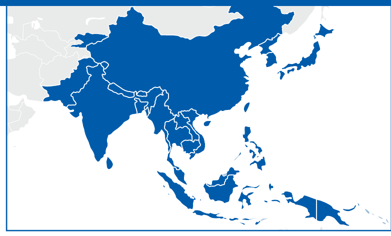

MGI Worldwide Insights: Singapore Budget 2016

Budget 2016

Finance Minister Heng Swee Keat delivered Singapore's Budget statement on March 24, 2016. This year's Budget has measures to help companies to manage the economic slowdown and to seek opportunities to grow in the midst of increasing uncertainty about the global economic and financial landscape. New initiatives were announced to help companies engage in infrastructure projects and to give better support to local enterprises. We summarize the key initiatives that would impact businesses.

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1. Creating value and growth

The government has committed to help companies to create value and grow by adopting new technology and to support to internationalise their operations by helping companies to access overseas markets. These support schemes include the Automation Support Package and the National Robotics Programme. A Business Grants Portal to be launched in the fourth quarter of 2016 will help firms access grants from various Government agencies, for purposes such as capability building, training, and international expansion. Specific details of these new initiatives will be announced at a later date.

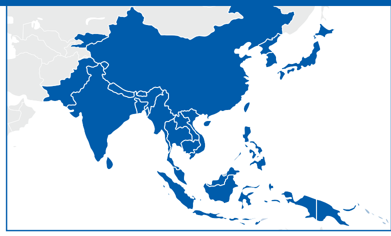
2. Enhanced Corporate Income Tax (CIT) Rebate

CIT Rebate is given to all companies to help them deal with rising business costs.
The Minister has announced that to help businesses, especially SMEs, to restructure in the midst of the current uncertain economic climate, the CIT Rebate for YAs 2016 and 2017 will be raised to 50% of the corporate tax payable, up from the 30% announced in Budget 2015. The rebate will be subject to a cap of $20,000 per YA.

Worked Example to show the enhanced CIT

	YA2015 ($)	YA2016 ($)
C.I. (after partial exemption)	60,000	60,000
Tax thereon @ 17%	10,200	10,200
Less: CIT Rebate	3,060 (30%)	5,100 (50%)
Tax payable	**7,140**	**5,100**

Savings in YA2016: $2,040



3. Productivity and Innovation Credit (PIC) and cash pay-out

Businesses will continue to benefit from the PIC scheme which has been extended till YA 2018.

For YA 2013 to Y A 2018, the conversion rate is 60% subject to a maximum expenditure cap of $ 100,000 (maximum cash pay-out up to $ 60,000/ per year of assessment) if the business has:

a) Incurred qualifying expenditure and is entitled to PIC during the basis period of the qualifying year of assessment;

b) Active business operations in Singapore; and

c) Minimum 3 local employees

The cash pay-out application can be made at any time after the end of the relevant financial quarter but before the filing due date of the income tax return for the relevant YA. If the qualifying expenditure is converted into cash, the same amount is no longer available for tax deduction or capital allowance. The cash rate will be lowered from 60% to 40% on qualifying expenditure incurred from 1st August 2016 with the maximum cash pay-out of up to $40,000 for the maximum expenditure of $ 100,000 converted to cash. The cap of $100,000 of qualifying expenditure per year of assessment remains and the scheme which has been extended to YA 2018 will expire after YA 2018 and it will not be available from YA 2019.

4. SME Working Capital Loan (WCL)

The primary objective of this scheme is to improve access to loans for qualifying projects undertaken by SMEs. The Government will introduce a new SME working capital loan scheme for loans of up to $ 300,000 per SME. The Government will co-share from current 50% of the default risks of loans with participating Financial Institutions. The full details of the loan scheme, which is yet to be announced by Ministry of Trade and Industry will be in force for three years.

5. Automation Support Package (ASP)

The ASP scheme supports companies to automate, drive productivity and scale up.

The essential features of the scheme are as follows:

- Fund up to 50% of qualifying project cost with a maximum grant $ 1 million
- 100% Investment allowance in addition to the existing capital allowance for automation equipment net of grants. The approved capital expenditure is capped at $10 million per project.
- Government co-sharing risk with private financial institutions from 50% to 70%.

There are also plans to expand the scheme to cover equipment loan for non-SMEs at 50% risk-share with participating financial institutions. The effective date will be announced by the Ministry of Trade and Industry soon.

6. Extended Special Employment Credit

The SEC will be modified and extended for three years to the end of 2019.

- This will provide employers with wage offset for workers aged 55 and above earning a gross monthly wage of $4,000 and cover employees on payroll from 1 Jan 2017 to 31 Dec 2019.
- In addition, employers with Singaporean workers aged 65 above with monthly wages of not more than $3,000 will receive the highest offset of up to 8% of employees' monthly wages. And further the wage offset will be up to 5% for workers aged 60 to 64 and 3% for those aged 55 to 59. A lower SEC is provided for employees with a monthly wage between $3,000 to 4,000 as shown below:

SEC Wage Offset for workers earning up to $4,000 per month

Wage of Employee in a Given Month	SEC for the Month for Each Employee		
	Aged 55 to 59 (up to 3% of monthly wage)	Aged 60 to 64 (up to 5% of monthly wage)	Aged 65 and above (up to 5% of monthly wage)
$500	$15	$25	$40
$1,000	$30	$50	$80
$1,500	$45	$75	$120
$2,000	$60	$100	$160
$2,500	$75	$125	$200
$3,000	$90	$150	$240
$3,500	$45	$75	$120
$4,000 and above	not available	not available	not available

7. Extending upfront certainty on tax treatment of gains on share disposals by Companies

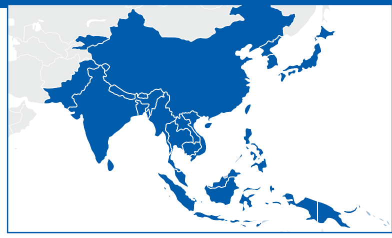
Under the current guidelines, the gains from the disposal of shares will not be taxed if both of the following conditions are satisfied:

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

b) The divesting company maintains that minimum 20% shareholding for a minimum period of 24 months immediately prior to the disposal

Under the current Law, the above applies to share disposals which take place from 1 June 2012 to 31 May 2017.

The Finance Minister has proposed to extend it beyond 31 May 2017 for 5 years to 31May 2022.



8. Enhancing Mergers and Acquisitions (M&A) Scheme

Currently the tax allowance of 25% up to $20 million acquisition value of all qualifying M & A transactions per year of assessment (i.e. M & A allowance of up to $ 5 million), that is claimable over 5 years and maximum stamp duty relief of up to $40,000 per financial year.

To support more M&A transaction, qualifying M&A transactions will enjoy the following revised tax benefits:

a) M&A allowance at the rate of 25% up to $40 million (up from $20 million) of the acquisition value of all qualifying M&A transactions per Year of Assessment i.e. maximum M&A allowance of up to $10 million claimable over 5 years

b) Stamp duty relief of up to $80,000 per financial year and the

c) Existing 200% one-year tax allowance write-down on transactions cost incurred on qualifying M&A subject to expenditure cap of $100,000 per Year of Assessment i.e. a maximum deduction of up to $200,000 per Year of Assessment.

The IRAS will release further details by June 2016.

9. Double Tax Deduction Scheme (DTD)

Currently businesses may claim up to 200% tax deduction on the qualifying expenditure incurred on the following four activities up to $100,000 per year of assessment without the need for approval from IE Singapore or Singapore Tourism Board (STB):

a) Overseas Business development trip/missions;

b) Overseas Investment Study Trips /missions;

c) Participation in overseas trade fairs and

d) Participation in approved local trade fairs

Claims on qualifying expenditure incurred on other qualifying activities or those in excess of $100,000/ will be granted on an approval basis by IE Singapore or STB.

The above scheme expires by 31 March 2016.

The Minister has proposed that to support business in their internalisation efforts the DTD for internalisation scheme will be extended beyond 31 March 2016 for 4 years till 31 March 2020.

10. Personal Income Tax Rates

The rates applicable for resident individuals for year of assessment 2016 and 2017 is as follows.

Changes to Personal Income Tax Rates (Effective YA 2017)

Chargeable Income ($)	Current Tax Rate (%)	New Tax Rate (%)
0 - 20,000	0	No change
>20,000 - 30,000	2	
>30,000 - 40,000	3.5	
>40,000 - 80,000	7	
>80,000 - 120,000	11.5	
>120,000 - 160,000	15	
>160,000 - 200,000	17	18
>200,000 - 240,000	18	19
>240,000 - 280,000		19.5
>280,000 - 320,000		20
Above 320,000	20	22

The changes will take effect from Year of Assessment 2017 (i.e. on income earned in 2016).

Cap on Personal income tax reliefs with effect from year of assessment 2018

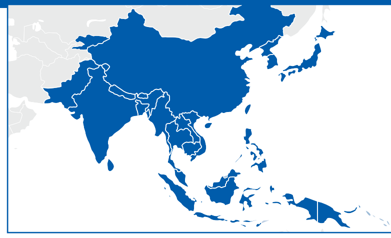
The Finance Minister has proposed to cap the total amount of personal income tax relief that a resident individual can claim to $80,000 per year of assessment.

No personal tax rebate is proposed for year of assessment 2016.

Removal of tax concession on home leave passage for foreign employees.

The existing taxable benefit of the home leave passages provided by an employer to their foreign employees and their families (limited annually to 1 passage each for employee and spouse and 2 passages for each dependent children) is computed based on 20% of the value of the leave passages is removed

And this measure will take effect from the year of assessment 2018 and all home leave passages provided would be taxable in full with effect from year of assessment 2018.



11. General-Towards a Caring Society

250% tax deduction is proposed on associated cost incurred for businesses which organise employees to volunteer at Institution of Public Character (IPC) including secondments from July 2016 to end 2018.

This deduction will be subject to the cap of $ 250,000 per business and $50,000 per IPC on the qualifying cost.

Proposal to Electronic filing of tax returns

As with the electronic mode of filing (XBRL) currently followed for ACRA filing, it is proposed to mandate to e-filing of corporate income tax returns, including Estimated Chargeable Income, tax returns form C and C-S in a phased approach from Y A 2018 onwards.

The scheduled phase of approach is as follows.

YA	Type of Businesses
2018	Companies with turnover of more than $ 10 million in YA 2017
2019	Companies with turnover of more than $ 1 million in YA 2018
2020	All companies

External challenges affecting inbound investments and more aggressive approach of tax authorities on taxable base in judging the tax effects of cross border transactions and increasing levels of media coverage on MNC's tax affairs is becoming the order of the day and it could have some effect on Singapore's economy.

Our Final Thoughts:

From a business perspective, this Budget is one that should be welcomed by all SMEs. The CIT rebate has been refined, applications for grants will be made administratively easier via the Business Grants Portal and more support will be provided for firms with their automation plans through the Automation Support Package (ASP).

Budget 2016 indicates that the government is taking a more calibrated and targeted approach in helping SMEs in specific industries. Previous Budgets appeared to be more broad based in their approach in helping businesses, specifically through the PIC scheme (expiring in YA2018). It is clear that the government is moving away from this "one size fits all" approach. The initiatives highlighted in Budget 2016 shows clearly that the Government will be taking a more hands on approach to upscale SMEs in specific industries. With the government's help and support, the SMEs will be better equipped to navigate the uncertainties of the Future Economy.

Disclaimer

While we have taken every effort to ensure that the contents of this publication are factually correct at the time of writing, rules and regulations do change. Would be investors are advised to seek professional advice when contemplating setting up a business in Singapore. MGI Alliance PAC would be more than happy to help you in this endeavour.

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