Tax, Trade & Wealth Management
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For more information, please contact:

Allen Tan
+65 6434 2681
Allen.Tan@bakermckenzie.com

Dawn Quek
+65 6434 2599
Dawn.Quek@bakermckenzie.com

Michael Nixon
+65 6434 2535
Michael.Nixon@bakermckenzie.com

Singapore Budget 2019: Tax Updates

The Singapore Budget 2019 ("**Budget 2019**") was delivered by the Minister for Finance Heng Swee Keat on 18 February 2019 against the backdrop of wider trends such as the shift in global economic weight towards Asia and rapid technological advancements. A key theme of this year's Budget was to position Singapore as “a Global-Asia node of technology, innovation and enterprise" to ride the wave of the Fourth Industrial Revolution. The measures seek to enhance Singapore's economic competitiveness by supporting industry transformation through three key thrusts: building deep enterprise capabilities, building deep worker capabilities, and encouraging strong partnerships within Singapore and across the world.

With respect to tax measures, most of the changes in Budget 2019 aim to refine existing tax incentives to further enhance Singapore's business competitiveness. We highlight the key changes below.

1. Changes to incentivise the use of intellectual property rights and technology

A. Extension of Section 19B writing-down allowance

Under Section 19B of the Income Tax Act ("**ITA**"), writing-down allowances ("**WDA**") are available on capital expenditure incurred to acquire qualifying intellectual property rights on or before the last day of the basis period for Year of Assessment ("**YA**") 2020, subject to meeting prescribed conditions. Taxpayers may make an irrevocable election to claim the WDA over a period of five, 10, or 15 years.

Following Budget 2019, Section 19B WDA has been extended by another five years to cover such expenditure incurred on or before the last day of the basis period for YA 2025. No other changes were made to the scheme.

Commentary: In the broader global context where taxpayers are seeking to align form and substance, this extension incentivises the onshoring of intellectual property in Singapore.

The extension of Section 19B did not come as a surprise and clearly signals Singapore’s intent to create value in a knowledge-based economy. This is in line with the theme of positioning Singapore as a "Global-Asia node of technology, innovation and enterprise" as well as the Government's 2013 10-year IP Hub Master Plan in guiding Singapore towards becoming a Global IP Hub in Asia. To provide clarity to taxpayers, the Inland Revenue Authority of Singapore has also issued guidance on valuation of IP rights for Section 19B purposes in June 2018.

B. Extension of investment allowance under the Automation Support Package and the Enterprise Development Grant

The Automation Support Package ("**ASP**") was introduced in Budget 2016 to encourage companies to embrace automation to drive productivity gains and scale up their enterprise.

One of the key features of the ASP was the 100% investment allowance. A company, whose project is approved by Enterprise Singapore, may claim an investment allowance on the amount of approved capital expenditure (net of grants), subject to a cap of $10 million per project. This is in addition to any existing capital allowance available for plant and machinery. This means that for an approved project, allowances of 200% (100% investment allowance subject to cap, and 100% capital allowance) can be claimed on the capital expenditure incurred to acquire the automation equipment.

The ASP also provides grants under the Enterprise Development Grant ("**EDG**"). The EDG, which replaced the Capability Development Grant, provides funding support of up to 50% of qualifying costs for the roll-out or scaling up of automation projects. The funding support is capped at $1 million.

Following Budget 2019, the ASP will be extended by two years for projects approved by Enterprise Singapore from 1 April 2019 to 31 March 2021.

In addition to providing funding support for automation projects, EDG may also be utilised by Singapore companies looking to strengthen their business capabilities (e.g., business strategy development, financial management) as well as to internationalise (e.g., pilot project and test bedding).

Following Budget 2019, EDG will be extended for three years, to 31 March 2023.

Commentary: The availability of different forms of assistance under the ASP reflects a multi-pronged approach to support companies in adopting automation, thereby increasing productivity and efficiency. For smaller companies that are starting up and not anticipating significant profits in the foreseeable future, they may find the EDG more helpful by easing cashflow. For companies already deriving substantial profits and seeking to further deploy automation, the investment allowance should be considered as a potential alternative or supplement to a larger tax incentive package.

The extension of the EDG also demonstrates the Government's strong commitment towards supporting local businesses to transform and grow in this challenging global business environment.

2. Changes affecting the financial services industry

A. Enhanced tax incentives for funds managed by Singapore-based fund managers ("**Qualifying Funds**")

Under Budget 2019, the tax incentives for Qualifying Funds have been extended to 31 December 2024, and their scope expanded in terms of eligibility criteria and tax benefits. The key changes are as follows:

Tax treatment (Before the Budget 2019 changes)	**New tax treatment**
Qualifying Funds may enjoy tax exemption on "**Specified Income**" derived from "**Designated Investments**", and withholding tax exemption on interest and other qualifying payments made to non-resident persons (excluding permanent establishments in Singapore). Qualifying Funds refer to (a) basic tier funds which qualify for tax incentive schemes under sections 13CA or 13R, and (b) enhanced tier funds which qualify for tax incentive schemes under section 13X. These incentive schemes were due to lapse after 31 March 2019.	The tax incentive schemes for basic tier funds and enhanced tier funds have been extended to 31 December 2024.
One of the qualifying conditions for basic tier funds is that they must not have 100% of the value of their issued securities beneficially owned, directly or indirectly, by Singapore persons (which includes Singapore citizens, Singapore residents, or permanent establishments in Singapore).	This condition has been removed with effect from YA 2020.
Basic tier funds under section 13R must not have previously carried on a business in Singapore, where that business generated income which would not have been exempt from tax.	This condition has been modified such that incidental income generated from the following will be covered by the scope of the section 13R scheme: (a) the warehousing of investments, (b) placement of monies in deposits or money market instruments on a

Tax treatment (Before the Budget 2019 changes)	New tax treatment
	temporary basis, or (c) setting up bank accounts in anticipation of commencing operations.
Enhanced tier funds may be structured as, amongst others, "master fund-SPV", or "master-feeder fund-SPV" structures, where the fund structure can have up to two tiers of special purpose vehicles ("**SPVs**"). The SPVs must be wholly-owned (directly or indirectly) by the master fund and can only take the form of companies.	Enhanced tier funds may now have more than two tiers of SPVs under the master fund. The new changes also permit SPVs to be in any legal form (i.e., not limited to being a company). Co-investment in SPVs is now permitted. The permitted co-investors are other incentivised funds and foreign investors. These changes took effect on 19 February 2019.
Enhanced tier funds were expanded under Budget 2018 to allow all legal forms of fund vehicles to be used as the (a) standalone fund vehicle, (b) master and feeder fund in a master-feeder structure, or (c) as the feeder fund(s) in a master-feeder fund SPV structure.	Enhanced tier funds now include managed accounts, i.e., dedicated investment accounts where an investor places funds directly with the fund manager, without the funds being placed in a separate vehicle. This change took effect on 19 February 2019.
Enhanced tier funds are required to have a minimum fund size on the date of application in order to qualify. Real estate, infrastructure and private equity funds applying to be enhanced tier funds are permitted to have their minimum fund size requirement determined based on their amount of committed capital.	The concession for determination of minimum fund size based on committed capital is extended to debt and credit funds, as well as private equity funds of funds. This change took effect on 19 February 2019.
Tax exemption for Qualifying Funds applies to Specified Income from Designated Investments.	Specified Income now includes Section 12(6) interest income (Singapore-sourced interest income).

Tax treatment (Before the Budget 2019 changes)	New tax treatment
Certain types of Singapore-sourced interest income under Section 12(6) of the ITA, such as interest on loans borne by a resident or permanent establishment in Singapore, are excluded from the scope of Specified Income.	The list of Designated Investments is no longer subject to counter-party and currency restrictions. It now also includes investments such as credit facilities and advances, and Islamic financial products that are commercial equivalents of Designated Investments. Unit trusts are also no longer required to invest wholly in Designated Investments, in order to be a Designated Investment. These changes apply to income derived on or after 19 February 2019.
A GST remission is granted to Qualifying Funds that are managed by prescribed fund managers, by allowing GST to be claimed based on a fixed recovery rate. This remission was due to lapse after 31 March 2019.	The GST remission has been extended to 31 December 2024.
Qualifying Funds which are non-resident in Singapore do not qualify for the 10% concessionary income tax rate available to non-resident non-individuals on qualifying distributions made from S-REITs and REITs ETFs.	Non-resident funds qualifying for schemes under sections 13CA and 13X of the ITA will also be granted the 10% concessionary income tax rate currently available to non-resident non-individuals on qualifying distributions made from S-REITs and REITs ETFs from 1 July 2019 to 31 December 2025.

More details are expected to be released by the Monetary Authority of Singapore ("**MAS**") by May 2019.

Commentary: The changes under Budget 2019 are a welcome liberalisation that will do much to further boost Singapore's status as an asset management hub, both for private wealth and for third party fund raising.

The removal of the restriction against 100% beneficial ownership of basic tier funds by Singapore persons makes the incentives under Sections 13CA and 13R much more flexible by allowing fundraising from local investors. This broadens the range of potential investors and allows for changes in the composition of the investors which was not previously possible. Also, it may encourage the creation of

Singapore fund vehicles. The relaxation of the prohibition for Section 13R incentive against funds with previous businesses in Singapore also indicates an intention on the Government's part to make establishment of funds easier and more commercially practical.

The enhancements to the incentive under Section 13X of the ITA make it an even more attractive option for fund managers and wealth managers. The expansion to allow co-investment in SPVs, multiple tiers of SPVs and SPVs in all legal forms offer opportunities for more flexible structuring, which can better suit the commercial needs of both institutional investors and high net worth individuals.

The inclusion of Singapore-sourced interest, and other income that falls under Section 12(6) of the ITA, in the list of "Specified Income" is a significant change that opens up a wide range of structuring options, and will do much to attract more financing to flow into Singapore.

In summary, the changes should further boost the attractiveness of the existing fund incentive regime in Singapore. Taken together with the fact that these fund incentives will apply to the Variable Capital Companies regime, Singapore will be at the forefront of the competition in the asset and wealth management sectors, both regionally and globally.

B. Extended tax concessions for Singapore-listed Real Estate Investment Trusts ("**S-REITs**") and Singapore-listed REITs Exchange-Traded Funds ("**REITs ETFs**")

In Budget 2018, the income tax concessions granted on distributions from S-REITs were extended to distributions made by S-REITs to REITs ETFs, to ensure parity in treatment of investors who invest directly in individual S-REITs, and those who invest in S-REITs via REITs ETFs. Currently, the tax concessions for S-REITs and REITs ETFs are as follows:

S-REITs	**REITs ETFs**
Tax transparency if the S-REIT distributes at least 90% of their taxable income to unitholders in the same year which the income is derived by the S-REIT. There is no sunset clause for this tax concession. Tax exemption on qualifying foreign-sourced income received by S-REITs and wholly-owned Singapore resident subsidiary companies of S-REITs, that is paid out of qualifying income or gains in respect of overseas property acquired on or before 31 March 2020 by the trustee of the S-REITs or its	Tax transparency treatment on distributions received by REITs ETFs from S-REITs that are made out of specified income.

S-REITs	REITs ETFs
wholly-owned Singapore resident subsidiary company.	
Tax exemption on (a) REITs ETFs distributions made out of distributions received from S-REITs that in turn are made out of specified income ("**REITs ETFs Distributions**") and (b) S-REITs distributions made out of specified income, that are received by individuals, excluding individuals who derive any distribution either (i) through a partnership in Singapore, or (ii) from the carrying on of a trade, business or profession.	
10% concessionary tax rate on S-REITs distributions made out of specified income and REITs ETFs Distributions, received by a qualifying non-resident non-individual who (i) does not have any permanent establishment in Singapore, or (ii) carries on any operation through a permanent establishment in Singapore, where the funds used by that person to acquire the units in those S-REITs or REITs ETFs are not obtained from that operation.	

Following Budget 2019, the above tax concessions will be extended to 31 December 2025 (from the original expiry date of 31 March 2020). Further, the sunset clauses for income tax exemption on S-REITs distributions and REITs ETFs Distributions received by individuals will be removed.

The GST remission granted to S-REITs will also be extended to 31 December 2025.

More details are expected to be released by the MAS by May 2019.

Commentary: The extended tax concessions reflect the Government's consistent policy of keeping a competitive tax regime for REITs and promoting the growth of the S-REIT industry.

The continued parity of tax treatment between S-REITs and REITs ETFs ensures a broader range of options for potential investors, while the extension of tax concessions for specified individual and non-individual investors helps to maintain Singapore's appeal to different types of investors. Specifically, the sunset clause for tax exemption on S-REITs distributions to individuals was introduced in 2018. The removal of the sunset clause ensures that S-REITs and REITs ETFs remain attractive investment options for individuals.

C. Expiry of the Designated Unit Trust ("**DUT**") scheme

Budget 2019 announced the expiry of the DUT scheme after 31 March 2019.

The DUT scheme was introduced in 1995 to promote the development of the fund management industry in Singapore. It was expanded in 2006 to include non-retail unit trusts, but subsequently refined in 2014 to focus only on retail unit trusts. Specified income derived by DUTs is not taxed at the trustee level but taxed upon distribution to the unit-holders. Such distributions are generally tax exempt in the hands of qualifying foreign investors and individuals. Existing DUTs will be grandfathered and will continue to receive this tax concession as long as they satisfy the conditions of the scheme.

Commentary: The discontinuance of the DUT scheme should be understood in light of the extension of the tax incentive schemes for Qualifying Funds. In particular, it is effectively subsumed into the newly liberalised Section 13CA scheme, which provides for a similar general tax exemption for distributions by qualifying unit trusts to qualifying foreign investors and individuals (with certain exceptions). The net effect is to provide for a more simple and streamlined tax regime for asset management vehicles.

3. Changes affecting individuals

A. Not Ordinarily Resident ("**NOR**") Scheme to be phased out

The NOR scheme was introduced in Budget 2002 to attract talented individuals to relocate to Singapore to complement Singapore's talent pool. It extends favourable tax treatment to qualifying individuals for a period of five consecutive years, subject to certain conditions being met. A NOR taxpayer enjoys the benefits of (i) time apportionment of employment income (i.e., the individual pays income tax only on that part of the individual's employment income that corresponds with the number of days the individual spends in Singapore); and (ii) tax exemption on contributions made by the employer to a non-mandatory overseas pension fund, which would otherwise be taxable in the individual's hands.

During Budget 2019, it was announced that the NOR scheme will be phased out. The last such NOR status will be granted for YA 2020 (i.e., for income earned in 2019) and expire in YA 2024. For those individuals already accorded the NOR status, they will continue to benefit from the NOR tax concessions until the expiry of their NOR status, subject to meeting all prescribed conditions.

Commentary: In a globalised world where countries fiercely compete to attract highly-skilled individuals, the phasing out of the NOR scheme may come as a surprise, considering that the NOR scheme was originally intended to match the tax concessions provided by other countries. Over the years, Singapore has been successful in attracting global talent to complement our local talent in order to drive Singapore's economy forward, creating the vibrant and competitive business landscape of today. The phasing out of the NOR scheme suggests that it has achieved its purpose. It is also an acknowledgement that today's Singapore has a lot more to offer (e.g. highly rated education system, an efficient transport system) in its efforts to attract and retain highly-skilled individuals.

Finally, it signals the Government's intention to create a level-playing field for all individuals, whether foreign or locals, and a more equitable tax regime.

B. Reduction of GST import relief and duty-free allowances for travellers

Currently, travellers[1] who spend less than 48 hours outside Singapore get GST import relief for the first $150 value of goods bought overseas. The relief is increased to the first $600 for travellers who spend more than 48 hours outside Singapore.

It was announced in Budget 2019 that with effect from 19 February 2019, GST import relief for travellers who spend less than 48 hours outside Singapore is reduced to the first $100 of the value of goods bought overseas. For travellers who spend more than 48 hours outside Singapore, the relief is reduced to the first $500 of the value of goods bought overseas.

For liquor products, travellers currently have three litres of duty-free allowance. Following Budget 2019, this allowance will be reduced to two litres from 1 April 2019.

Commentary: The tightening of GST import relief for travellers and reduction in duty-free allowance is a response to "rising international travel" to and from Singapore. These changes signify the Government's intention to deepen the base for GST revenue collection, following the announcement of the anticipated GST rate hike to 9% (from 7% currently) sometime between 2021 and 2025, and the introduction of GST on imported services which will take effect from 1 January 2020. As Singapore continues to make necessary expenditures to meet the healthcare, pre-school education and security needs of her people, the move to broaden and deepen the base for GST revenue collection is in line with the Government's approach to meet recurrent spending with recurrent revenues.

C. Personal income tax rebate for resident taxpayers for YA 2019

All resident taxpayers are entitled to a personal income tax rebate of 50% (capped at $200) of tax payable for YA 2019, which covers income earned in 2018.

D. Extension of Grandparent Caregiver Relief for a handicapped and unmarried dependent child

Currently, working mothers who engage the assistance of their parents, grandparents, parents-in-law, or grandparents-in-law, to take care of young children are entitled to claim Grandparent Caregiver Relief of up to $3,000, subject to meeting prescribed conditions.

From YA 2020, this relief will be extended to working mothers with handicapped and unmarried dependent children, regardless of the child's age, so long as prescribed conditions are met.

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[1] The relief is generally applicable to Singapore Citizens, Singapore Permanent Residents and tourists.

4. Restructuring of diesel tax

From 18 February 2019, the excise duty on diesel fuel has been increased from $0.10 per litre to $0.20 per litre. The annual special tax on diesel cars and taxis will also be permanently reduced by $100 and $850 respectively. To mitigate the impact of the increase in diesel duty, three-year road tax rebates will be provided for commercial diesel vehicles. For diesel school buses and eligible diesel private hire as well as excursion buses, they will receive cash grants.

www.bakermckenzie.com

Baker McKenzie Wong & Leow
8 Marina Boulevard
#05-01 Marina Bay Financial Centre
Tower 1
Singapore 018981

Tel: +65 6338 1888
Fax: +65 6337 5100