# Singapore Budget 2019: Tax Developments

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## Introduction

As Singapore progresses into its bicentennial year this 2019, Singapore's Finance Minister Mr Heng Swee Keat delivered the Budget Statement in Parliament on 18 February 2019, announcing various tax and policy changes aimed at building a long-term and fiscally sustainable future.

At a glance, the key tax changes affecting individuals and businesses include:

a. Personal income tax rebate for resident individuals;
b. Lapse of Not Ordinarily Resident (NOR) scheme to attract foreign talents;
c. Reduced GST import relief for travellers; and
d. Extension of tax incentives for the financial sector and fund industry.

We discuss these changes in turn below. While some of these changes do not appear to significantly impact individuals and businesses in Singapore, they reflect recent tax trends and build on existing initiatives in previous years' Budgets.

We also provide an important update on the recent implementation of the **IP Development Incentive** below, which was announced in the Budget 2017 as part of Singapore's effort to address Base Erosion and Profit Shifting (BEPS).

## Personal Income Tax Rebate for Individuals

All Singapore tax resident individuals will be granted a 50% personal income tax rebate of up to S$200 for the Year of Assessment (YA) 2019.

## Lapse of NOR Scheme

The NOR scheme was introduced in the Budget 2002 to attract foreign talents to relocate to Singapore. Under the scheme, an eligible individual granted NOR status is entitled to tax concessions over a five-year period.

The NOR scheme will lapse after YA 2020. In our view, this is reflective of the current environment, where there is less impetus to attract foreign talent to Singapore. Further, Singapore remains a popular destination for individuals to relocate for numerous reasons, including its status as a financial hub in Asia, favourable business and tax environment, well-developed economic and social infrastructure, political stability and commitment to the rule of law.

Individuals with an existing NOR status will continue to be granted tax concessions until their NOR status expires, if they continue to meet the conditions.

## Reduced GST Import Relief

GST is generally imposed on goods imported into Singapore, unless specifically exempted or relieved.

From **19 February 2019**, travellers will be entitled to reduced GST import relief for goods bought overseas (excluding intoxicating liquors and tobacco, and goods imported for commercial purpose), at the following amounts:

i. Spending less than 48 hours outside Singapore: relief for first S$100 only (reduced from S$150) of the value of the goods bought overseas; and

ii. Spending at least 48 hours outside Singapore: relief for first S$500 only (reduced from S$600) of the value of the goods bought overseas.

The above changes build on GST measures introduced in the Budget 2018 to level the playing field between local and foreign suppliers, where a supplier who belongs in Singapore would be required to charge GST on goods and services supplied to customers in Singapore, while an overseas supplier would not. GST on imported services was therefore introduced, including:

i. a reverse charge mechanism for business-to-business supplies of imported services made to GST-registered persons; and

ii. an overseas vendor registration regime for business-to-consumer supplies of imported digital services to non-GST registered persons.

Similarly, the reduced GST import relief reduces discrimination against local suppliers of goods by creating disincentives to purchase goods overseas and import them into Singapore on the basis that GST payment will be relieved.

However, some discrimination still persists arising from the **exemption** from import GST on goods imported by post or air (e.g. parcels) with a cost, insurance and freight (CIF) value of below S$400. This represents a leakage yet to be plugged, and we will be looking to see whether such exemption will be adjusted in subsequent Budgets.

## Extension of Tax Incentives for Financial Sector and Fund Industry

### a. Writing Down Allowance (WDA) for Intellectual Property Rights (IPR)

Under section 19B Income Tax Act (Cap. 134) (the ITA), a company or partnership is entitled to a WDA on capital expenditure incurred in acquiring qualifying IPRs for use in its trade or business, including patents, trademarks, registered designs, copyrights and trade secrets or information with commercial value.

The WDA will be extended to the **last day of the basis period for YA 2025**, meaning it will cover capital expenditure incurred in respect of qualifying IPRs acquired on or before such revised date.

### b. Investment Allowance (IA) under the Automation Support Package (ASP)

Under the ASP which was announced in the Budget 2016, a 100% IA is granted to companies on approved capital expenditure of up to S$10 million per project, net of grants, on projects approved by Enterprise Singapore (ES) during the approval period.

The IA will be extended and will apply to projects approved by ES during the period from **1 April 2019 to 31 March 2021**.

### c. Income tax concessions and GST remissions for Singapore-listed Real Estate Investment Trusts (S-REITs), REITs Exchange-Traded Funds (ETFs) and Registered Business Trusts (RBTs)

Existing income tax concessions for S-REITs and REITs ETFs will be extended till **31 December 2025**. In addition, GST remissions granted to S-REITs and RBTs will be extended till **31 December 2025**. All other conditions of the existing income tax concessions and GST remissions above will remain the same.

Further details on these changes are to be released by MAS by May 2019.

### d. Tax incentive schemes (Section 13 CA, 13X, 13R) and GST remissions for funds managed by Singapore-based managers

Existing tax incentive schemes and GST remissions for qualifying funds managed by Singapore-based fund managers will be extended till **31 December 2024**. These tax incentive schemes include the offshore fund tax exemption (Section 13CA), onshore fund tax exemption (Section 13R) and enhanced-tier fund tax exemption (Section 13X) as set out under the ITA.

In addition, the schemes will be refined to ease taxpayers' compliance burden, including the following:

<table>
<tr><th></th><th>Section 13X</th><th>Section 13CA</th><th>Section 13R</th></tr>
<tr><td rowspan="4">Key changes</td><td colspan="3">For income derived on or after 19 February 2019:<br><br>(i) Expanded list of designated investments (DI): removal of counter-party and currency restrictions, inclusion of credit facilities and advances and Islamic financial products that are commercial equivalents of DI. Further, the condition for unit trusts to wholly invest in DI will be removed<br><br>(ii) Expanded list of specified income: inclusion of income in the form of payments that fall within the ambit of section 12(6) ITA</td></tr>
<tr><td>-</td><td colspan="2">From YA 2020, removal of the condition that the fund must not have 100% of the value of its issued securities beneficially owned by Singapore persons</td></tr>
<tr><td>From 19 February 2019:<br><br>(i) Enhanced to apply to co-investments, non-company SPVs and more than two tiers of SPVs<br><br>(ii) Committed capital concession extended to debt and credit funds, allowing such funds to use secured committed capital to meet the minimum fund size condition. Currently, this concession is available only to real estate, infrastructure funds and private equity funds only<br><br>(iii) Enhanced to include managed accounts i.e. dedicated investment accounts where an investor places funds directly with a fund manager without using a separate fund vehicle</td><td colspan="2">-</td></tr>
<tr><td colspan="2">Qualifying non-resident funds will be entitled to the 10% concessionary tax rate applicable to qualifying non-resident non-individuals when investing in S-REITs and REITs ETFs, in respect of distributions made during the period from 1 July 2019 to 31 December 2025</td><td>-</td></tr>
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## IP Development Incentive (IDI)

In the Budget 2017, IP income was removed from the scope of the Development and Expansion Incentive-Services/Headquarters (DEI) and Pioneer-Services/Headquarters Incentive (PC-S). In place of such removal, the IDI was introduced as a standalone incentive, specific to IP income.

(Background: The DEI and PC-S are administered by the Economic Development Board (EDB) and awarded to companies making significant economic contributions to Singapore. Under the DEI and PC-S, approved companies can enjoy tax exemptions and concessions on income arising from qualifying activities.)

**As of 1 July 2018, the IDI has been implemented under Section 43ZI ITA. The EDB has also released further details of the criteria to be satisfied in its IDI Circular. Applications to the EDB for the IDI are now open to companies.**

Under the IDI, an approved company is eligible for a reduced corporate tax rate of either 5% or 10% (subject to increments of 0.5% at regular prescribed intervals) on a percentage of qualifying IP income derived by it during an initial incentive period of up to 10 years.

The above measures were taken in view of Singapore’s participation in the BEPS Project since June 2016. In particular, the key differences in the treatment of IP income under the IDI (as opposed to under the DEI and PC-S previously) include:

1. The percentage of qualifying IP income is determined by the BEPS-compliant **modified nexus approach**, which permits a country to provide benefits (e.g. tax incentives) to income arising from an IP right, so long as there is a **direct nexus** between the income receiving benefits (e.g. IP income qualifying for tax incentives) and the expenditures contributing to that income (e.g. R&D expenses); and
2. Stemming from the above, the research and development (R&D) activities undertaken to produce the qualifying IP income must be **conducted in Singapore** in order to receive benefits under the IDI. Previously under the DEI and PC-S, there was no strict requirement for this.

The IDI is similar to patent box exemptions in other jurisdictions such as the UK, which grants tax benefits to companies which have been properly involved in the creation and innovation of the patent, as opposed to merely owning the patent. Similarly, through the IDI, Singapore complies with the BEPS principle that the holding of IP in itself is not a substantive economic activity.

Companies applying for the DEI and PC-S schemes should also consider applying for the IDI if they perform substantial R&D activities in Singapore which generate IP income.

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