Budget 2015 overview

Chung-Sim Siew Moon
Partner and Head of Tax
Budget 2015 is about ... Future-proofing Singapore
Deepening our skills and capabilities
Making innovation pervasive
Strengthening the economic and social infrastructure
More targeted, more accessible
Measures for SMEs

• Capability Development Grant
• Venture debt risk-sharing programme
• Double Tax Deduction for Internationalisation scheme
• International Growth Scheme
SkillsFuture

- Upskilling the population
- Life-long learning
A fair and just society
- Silver Support Scheme
- Enhanced CPF
- Progressive tax system
Supported by …
• Increase in the top marginal personal income tax rate
• GST increase?
Holistic and comprehensive
Reaching for the “Singapore Dream”
Budget 2015: Corporate tax measures I

Helen Bok
Partner, Tax Services
Media and Entertainment Sector Tax Leader
Agenda

► Corporate income tax rate and rebate
► Enhancement and extension of tax deductions for donations
► Extension of the Wage Credit Scheme
► Extension and enhancement of the Temporary Employment Credit
► Enhancement of the Special Employment Credit
► Allowing the Productivity and Innovation Credit (PIC) Bonus to lapse
► Extension and enhancement of the Maritime Sector Incentive
► Extension of the Investment Allowance – Energy Efficiency schemes
► Extension of the Development and Expansion Incentive for International Legal Services
► Introducing a review date for the Approved Foreign Loan incentive
## Corporate income tax rate and rebate

*(Page 7 of Budget Synopsis)*

<table>
<thead>
<tr>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate tax rate</strong></td>
<td>17%</td>
</tr>
</tbody>
</table>
| **Partial tax exemption** | Up to first S$300,000 of normal chargeable income  
  - 75% exemption for up to the first S$10,000  
  - 50% exemption for up to the next S$290,000 | No change |
| **30% corporate tax rebate capped at S$30,000** | Applicable for Year of Assessment (YA) 2013 to YA 2015 |  
  - Cap reduced to S$20,000 per YA  
  - Will be extended for two years (YA 2016 and YA 2017) |
Corporate income tax rate and rebate
(Page 7 of Budget Synopsis)

Points of view

► Rate maintained since YA 2010

► Effective tax rate can be reduced by:
  ► Full and/or partial tax exemption
  ► Corporate income tax (CIT) rebate
  ► Enhanced/double tax deduction on certain expenses
  ► Productivity and Innovation Credit (PIC) claims
  ► Various tax incentive schemes

► Are we still competitive?
Corporate income tax rate and rebate
(Page 7 of Budget Synopsis)

► Hong Kong’s current corporate tax rate: 16.5%

► YA 2014-2015: One-off reduction of 75% of current profits tax, capped at HK$20,000

► How does this compare to Singapore:

<table>
<thead>
<tr>
<th>YA</th>
<th>Chargeable income (S$)</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Tax payable (S$)</td>
<td>Effective tax rate (S$)</td>
</tr>
<tr>
<td>2015</td>
<td>300,000</td>
<td>17,552&lt;sup&gt;a&lt;/sup&gt;</td>
<td>5.85%</td>
</tr>
<tr>
<td></td>
<td>11,185,000</td>
<td>1,845,525&lt;sup&gt;b&lt;/sup&gt;</td>
<td>16.5%</td>
</tr>
<tr>
<td>2016</td>
<td>9,185,000</td>
<td>1,515,525&lt;sup&gt;c&lt;/sup&gt;</td>
<td>16.5%</td>
</tr>
</tbody>
</table>

(a) Includes the 30% tax rebate
(b) Includes the 30% tax rebate capped at S$30,000
(c) Includes the 30% tax rebate capped at S$20,000
(d) Includes the one-off 75% reduction in profits tax, capped at HK$20,000
**Corporate income tax rate and rebate**
*(Page 7 of Budget Synopsis)*

**How does the rebate impact you?**

- Loss-making companies will not benefit from the CIT rebate from YA 2016 and YA 2017
- Further reduction of effective tax rate:

<table>
<thead>
<tr>
<th>Chargeable income</th>
<th>Effective tax rate (after partial exemption)</th>
<th>Effective tax rate (after partial exemption and CIT rebate)</th>
<th>Reduction in effective tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>S$300,000</td>
<td>8.36%</td>
<td>5.85%</td>
<td>2.51%</td>
</tr>
<tr>
<td>S$550,000</td>
<td>12.29%</td>
<td>8.65%</td>
<td>3.64%</td>
</tr>
<tr>
<td>S$5,200,000</td>
<td>16.5%</td>
<td>16.12%</td>
<td>0.38%</td>
</tr>
</tbody>
</table>

- Chargeable income of S$544,656 and above to reap the full benefit of the CIT rebate
Corporate income tax rate and rebate  
(Page 7 of Budget Synopsis)

Tips
► Consider to maximise your CIT rebate:
  ► Use of group relief loss transfer?
  ► Deferral of capital allowances claims?
  ► Deferral of receipt of foreign-sourced income as foreign tax credit claims can affect amount of CIT rebate
## Corporate income tax rate and rebate

### Illustrative example 1

<table>
<thead>
<tr>
<th></th>
<th>S$</th>
<th>S$</th>
<th>S$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net trade income before capital allowances claim</td>
<td>800,000</td>
<td>800,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Gross foreign interest income net of expenses</td>
<td>50,000</td>
<td>(Offshore)</td>
<td>50,000</td>
</tr>
<tr>
<td>Capital allowances</td>
<td>(200,000)</td>
<td>(100,000)</td>
<td>Deferred</td>
</tr>
<tr>
<td>Group relief – loss transferred in</td>
<td>(150,000)</td>
<td>(150,000)</td>
<td>Not claimed</td>
</tr>
<tr>
<td>Chargeable income (before partial tax exemption)</td>
<td>500,000</td>
<td>550,000</td>
<td>850,000</td>
</tr>
<tr>
<td>Partial tax exemption</td>
<td>(152,500)</td>
<td>(152,500)</td>
<td>(152,500)</td>
</tr>
<tr>
<td>Chargeable income (after partial tax exemption)</td>
<td>347,500</td>
<td>397,500</td>
<td>697,500</td>
</tr>
<tr>
<td>Tax payable before CIT rebate</td>
<td>59,075</td>
<td>67,575</td>
<td>118,575</td>
</tr>
<tr>
<td>Foreign tax credit (say)</td>
<td>(5,000)</td>
<td>N.A.</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Tax payable after foreign tax credit</td>
<td>54,075</td>
<td>67,575</td>
<td>113,575</td>
</tr>
<tr>
<td><strong>CIT rebate (30% of tax payable, capped at S$20,000)</strong></td>
<td>(16,223)</td>
<td>(20,000)</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Tax payable after CIT rebate</td>
<td>37,852</td>
<td>47,575</td>
<td>93,575</td>
</tr>
</tbody>
</table>
**Corporate income tax rate and rebate**

**Illustrative example 2**

<table>
<thead>
<tr>
<th></th>
<th>Without planning</th>
<th>With planning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YA 2017</td>
<td>YA 2018</td>
</tr>
<tr>
<td>Net trade income before capital allowances claim</td>
<td>800,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Gross foreign interest income net of expenses</td>
<td>50,000</td>
<td>-</td>
</tr>
<tr>
<td>Capital allowances</td>
<td>(200,000)</td>
<td>(200,000)</td>
</tr>
<tr>
<td>Group relief – loss transferred in</td>
<td>(150,000)</td>
<td>-</td>
</tr>
<tr>
<td>Chargeable income (before partial tax exemption)</td>
<td>500,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Partial tax exemption</td>
<td>(152,500)</td>
<td>(152,500)</td>
</tr>
<tr>
<td>Chargeable income (after partial tax exemption)</td>
<td>347,500</td>
<td>447,500</td>
</tr>
<tr>
<td>Tax payable before CIT rebate</td>
<td>59,075</td>
<td>76,075</td>
</tr>
<tr>
<td>Foreign tax credit (say)</td>
<td>(5,000)</td>
<td>N.A.</td>
</tr>
<tr>
<td>Tax payable after foreign tax credit</td>
<td>54,075</td>
<td>76,075</td>
</tr>
<tr>
<td><strong>CIT rebate (30% of tax payable, capped at S$20,000)</strong></td>
<td>(16,223)</td>
<td>-</td>
</tr>
<tr>
<td>Tax payable after CIT rebate</td>
<td>(a) 37,852</td>
<td>(b) 76,075</td>
</tr>
<tr>
<td>Total tax payable (YA 2017 and YA 2018)</td>
<td>S$113,927 (a) + (b)</td>
<td>S$110,150 (c) + (d)</td>
</tr>
</tbody>
</table>
Corporate income tax rate and rebate
(Page 7 of Budget Synopsis)

Lessons learnt:
► Maximising CIT rebate results in more current tax payable? Is overall reduction over the years worth it?

► Current year tax loss should first be transferred to a group entity where its net tax payable is S$66,000 and above (i.e., chargeable income is S$544,656 and above) to reap the full benefit of the rebate?

► Possible to defer capital allowance claims / receipt of foreign income can be managed to maximise CIT rebate claim?
Corporate income tax rate and rebate
(Page 7 of Budget Synopsis)

Clarifications from the Inland Revenue Authority of Singapore (IRAS)

► Given to all companies including:
  ► Registered business trusts
  ► Companies that are not tax resident in Singapore
  ► Companies that receive income taxed at a concessionary tax rate

► Not applicable to income of a non-resident company that is subject to final withholding tax

► Computed on the tax payable amount after deducting tax set-offs (e.g., foreign tax credits)

► No application required – automatic processing by IRAS:
  ► YA 2016 Estimated Chargeable Income (ECI) filed – amended Notice of Assessment (NOA) will be issued by May 2015
  ► Auto inclusion in YA 2016 and 2017 ECIs to be filed
Current

- Tax deduction of 250% for qualifying donations have been in place since 2009 and was due to lapse on 31 December 2015

- **1 year**
  - 1 Jan 2009 to 31 Dec 2009

- **1-year extension**
  - 1 Jan 2010 to 31 Dec 2010

- **5-year extension**
  - 1 Jan 2011 to 31 Dec 2015

Enhanced tax deduction of 250%
Enhancement and extension of tax deductions for donations (Page 15 of Budget Synopsis)

Proposed

► Tax deduction will be increased to 300% for qualifying donations made in 2015 and the 250% deduction will be extended for another three years from 1 January 2016 to 31 December 2018

*SG50 Jubilee celebrations*
1 Jan 2015 to 31 Dec 2015
Enhanced tax deduction of **300%**

*3-year extension*
1 Jan 2016 to 31 Dec 2018
Enhanced tax deduction of **250%**
Enhancement and extension of tax deductions for donations (Page 15 of Budget Synopsis)

Points of view

► For every S$100 donated by corporate donors (taxed at 17%)
  ► Reduction in tax of S$51
  ► Post-tax cost of S$49 to the donor

► Companies with non-December financial year-ends will need to track the actual date the qualifying donations were made
  ► E.g., For companies with 31 March 2015 year-end:
    ► Donations from 1 January to 31 March 2015 qualify for a 300% tax deduction
    ► Donations from 1 April to 31 December 2014 qualify for a 250% tax deduction

► Unutilised donations can only be carried forward for five years and no carry-back is allowed
  ► Not beneficial for corporate donors which are not generating any profits in 2015 or the near future

► Available for transfer under the group loss relief scheme
### Extension of the Wage Credit Scheme (WCS)

#### (Page 54 of Budget Synopsis)

**Current**

| WCS 2013 to 2015 | Co-fund 40% of wages increases | Singaporean employees earning gross wages of up to S$4,000 (minimum wage increase of S$50) | Wage increases in 2013 sustained in 2014 / 2015 will be eligible |

**Proposed**

| WCS Extended for two years 2016 and 2017 | Co-fund 20% of wages increases | No change | Wage increases in 2015 sustained in 2016 / 2017 will be eligible |
### Extension of the Wage Credit Scheme (WCS)

*Page 54 of Budget Synopsis*

**How the WCS works:**

<table>
<thead>
<tr>
<th>Gross monthly wage increases</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>S$200</td>
<td>S$200</td>
<td>S$200</td>
<td>S$200</td>
<td>S$200</td>
</tr>
</tbody>
</table>

**Monthly co-funding by Government**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly co-funding</td>
<td>S$80</td>
<td>S$160</td>
<td>S$240</td>
<td>S$80</td>
<td>S$120</td>
</tr>
<tr>
<td>by Government</td>
<td>(200 x 40%)</td>
<td>(400 x 40%)</td>
<td>(600 x 40%)</td>
<td>(400 x 20%)</td>
<td>(600 x 20%)</td>
</tr>
</tbody>
</table>

- Wage credit receipt is taxable

---

**Page 26  10 March 2015  Budget Seminar 2015**
Extension and enhancement of the Temporary Employee Credit (TEC) (Page 55 of Budget Synopsis)

Current

Employers will receive a one-year TEC offset of 0.5% of wages for Singaporean and Singapore Permanent Resident employees, up to the CPF salary ceiling of S$5,000 per month in 2015.

Proposed

<table>
<thead>
<tr>
<th>Year</th>
<th>TEC (% of wages)</th>
<th>CPF salary ceiling</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Proposed</td>
</tr>
<tr>
<td>2015</td>
<td>0.5%</td>
<td>1%</td>
</tr>
<tr>
<td>2016</td>
<td>-</td>
<td>1%</td>
</tr>
<tr>
<td>2017</td>
<td>-</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

* In line with proposed CPF changes

➢ TEC is a taxable receipt
Enhancement of the Special Employment Credit (SEC) (Page 55 of Budget Synopsis)

Current

► SEC of up to 8% of monthly wages of Singaporean employees aged above 50 earning up to S$4,000 per month; SEC was enhanced to 8.5% for 2015

- SEC of up to 8%
  4 years
  1 Jan 2012 to 31 Dec 2014

- SEC of up to 8.5%
  1-year enhancement
  1 Jan 2015 to 31 Dec 2015

- SEC of up to 8%
  1 remaining year
  1 Jan 2016 to 31 Dec 2016
Proposed

- SEC of up to 11.5% of monthly wages of Singaporean employees aged 65 and above in 2015

- SEC of up to 8% (for employees aged above 50 but below 65)

- SEC of up to 8.5% (for employees aged 65 and above)
## Enhancement of the Special Employer Credit (SEC) (Page 55 of Budget Synopsis)

### SEC for year 2015

<table>
<thead>
<tr>
<th>Income of employees per month S$</th>
<th>Employees aged above 50 (SEC up to 8%) S$</th>
<th>Employees aged above 50 below 65 (SEC up to 8.5%) S$</th>
<th>Employees aged 65 and above (SEC up to 11.5%) S$</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>40.00</td>
<td>42.50</td>
<td>57.50</td>
</tr>
<tr>
<td>≥2,500.00</td>
<td>200.00</td>
<td>212.50</td>
<td>287.50</td>
</tr>
<tr>
<td>3,000.00</td>
<td>240.00</td>
<td>255.00*</td>
<td>345.00*</td>
</tr>
<tr>
<td>3,500.00</td>
<td>120.00</td>
<td>127.50</td>
<td>172.50</td>
</tr>
<tr>
<td>≥4,000.00</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Maximum SEC per month</strong></td>
<td><strong>255</strong></td>
<td><strong>345</strong></td>
<td></td>
</tr>
</tbody>
</table>
The SEC reduces linearly for monthly wages between S$3,000 to S$4,000

Employers of persons with disabilities (PWD) aged above 50 receive higher SEC

- 2014 : 16% (including for PWD aged 50 and below)
- 2015 : 16% (including for PWD aged 50 and below)
  : 17% (only for PWD aged above 50)

SEC receipts are taxable
Allowing the PIC Bonus to lapse
(Page 28 of Budget Synopsis)

Current
Cash bonus of up of S$15,000 was granted for PIC qualifying expenditure for YA 2013 to YA 2015

Proposed
The PIC Bonus will be allowed to lapse after YA 2015
Extension and enhancement of the Maritime Sector Incentive (Pages 16-18 of Budget Synopsis)

**Ship operators**
- MSI-Shipping Enterprise (Singapore Registry of Ships) *(MSI-SRS)*
- MSI-Approved International Shipping Enterprise *(MSI-AIS)*

**Maritime lessors**
- MSI-Maritime Leasing (Ship) *(MSI-ML(Ship))*
- MSI-Maritime Leasing (Container) *(MSI-ML(Container))*

**Providers of shipping-related support services**
- MSI-Shipping-related Support Services *(MSI-SSS)*

Currently enjoy the following tax concessions (where applicable), subject to conditions:
- Tax exemption on qualifying income
- 10% / 5% concessionary tax rate on qualifying / incremental qualifying income (where applicable)

Current Approval window ends on 31 May 2016

Proposed Approval window extended to 31 May 2021
Extension and enhancement of the Maritime Sector Incentive (Pages 16-18 of Budget Synopsis)

<table>
<thead>
<tr>
<th>Withholding tax exemption</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>► On qualifying payments in respect of qualifying loans to finance construction or purchase of qualifying assets (e.g., ships, containers)</td>
<td>► Extended to cover:</td>
</tr>
<tr>
<td></td>
<td>► For qualifying loans entered into on or before 31 May 2016</td>
<td>► Finance lease and hire-purchase arrangements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>► Loans to finance equity injection into wholly-owned special purpose vehicles (SPVs) or intercompany loans to wholly-owned SPVs for the SPVs’ purchase of qualifying assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>► Extended to qualifying loans taken on or before 31 May 2021</td>
</tr>
</tbody>
</table>
## Extension and enhancement of the Maritime Sector Incentive (Pages 16-18 of Budget Synopsis)

<table>
<thead>
<tr>
<th>MSI-SRS</th>
<th><strong>Current</strong></th>
<th><strong>Proposed</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>MSI-SRS</td>
<td>- Cover qualifying income derived from operating Singapore-flagged ships / foreign-flagged ships respectively</td>
<td>- Extended to cover mobilisation fees, demobilisation fees, holding fees and incidental container rental income derived from qualifying shipping operations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MSI-AIS</th>
<th><strong>Current</strong></th>
<th><strong>Proposed</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>MSI-AIS</td>
<td>- Dividend income from an Approved Network Company is tax exempted</td>
<td>- Tax exemption extended to cover profits remitted from approved foreign branches of MSI-AIS entities</td>
</tr>
</tbody>
</table>
### Extension and enhancement of the Maritime Sector Incentive (Pages 16-18 of Budget Synopsis)

<table>
<thead>
<tr>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MSI-ML</strong></td>
<td><strong>MSI-SSS</strong></td>
</tr>
<tr>
<td>Concession applies to income derived from operating or finance leases</td>
<td>Concession enhanced to cover income from finance leases treated as sale</td>
</tr>
<tr>
<td>Covers certain approved shipping-related supporting services only</td>
<td>List of qualifying ship management activities to be updated or aligned with industry changes</td>
</tr>
<tr>
<td>Initial five-year award only</td>
<td>Award tenure extended for another five years</td>
</tr>
</tbody>
</table>
Extension and enhancement of the Maritime Sector Incentive (Pages 16-18 of Budget Synopsis)

Above proposed changes to take effect for existing and new award recipients from 24 February 2015
Points of view

► Extension of withholding tax (WHT) exemption closes the gap on financing arrangements not covered previously
  ► Self declaration of WHT exemption for each loan
  ► Onus on applicants to ensure all conditions met before claim of WHT exemption
  ► Likely to apply to payments due and payable on or after 24 February 2015

► Extension of qualifying ship management activities
  ► To include corporate services such as training of crews, accounting, IT services?

► Tax exemption of foreign branch profits of MSI-AIS entities
  ► Likely will exclude non-trade or passive branch income

MPA will release more details by end May 2015
Extension of the Investment Allowance – Energy Efficiency schemes (Page 20 of Budget Synopsis)

Current

Investment Allowance – Energy Efficiency (IA – EE)

IA – EE for Green Data Centres

Currently enjoy the following, subject to conditions:
► IA of between 30% and 50% of qualifying fixed capital expenditures on:
  ► Installation of energy efficiency equipment
  ► Retrofitting of data centres
► Scheme to lapse after 31 March 2015

Proposed
► Combined into one “IA – EE” scheme from 1 March 2015
► Extended till 31 March 2021
► Administered solely by the Economic Development Board (EDB)
► More details to be released by March 2015
Extension of the Development and Expansion Incentive for International Legal Services
(Page 21 of Budget Synopsis)

Current
► 10% concessionary tax rate on incremental income derived from provision of qualifying international legal services for five years
► Incentive due to lapse after 31 March 2015

Proposed
► Incentive extended till 31 March 2020
► All other conditions remain the same
Introducing a review date for the Approved Foreign Loan incentive (Page 29 of Budget Synopsis)

Current
- Tax exemption / concessionary tax rate on interest payments made to non-residents for loans to purchase productive equipment
- Loan quantum ≥ S$200,000
- Discretion to approve loan quantum < $200,000

Proposed
- Review date of 31 December 2023 to be legislated
- Loan quantum increased to ≥ S$20m
- Discretion to approve loan quantum < S$20m
Points of view

► Targeted at investments in high-value productive equipment

► Progressive investments and/or multiple lenders of smaller loan quantum may not qualify unless specifically approved

► Currently only covers productive equipment

► Expand to cover investment in intellectual property (IP) acquisition?
Budget 2015: Corporate tax measures II

Soh Pui Ming
Partner, Tax Services
Global Compliance and Reporting Leader
Agenda

► Withdrawal
  ► Concessionary tax rate on offshore leasing
  ► Approved Headquarters incentive
  ► Tax concession on royalties and other payments from approved intellectual property or innovation

► Review date
  ► Approved Royalty Incentive
  ► WDA on Indefeasible Right to Use

► Internationalisation
  ► The International Growth Scheme
  ► Double Tax Deduction for Internationalisation scheme
  ► Enhancing support for innovation and internationalisation

► Enhancing the M&A scheme
Withdrawing the offshore leasing concession
(Page 24 of Budget Synopsis)

Current:

► Income from offshore leasing of machinery and plant is taxed at 10% under section 43I of the Income Tax Act (ITA)

► Possible to make election to “opt-out”

Proposed:

► This concession will be withdrawn from 1 January 2016

► Any income derived from 1 January 2016 will be subject to prevailing corporate tax rate
Withdrawing the offshore leasing concession (Page 24 of Budget Synopsis)

Example 1 (Non-December year-end)

Company A with June year-end:

1 July 2015 – 31 December 2015: income taxed at 10%
1 January 2016 – 30 June 2016: income taxed at 17%

Example 2 (Concessionary Losses)

- Company B expects to incur offshore leasing losses of S$5m for FY 2015

\[
\begin{align*}
\text{Tax loss} & : \quad S5m & \quad 10\% \\
& \quad S2.94m & \quad 17\%
\end{align*}
\]

\[
\begin{align*}
S5m & \times \frac{10}{17} \quad \text{[Section 37B adjustment factor]}
\end{align*}
\]

- Cessation of tax incentive (?)
Withdrawing of the Approved Headquarters incentive (Page 25 of Budget Synopsis)

Current:

► Qualifying income is taxed at concessionary rate of 10% or lower under the Approved Headquarters incentive (Section 43E of the ITA)

Proposed:

► This incentive will be withdrawn from 1 October 2015
► Companies may consider the Development and Expansion Incentive (DEI)
Withdrawing of the Approved Headquarters incentive (Cont’d) (Page 25 of Budget Synopsis)

How does this affect you:

► Approved headquarter companies may need to consider engaging the Economic and Development Board (EDB) and consider DEI or other tax incentives

► DEI incentive typically applies to incremental income above the base income

► DEI does not provide tax exemption for foreign dividends
Withdrawing of the tax concession on royalties and other payments from IP or innovation
(Page 27 of Budget Synopsis)

Current:
- Inventor, proprietor, designer or any company owned by such persons
- Income from royalties or similar payments for the rights in approved intellectual property (IP) or innovation
- Taxed at the lesser of:
  - Net taxable income (after deductions)
    Or
  - 10% of gross income

- Concession can be extended to non-residents receiving royalty income from Singapore payors
- Administered by the EDB
Withdrawing of the tax concession on royalties and other payments from IP or innovation (Cont’d)

(Page 27 of Budget Synopsis)

Proposed:

► Tax concession to be withdrawn from YA 2017

How does this affect you:

► Inventors or proprietors should consider the tax impact of receiving the income in personal capacity (top tax rate 22%) vs company (17%)

► Withholding tax (if paid to non resident recipients) will be on the full payment
Introducing a review date - Approved Royalties Incentives (ARI)

- ARI is a tax incentive administered by the EDB
- Grants exemption from tax on approved royalties or other payments
- A review date of 31 December 2023 will be introduced
Introducing a review date – Writing Down Allowance (WDA) on the acquisition of IRU

► WDA over five years is allowed on capital expenditure incurred to acquire IRU (indefeasible right to use) of any international telecommunications submarine cable system

► A review date of 31 December 2020 will be introduced
New incentive:

► Encourage high potential Singapore companies to expand internationally

► Tax rate of 10% on incremental income

► Administered by IE Singapore (1 April 2015 to 31 March 2020)

► Details will be released by May 2015
## International Growth Scheme

### Comparing

<table>
<thead>
<tr>
<th></th>
<th>Global Trader Programme (GTP)</th>
<th>International Growth Scheme (IGS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessionary tax rate</td>
<td>5% or 10%</td>
<td>10%</td>
</tr>
<tr>
<td>Incremental income</td>
<td>NA</td>
<td>✓</td>
</tr>
<tr>
<td>Applicant</td>
<td>Singapore companies</td>
<td>High potential Singapore companies?</td>
</tr>
<tr>
<td></td>
<td>(local or foreign owned)</td>
<td></td>
</tr>
<tr>
<td>Qualifying income</td>
<td>Trading income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Buy and sell legs both</td>
<td></td>
</tr>
<tr>
<td></td>
<td>outside Singapore</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Excludes Singapore value-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>add</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Trading income?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Services?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Franchise/IP?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Manufacturing?</td>
<td></td>
</tr>
</tbody>
</table>
Current:

► 200% tax deduction on certain expenses on market expansion and investment development activities

► Expiry date of 31 March 2016

► First S$100,000 of qualifying expenditure (per YA) for specified activities do not require prior approval
## Enhancing the Double Tax Deduction (DTD)

<table>
<thead>
<tr>
<th>Examples of qualifying activities under DTD</th>
<th>No approval required for first S$100,000 *</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Overseas business development trips</td>
<td>✓</td>
</tr>
<tr>
<td>▶ Overseas trade fairs or missions</td>
<td>✓</td>
</tr>
<tr>
<td>▶ Local trade fairs approved by IE Singapore or the Singapore Tourism Board (STB)</td>
<td>✓</td>
</tr>
<tr>
<td>▶ Setting up overseas marketing office</td>
<td></td>
</tr>
<tr>
<td>▶ Printing of corporate brochures for overseas markets</td>
<td></td>
</tr>
<tr>
<td>▶ Market development activities</td>
<td></td>
</tr>
<tr>
<td>▶ Market survey</td>
<td></td>
</tr>
<tr>
<td>▶ Feasibility study</td>
<td></td>
</tr>
<tr>
<td>▶ Overseas investment feasibility studies</td>
<td></td>
</tr>
<tr>
<td>▶ Overseas investment study trips</td>
<td>✓</td>
</tr>
</tbody>
</table>

* Qualifying expenditure from 1 April 2012 to 31 March 2016
Proposed:

- Qualifying expenditure to include manpower expenses for Singaporeans posted to new overseas entities
- Capped at S$1m per entity per year
- Administered by IE Singapore (1 July 2015 to 31 March 2020)
- Details will be released by May 2015
Clarification:

► Manpower expenses for Singaporeans posted to new overseas entities
  ► Short term posting vs long term posting?
  ► Manpower expenses borne by Singapore company? (typically not tax deductible)

► What is a new overseas entity
  ► Less than one year?
  ► Overseas branch?
  ► JV companies?

► Would the current DTD be allowed to lapse by 31 March 2016
Enhancing Support for Innovation and Internationalisation (Page 50 of Budget Synopsis)

► Non-tax incentives for SMEs
► Approved on case by case basis
  i. Capability Development Grant (CDG)
  ii. Collaborative Industry Projects (CIP)
  iii. Partnerships for Capability Transformation (PACT)
  iv. Market Readiness Assistance (MRA) and Global Company Partnership (GCP) grants
  v. Venture Debt Risk-Sharing Programme
Enhancing the M&A Scheme  
(Page 10 of Budget Synopsis)

- Introduced in 2010 for five years
- Extended by another five years to 31 March 2020
- Changes take effect from 1 April 2015

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>M&amp;A allowance (over five years)</td>
<td>5% of acquisition value</td>
<td>25% of acquisition value</td>
</tr>
<tr>
<td>Cap (acquisition value)</td>
<td>S$100m per YA</td>
<td>S$20m per YA</td>
</tr>
<tr>
<td>Stamp duty relief</td>
<td>As above</td>
<td>As above</td>
</tr>
</tbody>
</table>
## Example

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A paid an</td>
<td>S$20m @ 5% = S$1m</td>
<td>S$20m @ 25% = S$5m</td>
</tr>
<tr>
<td>acquisition price of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S$20m to buy 100% of its</td>
<td></td>
<td></td>
</tr>
<tr>
<td>competitor Company B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;A allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stamp duty relief</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>M&amp;A allowance</td>
<td>S$50m @ 5% = S$2.5m</td>
<td>S$20m @ 25% = S$5m</td>
</tr>
<tr>
<td>Stamp duty relief</td>
<td>S$100,000</td>
<td>S$40,000</td>
</tr>
</tbody>
</table>
## Enhancing the M&A Scheme (Cont’d)
(Page 10 of Budget Synopsis)

<table>
<thead>
<tr>
<th>Shareholding tier</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to acquisition: Equal to or less than 50%</td>
<td>After acquisition: &gt; 50% of ordinary shareholding</td>
<td>After acquisition: ≥ 20% of ordinary shareholding At least one director on the Board of Directors and meets the Associated Company requirement</td>
</tr>
<tr>
<td>Less than 75%</td>
<td>≥ 75% of ordinary shareholding</td>
<td>&gt; 50% of ordinary shareholding</td>
</tr>
</tbody>
</table>
Enhancing the M&A Scheme (Cont’d)  
(Page 10 of Budget Synopsis)

Example

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company X bought 25% of Company Y</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td>Company XX plans to acquire Company YY in two phases:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Phase 1 : 51%</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Phase 2 : 49%</td>
<td>✓</td>
<td>X</td>
</tr>
</tbody>
</table>
Enhancing the M&A Scheme (Cont’d)
(Page 10 of Budget Synopsis)

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-month lookback</td>
<td>Acquisitions over a 12 months period can be consolidated</td>
<td>Removed</td>
</tr>
<tr>
<td>Other conditions</td>
<td>No change</td>
<td></td>
</tr>
</tbody>
</table>
Budget 2015: Financial tax measures

Amy Ang
Partner,
Financial Services Organization (FSO)
FSO Tax Market Segment Leader – Asean
Singapore tax exemption schemes for funds

Qualifying investors

Qualifying fund

Specified income

Designated investments

Fund manager (licensed or exempt)

- Non-resident (NR) foreign funds (Section 13CA)
- Approved Singapore resident funds (Section 13R)
- Not 100% beneficially owned by Singapore investors (including Singapore citizens, resident individuals and non-individuals, permanent establishments in Singapore)
Singapore tax exemption schemes for funds

Qualifying fund

- Company
- Trust
- Non-resident individual accounts

Limited partnership (LP)

look-through
Singapore tax exemption schemes for funds

- Investor
- LP
- Company
- Trust
- Individual

Diagram:
- Investor
  - LP
  - LP
  - Company
  - Trust
  - Individual
Singapore tax exemption schemes for funds

Qualifying investor

- Individual
- Bona fide non-resident non-individual investor
- Designated person

30/50 rule

(i) Less than 10 investors ≤ 30% of total value
(ii) 10 or more investors ≤ 50% of total value

Singapore resident non-individual investors
Improving the Enhanced-Tier Fund tax incentive scheme (page 34 of Budget Synopsis)

Current

► The Enhanced-Tier Fund tax incentive scheme grants tax exemption to approved fund vehicles on specified income derived from designated investments, subject to certain economic conditions:

► Minimum fund size of S$50m at the point of application
► Minimum annual local business spending of S$200,000
Improving the Enhanced-Tier Fund tax incentive scheme (page 34 of Budget Synopsis)

Current

► Concessionary treatment: master-feeder fund structures (excluding SPVs held by them) may apply to meet economic conditions on a collective basis

Proposed

► From 1 April 2015, master-feeder fund structures (including SPVs held by them) may apply to meet economic conditions on a collective basis

► Monetary Authority of Singapore will release further details by May 2015
Improving the Enhanced-Tier Fund tax incentive scheme

Current

Economic conditions can be met on a collective basis

Each SPV to meet economic conditions

*FMC = fund management company
**SPV = special purpose vehicle
Improving the Enhanced-Tier Fund tax incentive scheme

Proposed

Economic conditions can be met on a collective basis

Singapore FMC

Fund management

Master fund

Feeder 1

Feeder 2

SPV 1

SPV 2

SPV 3
Refining the tax incentives for venture capital funds and venture capital fund management companies (page 33 of Budget Synopsis)

Current

► Approved venture capital funds granted tax exemption on certain qualifying investment income
► Fund management companies managing such funds may also be granted tax exemption under the Pioneer Service incentive on qualifying management income
In recognition of the importance of venture capital activity in supporting entrepreneurship, a 5% concessionary tax rate will be accorded to approved venture capital fund management companies on qualifying management income. The approval window will be from 1 April 2015 to 31 March 2020.

The Pioneer Service incentive for venture capital fund management companies will be withdrawn from 1 April 2015. Pioneer certificates already issued will not be affected by this change.

A review date of 31 March 2020 will be legislated for tax exemption for venture capital funds.
Refining the tax incentives for venture capital funds and venture capital fund management companies

Venture capital tax incentive scheme:

- **Pioneer Service incentive**: 0%
- **Section 13H**: 0%

Diagram:
- Singapore venture capital FMC
- Venture capital fund
- Gains arising from the divestment of approved portfolio holdings
- Dividend income from approved foreign portfolio companies
- Interest income arising from approved foreign convertible loan stock
- Underlying investments

Notes:
- Pioneer Service incentive and Section 13H both currently offer 0% tax incentives.
Refining the tax incentives for venture capital funds and venture capital fund management companies

Venture capital tax incentive scheme: Proposed

- Concessionary tax rate 5%
- Singapore venture capital FMC
- Venture capital fund
  - Gains arising from the divestment of approved portfolio holdings
  - Dividend income from approved foreign portfolio companies
  - Interest income arising from approved foreign convertible loan stock
- Underlying investments
- Still 0%
  - Review date 31 March 2020
Extending and refining the Angel Investors Tax Deduction scheme (page 19 of Budget Synopsis)

Current

Approved angel investor

- S$100,000 within a year
- Holds for at least two years

Start-up company

Tax deduction of 50% of cost of qualifying investment

1 March 2010 to 31 March 2015

Extended till 31 March 2020

Government co-fund

Proposed

24 February 2015 – 31 March 2020

24 February 2015 – 31 March 2020

☑
Extending the tax deductions for collective impairment provisions made under the MAS Notices (page 31 of Budget Synopsis)

Current

► Banks - MAS Notice 612 (Subject to caps as stipulated under section 14I of the Income Tax Act (ITA))

► Finance companies and merchant banks – MAS Notice 811 and MAS Notice 1005 respectively

► These tax concessions are scheduled to lapse after Year of Assessment (YA) 2016 or YA 2017, depending on the financial year end of the bank or finance company
Extending the tax deductions for collective impairment provisions made under the MAS Notices
(page 31 of Budget Synopsis)

Proposed

► Tax concessions will be extended until YA 2019 or YA 2020, depending on the financial year-end of the bank or finance company
► Subject to section 141 of the ITA
► All conditions of the scheme remain the same
► Transit from FRS39 to FRS109 for quantifying and accounting for impairment with effect from financial year beginning on or after 1 January 2018

*FRS = Financial Reporting Standards
Extending and refining the tax incentive scheme for insurance businesses (page 32 of Budget Synopsis)

► Approved general, life and composite insurers and reinsurers may enjoy a concessionary tax rate of 10% on qualifying income derived from qualifying insurance and reinsurance business conducted from Singapore for a 10-year award tenure.

► The scheme will be extended till 31 March 2020 as the “Insurance Business Development Incentive”.

► Concessionary tax rate remains at 10%.

► Renewal framework will be introduced with effect from 1 April 2015.

► MAS will release further details by May 2015.
Extending the tax concession for REITs
(page 13 of Budget Synopsis)

Current

► Concessionary income tax rate of 10% on distributions of taxable income to non-tax resident non-individual investors

► Tax exemption on qualifying foreign-sourced income derived in respect of overseas properties

► Stamp duty remission on the transfer of a Singapore immovable property to a real estate investment trusts (REIT) and on transfer of 100% of the issued share capital of a Singapore-incorporated company that holds immovable properties situated outside Singapore, to a REIT

► The above concessions are scheduled to lapse on 31 March 2015
Extending the tax concession for REITs (page 13 of Budget Synopsis)

Proposed

► The income tax concession for REITs will be extended for five years until 31 March 2020
► The stamp duty remissions will be allowed to lapse after 31 March 2015
► MAS will release further details by May 2015
Extending the tax concession for REITs

Stamp duty remission on transfer of immovable properties:

- **Individual**: Taxable income taxed at: 0%
- **Singapore corporate**: 17%
- **Non-tax resident non-individual**: 10%

Qualified foreign-sourced income - tax exempt

- **REITs**: Singapore properties - Stamp duty remission
- **Overseas properties**: Singapore company
Extending the tax concession for REITs

Stamp duty remission on transfer of immovable properties:

- **Proposed**

<table>
<thead>
<tr>
<th>Taxable income taxed at:</th>
<th>Individual</th>
<th>Singapore corporate</th>
<th>Non-tax resident non-individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td></td>
<td>17%</td>
<td>10%</td>
</tr>
</tbody>
</table>

REITs

- Singapore properties
- Overseas properties

Qualifying foreign-sourced income - tax exempt

Singapore company

Up to 3% stamp duty

0.2% stamp duty

Stamp duty remission
Budget 2015: GST measures

Kor Bing Keong
Partner,
Indirect Tax – GST Services
GST remission for listed REITS and listed qualifying Registered Business Trusts
(page 45 of Budget Synopsis)

Current remission

► Allows listed S-REITs and listed qualifying S-RBTs to look through the holding structure and treat all supplies made by the multi-tiered structure as if they are made by the parent S-REIT and qualifying S-RBT

► Claiming of input tax by S-REIT or R-RBT without GST registration
  ▶ File statement of claims (if not registered)

► Remission expires on 31 March 2015

S-REITs = Singapore-listed Real Estate Investment Trusts
S-RBTs = Singapore-listed Registered Business Trusts
GST remission for listed REITS and listed qualifying Registered Business Trusts

Budget 2015

Extension of existing GST remission till 31 March 2020
GST remission for listed REITS and listed qualifying Registered Business Trusts

Current GST position

Non-asset holding SPV

Issuance of medium term notes [MTN]

Investors

Proceeds from the notes $

S-REITs or S-RBTs

Interest Bearing Loan

E.g. underwriting fee, legal fees, professional fees + GST*

Service providers

*GST incurred by S-REITs or S-RBTs is not claimable as it is not attributable to supplies made by S-REITs or S-RBTs
Budget 2015

GST remission enhanced to allow the claim of GST incurred for the period 1 April 2015 to 31 March 2020 on the set-up cost and business expenses of the fund-raising SPV
Simplifying pre-registration input tax claims rules

1 March 2015
Commenced making supplies

1 July 2015
Company is GST-registered

Pre-registration input tax

Scenario

- Company commences making taxable supplies before GST registration date
- Goods or services acquired are put to use before GST registration date
- Goods acquired before GST registration date remain with the company on GST registration date
- Company not partially exempt (i.e., no input tax restriction)
### Simplifying pre-registration input tax claims rules (page 46 of Budget Synopsis)

<table>
<thead>
<tr>
<th>Nature of expense</th>
<th>Business registered before 1 July 2015</th>
<th>Business registered from 1 July 2015 (Budget 2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immoveable properties</td>
<td>Subject to apportionment</td>
<td>Acquired within six months from GST registration date</td>
</tr>
<tr>
<td></td>
<td></td>
<td>► Claimable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Acquired more than six months from GST registration date</td>
</tr>
<tr>
<td></td>
<td></td>
<td>► Subject to apportionment</td>
</tr>
<tr>
<td>Property rental and utilities</td>
<td>Apportion based period of consumption</td>
<td>Acquired within six months from GST registration date</td>
</tr>
<tr>
<td></td>
<td>► Claimable for period from GST registration date</td>
<td></td>
</tr>
<tr>
<td></td>
<td>► Not claimable for period before GST registration date</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Acquired more than six months from GST registration date</td>
</tr>
<tr>
<td></td>
<td></td>
<td>► Subject to apportionment</td>
</tr>
</tbody>
</table>
## Simplifying pre-registration input tax claims rules (page 46 of Budget Synopsis)

<table>
<thead>
<tr>
<th>Nature of expense</th>
<th>Business registered before 1 July 2015</th>
<th>Business registered from 1 July 2015 (Budget 2015)</th>
</tr>
</thead>
</table>
| Services          | Acquired more than six months from GST registration date  
► Not claimable  
Acquired within six months from GST registration date  
► Subject to different apportionment formulae | Acquired more than six months from GST registration date  
► Not claimable  
Acquired within six months from GST registration date  
► Not directly attributable to supplies made before GST registration date – Claimable  
► Directly attributable to supplies straddling GST registration date – Apportionment |
| Movable properties| Acquired within six months from GST registration date  
► Claimable  
Acquired more than six months from GST registration date  
► Subject to apportionment | No change |
# Simplifying pre-registration input tax claims rules (page 46 of Budget Synopsis)

<table>
<thead>
<tr>
<th>Nature of expense</th>
<th>Business registered before 1 July 2015</th>
<th>Business registered from 1 July 2015 (Budget 2015)</th>
</tr>
</thead>
</table>
| **Raw materials** | Used in producing finished goods sold before GST registration date  
► Not claimable  
Unused as of GST registration date / used in producing finished goods not sold before GST registration date  
► Claimable | No change |
| **Consumables**   | Consumed before GST registration date  
► Not claimable  
Remain with company on GST registration date  
► Claimable | No change |
IRAS compliance initiatives

By invitation
Overview of the Assisted Compliance Assurance Program (ACAP) review process

1. Preliminary assessment
2. Getting ready for ACAP Review
3. Risk assessment
4-6. Review of GST controls established at the three levels for accurate GST reporting
7. Follow up on gaps and errors
8. Report of factual findings to ACAP applicant
9. Submit ACAP Report and deliverables to IRAS

10 March 2015 Budget Seminar 2015
Assisted Self-Help Kit (ASK) Review

Step 1: Review your GST declarations for the past financial year

Step 2: Select GST Return(s) for review

Step 3: Perform checks for the selected GST returns
   - Review your listing
   - Select samples from listing
   - Check supporting documents for samples selected

Step 4: Review and compare your financial statements against your GST declarations for the same financial year

Step 5: Quantify your errors (if any) and submit your findings to IRAS
Budget 2015: Personal tax measures

Pang Ai Lin
Director, Human Capital Services
Personal income tax rate and rebate
(page 37 of Budget Synopsis)

- One-off personal income tax rebate of 50%, capped at S$1,000 for Year of Assessment (YA) 2015

- A calibrated move to introduce an even more progressive personal income tax schedule to take effect from YA 2017
  - Raising the top marginal tax rate by 2% from 20% to 22%
  - Increasing tax rates for all bands of income above S$160,000
## Change in tax rate structure with effect from YA2017 (page 38 of Budget Synopsis)

<table>
<thead>
<tr>
<th>Current tax structure</th>
<th>Tax structure with effect from YA2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><em><em>Chargeable income</em> (S$)</em>*</td>
<td><strong>Tax rate</strong></td>
</tr>
<tr>
<td>On the first</td>
<td>20,000</td>
</tr>
<tr>
<td>On the next</td>
<td>10,000</td>
</tr>
<tr>
<td>On the first</td>
<td>30,000</td>
</tr>
<tr>
<td>On the next</td>
<td>10,000</td>
</tr>
<tr>
<td>On the first</td>
<td>40,000</td>
</tr>
<tr>
<td>On the next</td>
<td>40,000</td>
</tr>
<tr>
<td>On the first</td>
<td>80,000</td>
</tr>
<tr>
<td>On the next</td>
<td>40,000</td>
</tr>
<tr>
<td>On the first</td>
<td>120,000</td>
</tr>
<tr>
<td>On the next</td>
<td>40,000</td>
</tr>
<tr>
<td>On the first</td>
<td>160,000</td>
</tr>
<tr>
<td>On the next</td>
<td>40,000</td>
</tr>
<tr>
<td>On the first</td>
<td>200,000</td>
</tr>
<tr>
<td>On the next</td>
<td>120,000</td>
</tr>
<tr>
<td>On the first</td>
<td>320,000</td>
</tr>
<tr>
<td>In excess of</td>
<td>320,000</td>
</tr>
</tbody>
</table>

* Chargeable income = income after tax reliefs
Personal income tax rate and rebate

In the 2011 Budget Announcement ...

► A more progressive personal income tax schedule was introduced in YA 2012
  ► Targeted changes made to benefit the middle and upper middle-income taxpayers
  ► Reduced tax rates for all bands of income below S$120,000
  ► Rate changes cleverly tweaked to moderate tax savings of upper income earners through the introduction of the 15% and 18% bands
## Change in tax rate in YA 2012

<table>
<thead>
<tr>
<th>Chargeable income* (S$)</th>
<th>With effect from YA 2007</th>
<th>With effect from YA 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first 20,000</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>On the next 10,000</td>
<td>3.50</td>
<td>2.00</td>
</tr>
<tr>
<td>On the first 30,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>On the next 10,000</td>
<td>5.50</td>
<td>3.50</td>
</tr>
<tr>
<td>On the first 40,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>On the next 40,000</td>
<td>8.50</td>
<td>7.00</td>
</tr>
<tr>
<td>On the first 80,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>On the next 40,000</td>
<td>14.00</td>
<td>11.50</td>
</tr>
<tr>
<td>40,000</td>
<td>14.00</td>
<td>15.00</td>
</tr>
<tr>
<td>On the first 160,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>On the next 40,000</td>
<td>17.00</td>
<td>17.00</td>
</tr>
<tr>
<td>120,000</td>
<td>17.00</td>
<td>18.00</td>
</tr>
<tr>
<td>On the first 320,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>In excess of 320,000</td>
<td>20.00</td>
<td>20.00</td>
</tr>
</tbody>
</table>

* Chargeable income = Income after tax reliefs
Notes:
1. Assumes a Singaporean married man with two children, wife has no income and sole source of income is from his employment
2. Singapore calculations for YA 2017 include CPF tax relief calculated based on the proposed Budget 2015 changes
## Tax payable at different bands under tax structure prior YA 2012, YA 2012 and YA 2017

<table>
<thead>
<tr>
<th>Chargeable income (S$)</th>
<th>Tax payable* prior YA2012 (S$)</th>
<th>Tax payable* with effect from YA2012 (S$)</th>
<th>Tax payable* with effect from YA2017 (S$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>160,000</td>
<td>15,500</td>
<td>13,950</td>
<td>13,950</td>
</tr>
<tr>
<td>200,000</td>
<td>22,300</td>
<td>20,750</td>
<td>21,150</td>
</tr>
<tr>
<td>254,000</td>
<td>31,480</td>
<td>30,470</td>
<td>31,480</td>
</tr>
<tr>
<td>280,000</td>
<td>35,900</td>
<td>35,150</td>
<td>36,550</td>
</tr>
<tr>
<td>320,000</td>
<td>42,700</td>
<td>42,350</td>
<td>44,550</td>
</tr>
<tr>
<td>750,000</td>
<td>128,700</td>
<td>128,350</td>
<td>139,150</td>
</tr>
<tr>
<td>1,450,000</td>
<td>268,700</td>
<td>268,350</td>
<td>293,150</td>
</tr>
</tbody>
</table>

* Note: tax payable before any tax rebate
Tax increase under new income tax rate structure with effect from YA 2017

<table>
<thead>
<tr>
<th>*Assessable Income (S$)</th>
<th>Chargeable income (S$)</th>
<th>Tax payable under old schedule (S$)</th>
<th>Tax payable under new schedule (S$)</th>
<th>Tax increase (S$)</th>
<th>Increase in effective tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>250,000</td>
<td>200,000</td>
<td>20,750</td>
<td>21,150</td>
<td>400</td>
<td>0.2%</td>
</tr>
<tr>
<td>370,000</td>
<td>320,000</td>
<td>42,350</td>
<td>44,550</td>
<td>2,200</td>
<td>0.6%</td>
</tr>
<tr>
<td>800,000</td>
<td>750,000</td>
<td>128,350</td>
<td>139,150</td>
<td>10,800</td>
<td>1.4%</td>
</tr>
<tr>
<td>1,500,000</td>
<td>1,450,000</td>
<td>268,350</td>
<td>293,150</td>
<td>24,800</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

*Assessable income = income before tax relief of say, S$50,000
Comparative analysis (2015/2016 Hong Kong versus Singapore YA 2015 and YA 2017 tax rates)

Notes:
1. Hong Kong calculations for 2015/2016 include the increase of child allowance from HK$70K to HK$100K for each child.
2. Exchange rate used: S$1 : HK$5.9364
Implications of widening of rate between top individual tax rate and corporate tax rate

- Difference between individual top marginal tax rate and corporate income tax rate has widened by five percentage points (22% versus 17%)
  - May further encourage successful entrepreneurs to corporatise their business rather than conducting it through a sole proprietorship or partnership
  - The maintenance costs of the corporate vehicle need to be weighed against tax savings
Central Provident Fund (CPF) changes (page 41 of Budget Synopsis)

- Takes effect from 1 January 2016
  - CPF monthly salary ceiling to be revised from S$5,000 to S$6,000
  - Increase in CPF contribution rates for older workers between 50 to 65 years
**CPF rate increase**

- Proposed contribution rates with effect from 1 January 2016

<table>
<thead>
<tr>
<th>Employee age</th>
<th>Contribution rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employer</td>
</tr>
<tr>
<td>50 years or less</td>
<td>17</td>
</tr>
<tr>
<td>Above 50 to 55 years</td>
<td>17 ((16 +1))</td>
</tr>
<tr>
<td>Above 55 to 60 years</td>
<td>13 ((12+1))</td>
</tr>
<tr>
<td>Above 60 to 65 years</td>
<td>9 ((8.5 +0.5))</td>
</tr>
<tr>
<td>Above 65 years</td>
<td>7.5</td>
</tr>
</tbody>
</table>
CPF changes and its implications

- Increase in employee’s CPF contribution rate and ceiling
  - Overall reduction in the take home pay of an individual (up to S$250 per month based on a maximum wage of S$6,000 for workers aged between 50 to 55)
  - Reduced employee’s taxes (up to S$55 per month assuming top marginal rate of 22%) due to increased CPF relief
CPF changes and its implications

► Increase in employer’s CPF contribution
  ► More funds in the CPF account (up to a maximum of S$220 per month for workers aged between 50 to 55)
  ► Increase cost of doing business for the employer (up to a maximum of S$220 per month for workers aged between 50 to 55), but the Temporary Employment Credit (TEC) is enhanced to help to offset the impact of the increased CPF cost
Implications of CPF changes on Supplementary Retirement Scheme (SRS) cap (page 42 of Budget Synopsis)

- Increase in SRS cap

<table>
<thead>
<tr>
<th></th>
<th>Current (S$)</th>
<th>New (S$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore citizen / Singapore Permanent Resident</td>
<td>12,750</td>
<td>15,300</td>
</tr>
<tr>
<td>Foreigners (Employment pass holder)</td>
<td>29,750</td>
<td>35,700</td>
</tr>
</tbody>
</table>

- Reduction of tax liability due to increased SRS relief
Simplified claim for rental expenses
(Page 43 of Budget Synopsis)

► With effect from YA 2016, an individual can, in lieu of claiming the actual amount of deductible expenses, claim a specified amount of 15% of the gross rental income as a deduction. In addition, he can also claim any deductible interest expense.

► Change does not apply to any rental income derived by an individual through a partnership in Singapore or from a trust property

► More details will be released by IRAS by May 2015
Tax exemption for non-resident mediators

- Income derived by a non-tax resident mediator for mediation work carried out in Singapore from 1 April 2015 to 31 March 2020 will be exempt from tax.
- More details will be provided by the Ministry of Law by March 2015.
Tax exemption for non-resident arbitrators

- Income derived by a non-tax resident arbitrators on or after 3 May 2002 from arbitration work carried out in Singapore is exempt from tax.
- A review date of 31 March 2020 will be legislated for the exemption for non-tax resident arbitrators, to ensure that the relevance of the scheme is periodically reviewed.
What does it mean to you

► 50% tax rebate, capped at S$1,000 for YA 2015
► Increased tax rates for income level above S$160,000, with effect from YA 2017
► Increase in CPF monthly salary ceiling cap and CPF rates (for older workers) will:
  ► Increase CPF savings in CPF account
  ► Reduce net take-home pay
► Reduction in tax payable due to increased CPF and SRS reliefs, but tax savings can be negated by increased tax rates, especially for high income earners
► Simplified claim for rental expenses
The new BEPS paradigm: where we stand, how you should respond

Jonathan Stuart-Smith
Global Tax Desks Leader, Asia-Pacific

Chung-Sim Siew Moon
Partner and Head of Tax
<table>
<thead>
<tr>
<th></th>
<th>Topic</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tax challenges of digital economy</td>
<td>September 2014</td>
</tr>
<tr>
<td>2</td>
<td>Hybrid mismatch arrangements</td>
<td>September 2014</td>
</tr>
<tr>
<td>3</td>
<td>Controlled foreign corporation (CFC rules)</td>
<td>September 2015</td>
</tr>
<tr>
<td>4</td>
<td>Deductibility of interest and other financial payments</td>
<td>September / December 2015</td>
</tr>
<tr>
<td>5</td>
<td>Harmful tax practices</td>
<td>September 2014 / September 2015 / December 2015</td>
</tr>
<tr>
<td>6</td>
<td>Treaty abuse</td>
<td>September 2014</td>
</tr>
<tr>
<td>7</td>
<td>Artificial avoidance of permanent establishment status</td>
<td>September 2015</td>
</tr>
<tr>
<td>8</td>
<td>Transfer pricing for intangibles</td>
<td>September 2014 / September 2015</td>
</tr>
<tr>
<td>9</td>
<td>Transfer pricing for risks and capital</td>
<td>September 2015</td>
</tr>
<tr>
<td>10</td>
<td>Transfer pricing for other high-risk transactions</td>
<td>September 2015</td>
</tr>
<tr>
<td>11</td>
<td>Development of data on BEPS and actions addressing it</td>
<td>September 2015</td>
</tr>
<tr>
<td>12</td>
<td>Disclosure of aggressive tax planning arrangements</td>
<td>September 2015</td>
</tr>
<tr>
<td>13</td>
<td>Transfer pricing documentation</td>
<td>September 2014</td>
</tr>
<tr>
<td>14</td>
<td>Effectiveness of treaty dispute resolution mechanisms</td>
<td>September 2015</td>
</tr>
<tr>
<td>15</td>
<td>Development of a multilateral instrument for amending bilateral tax treaties</td>
<td>September 2015 / December 2015</td>
</tr>
</tbody>
</table>
On 16 September 2014, the OECD issued documents with respect to all 7 of the 15 BEPS focus areas that had September 2014 target dates:

- Action 1: Digital economy
- Action 2: Hybrid mismatch arrangements
- Action 5: Harmful tax practices
- Action 6: Treaty abuse
- Action 8: Transfer pricing for intangibles
- Action 13: Transfer pricing documentation and country-by-country reporting
- Action 15: Multilateral instrument

The OECD also indicated that additional work will be done in all these areas in 2015.
Action 13: Transfer pricing documentation and country-by-country reporting

► The recommendations under Action 13 contain revised standards for transfer pricing documentation and a template for country-by-country (CbC) reporting, to be included in the OECD Transfer Pricing Guidelines.

► The CbC reporting template will require MNCs to report the following items annually for each country where they have an entity or permanent establishment:
  ► Revenue, related and unrelated party
  ► Profits
  ► Income tax paid and taxes accrued
  ► Stated capital and retained earnings
  ► Employees
  ► Tangible assets
  ► Also identification of each entity in the country and the business activities of each entity
Action 13: Transfer pricing documentation and country-by-country reporting (cont’d)

► Under agreement on implementation of CbC reporting:
  ► First CbC reports are to cover 2016 fiscal years, with filing required within 12 months of year end
  ► CbC report generally is to be delivered to the MNC parent entity’s home country and shared with other relevant countries under government information exchange mechanisms
  ► Secondary delivery mechanisms contemplated for situations where home country does not have CbC reporting mechanism
  ► Exchange mechanism to include confidentiality protections
  ► Exemption from CbC reporting for MNC groups with annual turnover of less than €750m
Action 13: Transfer pricing documentation and country-by-country reporting (continued)

- Inbound investments
  - Collate information for your parent company
- Outbound investments
  - *While the IRAS does not currently require CbC reporting, other jurisdictions in which you operate may demand CbC reporting, on a world wide basis*

Recognise where are your hot spots!
Action 6: Addressing treaty abuse

The recommendation regarding addressing potential “treaty shopping” provides alternative options:

- Adoption of both a US-style limitation on benefits (LOB) rule and a general anti-abuse rule in the form of a principal purpose test (PPT) (which is the OECD preferred approach)
- Adoption of a PPT
- Adoption of an LOB rule supplemented by an anti-conduit rule
Action 6: Addressing treaty abuse

- Inbound and outbound investments
  - Treaty partners may require adoption of LOB or PPT clauses in our treaties
  - *Singapore-based companies – any future LOB may follow the US model treaty LOB, which has various exemptions*

- Considerations
  - The Inland Revenue Authority of Singapore (IRAS) is strict in issuance of certificate of residence (COR) to Singapore-based companies – self check by Singapore
  - Option of keeping income offshore is a thing of the past?
  - Will the IRAS stick to current practice of accepting COR by foreign tax authorities before granting treaty reliefs?

Recognise that you need to be a Singapore tax resident (with substance) to enjoy treaty reliefs
Action 5: Countering harmful tax practices

The report focuses on two areas:

- With respect to intangible property (IP) regimes, the report discusses options for a substantial activity requirement, including a “nexus” test.
- With respect to transparency, the report discusses development of a framework for compulsory spontaneous exchange of information by tax administrations on taxpayer specific rulings and Advanced Pricing Agreements (APAs).

The sharing of rulings and APAs also is contemplated in the master file/local file framework for transfer pricing documentation under Action 13.
Action 5: Countering harmful tax practices

- Inbound and outbound investments
  - If you enjoy tax incentives or have APAs, bear in mind that spontaneous exchange of information by tax administrations can take place
  - Governments need to take actions to support their tax incentive regimes

As taxpayers, recognise that what you do (with substance) must be same as what you say
Action 7: Permanent establishment (PE)

- Discussion draft includes 14 options for modifying Article 5 of the OECD Model Tax Treaty, addressing
  - Commissionaire arrangements
  - Preparatory or auxiliary exception to PE status
  - Splitting up of contracts
  - Fragmentation of activities
  - PE threshold for insurance

- These proposed changes all involve significant potential expansions of the PE concept and lowering of the PE threshold
Action 7: Permanent establishment (PE)

- **Inbound investments**
  - The IRAS has clarified that no further attribution of profits to PE is required if certain conditions are met

- **Outbound investments**
  - You need to review your operations or activities overseas to assess your PE risks

Review your activities to assess your overseas PE risks – tax $$$ and reputation risk
Action 2: Hybrid mismatch arrangements

► The OECD recommends a domestic law regime involving linking rules that would relate the tax treatment of a hybrid arrangement in one country to the treatment of such arrangement in the other country
  ► Ordering rules would specify primary and defensive rules with respect to the deduction and the exemption
  ► The recommendations would apply to hybrid arrangements involving related parties and members of the same controlled group and to certain “structured” arrangements
Action 2: Hybrid mismatch arrangements

► Inbound investments
  ► The IRAS has an e-Tax guide that sets out the income tax treatment of hybrid instruments, including the factors generally used to determine whether they are debt or equity instruments for income tax purposes

► Outbound investments
  ► Singapore tax treatment on receipts from overseas hybrid instruments is not clear cut

► No more arbitrage between tax jurisdictions

Review your hybrid instruments for certainty of tax treatment
Action 4: Limitations on interest deductions

- Main focus of discussion draft is alternative proposals for limiting interest deductions
  - By reference to amount of external interest of the MNC group allocated across group based on earnings or assets
  - By reference to a fixed ratio of entity’s earnings or assets
- Draft also considers proposals that would combine the two alternative approaches
Inbound and outbound investments

Borrower - The IRAS imposes interest expense restriction – asset-based formulae or specific identification method

Lender - Interest-free versus interest bearing loans?

Adoption of proposals by OECD and implications on your global business

Recognise that going forward, interest expense incurred on a global basis may be allocated to group entities for tax deduction
Action 1: Digital economy

- The report focuses in particular on
  - Permanent establishment
  - Value-added tax (VAT)
  - Data and transfer pricing
  - CFC rules

- Following completion of work on the other Actions, the OECD will evaluate how the outcomes affect the tax challenges raised by the digital economy
Action 1: Digital economy

► Inbound investments
  ► For the time being, existing tax treatment in Singapore on the digital economy remains

► Outbound investments
  ► Monitor OECD developments in this area especially on indirect taxation
  ► *Requirements for overseas VAT registration for Business-to-Consumer transactions*

Beware of the additional tax costs and tax compliance costs arising from the recommendations by OECD and actions taken by individual country on the Digital economy
Action 14 : Dispute resolution

Discussion draft includes 34 options for changes in dispute resolution mechanisms under the treaty mutual agreement procedure (MAP), addressing:

- Operation of the competent authority function
- Access to the MAP
- Resolution of cases in the MAP

Discussion draft states “there is no consensus on moving towards universal mandatory binding MAP arbitration”
Action 14: Dispute resolution

- Inbound and outbound investments
  - Cross border tax disputes are expected to rise
- Considerations
  - Tax administrations need to build up resources to attend to disputes
  - Taxpayers must have supporting documentation to defend any cross border disputes

Adopt upfront planning strategy with proper documentation and accurate execution as cross border disputes are costly to handle
In conclusion: Be prepared for …

► Country by country reporting
► Even greater scrutiny of:
  ► Treaty abuse – substance
  ► Tax incentives
  ► PEs
  ► Interest deductions
  ► Digital economy – cross-border GST
  ► Intangibles (Action 8)
  ► Service fees (Action 10)

More tax controversy is expected!
Revised Singapore transfer pricing guidelines: what you need to know

Henry Syrett
Partner, Transfer Pricing Services
Agenda

► The OECD and Singapore
► Recommendations on next steps
► Closing remarks
### Poll question

**Do you maintain or prepare Singapore transfer pricing documentation?**

- Yes. Updated annually or have an APA covering all transactions
- Yes. But it is out of date and we do not update it annually
- No. We rely on a regional or global document
- No. We deal with IRAS questions when they arise
- What is transfer pricing documentation?!
The OECD and Singapore
The OECD BEPS initiative

► Transfer pricing is central to the OECD’s initiative to combat Base Erosion and Profit Shifting (BEPS)

► Transfer pricing now presents not just a financial risk but also a reputational risk, with many multinational companies coming under the spotlight of tax administrations, but also politicians and journalists

► Whether as a reaction to the BEPS initiative or merely as a way to protect their tax base, countries around the region are introducing new transfer pricing requirements

► Singapore has had transfer pricing guidelines in place since 2006; new, comprehensive guidelines were released by the IRAS in January 2015
The OECD and the Singapore transfer pricing (TP) guidelines

► The 2006 Singapore TP guidelines already advocated an approach based on group and entity-level information, which is similar to the latest guidance from the OECD.

► Since the 2015 Singapore TP guidelines have further advocated this approach, they are broadly aligned with the proposals put forth in the OECD Action 13 report.

► A subtle difference may be Singapore’s requirement for group level and entity level information versus the OECD requirement for a separate global file.

► What should be in this OECD global file and does it help to meet the Singapore requirements?
## The OECD’s CbC Reporting template

<table>
<thead>
<tr>
<th>Country</th>
<th>Constituent Entity</th>
<th>Country + Constituent Entity</th>
<th>Place of Effective Mgmt</th>
<th>Primary Function</th>
<th>Revenue</th>
<th>Earnings Before Income Taxes (EBIT)</th>
<th>Stated Capital and Accum. Earnings</th>
<th>Total Employee Expense</th>
<th>Total Assets Other than Cash and Cash Equivalents</th>
<th>Cash Tax Paid - Country of Organization</th>
<th>Total Withholding Tax Paid</th>
<th>Total Taxes Paid</th>
<th>Royalties Paid</th>
<th>Royalties Received</th>
<th>Interest Paid</th>
<th>Interest Received</th>
<th>Services Fees Paid</th>
<th>Services Fees Received</th>
<th>Net I/C Transaction Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>LE1</td>
<td>A - LE1</td>
<td>Sales and Distribution</td>
<td>$1,250.00</td>
<td>$31.25</td>
<td>$31.25</td>
<td>$27.00</td>
<td>$2.00</td>
<td>$526.00</td>
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<td>$0.53</td>
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<td>$3.69</td>
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<td>$3.0</td>
<td>$2.0</td>
<td>$2.0</td>
<td>$3.0</td>
<td>$2.0</td>
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<tr>
<td>B</td>
<td>LE1</td>
<td>B - LE1</td>
<td>R&amp;D</td>
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<td>$40.91</td>
<td>$35.00</td>
<td>$2.00</td>
<td>$410.00</td>
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<td>$1.38</td>
<td>$4.83</td>
<td>$3.0</td>
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<td>$4.0</td>
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<td>$4.0</td>
</tr>
<tr>
<td>C</td>
<td>LE1</td>
<td>C - LE1</td>
<td>Finance</td>
<td>$1,000.00</td>
<td>$5.00</td>
<td>$5.00</td>
<td>$17.00</td>
<td>$2.00</td>
<td>$410.00</td>
<td>$0.45</td>
<td>$0.11</td>
<td>$0.23</td>
<td>$0.79</td>
<td>$0.0</td>
<td>$5.0</td>
<td>$2.0</td>
<td>$4.0</td>
<td>$2.0</td>
<td>$4.0</td>
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<tr>
<td>D</td>
<td>LE1</td>
<td>D - LE1</td>
<td>Other</td>
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<td>$150.00</td>
<td>$150.00</td>
<td>$9.00</td>
<td>$2.00</td>
<td>$477.00</td>
<td>$20.25</td>
<td>$5.06</td>
<td>$10.13</td>
<td>$35.44</td>
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<td>$1.0</td>
<td>$3.0</td>
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<td>$0.0</td>
</tr>
<tr>
<td>E</td>
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<td>Intellectual Property</td>
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<td>$4.0</td>
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<td>F</td>
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<td>F - LE1</td>
<td>Manufacturing and Production</td>
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<td>$4.0</td>
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<td>$5.0</td>
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<td>G</td>
<td>LE1</td>
<td>G - LE1</td>
<td>Administrative and Support Service</td>
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<td>$5.0</td>
<td>$1.0</td>
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<tr>
<td>H</td>
<td>LE1</td>
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<td>Sales and Distribution</td>
<td>$2,150.00</td>
<td>$55.29</td>
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<td>$7.46</td>
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<td>$3.0</td>
<td>$4.0</td>
<td>$5.0</td>
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<td>$1.0</td>
</tr>
<tr>
<td>I</td>
<td>LE1</td>
<td>I - LE1</td>
<td>Manufacturing and Production</td>
<td>$1,350.00</td>
<td>$115.71</td>
<td>$115.71</td>
<td>$23.00</td>
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<td>$416.00</td>
<td>$15.62</td>
<td>$3.91</td>
<td>$7.81</td>
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<td>$0.0</td>
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<tr>
<td>J</td>
<td>LE2</td>
<td>J - LE2</td>
<td>Manufacturing and Production</td>
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<td>$7.25</td>
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<tr>
<td>K</td>
<td>LE2</td>
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<td>Insurance</td>
<td>$1,775.00</td>
<td>$63.11</td>
<td>$63.11</td>
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<td>$2.00</td>
<td>$664.00</td>
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<td>$1.00</td>
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<tr>
<td>L</td>
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<td>R&amp;D</td>
<td>$2,225.00</td>
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<td>$75.00</td>
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<td>Insurance</td>
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<td>$2.0</td>
<td>$4.0</td>
<td>$2.0</td>
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</tr>
</tbody>
</table>
So what is required in Singapore?
Transfer pricing in Singapore

The most striking change is the explicit requirement for Singapore taxpayers to prepare contemporaneous transfer pricing documentation to support the pricing of transactions with related parties.

- If transfer pricing documentation is not prepared then this may attract transfer pricing adjustments and penalties under the law.

In addition, IRAS may not be as supportive of the transfer pricing positions of the taxpayer when it comes to voluntary adjustments or negotiations with other tax authorities to eliminate or mitigate double taxation (Mutual Agreement Procedure and Advanced Pricing Agreements).
### Instances where transfer pricing documentation is not required

<table>
<thead>
<tr>
<th>Category of related party transactions</th>
<th>Threshold (S$) per financial year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of goods from all related parties</td>
<td>15m</td>
</tr>
<tr>
<td>Sale of goods from all related parties</td>
<td>15m</td>
</tr>
<tr>
<td>Loans owed to all related parties</td>
<td>15m</td>
</tr>
<tr>
<td>Loans owed by all related parties</td>
<td>15m</td>
</tr>
<tr>
<td>All other categories of related party transactions. Examples:</td>
<td>1m per category of transactions</td>
</tr>
<tr>
<td>► Service income</td>
<td></td>
</tr>
<tr>
<td>► Service payment</td>
<td></td>
</tr>
<tr>
<td>► Royalty income</td>
<td></td>
</tr>
<tr>
<td>► Royalty expense</td>
<td></td>
</tr>
<tr>
<td>► Rental income</td>
<td></td>
</tr>
<tr>
<td>► Rental expense</td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of determining if the threshold is met, aggregation should be done for each category of related party transactions. For example, all service income received from related parties is to be aggregated.
Instances where transfer pricing documentation is not required

► Taxpayers are not expected to prepare TP documentation under the following situations:

► Where the taxpayer transacts with a related party in Singapore and such local transactions (excluding related party loans) are subject to the same Singapore tax rates

► Where a related domestic loan is provided between the taxpayer and a related party in Singapore and the lender is not in the business of borrowing and lending

► Where the taxpayer applies the safe harbour 5% cost mark-up for routine services

► Where the related party transactions are covered by an agreement under an Advance Pricing Agreement (APA) (an annual compliance report is still required in the case of an APA)
In addition, the IRAS sets out its position on the various types of adjustments relating to transfer pricing and the conditions under which it would accept these adjustments.

<table>
<thead>
<tr>
<th>Types of adjustments</th>
<th>Adjustments made at/for</th>
<th>Situations in which adjustments are made</th>
<th>Tax position</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year-end</td>
<td>Prior years</td>
<td>At closing of financial accounts / due to year-end TP review</td>
</tr>
<tr>
<td>Year-end adjustments at year-end closing of accounts (paragraphs 11.5 to 11.10)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Conditions are met</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Conditions not met</td>
</tr>
<tr>
<td>Compensation adjustments (paragraphs 11.11 to 11.14)</td>
<td>✓</td>
<td>✓</td>
<td>Agreed in APA</td>
</tr>
<tr>
<td>Compensation adjustments (paragraphs 11.19 to 11.25)</td>
<td>✓</td>
<td>✓ (where roll-back agreed)</td>
<td>Agreed in MAP</td>
</tr>
<tr>
<td>Self-initiated retrospective adjustments (paragraphs 11.15 to 11.18)</td>
<td></td>
<td>✓</td>
<td>Based on review of historical TP practices</td>
</tr>
</tbody>
</table>

(1) The IRAS will not allow any retrospective downward adjustments in the absence of contemporaneous TP documentation supporting the adjustments.
### Poll question

<table>
<thead>
<tr>
<th>Option</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes. Updated annually or have an APA covering all transactions</td>
<td>Yes. But it is out of date and we do not update it annually</td>
</tr>
<tr>
<td>No. We rely on a regional or global document</td>
<td>No. We deal with IRAS questions when they arise</td>
</tr>
<tr>
<td>What is transfer pricing documentation?!</td>
<td></td>
</tr>
</tbody>
</table>
Do you maintain or prepare Singapore transfer pricing documentation?
Recommendations on next steps
## Risk assessment

<table>
<thead>
<tr>
<th></th>
<th><strong>Data gathering</strong></th>
<th><strong>Application of thresholds, exceptions and risk assessment</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Collect financial data on quantum of related party transaction(s)</td>
<td>Consider which categories of transactions require Singapore TP documentation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>For categories that do not exceed the threshold, consider whether underlying tax risk is high and therefore means that Singapore TP documentation should be prepared</td>
</tr>
</tbody>
</table>
## Risk assessment (cont’d)

<table>
<thead>
<tr>
<th></th>
<th>Activities</th>
</tr>
</thead>
</table>
| 3 | **Review existing TP documentation and contemporaneous documents relating to intercompany transactions / dealings**  
   Prepare a gap analysis on aspects of existing TP documentation that need to be expanded and review other “internal” documents relating to intercompany transactions |
| 4 | **Operational TP considerations**  
   Review current year TP practices and results and consider whether periodic / year-end adjustments are necessary |
| 5 | **Prepare appropriate level of Singapore TP documentation**  
   Prepare Singapore TP documentation by the date of submitting the applicable tax return |
A centralised approach for companies with regional operations

Central Report

The Central Report is based on the recommendations in the Singapore Transfer Pricing Guidelines
The Central Report will be a solid base which can be leveraged for preparation of the Localised Reports

The Central Report will cover the following sections, which are the specific content requirements recommended in the Singapore Transfer Pricing Guidelines: Industry Analysis, Business Overview, Functional Analysis, Method Selection and Economic Analysis, which will include benchmarking studies

Localised Reports

The Localised Report for each country will be prepared on a stand-alone per-country basis, leveraging from the Central Report

The Localised Report will have the same key sections as the Central Report, but will have the following local specific content:

► Description of transactions
► Confirmation that the factual portions of the applicable Central Report are applicable for the local country and a description of any unique facts (if applicable)
► Summary of the applicable Central Report, specifically relating to the global benchmarking and application of transfer pricing methods, as well as full details or local country benchmarking analyses
► Overview of local transfer pricing rules
► Local country transactions details and other financial information necessary to apply transfer pricing method(s)
► Conclusions
Closing remarks

► It is now a requirement to prepare contemporaneous transfer pricing documentation in Singapore. If transfer pricing documentation is not prepared then this may attract transfer pricing adjustments and penalties under the law and may have other broader implications.

► The Singapore Transfer Pricing Guidelines are broadly aligned with the proposals put forth in the OECD Action 13 report with the notable exception that Singapore taxpayers need not prepare the CbC reporting template.

► Singapore taxpayers should perform a risk assessment to assess documentation requirements and consider using a Masterfile approach if they have substantive overseas operations.
Accounting for taxes: why you need a global mindset

Chai Wai Fook
Partner, Tax Services
Tax Accounting and Risk Advisory Services Leader – Asean and Singapore
Agenda

► Global tax risks in current environment
► What do they mean to you for income tax accounting?
► How you can prepare for the income tax accounting challenges?
Global tax risks in current environment

- **EY 2014 Tax risk and controversy survey (Survey)** identified four major sources of tax risks including:
  - Base Erosion and Profit Shifting (BEPS) and legislative risk
  - Enforcement risk

- Respondents highlighted heightened scrutiny by tax authorities

**A BEPS effect in tax enforcement?**

74% of the largest companies say they feel that tax administrators are now challenging existing structures due to changes in the law or changes in their enforcement approach.

*Source: EY 2014 Tax risk and controversy survey*
Global tax risks in current environment

What other tax controversies are highlighted in the Survey?

**Uncertainty around legislation and regulation**

- 85% of US-headquartered companies report that they are experiencing more risk or uncertainty around tax legislation or regulation than they were two years ago.

**Increased focus on cross-border transactions**

- 68% of the largest companies report that they feel tax authorities globally have increased their focus on cross-border transactions in the last two years.

“Largest companies” refers to global companies with more than US$5 billion in annual revenues.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.
Global tax risks in current environment

Top three perceived tax risks highlighted in the Survey

Transfer pricing is highest perceived tax risk

Transfer pricing is perceived to be the highest perceived tax risk area, followed by indirect taxes and permanent establishment risk

Source: EY 2014 Tax risk and controversy survey
What do these mean to you for income tax accounting?

1 Accounting for uncertain tax positions becomes more challenging

► Uncertain tax positions (UTPs) include assessing potential exposures from transfer pricing (TP) and permanent establishment (PE) risks

► For example, PE exposures are increasing
  ► Commentary on the OECD Model Convention is changing
  ► Tax authorities are more aggressively asserting PE presence
  ► Beware of the “inadvertent” PE

► Non-recognition or error in recognition could lead to financial statement errors
What do these mean to you for income tax accounting?

1. Accounting for uncertain tax positions becomes more challenging

   ► The inadvertent PE
     ► Rendering of services in a foreign jurisdiction
     ► Frequent travel to a jurisdiction
     ► Use of sub-contractors
     ► Exercise of authority and control over people in a jurisdiction
     ► Appointing agents to act on your behalf

   ► Non-reporting issues are not limited to tax and penalties
     ► Negative impact on reputation
     ► Revocation of licenses to operate
     ► Criminal sanctions
What do these mean to you for income tax accounting?

2 Record keeping becomes more critical

► Income tax account is often a significant risk area for statutory audit

► Onus on the company to have supporting documentation for its UTPs
  ► E.g., TP documentations to support material inter-company transactions under IRAS’ 2015 revised TP guidelines

► Finance or in-house tax function should keep a copy of the TP documentation
How you can prepare for the income tax accounting challenges?

1. Keep track of your company’s tax positions

   - Know your company’s tax positions and open tax issues in the jurisdictions where you operate

   - Stay abreast of latest tax developments and legislative changes
     - Determine impact on the company’s tax positions or tax model

   - Retention of records to support tax positions taken
How you can prepare for the income tax accounting challenges?

2. Put in place tax-related controls

- Put in place tax-related controls to identify potential PE risks

- Tip: Train your finance and human resource personnel to identify potential PE risks before it is too late

- Imperative to ensure that actual activities of personnel in foreign jurisdictions are in line with the records
How you can prepare for the income tax accounting challenges?

2 Put in place tax-related controls

- Periodic testing that company’s actual operations are in line with its documented tax model
  - E.g., changes in the company’s business or operating structure have not created additional exposures

- Engage qualified tax professionals to prepare or review your income tax provision calculations and tax returns
  - New accounting changes affecting tax, e.g., new revenue recognition standard IFRS 15 or FRS 115 (Revenue from contract with customers)
How you can prepare for the income tax accounting challenges?

3 Document your material transactions

► Have proper documentation on your material transactions to defend your UTPs
  ► E.g., Tax positions taken on open issues in your tax filings, PE issue and TP documentation

► Periodic testing that company’s actual transactions are in line with its TP documentations
How you can prepare for the income tax accounting challenges?

4 Assess the tax risk profile of the company periodically

► Consider performing a tax healthcheck periodically for high-tax risk jurisdictions or for significant entities

► Allocate more tax resources to critical transactions
  
  ► E.g. post-acquisition review of the tax accounting records and legacy tax risks of newly acquired entity or business which may not be covered by tax due diligence
Conclusion

► Income tax accounting is a persistent financial reporting risk

► The risk is compounded by new developments (e.g., BEPS) and changes to tax rules or accounting standards

► Addressing the income tax accounting challenges is paramount to reducing the risk of occurrence of income tax accounting errors and misstatements, thereby lessening the risk of restatements
Practical lessons from PIC

Tan Bin Eng
Partner
Business Incentives Advisory Leader – Asean
Government & Public Sector Leader – Asean

Chia Seng Chye
Partner, Tax Services
Technology Sector Tax Leader
The PIC scheme

► Introduced in Budget 2010 for the YA 2011 to YA 2015 to encourage productivity and innovation activities in Singapore

► Broad-based incentive available to all businesses for qualifying activities

► Multiple enhancements and extensions made to the PIC scheme to further encourage pervasive innovation and raise productivity efforts
The PIC scheme: a recap

The PIC scheme confers enhanced tax deductions for qualifying expenditure incurred per year of assessment (YA) in each of the following six activities:

- Acquisition or leasing * of IT and automation equipment
- Training of employees
- Acquisition or in-licensing of intellectual property rights (IPRs)
- Registration of IPRs
- R&D** activities
- Design projects in Singapore

* Includes procuring cloud computing services
** Need not be related to existing trade or business (for R&D done in Singapore)

400% for first $400,000 incurred per activity per YA

+ 150% (for R&D) or 100% (for the rest) for the balance expenditure
The PIC scheme – The journey so far

**Budget 2010**
- Introduction of PIC

**Budget 2011**
- Increase in quantum
- Enhanced cash payout option
- PIC benefits available to overseas R&D

**Budget 2012**
- Enhancements in:
  - Cash payout
  - Training (in-house and agents)
  - Automation equipment

**Budget 2013**
- Liberalisation of IT and automation equipment
- In-licensing of IPR

**Budget 2014**
- Extension of scheme
- Introduction of PIC+ scheme

IRAS introduces measures to curb PIC abuse
The PIC scheme – Claims

Proportion of all claims for each PIC category for the YA 2014

- Automation equipment: 1%
- Training of employees: 2%
- R&D: 31%
- Others: 66%

Proportion of total expenditure for each PIC category for the YA 2014

- Automation equipment: 6%
- R&D: 17%
- Others: 68%

Common issues: PIC – IT and automation equipment

1. Investment in equipment which is not within prescribed list

- Equipment not within prescribed list for IT and automation equipment does not qualify for enhanced allowances / deduction unless separate approval granted by IRAS on a case-by-case basis

- Key points to note:
  - Companies to assess on a timely basis, whether the equipment automates or mechanises business processes and enhances productivity
    (Note: application is on a per-equipment basis, i.e., companies cannot rely on approval granted on previous purchase for similar equipment)
  - Timely application to the IRAS to ensure enhanced claim or allowance or cash payout is correctly accounted for tax return filing

Application for cash payout must be made no later than tax filing deadline
Common issues: PIC – IT and automation equipment

2. Claims include non-qualifying expenditure

► Qualifying expenditure must be net of government grants and subsidies

► Non-qualifying expenditure e.g. warranty fee, service maintenance fee or consumable should be excluded

► Exception for bundled items which are incidental costs and not exceeding lower of S$3,000 and 10% of total value of sales / lease package

► Key points to note:

► Companies to review their accounting systems and consider setting up a chart of accounts to record and track qualifying expenditure

► Adjustments may need to be made where timing of grants/ subsidies may not coincide with the year of claim for the relevant equipment

► Documentation (e.g. invoices) should state clearly the date of acquisition, nature and amount of expenditure
Common issues: PIC – IT and automation equipment

3. Failure to assess that conditions are met

► Conditions for qualifying activity (IT and automation equipment) are not met
  ► Minimum one-year ownership period
  ► Equipment must not be leased (for acquired equipment) or sub-leased (for leased equipment)

► Key points to note:
  ► Where practicable, companies should review whether the one-year ownership may be met at point of tax return filing for equipment acquired in preceding basis period
  ► Additional considerations for companies which share PIC qualifying equipment within the group
Common issues: PIC – Training

1. Monitoring and tracking training expenditure

► Difficulty in monitoring and tracking qualifying training expenditure, as such transactions are typically voluminous and may be of varying nature / form

► Key points to note:
  ► Companies which offer extensive training activities for employees (e.g., online training, external trainers, overseas training, etc.) should ensure that their systems capture the relevant details to substantiate the PIC claim
  ► Adjustments may be needed for prepayments for training if the employees have not attended the training as at financial year-end
2. Claims for training under centralised hiring arrangements or secondment arrangement

► Additional considerations for recharges under centralised hiring / secondment arrangements

► Key points to note:
  ▶ Companies which deploy individuals under centralised hiring / secondment arrangements should review the setup to ensure that the key conditions are met:
    ▶ Supporting documents are in place for recharge of employment costs
    ▶ Corporate structure and centralised hiring practices are adopted for bona fide commercial reasons
    ▶ Related entity does not claim deduction on training expenses recharged to claimant entity
  ▶ Failure to meet the above may result in potential claims being disallowed
Research and Development (R&D): Current environment

The Singapore Government’s economic agenda is to raise the productivity of Singaporean companies and the living standards of Singaporeans.

- R&D enhanced tax deductions have been in place since YA 2009.
- R&D claims currently account for 1% of PIC claims made (YA 2014).
- Feedback raised by taxpayers include:
  - Uncertainty on the activities that qualify.
  - The R&D eligibility bar may be set too high.
  - Onerous administrative requirements.
  - Availability of a technical team to review the projects.
### Research and Development (R&D)

#### What is a qualifying R&D project?

<table>
<thead>
<tr>
<th>What activities did you undertake?</th>
<th>Why did you do the study?</th>
<th>What is involved in the study?</th>
</tr>
</thead>
</table>
| Systematic, investigative and experimental (SIE) study in the field of science or technology | **Objective** of the study:  
(a) Acquire new knowledge; or  
(b) Create new products or processes; or  
(c) Improve products or processes | Study sought to create or improve products and processes that make them **novel** or the study involved **technical risk** |
Research and Development (R&D): Key developments

► Based on feedback, key actions taken by the IRAS:

► Revisions to the IRAS e-Tax Guide R&D Tax Measures

<table>
<thead>
<tr>
<th>Edition number</th>
<th>Date issued</th>
<th>Changes – to be applied retrospectively</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second edition</td>
<td>August 2014</td>
<td>Revision to the general circular</td>
</tr>
<tr>
<td>Third edition</td>
<td>October 2014</td>
<td>Addition of an annex specific to software R&amp;D projects</td>
</tr>
<tr>
<td>Fourth edition</td>
<td>January 2015</td>
<td>Addition of an annex specific to the food and beverage (F&amp;B) industry R&amp;D projects</td>
</tr>
</tbody>
</table>

► Introduction of a technical advisory panel to advise the IRAS
  ► Panel member’s names have been published on the IRAS website
  ► Introduction of a simplified R&D claim form
R&D tax measures: Summary of changes to the IRAS e-Tax guide R&D tax measures

Guidance applicable to all R&D activities

► Key observations

► Expansion of guidance and examples focusing on SIE

► Need for contemporaneous supporting documentation. Such documentation must be provided to the IRAS upon request

► Definition of “beneficiary” and “R&D service provider”
Common issues for R&D claims

1. Eligibility of R&D projects

► Complexities of the rules and the different industries / businesses that companies operate in

► R&D projects may span over multi-years, depending on the outcome of results, further increasing the complexity

► Key points to note:
  ► Companies may wish to review their systems and processes to ensure that controls are in place to capture R&D qualifying projects and to segregate non-qualifying R&D activities

► Awareness of the periodic updates by the IRAS on guidance pertaining to R&D activities
Common issues for R&D claims

2. Claims for eligible R&D expenditure

► Definition of qualifying R&D expenditure
► Challenge in data extraction for qualifying expenditure

► Key points to note:
  ► Consider setting up a chart of accounts to record qualifying expenditure for each R&D project.
  ► Depending on how the expenses are recorded, there may be potential implications on the claims, e.g. where expenses are classified under “Cost of sales” or capitalised.
Common issues for R&D claims

2. Claims for eligible R&D expenditure (cont’d)

► Key points to note (cont’d)
  ► Where R&D activities are outsourced and expenditure may be significant, companies to ensure R&D service providers understand the documentation requirements

► Companies to consider claims under various categories, e.g. enhanced deduction claims for staff training costs may be made under a separate PIC category
Common issues for R&D claims

3. Claims in R&D expenditure by a R&D service provider

► Taxpayer must be the beneficiary of the R&D activities
  ► Bears the financial burden of carrying out the R&D activities
  ► Effectively owns and is able to commercially exploit the know-how, intellectual property or other results of the R&D activities

► Not straightforward in identifying the beneficiary of R&D activities

► Key points to note:
  ► Companies should review the R&D projects to assess eligibility on a timely basis. Relevant documentary evidence needs to be consistent to substantiate the beneficiary claim
Common issues for R&D claims

4. Documentation requirement

► Companies are required to submit an R&D form with their Form C or upon request by the IRAS for Form C-S
► Contemporaneous documentation must be maintained from the start of an R&D project
► Where documentation is insufficient / not done on a timely basis, R&D claims is likely to be affected

► Key points to note:
  ► Companies to put in place documentation on a timely basis particularly technical documentation.
Common issues for R&D claims

5. Allocation of R&D expenditure for companies with different income streams with different tax rates

- Companies with tax incentives will need to consider the allocation basis for the R&D expenditure under the respective categories
- Allocation basis to be considered based on the nature of the R&D projects

- Key points to note:
  - Companies will need to review and assess the appropriateness of the allocation basis for R&D expenditure, in particular if the amounts are likely to be significant
Summary

- Duplicate claims for PIC enhanced allowances / deduction and cash payout on the same qualifying expenditure
- Claiming PIC enhanced deduction / allowances on non-qualifying items or where conditions are not met or not net of grants / subsidies
- Qualifying expenditure not considered incurred as at year-end for PIC claim purposes
- No or insufficient documentation to support claims

Incorrect claims may result in penalties being imposed
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