

**Welcome to  
Budget Seminar  
2004**



**OVERVIEW  
OF  
TAX CHANGES  
ANNOUNCED  
IN  
BUDGET 2004**



# OVERVIEW OF TAX CHANGES

## Income Tax Changes for Businesses

- Reduction in Rate of Tax for Companies
- Full Tax Exemption Scheme for New Companies
- Enterprise Investment Incentive (EII)
- Extension of Pioneer Incentive Period
- Enhancement to Incentive for Headquarters (HQ) Companies



# OVERVIEW OF TAX CHANGES

## Income Tax Changes for Businesses *[continued]*

- Enhancement to Approved International Shipping Enterprise (AISE) Scheme
- Concessionary Tax Treatment for Special Purpose Vehicle (SPV) in Asset Securitisation Arrangement
- Tax Incentive to Promote Processing Services to Financial Institutions



# OVERVIEW OF TAX CHANGES

## Income Tax Changes for Businesses *[continued]*

- Inclusion of Secondary Loans Trading as Qualifying Activity in Financial Sector Incentive (FSI) Scheme
- Tax Incentive for Commodity Derivatives Trading
- Tax Exemption on Payments on Over-the-counter (OTC) Financial Derivatives
- Enhancements to Tax Incentive for Members of Singapore Exchange (SGX)



# **OVERVIEW OF TAX CHANGES**

## **Income Tax Changes for Businesses, Individuals and/or Bodies of Persons**

- Extension of Incentives to cover Discount from Qualifying Debt Securities (QDS)
- Enhancement of Incentives to Promote the Asset Management Industry
- Reduction in Rate of Tax (Final) on Royalty Payments to Non-residents



# **OVERVIEW OF TAX CHANGES**

## **Income Tax Changes for Individuals**

- Tax Exemption on Certain Income of Individuals
- Changes to Tax Relief for CPF Top-up

## **Estate Duty Changes**

- New Estate Duty Interest Rate Structure



# OVERVIEW OF PRESENTATION

## Part 1

Income Tax Changes for Businesses

## Part 2

- \* Income Tax Changes for Businesses, Individuals and/or Bodies of Persons
- \* Income Tax Changes for Individuals
- \* Estate Duty Changes



# **Income Tax Changes for Businesses**



# **REDUCTION IN RATE OF TAX FOR COMPANIES**

## **Current Position**

- **22% effective from YA 2003**

## **Tax Change**

- **20% effective from YA 2005**

## **Objective of Tax Change**

- **To make S'pore a more attractive business hub, encourage new investments & spur entrepreneurship**



# REDUCTION IN RATE OF TAX FOR COMPANIES

## Consequential Tax Changes

- Reduction of rate to 20%
  - Non-residents (YA 2005)
  - Trustees and Executors (YA 2005)
  - Computing effective company tax rate for body of persons (YA 2005)
  - Franked dividends paid on or after 1.1.2004
  - Withholding tax for payments due and payable to NR on or after 1.1.2004 (other than those subject to 15% or 10% final withholding tax)



# REDUCTION IN RATE OF TAX FOR COMPANIES

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# REDUCTION IN RATE OF TAX FOR COMPANIES

Franked dividends paid during 1.1.04 to 27.2.04

- By companies remaining on imputation system
  - S44A balances adjusted using the new rate of 20%
  - Reinstated balances can be used to pay future franked dividends so long as companies remain on imputation system
  
- By companies which had automatically moved onto one-tier system after payment of franked dividends
  - Reinstated balances can be used to pay future franked dividends so long as companies remain on imputation system



# REDUCTION IN RATE OF TAX FOR COMPANIES

Franked dividends paid during 1.1.04 to 27.2.04

- By companies which had exercised option to move to one-tier system after payment of franked dividend
  - Reinstated balances cannot be used to pay future franked dividends
- Administrative concession
  - To allow such companies to revoke option
    - ⇒ Once option revoked, S44A balances remaining after reinstatement can be used to pay future franked dividends so long as companies remain on imputation system



# FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES

## Current Position

- Partial tax exemption on normal CI (excluding S'pore franked dividends) of company up to \$100,000 as follows:
  - up to 1<sup>st</sup> \$10,000  $\Rightarrow$  75% or up to \$7,500 exempt
  - up to next \$90,000  $\Rightarrow$  50% or up to \$45,000 exempt



# FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES

## Tax change

- New scheme applicable for YA 2005 to YA 2009
- Granted to any company that meets qualifying conditions
- Full tax exemption on normal CI (excluding S'pore franked dividends) up to \$100,000, for any of company's first 3 consecutive YAs which falls within YA 2005 to YA 2009



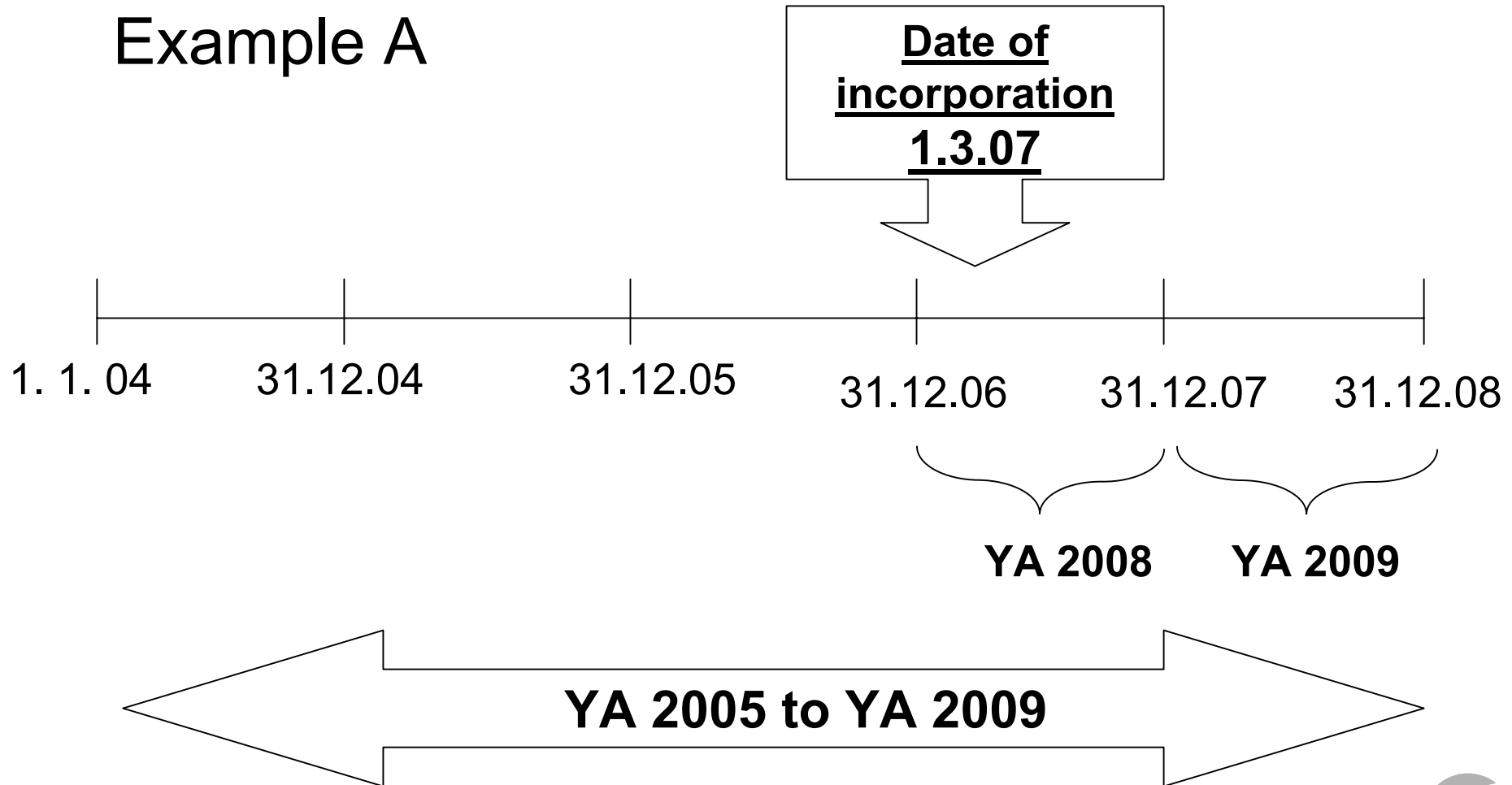
# **FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES**

- Any company that does not meet qualifying conditions for any of its first 3 consecutive YAs falling within YA 2005 to YA 2009 would still be eligible for partial tax exemption



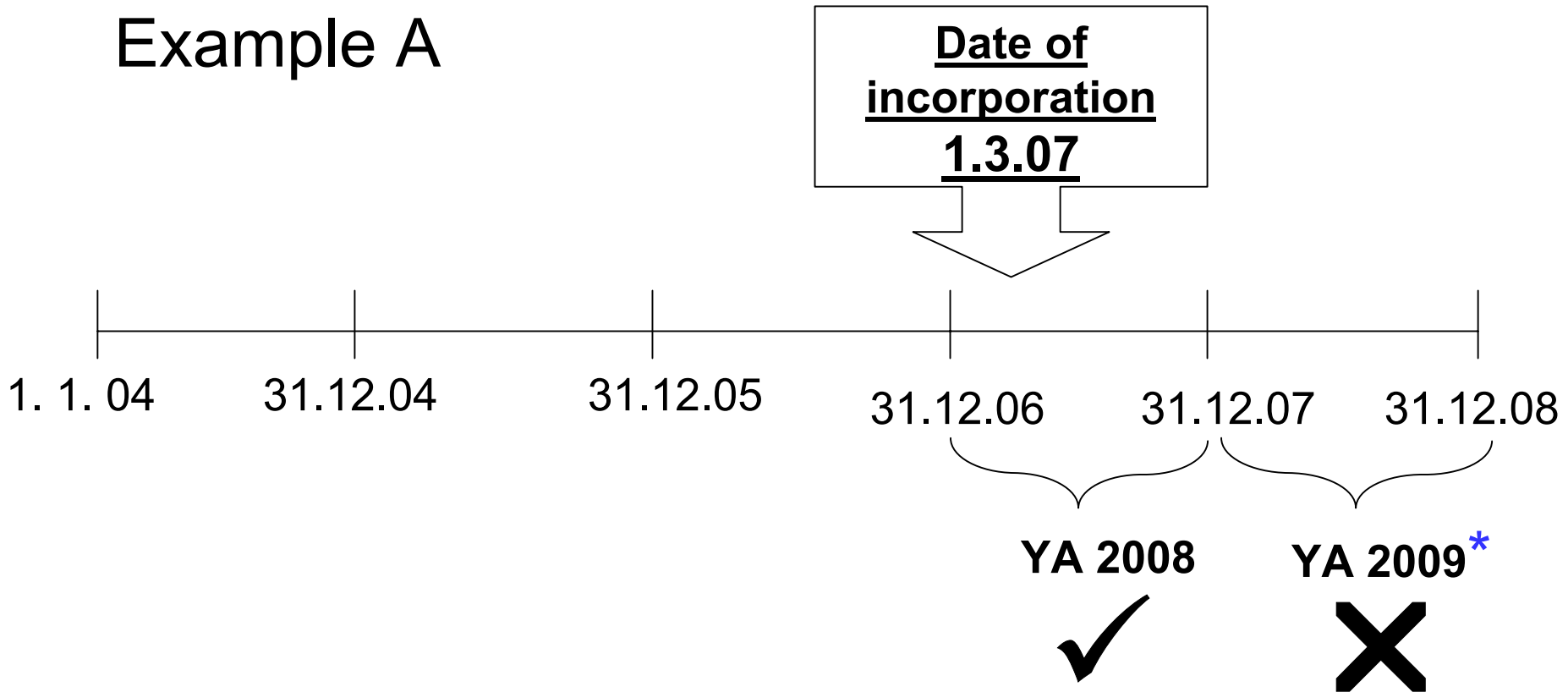
# FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES

Example A



# FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES

## Example A



\* If the company does not satisfy the qualifying conditions for YA 2009, it will be entitled to partial tax exemption but not full tax exemption for YA 2009 (as elaborated in the next slide).

*[Asterisk inserted on 16 Mar 04 to provide clarification]*



# FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES

## YA 2008

Full tax exemption on normal CI (excluding S'pore franked dividends) up to \$100,000

## YA 2009

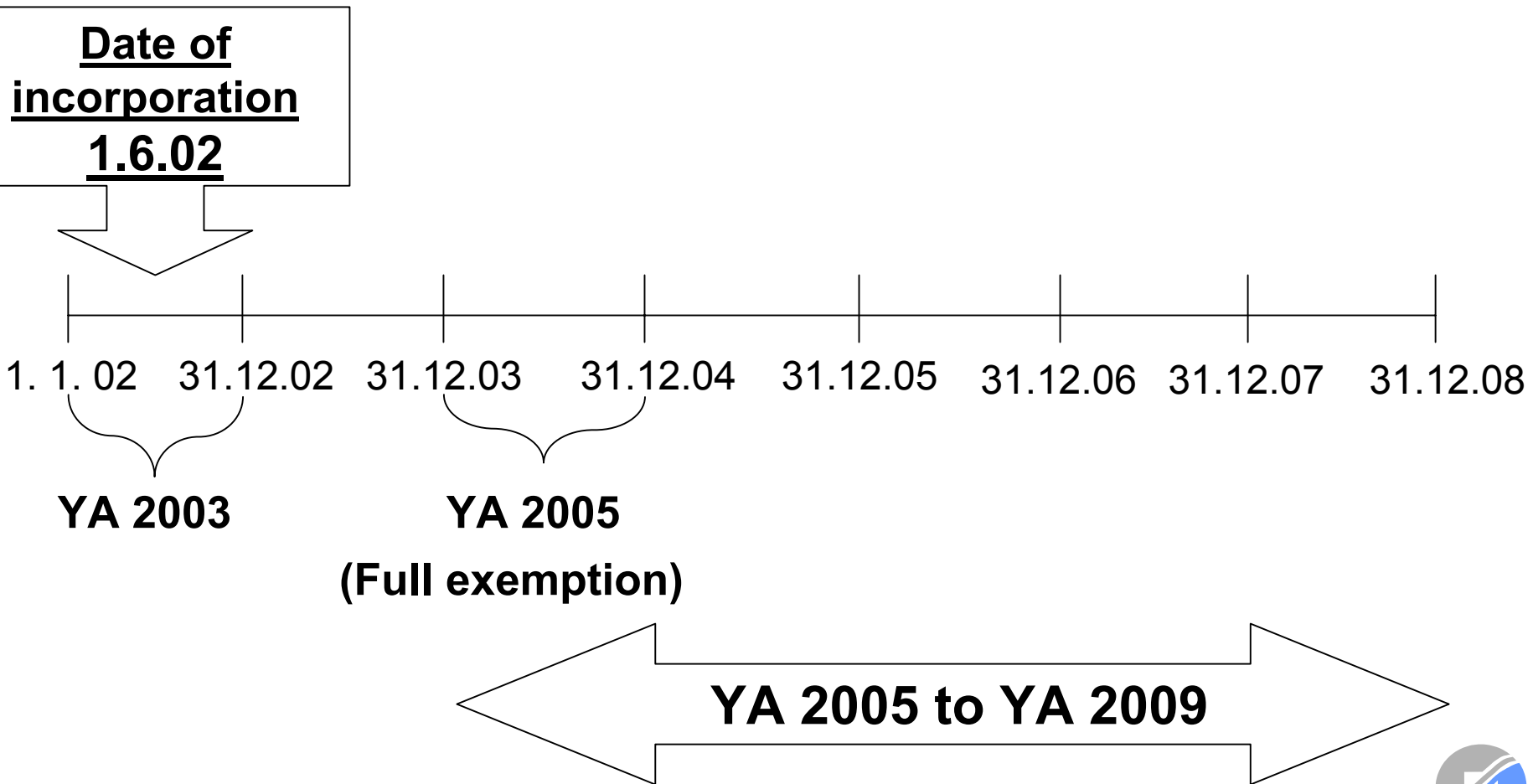
Partial tax exemption on normal CI (excluding S'pore franked dividends) up to \$100,000 as follows:

- up to 1<sup>st</sup> \$10,000 ⇒ 75% or up to \$7,500 exempt
- up to next \$90,000 ⇒ 50% or up to \$45,000 exempt



# FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES

## Example B



# FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES

## Example B

Date of incorporation  
1.6.02

1. 1. 02    31.12.02    31.12.03    31.12.04    31.12.05    31.12.06    31.12.07    31.12.08

YA 2003 & 2004  
(Partial exemption)

YA 2005  
(Full exemption)

YA 2006 onwards  
(Partial exemption)

YA 2005 to YA 2009



# **FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES**

## Qualifying conditions

- Company incorporated in S'pore
- Tax resident in S'pore for that YA
- No more than 20 shareholders throughout basis period
- All shareholders are individuals throughout basis period



# **FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES**

- Full tax exemption does not apply to CI of qualifying company subject to tax at concessionary rate
- Normal CI exempt from tax under new scheme cannot be utilised to pay normal exempt dividends



# **FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES**

## Procedures to claim

- Companies need to declare that they satisfy all qualifying conditions when filing income tax returns
- Need not submit evidence/ document to support claim, unless called upon to do so



# **FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES**

## Objectives of Tax Change

- To encourage and reward entrepreneurs who start up new companies to pursue business ideas
- To enable new qualifying companies to retain larger portion of earnings to be ploughed back into businesses



# **FULL TAX EXEMPTION SCHEME FOR NEW COMPANIES**

## Review of scheme

- Government will review effectiveness of scheme closer to 2006



# ENTERPRISE INVESTMENT INCENTIVE (EII)

## Current Position

- Technopreneur Investment Incentive (TII) scheme introduced on 1.9.99
  - To promote investment in technopreneur start-up companies
- TII scheme aims to ease difficulty faced by high tech start-up companies in obtaining equity capital



# ENTERPRISE INVESTMENT INCENTIVE (EII)

## Current Position *[continued]*

- TII provides eligible investors with tax deduction for losses incurred
    - from selling qualifying shares in approved technopreneur start-up company
    - from liquidation of approved technopreneur start-up company
- to be set-off against other taxable income



# **ENTERPRISE INVESTMENT INCENTIVE (EII)**

## Tax Change (wef 27.2.04)

- Scope of TII expanded to include all forms of start-ups and not just high-tech start-ups
- Incentive renamed as Enterprise Investment Incentive (EII)

## Objective of Tax Change

- To promote investments not only in high-tech sectors but also in non-tech business sectors



# ENTERPRISE INVESTMENT INCENTIVE (EII)

Sunset clause

- 10 years

Administering agencies – EDB and SPRING

- EDB – for technology companies
- SPRING – for non-tech companies



# **ENTERPRISE INVESTMENT INCENTIVE (EII)**

Qualifying criteria and application procedures

- Available on websites of
  - EDB  
([www.sedb.com/edbcorp/sg/en\\_uk/index.html](http://www.sedb.com/edbcorp/sg/en_uk/index.html))
  - SPRING  
([www.spring.gov.sg/portal/main.html](http://www.spring.gov.sg/portal/main.html))



# EXTENSION OF PIONEER INCENTIVE PERIOD

## Current Position

- Pioneer incentive for pioneer project/activity granted up to 10 years

## Tax Change

- Maximum duration of pioneer incentive extended to 15 years, subject to conditions
- Applicable to new strategic pioneer project/activity approved by EDB from 27.2.04 onwards



# **EXTENSION OF PIONEER INCENTIVE PERIOD**

## Objective of Tax Change

- To continue to attract and anchor new strategic projects/activities involving substantial investments in Singapore

## Administering agency - EDB

- Applications to be made to EDB



# ENHANCEMENT TO INCENTIVE FOR HEADQUARTERS COMPANIES

## Current Position

- Only new companies
  - ✓ carrying out regional HQ activities in S'pore
  - ✓ capable of fulfilling certain commitments
  - ⇒ granted tax concession under DEI
- Regional HQ award
  - ✓ enjoy concessionary rate of 15% on qualifying HQ income
  - ✓ incentive period of 3 years



# ENHANCEMENT TO INCENTIVE FOR HEADQUARTERS COMPANIES

## Tax Change (wef 27.2.04)

- Companies operating in S'pore for more than a year can qualify for HQ incentive
- Maximum duration of incentive extended to 5 years

## Objective of Tax Change

- To continue to make S'pore the choice location in Asia for MNCs to base their HQ operations



# ENHANCEMENT TO INCENTIVE FOR HEADQUARTERS COMPANIES

Details available at EDB website

- [www.sedb.com/edbcorp/sg/en\\_uk/index/industry\\_opp/headquarter\\_services0.html](http://www.sedb.com/edbcorp/sg/en_uk/index/industry_opp/headquarter_services0.html)

Applications to be made to

- EDB



# ENHANCEMENT TO APPROVED INTERNATIONAL SHIPPING ENTERPRISE (AISE) SCHEME

## Current Position

- Income derived by AISE from charter of any foreign ships or qualifying ships exempt from tax
  - Qualifying condition
    - ✓ charter to NR person (excluding PE in S'pore); or
    - ✓ another AISE in S'pore



# ENHANCEMENT TO APPROVED AISE SCHEME

Tax change (wef YA 2005)

- Scope of AISE expanded
  - Extend tax exemption on income derived by AISE from chartering of ships to include income from chartering of ships to company resident in S'pore
- Scope of qualifying ships and scope of qualifying use of such chartered ships remain unchanged
  - E.g. chartered foreign or qualifying ship must be for operation outside limits of port of S'pore



# ENHANCEMENT TO APPROVED AISE SCHEME

Tax change (wef YA 2005) *[continued]*

- No additional criteria imposed for AISE to enjoy expanded concession
  - Existing AISEs automatically qualify for tax exemption on charter income derived from company resident in S'pore
  - New applicants need to satisfy criteria imposed to enjoy tax exemption on charter income derived from company resident in S'pore



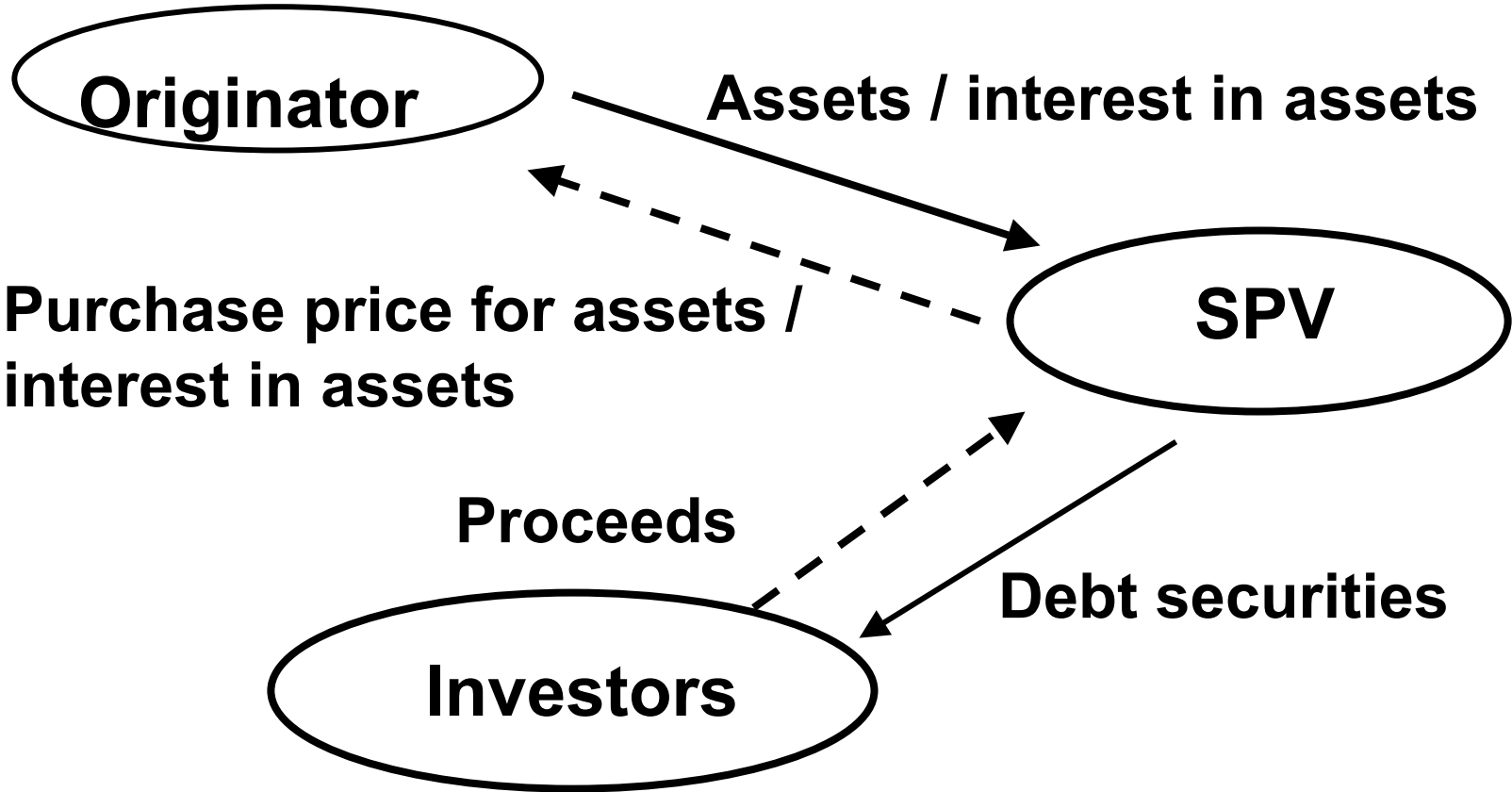
# **ENHANCEMENT TO APPROVED AISE SCHEME**

## Objectives of Tax Change

- To enhance AISE scheme's effectiveness
- To ensure our shipping incentives remain relevant
- To continue to attract and retain the maritime cluster



# CONCESSIONARY TAX TREATMENT FOR SPECIAL PURPOSE VEHICLE (SPV) IN ASSET SECURITISATION ARRANGEMENT



# SPECIAL PURPOSE VEHICLE (SPV) IN ASSET SECURITISATION ARRANGEMENT

## Current Position

- Basis of taxing SPVs based on facts
- Likely subject to tax under S10E or S10(1)(d) of ITA
  - Excess of expenses over income cannot be carried forward
  - Timing mismatch between income & expenses  
⇒ lead to tax outcome different from that if originator had not securitised assets



# **SPECIAL PURPOSE VEHICLE (SPV) IN ASSET SECURITISATION ARRANGEMENT**

## Tax Change

- Concessionary tax treatment for qualifying SPVs based in S'pore and engaged in asset securitisation

## Applicable to

- Qualifying SPVs set up for asset securitisation on or after 27.2.04



# **SPECIAL PURPOSE VEHICLE (SPV) IN ASSET SECURITISATION ARRANGEMENT**

## Objectives of Tax Change

- Complement measures by MAS to provide greater regulatory certainty for financial institutions participating in asset-backed transactions & credit derivative transactions
- Address and mitigate tax disadvantages as a result of mismatches in timing between income & expenses



# **SPECIAL PURPOSE VEHICLE (SPV) IN ASSET SECURITISATION ARRANGEMENT**

Details to be released by IRAS

- By May 2004



# **TAX INCENTIVE TO PROMOTE PROCESSING SERVICES TO FINANCIAL INSTITUTIONS**

- Pressure on financial institutions to cut costs and refocus on core activities
- Consolidation or outsourcing of business processes
- Encourage provision of higher value-added processing services to financial institutions



# TAX INCENTIVE TO PROMOTE PROCESSING SERVICES TO FINANCIAL INSTITUTIONS

## Tax Change

- 5% rate on qualifying income derived by approved companies from provision of qualifying services to financial institutions
  - “window” approval period → 27.2.04 to 26.2.09

## Objective of Tax Change

- To promote higher value-added processing services in S’pore



# **TAX INCENTIVE TO PROMOTE PROCESSING SERVICES TO FINANCIAL INSTITUTIONS**

Applications to be made to

- MAS

Details to be released by MAS

- By May 2004



# **INCLUSION OF SECONDARY LOANS TRADING AS QUALIFYING ACTIVITY IN FINANCIAL SECTOR INCENTIVE (FSI) SCHEME**

- Secondary loans trading activity in Asia increased significantly since Asian financial crisis
- Provide Singapore with opportunity to develop into a leading loan hub in Asia



# **INCLUSION OF SECONDARY LOANS TRADING AS QUALIFYING ACTIVITY IN FSI SCHEME**

Tax Change (wef 27.2.04)

- List of qualifying activities in FSI scheme enjoying concessionary tax treatment
  - expanded to include secondary loans trading and related activities



# **INCLUSION OF SECONDARY LOANS TRADING AS QUALIFYING ACTIVITY IN FSI SCHEME**

## Objective of Tax Change

- To encourage secondary loans trading activity

## Details to be released by MAS

- By April 2004



# TAX INCENTIVE FOR COMMODITY DERIVATIVES TRADING

## Current Position

- ADTs granted 5% tax rate on income derived from non-S\$ OTC financial derivatives
  - trading with qualifying counterparty
  - services as intermediary for qualifying counterparty
- ADT scheme (subsumed under FSI scheme wef 1.1.04)



# TAX INCENTIVE FOR COMMODITY DERIVATIVES TRADING

## Current Position *[continued]*

- Companies (other than financial institutions) engaged in paper trades (including derivatives) can come under GTP
- Approved GTP companies granted 5% or 10% tax rate on income from
  - Physical or paper trades (including derivatives) subject to qualifying conditions



# TAX INCENTIVE FOR COMMODITY DERIVATIVES TRADING

## Tax Change

- Commodity Derivatives Trading Incentive
  - Co-administered by MAS and IE Singapore
  - Qualifying financial institutions and companies granted 5% tax rate
    - ✓ for period not exceeding 5 years
    - ✓ on income from qualifying transactions in commodity derivatives in any currency with qualifying counterparty



# TAX INCENTIVE FOR COMMODITY DERIVATIVES TRADING

## Objective of Tax Change

- To encourage commodity derivatives trading in S'pore

## Applicable to

- Approvals granted on or after 27.2.04



# TAX INCENTIVE FOR COMMODITY DERIVATIVES TRADING

Applications to be made to

- MAS (for financial institutions)
- IE Singapore (for non-financial institutions)

Details to be released by MAS

- By April 2004



# OTHER INCENTIVES FOR FINANCIAL SERVICES SECTOR

## Tax Changes

- For Businesses
  - Tax Exemption on Payments on Over-the-counter (OTC) Financial Derivatives
  - Enhancements to the Tax Incentive for Members of Singapore Exchange (SGX)
- For Businesses, Individuals and/or Bodies of Persons
  - Extension of Incentives to cover Discount from Qualifying Debt Securities (QDS)
  - Enhancement of Incentives to Promote the Asset Management Industry



# TAX EXEMPTION ON PAYMENTS ON OVER-THE-COUNTER (OTC) FINANCIAL DERIVATIVES

## Current Position

Local payer	Type of Payment	Current tax treatment
Financial institution (ADT)	All OTC financial derivatives (including interest rate and currency swap payments)	Exempt
Financial institution (non-ADT)	Interest rate or currency swap payments	Exempt
	Other OTC financial derivatives	WHT may be applicable
Non-financial institution	All OTC financial derivatives	WHT may be applicable

# TAX EXEMPTION ON PAYMENTS ON OTC FINANCIAL DERIVATIVES

## Tax Change

- Tax exemption on payments on OTC financial derivative contracts
  - by financial institutions other than ADTs
  - to NRs excluding PEs in Singapore
  - due and payable during 27.2.04 to 19.5.07

## Objective of Tax Change

- To encourage more activities relating to derivatives



# TAX EXEMPTION ON PAYMENTS ON OTC FINANCIAL DERIVATIVES

## Tax Change

Local payer	Type of Payment	Current tax treatment	After tax change
Financial institution (ADT)	All OTC financial derivatives (including interest rate and currency swap payments)	Exempt	No change
Financial institution (non-ADT)	Interest rate or currency swap payments	Exempt	No change
	Other OTC financial derivatives	WHT may be applicable	<b>Exempt</b>
Non-financial institution	All OTC financial derivatives	WHT may be applicable	No change



# TAX EXEMPTION ON PAYMENTS ON OTC FINANCIAL DERIVATIVES

## Definition of Financial Institution

- Any institution
  - ✓ licensed or approved by MAS, or
  - ✓ exempted from such licensing or approval under any Act administered by MAS, and includes
  - ✓ an institution approved as Finance and Treasury Centre



# ENHANCEMENTS TO TAX INCENTIVE FOR MEMBERS OF SINGAPORE EXCHANGE (SGX)

## Current Position

- Futures members of SGX (including corporatised locals) taxed at 10% on
  - trading profits, fees and commissions  
(non-S\$ futures contracts, qualifying counterparty)
- Top 20 corporate futures members (excluding corporatised locals) taxed at 5% on
  - income derived from transactions in approved new derivative product for 3 YAs  
(new prod in non-S\$, traded 1<sup>st</sup> time during 2002 to 2006)



# ENHANCEMENTS TO TAX INCENTIVE FOR MEMBERS OF SGX

## Tax Change (1<sup>st</sup> enhancement)

- Currency restriction lifted (wef 27.2.04)
  - 10% on income from qualifying transactions by futures members extended to include S\$ futures products
  - 5% on income from approved new derivative products extended to cover those in S\$
- Counterparty restriction is not removed



# **ENHANCEMENTS TO TAX INCENTIVE FOR MEMBERS OF SGX**

## Objectives of Tax Change (1<sup>st</sup> enhancement)

- To encourage development of indigenous financial products
- To foster trading activities in the market



# ENHANCEMENTS TO TAX INCENTIVE FOR MEMBERS OF SGX

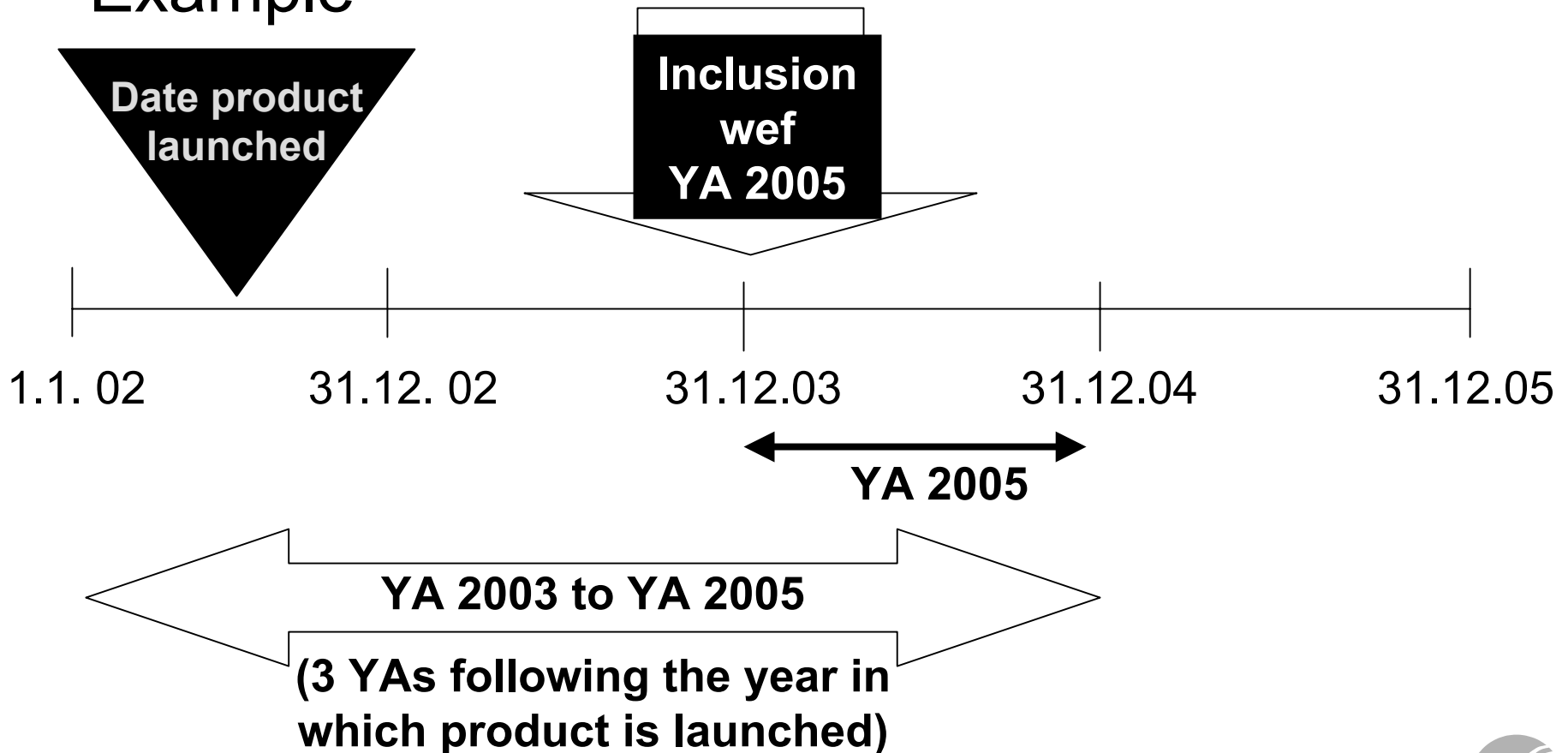
## Tax Change (2<sup>nd</sup> enhancement)

- 5% extended to corporatised locals who are amongst top 20 members (wef YA 2005)
  - Inclusion under top 20 based on performance wef 1.1.04 on approved new derivative products launched between 2002 to 2006
  - Incentive period = 3 YAs following the year in which product is launched



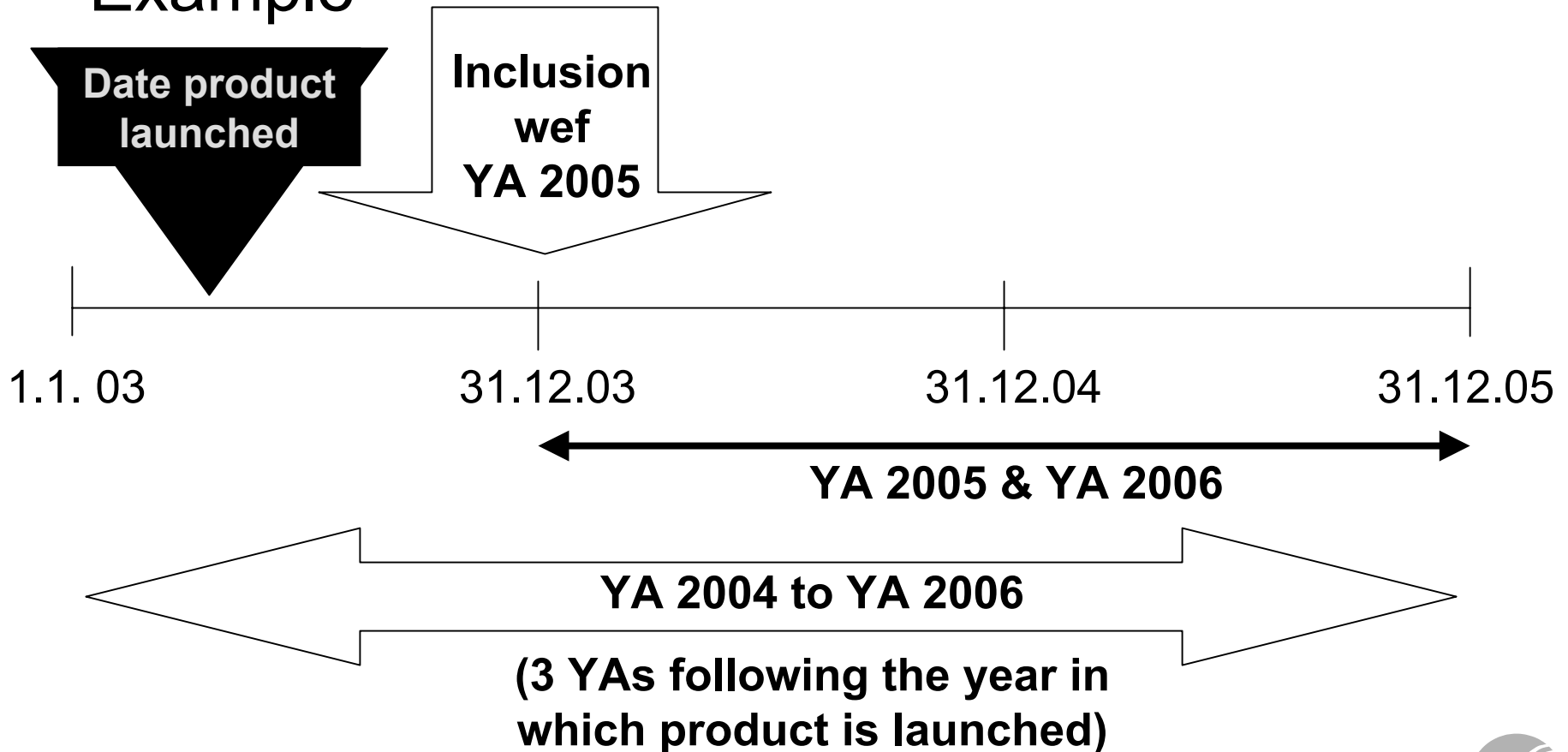
# ENHANCEMENTS TO TAX INCENTIVE FOR MEMBERS OF SGX

## Example



# ENHANCEMENTS TO TAX INCENTIVE FOR MEMBERS OF SGX

## Example



# **ENHANCEMENTS TO TAX INCENTIVE FOR MEMBERS OF SGX**

Objective of Tax Change (2<sup>nd</sup> enhancement)

- To level the playing field for locals



# OVERVIEW

- ❖ Income Tax Changes for Businesses, Individuals and/ or Bodies of Persons
- ❖ Income Tax Changes for Individuals
- ❖ Estate Duty Changes



# **INCOME TAX CHANGES FOR BUSINESSES, INDIVIDUALS AND/ OR BODIES OF PERSONS**



# **EXTENSION OF INCENTIVES TO COVER DISCOUNT FROM QUALIFYING DEBT SECURITIES (QDS)**

## **Current Position**

- Companies and bodies of persons in Singapore enjoy concessionary tax rate of 10% on interest income derived from QDS



# **EXTENSION OF INCENTIVES TO COVER DISCOUNT FROM QUALIFYING DEBT SECURITIES (QDS)**

## **Current Position *[continued]***

- Interest derived by non-residents from QDS is exempt from tax if:
  - a) No PE in Singapore; or
  - b) QDS acquired not using funds from operation in Singapore where they carry on operation in Singapore through PE in Singapore.
  
- Do not apply to discount



# **EXTENSION OF INCENTIVES TO COVER DISCOUNT FROM QUALIFYING DEBT SECURITIES (QDS)**

## **Objective of Tax Change**

- To encourage further development of short-term debt market, which typically involves discount debt securities



# **EXTENSION OF INCENTIVES TO COVER DISCOUNT FROM QUALIFYING DEBT SECURITIES (QDS)**

## **Tax Change**

- To extend tax concessions granted on interest from QDS to cover discount from QDS
- Applies to discount from QDS issued during period from 27.2.04 to 31.12.08 and with tenure of 1 year or less



# ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY

## Current Position

- Specified income derived by foreign investors in respect of designated investments from funds managed by fund manager in Singapore exempt from tax
- Tax exemption given on specified income from designated investments derived by foreign trusts administered by trustee company in Singapore



# ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY

## Current Position *[continued]*

- The following income do not form part of statutory income of trustee of designated unit trust (DUT):
  - a) Interest (other than interest payable to non-residents for which tax is deducted under S45)
  - b) Foreign dividends received in Singapore
  - c) Gains from disposal of securities



# ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY

## Current Position *[continued]*

- Distribution made by DUT to unit holder out of income which do not form part of statutory income of trustee of DUT deemed to be income of unit holder if he is not foreign investor



# **ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY**

## **Objective of Tax Change**

- To enhance the role of Singapore as a regional asset management hub and position Singapore as the regional centre for alternative investments



# **ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY**

## **Tax Change- Tax Exemption Schemes for Foreign Investors & Foreign Trusts**

- I) To include the following as designated investments wef 27.2.04:**
  - a) Qualifying Debt Securities (QDS) which are not discount instruments
  - b) QDS which are discount instruments (must be issued from 27.2.04 to 31.12.08 and have tenure not exceeding 1 year)
  - c) Securities (excluding stocks and shares) issued by supranational bodies



# **ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY**

## **Tax Change- Tax Exemption Schemes for Foreign Investors and Foreign Trusts *[continued]***

- II) To include the following income derived or received on/after 27.2.04 as specified income:**
  - a) Rental and other income from immovable properties outside Singapore and received in Singapore
  - b) Discount income from debt securities outside Singapore and received in Singapore



# **ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY**

## **Tax Change- Tax Exemption Schemes for Foreign Investors and Foreign Trusts *[continued]***

- c) Distributions from foreign unit trusts from outside Singapore and received in Singapore
- d) Fees and compensatory payments from securities lending and repurchase arrangements
- e) Interest income from QDS; and
- f) Discount income from QDS (issued from 27.2.04 to 31.12.08 with tenure not exceeding 1 year)



# **ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY**

## **Tax Change- DUTs**

- III) To exclude the following income derived or received on/after 27.2.04 from statutory income of trustee of DUTs:**
- a) Rental and other income from immovable properties outside Singapore and received in Singapore
  - b) Discount income from debt securities outside Singapore and received in Singapore
  - c) Distributions from foreign unit trusts from outside Singapore and received in Singapore



# ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY

## Tax Change- DUTs *[continued]*

- d) Fees and compensatory payments from securities lending and repurchase arrangements
- e) Interest income from QDS
- f) Gains from disposal of securities issued by supranational bodies
- g) Income from foreign exchange and derivatives transactions
- h) Discount income from QDS (issued from 27.2.04 to 31.12.08 with tenure not exceeding 1 year)



# **ENHANCEMENT OF INCENTIVES TO PROMOTE THE ASSET MANAGEMENT INDUSTRY**

## **Tax Change- DUTs *[continued]***

- IV) Distributions out of those income of DUTs not taxed at the trustee level to be tax exempt for foreign investors**
- Unit-holders who are resident individuals will also be exempt from tax on such distributions under tax exemption granted in respect of Singapore-sourced investment income from ownership of financial instruments



**MAS has released a circular (FDD Cir 03/2004, available on [www.mas.gov.sg](http://www.mas.gov.sg)) on 2 Mar 2004 to provide further details on the following financial sector tax incentives presented earlier:**

- Tax exemption on Payments on Over-the-Counter (OTC) Financial Derivatives
- Enhancements to the Tax Incentive for Members of Singapore Exchange (SGX)
- Extension of Incentives to cover Discount from Qualifying Debt Securities (QDS)
- Enhancement of Incentives to Promote the Asset Management Industry



# REDUCTION IN RATE OF TAX (FINAL) ON ROYALTY PAYMENTS TO NON-RESIDENTS

## Current Position

- The following payments accruing in or derived from S'pore on or after 28.2.96 by non-resident person not from any trade, profession or vocation in S'pore and not connected to PE in S'pore are subject to final tax of 15%:
  - a) Any income referred to in S12(6); and



# REDUCTION IN RATE OF TAX (FINAL) ON ROYALTY PAYMENTS TO NON-RESIDENTS

## Current Position *[continued]*

- b) Any income referred to in S12(7)(a), (b) [excluding payment to non-resident person for rendering of assistance or service in connection with application/use of scientific, technical, industrial or commercial knowledge or info] and (d);
- 15% final tax is not applicable to royalty and other payments referred to in S10(14) or (16) derived by a non-resident person



# **REDUCTION IN RATE OF TAX (FINAL) ON ROYALTY PAYMENTS TO NON-RESIDENTS**

## **Objective of Tax Change**

- To recognise the value and role of intellectual properties (IP) in the knowledge economy and to encourage the active use of IP in Singapore



# REDUCTION IN RATE OF TAX (FINAL) ON ROYALTY PAYMENTS TO NON-RESIDENTS

## Tax Change

- To reduce rate of tax from 15% to 10% on royalty payments derived from S'pore by non-resident person not from trade, profession or vocation in S'pore and not connected to PE in S'pore
- Reduced tax rate applies to royalty payments due and payable on/after 1.1.05 and referred to in:
  - ✓ S12(7)(a) and (b) [excluding payment to non-resident person for rendering of assistance or service in connection with application/use of scientific, technical, industrial or commercial knowledge or info]



# REDUCTION IN RATE OF TAX (FINAL) ON ROYALTY PAYMENTS TO NON-RESIDENTS

## Tax Change *[continued]*

- Reduced tax rate is not applicable to royalty and other payments referred to in S10(14) or (16) derived by non-resident person
- Reduced tax rate is final tax



# **INCOME TAX CHANGES FOR INDIVIDUALS**



# **TAX EXEMPTION ON CERTAIN INCOME OF INDIVIDUALS**

## **Current Position**

- Foreign-sourced income received in Singapore and locally-sourced investment income subject to tax unless specifically exempted

## **Tax Change- Tax exemption of Foreign-sourced income**

- 1) To exempt all foreign-sourced income received by resident individuals in Singapore on or after 1.1.04 (excluding foreign-sourced income received in Singapore through partnerships in Singapore)**



# **TAX EXEMPTION ON CERTAIN INCOME OF INDIVIDUALS**

## **Tax Change- Tax exemption of Locally-sourced Investment Income**

**IIA) The following locally-sourced investment income [passive non-S10(1)(a) source] derived by resident and non-resident individuals will also be tax exempt:**

- a) Interest from debt securities
- b) Discount income from debt securities with tenure not exceeding 1 year



# TAX EXEMPTION ON CERTAIN INCOME OF INDIVIDUALS

## Tax Change- Tax exemption of Locally-sourced Investment Income *[continued]*

- c) Annuities (excluding those derived from employer who purchased the annuity for him and is in lieu of pension or other benefits payable during employment or upon retirement)
- d) Payments on life insurance policies (excluding sums realised or interest from insurance benefits not drawn under any insurance against loss of profits)
- e) Distributions from unit trusts and REITs (excluding distributions out of franked dividends) to which unit holders are entitled on or after 1.1.04



# TAX EXEMPTION ON CERTAIN INCOME OF INDIVIDUALS

## Tax Change- Tax exemption of Locally-sourced Investment Income *[continued]*

- f) Borrowing fees, loan rebate fees, price differential and compensatory payments from securities lending and repurchase arrangements
- The above investment income derived through partnerships in Singapore are not eligible for tax exemption



# TAX EXEMPTION ON CERTAIN INCOME OF INDIVIDUALS

## Tax Change- Tax exemption of Locally-sourced Investment Income *[continued]*

### IIB) Interest income from all deposits on or after 1.1.05

<b>Current</b>	<b>New</b>
1.1.03-31.12.04: Partial tax exemption on interest income from standard savings, current & fixed deposit accounts with approved banks and finance companies in S'pore	Wef 1.1.05: Full tax exemption of all interest income on deposits in addition to standard savings, current and fixed deposits with approved banks and finance companies in S'pore
Wef 1.1.05: Full tax exemption on interest income from the above deposits	



# TAX EXEMPTION ON CERTAIN INCOME OF INDIVIDUALS

## Objectives of Tax Change

- To encourage Singapore resident individuals to remit their offshore funds to Singapore for investment and management
- Boost Singapore's private wealth management industry
- Align tax treatment of different kinds of investment income and encourage individuals to save and plan for retirement



# **CHANGES TO TAX RELIEF FOR CPF TOP-UP**

## **Current Position**

- Tax relief up to \$6,000 for cash top-up to individual's/ his parents'/ his grandparents' Retirement Accounts

## **Objective of Tax Change**

- Encourage Singaporeans to be more self-reliant and financially independent in old age and to provide financial security to non-working spouses



# CHANGES IN TAX RELIEF FOR CPF TOP-UP

## Tax Change

- Tax relief cap for CPF cash top-ups to be increased to \$7,000 with effect from YA 2005
- To expand scope of existing tax relief to cover cash top-ups for non-working spouses aged 55 and above and whose incomes do not exceed \$2,000 in year preceding year of top-up



# **ESTATE DUTY CHANGES**



# NEW ESTATE DUTY INTEREST RATE STRUCTURE

**Table 1: Existing interest rate structure**

<b>Period</b>	<b>Interest Rates (per year)</b>	<b>Reduced Interest Rates (per year)</b>
1 <sup>st</sup> 6 months from death	3% on unpaid estate duty	0% if complete return received within 6 mths after death
7 <sup>th</sup> to 18 <sup>th</sup> month after death	6% on unpaid estate duty	3% if reasonable cause for delay
From 19 <sup>th</sup> month after death	12% on unpaid estate duty	6% if reasonable cause for delay



# NEW ESTATE DUTY INTEREST RATE STRUCTURE

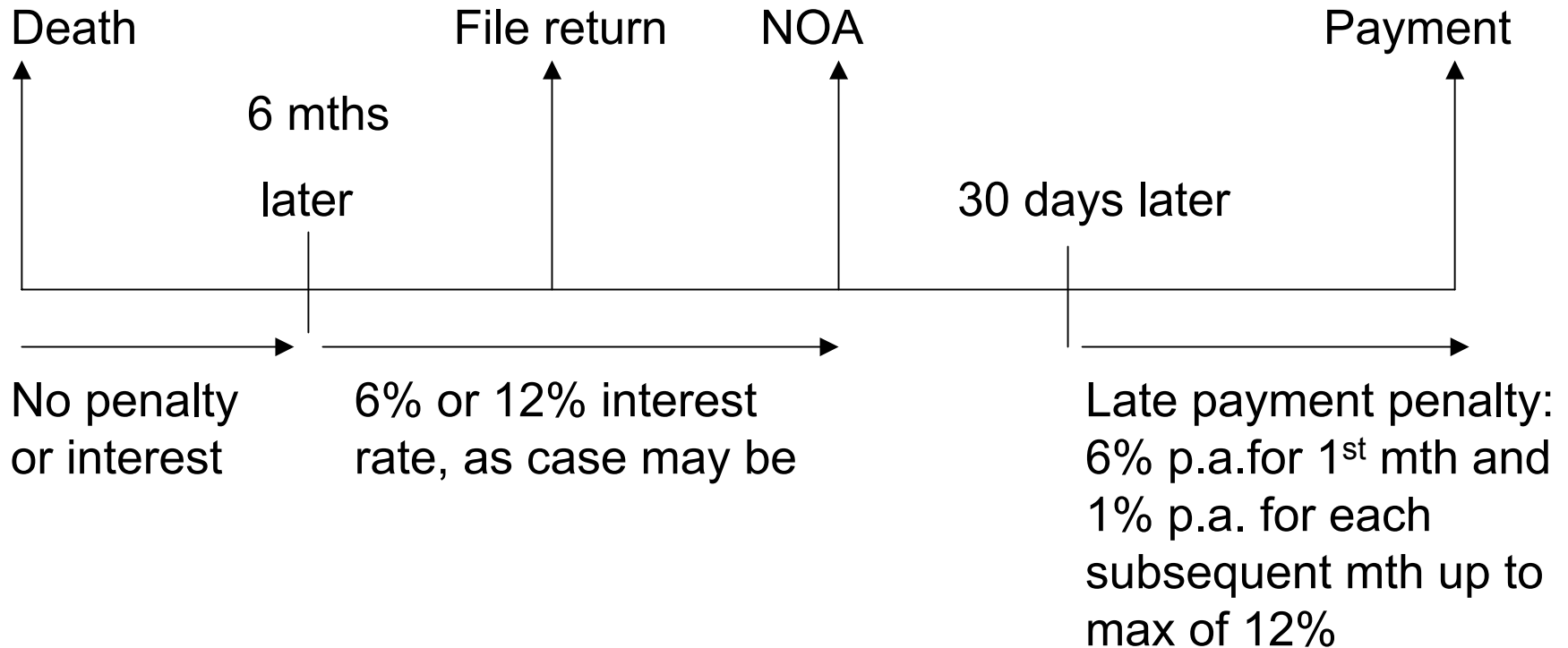
Table 2: New interest rate structure (wef 1.1.05)

Period	Interest Rates	Reduced Interest Rates (per year)
1 <sup>st</sup> 6 months from death	0% per year on unpaid estate duty	NA
7 <sup>th</sup> mth after death to: - date of NOA; or - 18 <sup>th</sup> mth after death, whichever earlier	6% per year on unpaid estate duty	Commissioner's discretion to reduce interest rate if satisfied that there is reasonable cause for delay
19 <sup>th</sup> month after death to date of NOA	12% per year on unpaid estate duty	



# NEW ESTATE DUTY INTEREST RATE STRUCTURE

## New Structure



**THANK YOU**

