part I)

Type of Activity	Existing Incentive ACU/ASC	Existing Incentive ACU/ASC	Latest Change ACU/ASC
<b>Arranging, Managing, underwriting and placement of foreign currency securities</b>	<b>Concessionary tax rate of 10% (as long as entity is an ACU/ASC)</b>	<b>Tax exemption if relating to IPO of shares on SGX ( YA 1998-2002)</b>	<b>Concessionary rate of 5% (YA 2003 to 2007)</b>
<b>(i) Securites listed in foreign currency</b>			<b>Condition removed</b>
<b>(ii) Securities placed with non- residents/non-PE</b>			<b>Condition removed</b>
<b>(iii) Payment cannot be borne by resident or PE</b>			









# EQUITY CAPITAL MARKET INCENTIVES (Part II)

Type of Activity	Existing Incentive ACU/ASC	Existing Incentive ACU/ASC	Latest Change ACU/ASC
<b>Sale of foreign currency securities to specified parties</b>	<b>Concessionary tax rate of 10% (as long as entity is an ACU/ASC)</b>	<b>Tax exemption if securities are listed on SGX ( YA 1998-2002)</b>	<b>Concessionary rate of 5% (YA 2003 to 2007)</b>
(i) Securites listed in foreign currency			<b>Condition removed</b>
(ii) Transactions with specified counter-parties			



# EQUITY CAPITAL MARKET INCENTIVES (Part II)

Type of Activity	Existing Incentive ACU/ASC	Existing Incentive ACU/ASC	Latest Change ACU/ASC
<b>Providing services e.g. brokerage, custodian services in relation to foreign currency securities</b>	Concessionary tax rate of 10% (as long as entity is an ACU/ASC)	Tax exemption if securities are listed on SGX ( YA 1998-2002)	<b>Concessionary rate of 5% (YA 2003 to 2007)</b>
(i) Securities listed in foreign currency			<b>Condition removed</b>
(ii) Payment for services cannot be borne by resident or PE			 

# **EQUITY CAPITAL MARKET INCENTIVES (Part II)**

## **Summary (PART II):**

**5% concessionary tax rate for following activities to promote listing and trading of securities on SGX:**

- **arranging, managing, underwriting and placement of foreign currency securities for purpose of listing on SGX**
- **sale of foreign currency securities listed on SGX to specified counter-parties**
- **providing services (incl. brokerage, custodian services) in relation to foreign currency securities listed on SGX**

## **Objective of Tax Change:**

- **To broaden and deepen our equity capital markets by boosting the market capitalisation of SGX.**



# EQUITY CAPITAL MARKET INCENTIVES (Part I)

	Existing Incentive Scheme	New Incentive Scheme
1. Who will qualify	<b>Top 20 corporate futures members of SGX</b>	<b>Top 20 corporate SGX members</b>
2. Incentivised Income	<b>5% on <u>incremental</u> income</b>	<b>5% on <u>total</u> income from each MAS-approved derivative</b>
3. How top 20 is ranked	<b>In terms of <u>total</u> trading volume in ALL SGX futures contracts in year before qualifying contract is traded</b>	<b>In terms of annual trading volume in each MAS-approved contract in year that qualifying contract is traded</b>
4. Qualifying contract	<b>Contracts which commenced trading on or after 1 Apr 1994</b>	<b>Non-S\$ denominated derivative contracts which commence trading from 1 Jan 2002 to 31 Dec 2006</b>



# **EQUITY CAPITAL MARKET INCENTIVES (Part I)**

## **Objective of Tax Change:**

- **To enhance the liquidity and trading activity in new derivative products, thereby reducing hedging costs of market players**

## **Administering Agency:**

- **MAS**
- **Further details of the scheme, including transitional provisions for the existing concession, will be released by MAS by 2 Jul 2002**



# FINANCIAL SECTOR INCENTIVES - OVERVIEW

## Tax Change (wef YA 2003):

- Enhancement of Existing Incentives
  - Fund Management Incentives
  - Incentives To Promote Treasury Industry
  - ~~Incentives To Promote Equity Capital Market~~
  - **Approved Trustee Companies Incentive**
- Tax Deduction for special reserves (Offshore Insurance)

## Tax Change (wef YA 2004):

- Umbrella Tax Incentive Scheme for Financial Sector



# APPROVED TRUSTEE COMPANIES SCHEME (Part I)

## Current Position:

- Approved Trustee Companies (ATC) enjoy a 10% concessionary tax rate on fee income from provision of trustee and custodian services to unit trusts, provided certain conditions are satisfied.

## Tax Change (wef YA 2003):

- To extend the concessionary tax rate of 10% to fee income of ATCs providing trustee and custodian services to mutual fund corporations.



# APPROVED TRUSTEE COMPANIES SCHEME (Part I)

Tax Change (wef YA 2003) – continued:

- Existing conditions applicable to ATCs for provision of services to unit trusts will be retained:
  - Funds of the unit trust/mutual fund corporation must be invested in designated investments
  - Unit trust/mutual fund corporation must satisfy definition of foreign investor

## Reason for Tax Change:

- **Recognize that the administration of unit trusts and mutual fund corporations are essentially similar**



# APPROVED TRUSTEE COMPANIES SCHEME (Part I)

Current Position:

–ATCs

- 10% concessionary tax rate
  - Fees from provision of trustee and custodian services arising from a trust by deed to a foreign trust where both settlor and beneficiaries of the trust satisfy prescribed conditions.
- Foreign trusts administered by an ATC enjoy tax exemption on specified income from designated investments



# APPROVED TRUSTEE COMPANIES SCHEME (Part I)

## Tax Change (wef YA 2003):

- To extend 10% concessionary tax rate to ATCs that provide substantial trust management and administration services to foreign trusts of which the ATC is not the trustee
- Tax exemption for qualifying income of such foreign trusts (satisfying definition of foreign investor) from designated investments accruing on or after 3 May 2002

## Objective of Tax Change:

- To further encourage reputable trust companies and banks to offer international trustee and custodian services from Singapore



# APPROVED TRUSTEE COMPANIES SCHEME (Part I)

Tax Change (wef YA 2003):

- Investment holding company may be set up by the ATC to hold assets of the trust
- Tax exemption currently available to foreign trusts in respect of qualifying income from designated investments will be extended to include such income derived through an eligible investment holding company administered by the ATC



# APPROVED TRUSTEE COMPANIES SCHEME (Part I)

Reason for Tax Change:

- In recognition that such structures are increasingly becoming common features used in the trust industry

Administering agency:

- MAS
- Further details of the scheme will be released by MAS by 2 Jul 2002



# FINANCIAL SECTOR INCENTIVES - OVERVIEW

## Tax Change (wef YA 2003)

- Enhancement of Existing Incentives
  - Fund Management Incentives
  - Incentives To Promote Treasury Industry
  - Incentives To Promote Equity Capital Market
  - Approved Trustee Companies Incentive
- Tax Deduction for special reserves (Offshore Insurance)

## Tax Change (wef YA 2004)

- Umbrella Tax Incentive Scheme for Financial Sector



# CATASTROPHIC RISKS OF GENERAL INSURANCE COMPANIES

Tax Change (wef YA 2003):

–To grant tax deduction for special reserves set aside by general insurance companies to provide for volatile risks in specific business classes

–Applicable only to offshore risks

Objectives of Tax Change

–To promote the development of Singapore as a competitive and attractive insurance centre

–To strengthen the financial position and stability of insurance companies

# CATASTROPHIC RISKS OF GENERAL INSURANCE COMPANIES

Tax Change (wef YA 2003) – continued:

## – Business groups

- Property
- Marine & Aviation Hull & Liability
- Mortgage Indemnity
- Nuclear, Pharmaceutical and Pollution Risks
- Financial Guarantee
- Credit and Political Risks



# CATASTROPHIC RISKS OF GENERAL INSURANCE COMPANIES

Tax Change (wef YA 2003) – continued:

## – Qualifying Criteria

- Application basis, subject to company demonstrating substantial commitment to business development in Singapore
- Incentive available for 10-year period

## – Other details

- Tax Deduction for reserves set aside are subject to annual and cumulative cap
- MAS will release further details by 2 Jul 2002



# FINANCIAL SECTOR INCENTIVES - OVERVIEW

## Tax Change (wef YA 2003):

- Enhancement of Existing Incentives
  - Fund Management Incentives
  - Incentives To Promote Treasury Industry
  - Incentives To Promote Equity Capital Markets
  - Approved Trustee Companies Incentive
  
- Tax Deduction for special reserves (Offshore Insurance)

## Tax Change (wef YA 2004):

- Umbrella Tax Incentive Scheme for Financial Sector



# UMBRELLA INCENTIVE SCHEME

– Several existing incentives each with its own set of qualifying activities

- Asian Currency Units (ACU)
- Approved Securities Companies (ASC)

*Fund Management:*

- Approved Fund Managers (Revised AFM)

*Insurance:*

- Offshore general insurance
- Marine hull and liability Insurance
- Approved Trustee Companies (ATC)
- Approved Bond Intermediaries (ABI)
- Corporate Futures Members of SGX
- Tax Exemption Scheme for Syndicated Facilities



# UMBRELLA INCENTIVE SCHEME

Tax Change (wef YA 2004):

- Above incentives will be merged into a single umbrella Financial Sector Incentive scheme
- Concessionary tax rate of 5% for qualifying high-growth and high value-added activities
- Concessionary tax rate of 10% for mature but tax-sensitive activities



# UMBRELLA INCENTIVE SCHEME

## Objectives of Tax Change:

- To offer more flexible qualifying criteria for financial institutions undertaking value-added activities

## Administering agency:

- MAS
- Details of the scheme will be released by MAS by 2 Nov 2002



# **Income Tax Changes for Individuals**



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# REVISION OF INDIVIDUAL INCOME TAX RATE STRUCTURE

## Current Position:

- Individual income tax rates: 0% to 26%
- First \$7,500 of CI exempt from tax
- Personal Relief of \$3,000
- GST-related income tax rebate = \$250

## Tax Change (wef YA 2003):

- A reduction in the number of income bands from 10 to 7
- Top marginal individual income tax rate reduced from 26% to 22%



# REVISION OF INDIVIDUAL INCOME TAX RATE STRUCTURE

At a Glance - Table of Income Tax Rates for Individuals (%)

CI Group (S\$)	Existing (wef YA2002)	New (wef YA2003)
⋮	⋮	⋮
<b>160,001 – 200,000</b>	<b>21</b>	<b>19</b>
<b>200,001 – 320,000</b>	<b>24</b>	<b>19</b>
<b>320,001 – 400,000</b>	<b>24</b>	<b>22</b>
<b>Excess over 400,000</b>	<b>26</b>	<b>22</b>



# REVISION OF INDIVIDUAL INCOME TAX RATE STRUCTURE

Tax Change (wef YA 2003) – continued:

- Personal Relief of \$3,000 and GST rebate of \$250 fully absorbed into individual income tax rate structure
- First \$20,000 of CI exempt from tax



# REVISION OF INDIVIDUAL INCOME TAX RATE STRUCTURE

At a Glance - Table of Income Tax Rates for Individuals (%)

CI Group (S\$)	Existing (wef YA2002)	New (wef YA2003)
1 - 7,500	0	0
7,501 – 20,000	3	0
<b>20,001 – 30,000</b>	<b>6</b>	<b>4</b>
<b>30,001 – 35,000</b>	<b>6</b>	<b>6</b>
<b>35,001 – 40,000</b>	<b>9</b>	<b>6</b>
⋮	⋮	⋮



# REVISION OF INDIVIDUAL INCOME TAX RATE STRUCTURE

Tax on CI of Resident Individuals with effect from YA 2003

Chargeable Income	S\$	Rates (%)	Tax Payable(S\$)
On the first	20,000	0	0
On the next	10,000	4	400
On the first	30,000		400
On the next	10,000	6	600
On the first	40,000		1,000
On the next	40,000	9	3,600
On the first	80,000		4,600
On the next	80,000	15	12,000
On the first	160,000		16,600
On the next	160,000	19	30,400
On the first	320,000		47,000
Excess over	320,000	22	



# REVISION OF INDIVIDUAL INCOME TAX RATE STRUCTURE

## Objectives of Tax Change:

- To reduce the tax burden for individuals
- To reward individual effort and achievement
- To promote entrepreneurship
- To retain local talent and attract new foreign talent



# INCREASE IN RELIEF FOR MAINTENANCE OF HANDICAPPED PARENTS

Current Position:

## 2-tier parent relief structure

–\$5,000 for each parent if tp maintains and lives with the parent in the same household

–\$3,500 for each parent if tp maintains but does not live with parent in the same household

(Subject to satisfying all existing conditions)



# INCREASE IN RELIEF FOR MAINTENANCE OF HANDICAPPED PARENTS

Tax Change (wef YA2003):

Handicapped parent relief will be \$3,000 more than equivalent normal parent relief

	Normal Parent Relief	Handicapped Parent Relief
Taxpayer NOT staying with parent	\$3,500	\$6,500
Taxpayer staying with parent	\$5,000	\$8,000

➤ **Claim either the normal parent relief or the handicapped parent relief in respect of same parent**



# INCREASE IN RELIEF FOR MAINTENANCE OF HANDICAPPED PARENTS

## Objective of Tax Change:

To provide recognition for the extra healthcare and nursing costs incurred by an individual in caring for a handicapped parent



# INCREASE IN RELIEF FOR NSMEN, THEIR PARENTS AND THEIR WIVES

Current Position:

	Existing Relief
Active NSmen	\$2,000
Inactive NSmen	\$1,000
Parents/ Wives of NSmen	\$500



# INCREASE IN RELIEF FOR NSMEN, THEIR PARENTS AND THEIR WIVES

Tax Change (wef YA2003):

Tax relief for NSmen, their parents and wives increased by 50% respectively from the existing reliefs granted.

	Existing Relief	Revised Relief
Active NSmen	\$2,000 →	\$3,000
Inactive NSmen	\$1,000 →	\$1,500
Parents/ Wives of NSmen	\$500 →	\$750



# **INCREASE IN RELIEF FOR NSMEN, THEIR PARENTS AND THEIR WIVES**

Objective of Tax Change:

- To further recognize the contributions of NSmen



# ALLOWING DIVORCEES TO CLAIM STR/ FTR

## Current Position:

- Any unabsorbed STR/FTR balances due to divorcees are not available for deduction against the tax payable of divorcees for any Year of Assessment following the year of divorce
- As provided under S42A(3)(e) of the ITA



# ALLOWING DIVORCEES TO CLAIM STR/ FTR

Tax Change (wef YA 2003):

- Divorcees would be allowed to continue to claim any unabsorbed STR/FTR balances even after their divorce
- For divorcees whose STR/FTR accounts had been previously terminated but whose claim periods have not expired,
  - ✓ any available balances may be reinstated prospectively to the end of claim period
  - ✓ requests considered only on due claim



# ALLOWING DIVORCEES TO CLAIM STR/ FTR

Illustration:

Ms A, a divorcee has an STR/FTR account that had been previously terminated but whose claim period has not expired (e.g. assume last year of eligible claim is YA2008).

If Ms A writes in to IRAS only in YA2006 to request for reinstatement

= > STR/ FTR account would be reinstated from YA 2006 to YA 2008.



# ALLOWING DIVORCEES TO CLAIM STR/ FTR

## Reason for Tax Change:

- While the Government continues to uphold the value of maintaining strong families, it recognizes that the withdrawal of STR/FTR in the event of a divorce can add burden to divorcees



# WITHDRAWAL OF DOUBLE CHILD RELIEF (DCR)

Current Position:

DCR of up to \$4,000 is allowed in respect of an unmarried child who is:

a) Receiving full time education in a university or similar institution outside Singapore after being unable to gain admission to a similar institution in Singapore;

or

b) Pursuing a course of study not available on a full-time basis in Singapore



# WITHDRAWAL OF DOUBLE CHILD RELIEF (DCR)

## Tax Change:

- DCR to be reduced to \$3,000 in YA 2003
- Withdrawn from YA 2004

## Reasons for Tax Change:

- The original objective of granting DCR, which is to subsidize the overseas education of expatriates' children, is no longer applicable.
- The number of places in local tertiary institutions has grown significantly over the years



# WITHDRAWAL OF TAX REMISSION ON ALLOWANCES PAID TO MEMBERS OF PARLIAMENT (MPs)

## Current Position:

- Tax remission granted on MP allowance under section 92(2)

## Tax Change (wef YA 2003):

- Tax remission on MP allowances to be withdrawn

## Reason for Tax Change:

- Remission no longer relevant as the MP allowances are now regularly revised in step with private sector salary benchmark



# **NEW TAX TREATMENT OF ESOP AND OTHER FORMS OF EMPLOYEE SHARE OWNERSHIP PLANS**

Full details have been released on

31 August 2002

on

IRAS website (<http://www.iras.gov.sg>)



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# TAXATION OF NON-RESIDENT (NR) PROFESSIONALS

## Current Position:

- Subject to tax at 24.5% (in YA2002) on net income (i.e. gross income less allowable expenses)

## Tax Change:

- Final tax of 15% on gross income (both monetary and non-monetary) derived from services performed in Singapore
- All payments/fees due and payable to the NR professionals on or after 3 May 2002



# TAXATION OF NON-RESIDENT (NR) ARBITRATORS

## Objective of Tax Change:

- To enhance the competitiveness of the arbitration industry in Singapore

## Tax Change:

- All non-resident arbitrators who are carrying out arbitration work in Singapore
- Income derived on or after 3 May 2002 will be exempt from tax
- To determine if a non-resident individual is an arbitrator, you may consult Mr Ang Yong Tong (DID: 6334 1277) of the SIAC



# INTRODUCTION OF NOR TAXPAYER SCHEME

Full details have been released on  
31 August 2002

on

IRAS website (<http://www.iras.gov.sg>)



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# **Tax Changes for Businesses, Individuals & Bodies of Persons**



# EXTENSION OF SCOPE OF UNILATERAL TAX CREDIT (UTC)

## Current Position:

- Section 50A – UTC given in respect of foreign tax paid on certain types of foreign sourced income including certain services income from certain non-treaty territories

## Tax Change (with effect from YA2003):

- UTC granted for foreign tax paid on all foreign sourced services income remitted from all non-treaty territories

## Objective of Tax Change:

- To promote regionalisation



# INTEREST INCOME FROM QUALIFYING DEBT SECURITIES (QDS)

## Current Position:

- 10% concessionary rate of tax on interest income derived by companies from QDS

## Tax Change (with effect from YA2003):

- Bodies of persons deriving interest income from QDS will enjoy the 10% concessionary rate of tax



# PROMOTING PHILANTHROPY

## Tax Change:

- Double Tax Deduction (DTD) for Donations to the Govt, Approved IPCs, Approved Museums & Approved Institutions (“Approved Recipients”)
- Single Tax Deduction (STD) for Donations with Naming Opportunities to Approved Recipients
- Carry Forward of Un-utilized Tax Deduction for Donations to Approved Recipients
- IPC Status to Qualifying Private Foundations
- Estate Duty Exemption for Donations Not Provided in the Will



# DTD FOR DONATIONS TO APPROVED RECIPIENTS

Sections of the ITA	Types of Donations	Donors		Amount of Tax Deduction Granted	
		Individual	Corporate	Before 1.1.2002	On or after 1.1.2002
S37(2)(b)	Approved gifts to approved museum	✓	✓	<b>May qualify for DTD</b>	<b>Double Tax Deduction</b>
S37(2)(c)	Cash	✓	✓	<b>Single Tax Deduction</b>	
S37(2)(d)	Computers to approved institution	N.A.	✓		
S37(2)(e)	Shares of public listed companies	✓	N.A.		
S37(2)(e)	Units in unit trust that are readily tradable	✓	N.A.		



# STD FOR DONATIONS WITH NAMING OPPORTUNITIES TO APPROVED RECIPIENTS

## Current Position:

- No tax deduction to the donor for such donations

## Tax Change:

- STD for such donations made to approved recipients on or after 1 Jan 2002
- Guidelines would be available on IRAS website by 24 May 2002



# CARRY FORWARD OF UN-UTILIZED TAX DEDUCTION FOR DONATIONS TO APPROVED RECIPIENTS

## Current Position:

- No carry forward of un-utilized tax deduction

## Tax Change (with effect from YA2003):

- Un-utilized tax deduction can be carried forward for up to 5 years
- Order of set-off:
  - CA
  - Trade/business losses
  - Un-utilized tax deduction for donation (First In First Out basis)



# CARRY FORWARD OF UN-UTILIZED TAX DEDUCTION FOR DONATIONS TO APPROVED RECIPIENTS

- Un-utilized tax deduction for donations disregarded:

## for individual donors

- in the event of death, i.e. un-utilized tax deduction not to be carried forward into the estate

## for corporate donors

- shareholding test under section 37(5) not met
- cease registration with RCB/wound up
- struck off from RCB



# IPC STATUS TO QUALIFYING PRIVATE FOUNDATIONS

## Current Position:

- Private foundations do not qualify for IPC status
- No tax deduction for donations made to such foundations

## Tax Change:

- Private foundations can qualify for IPC status
- Satisfy all existing criteria
- MOF website: <http://www.mof.gov.sg/ipc/ipc2.html>



# Other Tax Changes



# ESTATE DUTY EXEMPTION FOR DONATIONS NOT PROVIDED IN THE WILL

## Current Position:

- Only donations specifically provided in the will to the Govt & approved IPCs are exempt from estate duty

## Tax Change:

- Exempt from estate duty all donations made from estate (specified in the will or not) made on or after 1 Jan 2002, to the Govt & approved IPCs



# ESTATE DUTY EXEMPTION FOR MOVABLE ASSETS OF NON-DOMICILES IN SINGAPORE

## Current Position:

- Estate duty payable on all movable and immovable properties being or situated in Singapore
  
- Exemption/remission (Estate Duty Act):
  - s11(1): deposits with ACU, ADB & Govt bonds, stocks & securities etc
  - s12: bequest to Government or IPCs
  - s13: gifts to National Museum
  - s14(4): dwelling houses up to \$9m  
all other properties (movable + immovable) up to \$600,000
  - s15: property of national or scientific interest given for public purposes



# ESTATE DUTY EXEMPTION FOR MOVABLE ASSETS OF NON-DOMICILES IN SINGAPORE

## Objective of Tax Change:

- Boost Singapore's attractiveness as a private banking centre

## Tax Change:

- Exempt movable assets of non-domiciles in Singapore from estate duty for death occurring on or after 1 Jan 2002
- Exemption for dwelling houses up to \$9m
- Exemption for all other immovable properties up to \$600,000



# GST RATE CHANGE

- Current GST rate - 3% since 1994
- GST rate with effect from 1 Jan 2003 - 5%
- GST offset package
  - Granting of Economic Restructuring Shares
  - Offsets for healthcare, education and S&C charges
  - No increase in public transport fares in 2003
  - Increase in Public Assistance rate and Singapore Allowance
  - Rebates for S&C charges and rents
- Citizens' Consultative Committee Assistance Scheme
- Committee to Combat Profiteering
- Details of transitional rules for businesses
  - to be released by July 2002



**THANK YOU**



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