KAIZEN 啓源
www.kaizencpa.com
TRUST CAN ONLY BE EARNED

Kaizen CPA Limited
Rooms 2101-05, 21/F., Futura Plaza
111 How Ming Street, Kwun Tong, Hong Kong
T: +852 2341 1444
E: info@kaizencpa.com

Shenzhen, China
Rooms 1203-06, 12/F.
Di Wang Commercial Centre
5002 Shennan Road East
Luohu District, Shenzhen
T: +86 755 8268 4480

Shanghai, China
Room 603, 6/F., Tower B
Guangqi Culture Plaza
2899A Xietu Road
Xuhui District, Shanghai
T: +86 21 6439 4114

Beijing, China
Room 303, 3/F.
Interchina Commercial Budg.
33 Dengshikou Street
Dongcheng District, Beijing
T: +86 10 6210 1890

Taipei, Taiwan
Room 303, 3/F.
142 Section 4
Chung Hsiao East Road
Daan District, Taipei
T: +886 2 2711 1324

Singapore
138 Cecil Street
#13-02 Cecil Court
Singapore 069538
T: +65 6438 0116

New York, USA
202 Canal Street
Suite 303, 3/F.
New York
NY 10013, USA
T: +1 646 850 5888

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SINGAPORE TAX
SINGAPORE BUDGET 2020

The Singapore Budget is the country's fiscal plan for the current financial year that is planned with Singapore's current and future needs in mind. With the COVID-19 outbreak at a time of an uncertain economic outlook, 2020 has already seen its fair share of challenges. Deputy Prime Minister and Minister for Finance, Mr Heng Swee Keat, delivered his Budget 2020 speech on 18 Feb 2020. This year's budget most commendable aspect is its focus beyond the immediate and medium-term, by continuing to catalyse enterprise transformation for the long-term, to help enterprises re-orientate their business models and operations. This article will provide you with the key measures on business tax, personal income tax, indirect tax, and others.

I. CORPORATE INCOME TAX

1. Corporate income tax rate and rebate

The corporate income tax will remain at 17% and no changes to the partial tax exemption threshold. Companies will enjoy an enhanced corporate income tax rebate of 25% of tax payable, capped at $15,000 for YA 2020. This is an increase from the 20% rebate (capped at $10,000) granted for YA 2019.

2. Extension of instalment plan for payment of corporate income tax by Giro

Companies paying their corporate income tax (CIT) by GIRO can automatically enjoy additional 2 months of interest-free instalments when they file their ECI within 3 months from their financial year-end. This automatic extension of instalment plan by 2 more months will apply to:

(1) Companies that file their ECI from 19 Feb 2020 to 31 Dec 2020 (both date inclusive); and
(2) Companies that filed their ECI before 19 Feb 2020, and have ongoing instalment to be made in Mar 2020. Such companies can expect to receive a letter from IRAS by 5 Mar 2020 on the automatic 2 months extension of the instalment plan.

I. *Corporate Income Tax--Cont'd*

3. Enhancement of loss carry-back relief scheme

The carry-back relief scheme will be enhanced to allow all persons carrying on a business, including sole proprietorships and partnerships to carry back qualifying deductions (capped at $100,000) for YA2020 for deduction against assessable income up to three immediate preceding YAs (previously only up to the immediate preceding YA) subject to certain conditions.

4. Options to accelerate the write-off of the cost of acquiring plant and machinery

A taxpayer which incurs capital expenditure on the acquisition of plant and machinery (P&M) for the purposes of its trade, profession or business may claim capital allowances (CA) (i.e write off the cost of acquiring the P&M). CA is allowed under section 19 of the ITA over the working life of the assets.

This option will be enhanced, which allow the capital expenditure on the acquisition of P&M in the basis period of YA2021 (i.e FY2020) to accelerate the write-off of the cost of acquiring such plant or machinery for over 2 years. The rate will be 75% of the cost incurred to be written off in the first year (i.e YA2021) and 25% of the cost incurred to be written off in the second year (i.e YA2022). No deferment of CA claim is allowed under this option.

5. Extend and enhance the Double Tax Deduction for Internationalization scheme

Under the Double Tax Deduction for Internationalization (DTDi) scheme, business are allowed a tax deduction of 200% on qualifying market expansion and investment development expenses, subject to approval. No prior approval is required from the Singapore Tourism Board (STB) for tax deduction on the first $150,000 of qualifying expenses for the following activities:

(1) Overseas business development trips or missions.
(2) Overseas investment study trips or missions.
(3) Participation in overseas trade fairs.
(4) Participation in approved local trade fairs.

The DTDi scheme is due to lapse after 31 Mar 2020 initially. To continue encouraging internationalization the DTDi scheme will be extended until 31 December 2025 and wider the cover to the followings:

(1) Third-party consultancy costs relating to new overseas business development to identify suitable talent and build up business network.
(2) New categories of expenses incurred for overseas business mission (i.e., services at overseas business and trade conferences, transporting materials)

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I. *Corporate Income Tax--Cont'd*

6. Provide an option to accelerate the deduction of expenses incurred on renovation and refurbishment (R&R)

Under Section 14Q, a taxpayer who incurs qualifying expenditure on R&R for the purpose of its trade, profession, or business is allowed to claim tax deduction on such expenditure over 3 consecutive YAs. A cap of $300,000 for every relevant period of 3 consecutive YAs applies.

From YA2021 (i.e FY2020) business will have an option to claim R&R deduction in 1 YA. The cap of $300,000 for every relevant period of 3 consecutive YAs will still apply.

7. Tightening of the Mergers & Acquisitions (M&A) scheme

Currently, the M&A scheme allows eligible companies to claim tax the following tax benefits:
(1) An M&A allowance (to be written down over 5 years) that is based on 25% of the value of a qualifying acquisition, subject to a cap of $40M on the value of all qualifying acquisition per YA.
(2) Stamp duty relief on the instruments for the acquisition of the ordinary shares under an M&A deal, capped at $80,000 of stamp duty per financial year
(3) 200% tax deduction on transaction costs incurred on qualifying M&A deals, subject to an expenditure cap of $100,000 per YA.

The above tax benefits are only available to acquiring companies that are held by an ultimate holding company and it's incorporated in Singapore and is Singapore tax resident.

This scheme, which is scheduled to lapse after 31 Mar 2020, will now be extended to cover qualifying acquisitions made on or before 31 December 2025. The scheme will remain unchanged for acquisitions made on or after 1 Apr 2020 except for the followings:

(4) Stamp duty relief will lapse for instruments executed on or after 1 April 2020.

(5) No waiver will be granted for the condition that the acquiring company must be held by an ultimate holding company that is incorporated in and is a tax resident of Singapore.

8. Extend and enhance the Finance and Treasury Centre scheme

Currently, the Finance and Treasury Centre (FTC) scheme grants a concessionary tax rate of 8% on qualifying income derived by approved FTC from qualifying activities or services. To continue encouraging finance and treasury activities in Singapore, the FTC scheme will be extended until 31 December 2020, with the following enhancements from 19 February 2020:

(1) The list of qualifying sources of funds will be expanded to include funds raised via convertible debt issued on or after 19 February 2020.

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I. Corporate Income Tax--Cont'd

8. Extend and enhance the Finance and Treasury Centre scheme—Cont'd

(2) The list of qualifying FTC activities will be expanded to include transacting or investing into private equity or venture capital funds that are not structured as companies. Income derived on or after 18 February 2020 by approved FTCs form this activity will qualify for the concessionary tax rate.

9. Extend and refine the Global Trader Programme

The Global Trader Programme (GTP) grants a concessionary tax rate of 5% or 10% on income derived by approved global trading companies from qualifying transactions. Approved global trading company enjoy a concessionary tax rate of 5% on their income from qualifying transactions in liquefied natural gas (LNG). To further strengthen Singapore's position as a global trading hub and to encourage more structured commodity financing (SCF) activities to be done in Singapore, the GTP will be extended until 31 Dec 2026 (it's previously scheduled to lapse after 31 March 2021).

The following changes will be made to the GTP:

(1) The qualifying activities of GTP will be subsumed under GTP with effect from 18 February 2020.

(2) The concessionary tax rate of 5% on income from qualifying transactions in LNG will lapse after 31 Mar 2021. With the lapsing of this concession, LNG will be treated no differently from other GTP-qualifying commodities under the GTP.

10. Enhancement of the withholding tax exemption for interest on margin deposit

Currently the withholding tax exemption applies to interest payment made on margin deposits by member of approved exchange to non-resident persons on certain covered products. The exemption is available till 31 December 2022. A broad-based withholding tax exemption would have further simplified the process and help Singapore-approved exchange gain access to more diversified funding sources and strengthen Singapore's position as a global and regional funding hub.

11. Extend and refine the tax incentive for venture capital funds and venture capital fund management companies

Currently, venture capital funds approved under Section 13H to enjoy tax exemption on the following income:

(1) Divestment gains from qualifying investments.
(2) Dividend income from foreign companies; and
(3) Interest income arising from foreign convertible loan stock.

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I. Corporate Income Tax--Cont'd

11. Extend and refine the tax incentive for venture capital funds and venture capital fund management companies—Cont'd

Approved venture capital fund management companies managing approved venture capital funds are granted a concessionary tax rate of 5% on income derived from managing an approved venture capital fund.

To continue encouraging venture capital funding for Singapore based companies, the Section 13H scheme and Fund management incentive will be extended until 31 Dec 2025.

12. Extend and refine the upfront certainty of non-taxation of companies' gains on disposal of ordinary shares

Under Section 13Z, gains from disposal of ordinary shares by a company during the period from 1 June 2012 to 31 May 2022 will be exempt from tax in Singapore if both of the following conditions are meet:

(1) The divesting company holds a minimum ordinary shareholding of 20% in the company whose shares are being disposed; and

(2) The divesting company maintains the minimum 20% shareholding in the investee company for a minimum continuous period of 24 months immediately prior to the disposal.

Currently, the rules does not apply to gains from disposal of unlisted shares in an investee company that is in the business of trading or holding Singapore immovable properties (other than the business of property development). To provide upfront certainty to companies in their corporate restructuring. Section 13Z will be extended to cover disposal of ordinary shares by companies from 1 June 2022 to 31 Dec 2027, the scheme will also not apply to disposal of unlisted shares in an investee company that is in the business of trading, holding or developing immovable properties in Singapore or aboard. The tax treatment of such share disposal will be based on the facts and circumstance of the cases. The change will apply to shares disposed on or after 1 June 2022.

13. Allow further tax deduction scheme for R&D expenditure under Section 14E to lapse

Currently, Section 14E provides a further tax deduction for R&D expenditure incurred on approved R&D projects conducted in Singapore either by the business itself or by an R&D organization on its behalf. Deduction under Section 14E incentive will lapse after 31 Mar 2020. Existing Section 14E incentive recipients can continue to enjoy the further tax deduction under Section 14E until their awards expire.

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I. *Corporate Income Tax--Cont'd*

14. Streamline the number of years of working life of P&M for capital allowance claims under Section 19

To simplify capital allowance claims under Section 19, the prescribed working life of P&M will be streamlined. Business claiming annual allowance under Section 19 may take an irrevocable election to write down their P&M as follows:

(1) If the current prescribed working life of the P&M is 12 years or less, business may choose to claim annual allowance over 6 or 12 years; or

(2) If the current prescribed working life of the P&M is 16 years, businesses may choose to claim annual allowance over 6,12 or 16 years.

II. PERSONAL TAX

1. Extend the Withholding Tax exemption for non-resident arbitrators (NRAs)

Currently non-resident professional are subject to WHT at a rate of 15% on gross income from the profession. However, they may also elect to be taxed at 22% on the net income basis. As a concession, the income derived on or after 3 May 2002 by NRAs from arbitration work carried out in Singapore is exempt from tax, this will be extended until 31 Mar 2022.

2. Allow the Angel Investors Tax Deduction (AITID) scheme to lapse

Under AITD scheme an approved angel investor is granted a tax deduction of 50% of the cost of his qualifying investments, subject to conditions. This scheme will be lapsed after 31 Mar 2020. Singapore based start-up can access funding through other government scheme such as star-up SG programme.

3. Increase in CPF contribution rate for Singaporean and SPR workers aged above 55 to 70

With the impending raises in retirement and re-employment ages, the Senior Workers Support Package will be rolled out. This is to help seniors remain active and contribute to society and economy by supporting lifelong employability. This package includes:

(1) Senior Employment Credit: To provide employers with wage offsets when they hire Singaporean workers aged 55 and above.

(2) CPF Transition Offset: This will help employers to offset half the increase in employer CPF contribution rates in 2021.

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II. *Personal Tax—Cont'd*

3. *Increase in CPF contribution rate for Singaporean and SPR workers aged above 55 to 70 —Cont'd*

(3) Senior Worker Early Adopter Grant: To support companies that increase their own retirement age and re-employment age above the statutory minimum.

(4) Part Time Re-employment Grant: To support companies that voluntarily commit to providing part-time re-employment to all eligible older workers who request for it.

III. GOODS AND SERVICES TAX

In Budget 2018, the Government announced that the Goods and Services Tax (GST) rate will be increased from 7% to 9% between 2021 to 2025. The increase in the GST rate by 2% from 7% to 9% will not be implemented in 2021. However, the GST increase will still be needed by 2025, and the government will assess the appropriate time to announce it.

IV. OTHERS

1. New efforts to build a stronger workforce

To encourage enterprises to develop the skills of employees, a few of the pertinent measures introduced include:

(1) New Skills Future Enterprise Credits to help enterprises defray 90% of out-of-pocket costs of business transformation, job redesign and skills training. At $10,000 per enterprises, mostly SMEs.

(2) The Productivity Solutions Grant, which support enterprise to adopt pre-approved IT solution and equipment, will be expanded to include job redesign consultancy services.

2. Jobs Support Scheme

A new cash grant on the gross monthly wages of each local employee (applicable to Singapore citizens and Permanent Residents only) for the month of October 2019 to December 2019, subject to a monthly wage cap of $3,600 per employee. This will cost the government $1.3 billion and benefit all enterprises and their employees, and will be given by the end of July 2020.

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IV. Others—Cont'd

3. Enhancements to Wage Credit Scheme

The Scheme, which supports enterprises embarking on transformation efforts and encourages employers to share productivity gains with workers by co-funding wage increase, will be enhanced. The monthly wage ceiling will be raised from $4,000 to $5,000 for qualifying wage increases in 2019 and 2020. The co-funding levels will be increased by 5% to 20% for 2019 and 15% for 2020.

4. Reduced Dependency Ratio Ceiling (DRC) for S pass holders

The DRC refers to the percentage of foreign workers to local workers that businesses are allowed to hire. The S Pass sub-DRC refers to the percentage of foreign employees on S Passes to local works.

The sub DRC for S Passes for the construction, marine shipyard, and process sectors will be, reduced from 20% to 15%. The DRC for the manufacturing sector will remain unchanged for now, while the earlier announced foreign worker levy increase for the marine shipyard and process sectors will be deferred for another year. There are no changes to the policy on EP holders for all sectors.

5. Enhancement to Market Readiness Assistance (MRA)

The MRA is a broad-based enterprise grant scheme that provides support to companies taking their first step overseas. It supports pre-scoped activities to help SMEs set up overseas, identify business partners and promote their products and services.

To accelerate the internationalization efforts of SMEs, the Government will enhance MRA to:

(1) Expand the scope of supportable activities to include:
   a. Free Trade Agreement (FTA) consultancy services to support companies in better leveraging
   b. In market business development.

(2) Increase the grant cap from $20,000 per year to $100,000 per new market per company over the enhancement period of fiscal year 2020-2022.

(3) Extend 70% support level for another 3 years, until 31 Mar 2023.

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CONCLUSION

Budget 2020 is an expansionary budget. The expected budget deficit at $10.90 billion is much larger than that we have seen in recent years. It's comforting to note that the fiscal discipline maintained by the Government has allowed Singapore to fund emergency measures and continue its investments for the future, without dipping into past reserves.

Kaizen suggests you to consult with professional tax advisors before you act upon the above information. Should you have any questions in relation to the proposals, please feel free to contact our CPAs in charge of Singapore Financial Budgets.

颜漢彬 Benjamin HP Yen

Tax Partner
T: +852 2270 9768
E：benjamin.yen@kaizencpa.com

陈婷婷 Tina Chen

Tax Manager
T: +65 6438 0116
E：tina.chen@kaizencpa.com

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:
Email: info@kaizencpa.com, enquiries@kaizencpa.com
Tel: +852 2341 1444
Mobile : +852 5616 4140, +86 152 1943 4614
WhatsApp/ Line/ Wechat: +852 5616 4140
Skype: kaizencpa

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