MGI Alliance Singapore PAC
Public Accountants, Chartered Accountants

# MGI Perspectives:
# Singapore Budget 2017

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## 1. The Big Picture

"How will Singapore cope against a backdrop of political and economic uncertainty, rapid technological change and a rise in anti-globalisation sentiment around the world?"

This appeared to be the key question that Finance Minister Heng Sweet Keat attempted to answer when he delivered his Budget Speech on Monday, 20th February 2017.

In the next phase of economic development, innovation will be a crucial ingredient in ensuring Singapore's success or in the worst case scenario its very survival.
Budget 2017 appeared to be an extension on the wide ranging report by the Committee on the Future Economy (CFE) which was released earlier on 9 February 2017. We see common threads running across both of these reports.

In a nutshell, the rapidly changing and hugely unpredictable global landscape would require a new kind of skill set and competencies of both businesses and workers alike.
Budget 2017 appears to take a very targeted approach where SMEs are concerned. For example, the "SMEs Go Digital Programme" seeks to assist SMEs harness the benefits of digitisation and to some extent embrace the benefits of disruptive technologies.

## 2. Impact on business

The government continues to adopt a pro-business policy by investing in human capital. In this aspect, the government will provide additional support to companies in its restructuring efforts to meet the challenges of the changing global economic landscape. For example, the Government will co-fund 20% of wage increases given in 2017 to Singaporean employees earning a gross monthly salary of less than $4,000. The government will also adopt a more targeted approach to assist specific sectors hard hit by cyclical weakness. The offshore and marine industry is one such sector and the government has deferred levy increases for Work Permit holders (a high proportion in this sector).

A) <u>Enhancing and Extending the Corporate Income Tax (CIT) Rebate</u>

- Even though the corporate tax rate remains at 17%, the CIT rebate will be enhanced as follows: CIT rebate cap will be raised from $20,000 to $25,000 for YA2017 and it will be extended to another year to YA2018, but at a reduced rate of 20% of tax payable capped at $10,000 rebate. Refer to Annex A for examples and workings for the new CIT rebate.

B) <u>Introducing an Intellectual Property (IP) Regime that encourages the exploitation of IP arising from research & development (R&D)</u>

- To encourage the use of IPs arising from R&D activities there will be a new IP regime named IP Development Incentive ("IDI"). The IDI will take effect from 1st July 2017 and will be administered by EDB.

C) Expiry of the PIC scheme in YA 2018

- Under the PIC scheme, businesses enjoy 400% tax deductions/allowances for qualifying expenditure incurred in any of the six qualifying activities from the Years of Assessment (YAs) 2011 to 2018. This was a very welcome scheme especially for SMEs who benefitted from the tax deductions on different business expenditure.

- For YA 2013 to 31 Jul 2016, eligible businesses were also able to exercise an option to convert qualifying expenditure of up to $100,000 for each YA into cash, at a conversion rate of 60%. After 1 Aug 2016, the cash payout conversion rate was reduced from 60% to 40%. Refer to Annex A for a worked example. The PIC scheme will lapse after YA 2018.

D) SME Go Digital Programme (SMEGDP)

- Under the SMEGDP, SMEs will be able to obtain step-by-step advice on the technologies to use at the various stage of their growth and even funding support if they are able to implement their digital solutions. It is hoped that sectors in retail, F&B, logistics and cleaning would be able to benefit from this and that firms will be able to harness on technology in taking the next step forward.

E) Withholding Tax Exemption (WHT) for Structured Products offered by Financial Institutions

- To continue to promote Singapore as a financial hub, the qualifying period for the WHT exemption on payments made to non-resident non-individuals for structured products will be extended till 31 March 2021 (renewed when the scheme expires in March this year).

F) Enhancing the Global Trader Programme (GTP)

The GTP will be enhanced and simplified so as to facilitate and encourage more trading activities in Singapore. Some of the enhancements are:

- The requirements for qualifying transactions to be carried out with the qualifying counterparties will be removed. Consequently, the concessionary rate will be granted to approved global trading companies on income derived from transactions with any counterparty.

- The concessionary tax rate will be granted to approved global trading companies on physical trading income derived from transactions in which the commodity is purchased for the purposes of consumption in Singapore.

G) Foreign Worker Levy (FWL): Marine and process sectors (MPS)

- The FWL increases for the MPS sectors will be deferred for one more year from 1 July 2017 to 30 June 2018. This is one way that the government is assisting this sector which has been hard hit by cyclical weakness.

H) Construction Sector

- To support this sector, the government will be pumping in $700m in public infrastructure projects which local construction firms can bid for. Some of the projects include upgrading of community clubs and sports facilities. These projects will be carried out in FY 2017 and FY 2018.

H) Support for training and development for all Singaporeans

- Funding support for Singaporeans to take approved courses will be still available via Skills Future. More e-learning modular courses will be offered by the local polytechnics and universities to cater to professions and vocations in a diverse range of industries. In addition, union members will be eligible for even further subsidies via the NTUC Education Training Fund.

I) Personal Income Tax Rebate

- All individual tax residents will receive a personal income tax rebate of 20% of tax payable for YA 2017. The rebate will be capped at $500 per taxpayer. There were no rebates given for YA 2016. No further changes for the personal income tax rates as well as personal reliefs for individuals. Refer to Annex A for further details.

J) Re-employment age and Additional Special Employment Credit (ASEC)

- The re-employment age will be raised from 65 to 67 from 1 July 2017. Additionally, the government will also extend the ASEC for two and a half years till 31 December 2019. This scheme would provide employers (a maximum of) 3% wage offset for employees who earn below $4,000 per month. It is estimated that this scheme will benefit some 120,000 employees and 55,000 employers. Refer to Annex A for further details.

K) Conclusion

- At first glance, it would appear that there is not much on offer for MNCs and SMEs in Budget 2017. However, a closer analysis would indicate that Budget 2017 is more far-sighted in its approach. Budget 2017 has built upon the recommendations made by the CFE. The government has acknowledged the crucial role that innovation will play in a world which is becoming increasingly digital. Programmes such as the SMEGDP will be a helpful springboard for companies to embrace digitisation and disruptive technologies. Budget 2017 has shown that the government is committed to helping companies in this journey.

- In addition, the government has also acknowledged that the marine and off-shore and construction sectors are in the doldrums. As such, the government has taken a targeted approach to assist firms in these industries.

- Budget 2017 reaffirms the government's commitment to lifelong learning with even more funds set aside for Singaporeans who are looking to upgrade their skills. Undoubtedly, increasing the capacity and competency of the workforce will be the key to increasing productivity.

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*Some examples contained in Annex A were adapted from the "ISCA Budget 2017 Update and its Tax Implications" seminar held on 7 March 2017.*

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

**MGI Perspectives: Budget 2017 Annex A**
**Summary and Overview of Tax Implications**

<table>
<tr><th>Budget 2017</th><th>Tax Impact & Illustration</th></tr>
<tr><td>Corporate Tax Rate</td><td>No change. Still remains at 17%. However, a very low tax rate compared to other countries.
<table>
<tr><th colspan="2">Corporate Tax Rates in other countries (%)</th></tr>
<tr><td>Ireland</td><td>12.5</td></tr>
<tr><td>Hong Kong</td><td>16.5</td></tr>
<tr><td>Singapore/Taiwan</td><td>17</td></tr>
<tr><td>Thailand</td><td>20</td></tr>
<tr><td>UK</td><td>20</td></tr>
<tr><td>Japan</td><td>23.4</td></tr>
<tr><td>China, Malaysia, Indonesia</td><td>25</td></tr>
<tr><td>India, Australia, Philippines,</td><td>30</td></tr>
<tr><td>USA</td><td>35</td></tr>
</table>
</td></tr>
<tr><td>Tax rebates for YAs 2016, YA 2017 and YA 2018</td><td>CIT rebate cap will be raised from $20,000 to $25,000 for YA2017 and it will be extended to another year to YA2018, but at a reduced rate of 20% of tax payable capped at $10,000 rebate.
<table>
<tr><th></th><th>($)</th><th>(%)</th></tr>
<tr><th>YA</th><th>Max Cap</th><th>Tax rebate rate</th></tr>
<tr><td>2016</td><td>20,000.00</td><td>50</td></tr>
<tr><td>2017</td><td>25,000.00</td><td>50</td></tr>
<tr><td>2018</td><td>10,000.00</td><td>20</td></tr>
</table>
</td></tr>
<tr><td>Effective tax rates for YA 2017</td><td>
<table>
<tr><th>C.I.</th><th>Effective rate (%)</th></tr>
<tr><td>300,000.00</td><td>4.2</td></tr>
<tr><td>500,000.00</td><td>6.8</td></tr>
<tr><td>1,000,000.00</td><td>11.9</td></tr>
</table>
*after partial exemption of $152,500 and 50% rebate (YA2017)</td></tr>
<tr><td>Worked example on effective tax rates for YA 2016, YA 2017 and YA 2018.</td><td>
<table>
<tr><th></th><th>YA2016 ($)</th><th>YA2017 ($)</th><th>YA2018 ($)</th></tr>
<tr><td>C.I.</td><td>500,000.00</td><td>500,000.00</td><td>500,000.00</td></tr>
<tr><td>Partial Exemption</td><td>(152,500.00)</td><td>(152,500.00)</td><td>(152,500.00)</td></tr>
<tr><td>C.I. before rebates</td><td>347,500.00</td><td>347,500.00</td><td>347,500.00</td></tr>
<tr><td>Tax @17%</td><td>59,075.00</td><td>59,075.00</td><td>59,075.00</td></tr>
<tr><td>Less: Rebates</td><td>(20,000.00)</td><td>(25,000.00)</td><td>(10,000.00)</td></tr>
<tr><td>Tax payable</td><td>39,075.00</td><td>34,075.00</td><td>49,075.00</td></tr>
<tr><td>Effective tax rate</td><td>7.82%</td><td>6.82%</td><td>9.82%</td></tr>
</table>
</td></tr>
</table>

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**CT Tax Conversion Illustration 1**

| Cash conversion illustration 1 ($) | NO | YES |
|---|---|---|
| Profit | 1,000,000 | 1,000,000 |
| PIC | (400,000) | - |
| Chargeable Income (CI) | **600,000** | **1,000,000** |
| PTE | (152,500) | (152,500) |
| | 447,500 | 847,500 |
| Tax@17% | 76,075 | 144,075 |
| Rebate | (25,000) | (25,000) |
| Cash Conversion | - | (40,000) |
| | **51,075** | **79,075** |

**Personal Tax Comparison**

No change to Personal Income tax rate and Singapore still has one of the lowest personal effective tax rates in the world.

| Personal Tax Rates in other countries (%)* | |
|---|---|
| Singapore | 8 |
| Hong Kong | 6.7 |
| USA | 20.2 |
| Japan | 21.2 |
| Malaysia | 21.8 |

*Employee married with 2 children with gross income of S$200,000 and applicable reliefs

For YA 2017, there is a tax rebate of 20%, capped at $500. No rebates were given in YA 2016 although a 50% tax rebate capped at $1000 was given in YA 2015.

**Top marginal tax rates for individuals (earning above S$320,000 in Singapore)**

| Country | (%) |
|---|---|
| Ireland, Portugal | 48 |
| Hong Kong | 17 |
| **Singapore** | **22** |
| UK, Germany, China, Australia | 45 |
| Switzerland | 40 |
| Malaysia, Indonesia | 30 |
| USA | 39 |

**MGI Perspectives: Budget 2017 Annex A**
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**Personal Income tax rates**

**From YA 2017 onwards** New!

| Chargeable income | Rate (%) | Gross Tax Payable ($) |
|---|---|---|
| On the first 20,000 | 0 | 0 |
| On the next 10,000 | 2 | 200 |
| On the first 30,000 | - | 200 |
| On the next 10,000 | 3.5 | 350 |
| On the first 40,000 | - | 550 |
| On the next 40,000 | 7 | 2,800 |
| On the first 80,000 | - | 3,350 |
| On the next 40,000 | 11.5 | 4,600 |
| On the first 120,000 | - | 7,950 |
| On the next 40,000 | 15 | 6,000 |
| On the first 160,000 | - | 13,950 |
| On the next 40,000 | 18 | 7,200 |
| On the first 200,000 | - | 21,150 |
| On the next 40,000 | 19 | 7,600 |
| On the first 240,000 | - | 28,750 |
| On the next 40,000 | 19.5 | 7,800 |
| On the next 280,000 | - | 36,550 |
| On the next 40,000 | 20 | 8,000 |
| On the first 320,000 | - | 44,550 |
| In excess of 320,000 | 22 | |

**GST Tourist Refund Scheme**

Withdrawn for international cruise tourists from 1st September 2017.

**Diesel Tax**

After 20 February 2017, volume based duty of <u>10 cents per litre</u> will be imposed on diesel (automotive and industrial).

**Additional Special Employment Credit (ASEC)**

| Employee Wage | Payout for the month for each employee | | |
|---|---|---|---|
| | **ASEC** | **SEC** | **Total payout** |
| $3,000 and below | 3% of wage | 8% of wage | 11% of wage |
| $3,001- $4,000 | 360 | 960 | 1,320 |
| $4,000 and above | NOT AVAILABLE | | |

**ARF for big motorcycles**

| OMV of motorbikes | ARF |
|---|---|
| 1st $5K OMV | 15% |
| Next $5k OMV | 50% |
| **Excess over $10k OMV**<br>*A Harley Davidson ($25k OMV) ARF will now be $18,250 compared to $3,750 previously** | **100%** |

**Water Tariff**

The government will increase water prices by **30%** in 2 phases starting from 1st July 2017.