HIGHLIGHTS OF TAX CHANGES

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Income Tax Changes for Businesses

Reduction in Rate of Tax for Companies

The rate of tax for companies will be reduced from 20% to 18% with effect from the Year of Assessment (YA) 2008. Tax rates that are presently pegged to the company tax rate will also be correspondingly reduced, except for the following:

a) Tax rate for non-resident individuals and Hindu joint family (HJF), which will remain at 20%;
b) Rate at which tax is withheld for payments (other than those subject to final withholding tax) due and payable on or after 1 January 2007 which are made to:
    i. Non-resident individuals/HJF; or
    ii. Foreign firms, in connection with any profession or vocation carried out by such firms.

For non-resident individuals and foreign firms to which section 43(4) of the Income Tax Act (ITA) applies, they can elect to be taxed at 20% of the net income instead of 15% of the gross income under section 43(5) of the ITA.

Furthermore, the rate of tax on franked dividends received by non-resident individuals/HJF will be reduced to 18% (a final tax) of the gross amount of such dividends, unless they opt to be taxed at 20% of net dividend instead of 18% of gross dividend.

Transitional Provisions Relating to One-Tier Corporate Tax System

The following transitional provisions relating to the one-tier corporate tax system will not be allowed beyond 31 December 2007:

a) Utilisation of section 44A credits;
b) Transitional concessions; and
c) Utilisation of section 44 charges.

Increase in the Partial Tax Exemption Threshold for Companies

With effect from YA2008, the amount of normal chargeable income (excluding Singapore franked dividends) qualifying for partial tax exemption will be increased from $100,000 to $300,000 as follows:

a) 75% of the first $10,000 of such income or an amount up to $7,500 is exempt from tax; and
b) 50% of the next $290,000 of such income or an amount up to $145,000 is exempt from tax.

Lifting of the Sunset Clause for the Tax Exemption Scheme for New Start-Up Companies

The sunset clause of YA2009 for the tax exemption scheme for new start-up companies has been removed. However, the Ministry of Finance (MOF) will still review the scheme every three years to ensure no significant exploitation of the scheme.

In addition, to align with the revision of the partial tax exemption described above, this scheme is also improved and the tax exemption will now be given as follows:

a) Up to the first $100,000 of normal chargeable income (excluding Singapore franked dividends), full tax exemption is given; and
b) Up to the next $200,000 of such income, 50% of the income or an amount up to $100,000, is exempt from tax.

One-Year Write-off for Replacement of Pre-Euro IV Diesel Goods Vehicles and Buses with New Euro IV Diesel Driven Goods Vehicles and Buses

One-year write-off will be allowed on capital expenditure incurred to purchase a new Euro IV diesel goods vehicle or bus, registered during the period from 15 February 2007 to 14 February 2012, as a replacement for an existing pre-Euro IV diesel goods vehicle or bus which was registered on or after 1 January 1991 (but before 1 October 2006), subject to conditions.

Extension of Time Period for which Writing Down Allowances (WDA) for Intellectual Property (IP) Rights Can Be Granted Under Section 19B

The qualifying period for WDA in respect of capital expenditure incurred to acquire IP rights has been extended by another 5 years to 31 October 2013. All other prevailing conditions for granting WDA in section 19B of the ITA remain unchanged.

Enhancement to the Investment Allowance (IA) Scheme

The maximum qualifying period for IA has been extended from 5 to 8 years for companies that purchase their qualifying equipment on hire purchase.

This tax change is applicable to equipment (on hire purchase) purchased on or after 15 February 2007.

Enhancement to Approved Shipping Logistics (ASL) Scheme

The incentive period for ASL companies has been extended from 5 years to 10 years. The enhanced ASL scheme will apply to new applicants as well as existing ASL companies, subject to conditions.

Enhancement to Aircraft Leasing Scheme (ALS)

The enhancements to the ALS are as follows:

a) To offer a concessionary tax rate of 5% (in addition to the existing 10% rate category) on qualifying lease income for a period of 5 years;
b) To expand the scope of income qualifying for the concessionary tax rates of 5% or 10% under the ALS to include:
    i. Income from leasing of aircraft engines; and
    ii. Income from leasing of aircraft or aircraft engines to any person in Singapore i.e. onshore leasing.
c) To extend the concessionary tax rates of 5% or 10% under ALS to a registered business trust or an approved company (SPV) under an aircraft or aircraft engine financing arrangement. The management fee derived by the fund management company or trustee manager in connection with and incidental to the management of the SPVs will be taxed at a concessionary rate of 10%.

The above enhancements to ALS will take effect from 1 March 2007 to 29 February 2012.

Enhancement to Finance and Treasury Centre (FTC) Incentive

The list of qualifying activities under the FTC scheme has been expanded to include transacting and investing in units in any unit trust (foreign, local or designated unit trust), which engages wholly in the qualifying activities. This enhancement takes effect for income derived from such qualifying activity on or after 15 February 2007.

Extension of Tax Exemption on Payments made to Non-Resident in respect of Over-The-Counter (OTC) Financial Derivatives

The following are the changes for tax exemption on payments made to non-resident in respect of OTC financial derivatives:

a) To extend the existing tax exemption (expiring on 19 May 2007) on OTC financial derivatives payments by a financial institution in Singapore to persons who are neither residents nor permanent establishments in Singapore, for another 5 years i.e. from 20 May 2007 to 19 May 2012. For OTC financial derivative contracts entered into during the period from 15 February 2007 to 19 May 2012, the tax exemption will apply to OTC financial derivative payments made by the financial institution to the non-resident for the entire duration of the contract.

b) To extend the existing tax exemption (expiring on 19 May 2007) on OTC financial derivatives payments by an approved special purpose vehicle (ASPV) engaged in asset securitisation transaction to persons who are neither residents nor permanent establishments in Singapore, from 20 May 2007 to 31 December 2008. For OTC financial derivative contracts entered into during the period from 15 February 2007 to 31 December 2008, the tax exemption will apply to OTC financial derivative payments made by the ASPV to the non-resident for the entire duration of the contract.

New Tax Incentive on Incremental International Arbitration Income for Law Firms

A new tax incentive will be introduced, with effect from 1 July 2007, to grant a 50% tax exemption on incremental qualifying income derived by an approved law firm from international arbitration cases heard in Singapore.

Income Tax Changes for Individuals

Changes to Tax Relief for CPF Top-Up

The scope of the existing tax relief for CPF top-up has been expanded to cover CPF top-ups in cash by taxpayers for their siblings who are 55 years old or older and whose income does not exceed $2,000 in the year preceding the year of top-up, with effect from YA2008. Notwithstanding this expansion to cover the CPF top-up for siblings, the amount of tax relief allowable in any year will still be capped at $7,000.

Increase in Employer's Compulsory CPF Contribution Rate

The employer's compulsory CPF contribution rate will be increased from 13% to 14.5% with effect from 1 July 2007. The maximum amount of tax deduction to be allowed under section 14(1)(e) of the ITA will be revised. Consequently, the maximum amount of tax relief for CPF contributions made by a self-employed under section 39(2)(h) will also be revised.

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

Tax Deduction for Certain Borrowing Costs (other than Interest Expense)

The scope of tax deduction for borrowings which are on capital account and employed to acquire income will be expanded to cover qualifying borrowing costs which are incurred as a substitute for interest expenses or to reduce interest costs.

This tax change will apply to any qualifying borrowing costs incurred in the basis period relating to YA2008 and any subsequent years of assessment.

Enhancement of Qualifying Debt Securities (QDS) Scheme

The scope of tax concession under QDS scheme has been expanded to cover prepayment fees, redemption premium and break cost derived by the investor from QDS issued during the period from 15 February 2007 to 31 December 2008.

In addition, the scope of specified income derived by a designated unit trust (DUT) that do not form part of its statutory income under the DUT scheme, and the scope of specified income under the tax exemption schemes for foreign investors and foreign trusts under section 13C and 13G of the ITA respectively will be expanded to include prepayment fees, redemption premium and break cost from QDS issued during the period from 15 February 2007 to 31 December 2008. The tax exemption on locally-sourced investment income derived by qualifying individuals under section 13(1) of the ITA will also be extended to cover such income.

Enhancement to Tax Exemption Scheme for Income from Funds Managed for Foreign Investors ("Foreign Investor Scheme"), Tax Exemption Scheme for Income from Funds Managed for a Company Incorporated and Resident in Singapore ("Resident Fund of Foreign Investor Scheme") and Financial Sector Incentive (FSI)

The enhancements to the Foreign Investor Scheme, Resident Fund of Foreign Investor Scheme and FSI, which take effect from 15 February 2007, are as follows:

a) To expand the FSI to cover fund management delegation arrangements. With this change, fees and commissions derived by an FSI (fund management) company or an FSI (standard tier) company from providing investment advisory services (in relation to a foreign investor) in respect of designated investments to a foreign fund manager can now qualify for the concessionary tax rate of 10%;
b) To expand the list of designated investments under the Foreign Investor Scheme and Resident Fund of Foreign Investor Scheme to include qualifying loans, commodity derivatives and physical commodities (where the trading of physical commodities is in connection with and incidental to the related commodity derivatives trading);
c) To remove the 80:20 rule under the Foreign Investor Scheme, subject to conditions; and
d) To expand the scope of the Foreign Investor Scheme and Resident Fund of Foreign Investor Scheme to include collateralised debt/loan obligation.

Growing Singapore as a Philanthropy Hub

The following tax changes aiming to grow Singapore as a philanthropy hub are introduced:

a) To remove the 80% spending rule under section 13M of the ITA for registered charities; and
b) To allow double tax deduction for donations made to philanthropic grant-making organisations which are not institutions of a public character (IPCs) as long as such donations are subsequently channelled to an IPC in Singapore.

New Tax Incentive for Not-for-Profit Organisations

Tax exemption is granted for a period not exceeding 10 years on income of an approved not-for-profit organisation, if certain qualifying criteria are satisfied.

Property Tax Change

Property Tax Rebates

As part of the GST offset package, a property tax rebate of up to $100 per year will be granted to all owner-occupied residential properties for the years 2008 and 2009. For owner-occupied residential properties with annual values of $10,000 or less, this rebate will be granted on top of the existing GST rebate.

Goods and Services Tax (GST) Changes

Increase in GST Rate

GST rate will be increased from 5% to 7% with effect from 1 July 2007.

Zero-rating of Sales and Lease of Containers for International Transportation of Goods and Services Performed on the Containers

With effect from 1 April 2007, the following will be zero-rated:

a) Repair, maintenance and management services performed on sea-worthy and air containers used for international transportation of goods; and
b) Sale and lease of sea-worthy and air containers used for the international transportation of goods.

However, zero-rating will not apply to containers that are used solely for the transport of goods locally or as office/accommodation cabins.

Stamp Duties Change

Extension of Relief Granted under Section 15(1)(b) of the Stamp Duties Act to Documents Relating to Transfer of Assets to Statutory Boards, Associated Unlimited Companies, or Associated Limited Liability Partnerships

The relief from ad valorem stamp duty has been extended to documents relating to transfer of assets to Statutory Boards, associated unlimited companies, or associated Limited Liability Partnerships (LLPs) where all the partners are companies, subject to conditions. Consequent to the above extension, the consideration paid for the transfer of assets can be in the form of partnership interest in the transferee LLP.

The above stamp duty change will apply to documents executed and dated on or after 15 February 2007.