HIGHLIGHTS OF TAX CHANGES

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INCOME TAX CHANGES FOR BUSINESSES

Enhancement to the Claim for Industrial Building Allowance

The enhancements are as follows:

(a) To allow initial allowance and annual allowance to purchasers of new industrial buildings with leasehold interest less than 25 years;

(b) Eligibility for annual allowance will be based on the current use of the building as a qualifying industrial building and not on previous owner's use of the building;

(c) Initial allowance (for new industrial buildings) and annual allowance (for new and used industrial buildings) to be granted for purchased industrial buildings based on the purchase price, without reference to the cost of construction or the residue of expenditure; and

(d) To remove the 50-year restriction for annual allowance claim.

These enhancements are applicable to purchase of industrial buildings where the date of sale and purchase agreement is from 1 January 2006.

Allowing Tax Deduction for Employee Share-Based Remuneration

To allow tax deduction to a company if it uses its treasury shares for the purposes of fulfilling its employee stock option and share award obligations. This will be effective from Year of Assessment (YA) 2007.

Tax Exemption on Foreign-Sourced Income

The "subject to tax" and "headline tax rate" conditions outlined under section 13(8) of the Income Tax Act (ITA) are retained to curb round tripping and transfer pricing.

Tax exemption under section 13(12) can instead be granted on a case-by-case basis if it can be substantiated that the foreign-sourced income originated from income derived from substantive economic activities carried out in a foreign jurisdiction with a headline tax rate of at least 15% and if certain conditions are met.

Tax exemption under section 13(12) may also be granted on a case-by-case basis for foreign-sourced dividends which do not qualify for tax exemption under section 13(8), foreign-sourced interest and foreign trusts distributions received by real estate investment trusts (REITs) listed on Singapore Exchange (SGX).

These changes are effective from 17 February 2006.

Tax Exemption Scheme for Funds set up in the form of Companies which are Resident in Singapore and Substantially Owned by Foreign Investors

This new scheme grants tax exemption on specified income from designated investments derived by funds set up as companies which are resident in Singapore and are substantially owned by foreign investors. Funds set up as companies which are resident in Singapore and are substantially owned by foreign investors will qualify for the tax incentive scheme, provided they satisfy certain prescribed conditions.

The window period for granting the tax incentive scheme is 5 years and takes effect from 17 February 2006 to 16 February 2011 (both dates inclusive). Any fund set up in the form of a company qualifying for the scheme during this period will enjoy tax exemption on its specified income from designated investments for the entire life of the fund.

5% Concessionary Tax Rate for Qualifying Income Derived by General Clearing Member of Over-The-Counter (OTC) Derivatives

A 5% concessionary tax rate will be granted on income derived from the provision of clearing services in Singapore by an approved clearing member of a Singapore OTC derivatives clearing facility. The window period for a clearing member to qualify for this incentive will be from 17 February 2006 to 16 February 2011 (both dates inclusive), and once qualified for the tax incentive, the clearing member can enjoy the tax incentive for a period of 5 years.

New Tax Exemption Scheme for Captive Insurance Companies carrying on Offshore Insurance Business

Tax exemption is granted to approved captive insurance companies in Singapore on their income derived from carrying on offshore insurance business.

This tax exemption scheme will be valid for five years and will take effect from 17 February 2006. This means that the window period for approving captive insurance companies is from 17 February 2006 to 16 February 2011 (both dates inclusive). Captive insurance companies that are approved for the incentive will be granted the tax incentive for a period of 10 years.

Enhancement of Finance and Treasury Centre (FTC) Incentive

With effect from 17 February 2006, transactions in trading and arranging of derivatives, which are carried out with specified counter-parties, will also be considered as qualifying activities/services for the purposes of the FTC incentive.

Certainty of Tax Treatment for Gains Derived by Approved Holding Companies from Sale of Shares in Subsidiary Companies

Gains derived by approved holding companies from sale of shares in their approved subsidiary companies will be treated as capital gains and not subject to tax.

This concession takes effect from 17 February 2006 and has a sunset clause of 5 years. This means:

(a) The window period for granting approved holding companies status is from 17 February 2006 to 16 February 2011 (both dates inclusive); and

(b) Subject to satisfaction of the qualifying conditions, gains derived by an approved holding company from sale of shares of its approved subsidiary companies during the 5-year period from the date it is granted the approved holding company status will be treated as capital in nature and hence not subject to tax.

Enhancements to Writing Down Allowances (WDA) Granted under Sections 19B and 19C

The enhancements are as follows:

(a) To allow WDA under section 19B of the ITA to companies that have economic ownership but not the legal ownership of intellectual property (IP) rights on a case-by-case basis, provided certain conditions are met. The tax change will apply to new cases where expenditure on the IP rights is incurred on or after 17 February 2006;

(b) To allow WDA under section 19B for instalment payments made up to the full cost of the IP rights, after 31 October 2008, in respect of IP rights acquired on or prior to the said date; and

(c) To allow a one-year write-off (instead of a five-year write-off) for expenditure incurred on an approved cost-sharing agreement for research and development under section 19C. This tax change will apply to cost-sharing agreements entered into and approved on or after 17 February 2006.

Enhancement to the Global Trader Programme (GTP)

GTP companies no longer need to show that their OTC derivative trades are in connection with and incidental to their physical trades before their income from such derivative trades can qualify for the concessionary rate of 10%. This enhancement takes effect from YA2007.

Tax Incentives for Flow-Through Business Vehicles (i.e. Partnerships, Limited Liability Partnerships and Limited Partnerships)

Some tax incentives that are available to companies only can soon be awarded to partnerships (including limited partnerships and limited liability partnerships). MOF will work with IRAS and the respective economic agencies (such as EDB, MPA, etc.) on which tax incentives should be extended to partnerships.

Maritime Finance Incentive (MFI)

A new MFI scheme comprising the following two sub-schemes has been introduced:

(a) Approved Ship Investment Manager (ASIM); and

(b) Approved Ship Investment Vehicle (ASIV)

A fund management company or trustee manager designated as an ASIM, will be taxed at a concessionary tax rate of 10% on its qualifying income. A ship leasing company or a registered business trust designated as an ASIV will enjoy tax exemption on its qualifying income derived from its ship leasing activities (by way of operating or finance leases) in respect of ships leased to certain specified entities.

The MFI status will be granted from 1 March 2006 to 28 February 2011 for a period not exceeding 10 years. Thus, potentially, the MFI benefits will be available until 2021 for a company who qualifies for MFI status in 2011.

Enhancement to Approved International Shipping (AIS) Enterprise Scheme

The AIS status of a company may be extended for another 10 years after its second incentive period. This means that the maximum period a company can enjoy the AIS status has been extended from 20 years to 30 years. This is effective from YA2007.

INCOME TAX CHANGES FOR INDIVIDUALS

Review of Tax Relief for National Servicemen (NSmen)

The following changes, effective from YA2007, have been introduced for the NSmen tax relief:

(a) An additional tax relief of $2,000 is granted to National Service Key Appointment Holders over and above the amount of tax relief they would normally receive as NSmen; and

(b) The basis period for granting NSmen tax relief has been changed from the preceding calendar year to the preceding work year (i.e. from 1 April to 31 March).

Tax Incentives to Grow the Creative Industries

With effect from 1 April 2006, the incentive under section 10(16) of the ITA is extended to include interactive digital media and industrial design sectors.

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

Enhancement of the Designated Unit Trust (DUT) Scheme

The following enhancements have been made to the DUT scheme:

(a) To allow Restricted Authorised Scheme (RAS) funds and funds exempted from authorisation under section 304 of the Securities and Futures Act (SFA) to qualify for the DUT status;

(b) To expand the scope of tax exemption on locally-sourced investment income derived by individuals under section 13(1)(ze) of the ITA to include distributions from RAS funds; and

(c) To expand the scope of investment manager or fund manager to include a fund manager exempt from holding a capital markets services license for fund management under the SFA.

These enhancements take effect from 17 February 2006.

Enhancement of the Tax Environment for Trust Business

The tax exemption scheme for foreign trusts has been enhanced as follows:

(a) To extend the scope of persons who can be considered as settlors and beneficiaries of foreign trusts by including persons other than qualifying individuals and qualifying companies, e.g. charities; and

(b) To extend the tax exemption scheme for foreign trusts to qualifying foreign trusts administered by companies which are exempted from the requirement to hold a trust business license in respect of the carrying on of trust business in Singapore under the Trust Companies Act; and

(c) To extend the Approved Trustee Company tax incentive scheme to companies which are exempted from the requirement to hold a trust business license in respect of the carrying on of trust business in Singapore under the Trust Companies Act and which are administering qualifying foreign trusts in Singapore.

For domestic trusts, subject to certain conditions, tax exemption will be granted on locally-sourced investment income from ownership of financial instruments (LSI) derived and foreign-sourced income (FSI) received by qualifying domestic trusts and their underlying holding companies, to the extent such exemption mirrors the tax exemption on LSI and FSI for individuals.

These tax changes take effect from 17 February 2006.

Extension of Qualifying Debt Securities (QDS) Incentive Scheme and Tax Exemption for Individuals, to Cover Discount Debt Securities with Tenure of More Than One Year

The tax exemption and concessionary tax rate of 10% granted under the QDS incentive scheme on discount from QDS with tenure of one year or less derived by non-residents, and companies and bodies of persons respectively are extended to discounts from QDS with tenure of more than one year which are issued during the period from 17 February 2006 to 31 December 2008 (both dates inclusive).

The tax exemption on locally sourced investment income derived directly by individuals will also be extended to cover discount from debt securities with tenure of more than one year.

Tax Treatment of Qualifying Financial Products Based on Specified Islamic Finance Concepts

The tax treatment of the following Islamic financing contracts will be aligned with that of the conventional financial contracts that they are economically equivalent to:

(a) Qualifying financial products based on Murabaha and Mudarabah concepts; and

(b) Qualifying mortgages based on Ijara Wa Igtina concept.

Basically, subject to conditions, any gains or profits accrued/payable, in lieu of interest, will be regarded as interest.

Transfer Pricing Guidelines

To provide guidance to taxpayers on the application of the arm's length principle, as well as the avenue for taxpayers to eliminate double taxation, IRAS released a circular on transfer pricing on 23 February 2006. The circular provides guidance on the application of the arm's length principle, the recommended documentation to maintain and the procedures for approaching IRAS for Mutual Agreement Procedures (MAP) and Advance Pricing Arrangements (APA).

PROPERTY TAX CHANGE

Abolition of Property Tax Surcharge

Property tax surcharge levied on foreign-owned restricted residential properties whose ownership commenced before 1 January 1974 has been abolished with effect from 1 July 2006.

GOODS AND SERVICES TAX (GST) CHANGES

Input Tax Recovery for Singapore Real Estate Investment Trusts and Their Special Purpose Companies for the Holding of Overseas Non-residential Properties

Subject to the satisfaction of qualifying conditions, input tax recoveries will be allowed via a tax remission for the following:

(a) Expenses incurred to structure and set up the various tiers of Special Purpose Companies (SPCs) to hold overseas non-residential properties; and

(b) Expenses incurred on acquiring the overseas non-residential properties and the operating of the SPCs.

The remission will apply to input tax incurred during the period from 17 February 2006 to 17 February 2010 (both dates inclusive).

GST Treatment of Loan or Mortgage Based on Certain Islamic Concepts

The mark-up on the selling price of non-residential properties under the Murabaha and Ijara Wa Igtina contracts will be exempt from GST as this mark-up is akin to interest under conventional financing. Financial institutions will also be able to claim GST on the purchase of non-residential properties in full, under Murabaha and Ijara Islamic financing arrangement. This GST treatment will apply to Murabaha and Ijara Wa Igtina contracts entered into on or after 17 February 2006.

GST Treatment of Cash Indemnity Payment and Motor Car Repair Services

Insurers will be allowed to claim GST on the following:

(a) Cash indemnity payments to non-GST registered persons where the premiums are subject to GST; and

(b) Motor repair expenses incurred for the policyholders' motorcars.

The change will take effect from 1 January 2007 for insurance policies entered into on or after 1 January 2007.

Zero-rating of Tools used in Manufacture of Goods for Export

The supply of tools, including the development of prototypes as well as any services rendered in relation to a tool (such as any modification or repair), by any GST-registered person to an overseas customer, will be zero-rated, if certain conditions are met. This change takes effect from 1 April 2006.

Waiver of GST on goods removed from Zero GST warehouses by all Major Exporter Scheme (MES) and Approved Third Party Logistics (3PL) Persons

GST will be waived automatically when goods are removed from the Zero-GST Warehouses by any trader approved under MES, or by any trader under the Approved 3PL Scheme. This is effective from 1 July 2006.

STAMP DUTIES CHANGE

Remission of Stamp Duty for Sukuk

Remission will be granted in respect of stamp duty on instrument(s) related to the transfer of immovable properties for the purpose of issuing Sukuk, in excess of that chargeable in the case of an equivalent conventional bond issue, if certain conditions are met.

LOTTERY DUTIES CHANGE

Revision of Basis of Computing Slot Machine Duties

The basis of computing slot machine duties has been changed from 30% of deemed turnover to 12% of actual turnover from the operation of a slot machine. The 200-coin payout limit has also been removed. These changes take effect from 1 April 2006.

OTHER CHANGE

Reduction of Statutory Record Keeping Requirements

The statutory record keeping requirements of the following Acts have been reduced:

Act	Record Keeping Requirement
Income Tax Act	From 7 to 5 years from the relevant year of assessment
Goods and Services Tax Act	From 7 to 5 years from the end of the accounting period
Companies Act	From 7 years from the point of transaction, to 5 years from the end of the financial year
Limited Liability Partnerships Act	From 7 years from the point of transaction, to 5 years from the end of the financial year
Charities Act	From 7 to 5 years from the end of the financial year of the charity
Customs Act	From 7 to 5 years (from the date of import or export of goods or, if the goods are manufactured locally, from the date of release of goods from Customs control)

MOF is working with IRAS on the implementation details (including the effective date of change) for the reduction of statutory record keeping requirements of the Income Tax and GST Acts.