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2019 Singapore Budget Highlights and 2018 Updates

Grant Thornton Singapore

19 February 2019

Agenda

1. Introduction
2. Economic Updates – Suan Teck Kin
3. Personal/ Individual Tax
4. Business Tax
5. Indirect Tax
6. Q&A

Personal / Individual Tax

Personal income tax rebate – YA2019

50%

of personal income tax rebate has been introduced for YA2019.

$200

is the cap for this rebate

- Individuals who have previously been subject to tax clearance should be eligible for a rebate based on prior year experiences.
- This cap is set so that the benefits go mostly to middle-income earners.

Not Ordinarily Residence (NOR) relief

NOR relief

The last year that an individual can register for NOR will be YA2020.

Therefore individuals who have registered for NOR in YA2020 can continue to claim time apportionment relief up to and including YA2024.

This will put domestic and overseas talent on the same footing.

GST vouchers

As part of the Bicentennial Bonus, lower-income Singaporeans will receive additional payments from the GST Voucher.

- This will benefit about 1.4 million Singaporeans.
- Assessable income for YA 2018 up to $28,000
- Annual value of home at 31 December 2018
  - up to $13,000 - $300
  - Between $13,000 to $21,000 - $150

GST relief for travellers

- With immediate effect, GST import relief for travellers have been tightened.

$150 → $100

For travellers who spend less than 48 hours outside Singapore, the limit has been reduced from $150 to $100.

$600 → $500

For travellers who spend 48 hours or more outside Singapore, the limit has been reduced from $600 to $500.

Duty relief for travellers

3 litres → 2 litres

From 1 April 2019, the alcohol-free concession for travellers will also be tightened from three litres to two litres.

Extension for tax relief on charitable gifts

- 250% deduction for qualified charitable donations will be extended
- A Bicentennial Community fund has been set up to provide a dollar-for-dollar matching for donations made in FY2019.

2018 recap for individuals

01
Accommodation benefit
From YA2020 employers should treat the actual rent paid as the default basis for calculating accommodation benefit.

02
Additional Buyer’s Stamp Duty
adjusted on 6 July 2018: ranging from 5% (SPR buying 1st property) to 20% (foreigners buying any residential property)

03
Netflix tax
GST on overseas services such as Netflix will commence in 2020 leading to increased cost of living.

04
GST rate
GST rate to increase from 7% to 9% between 2021 to 2025 – increase cost of living for certain sectors of society

05
Car benefit
From YA2020 the actual costs incurred by the employer will be considered when determining the taxable value, as opposed to a flat rate per KM of private milage

06
Carbon tax
The first carbon tax to be paid in 2020. This will definitely drive up utility costs for Singaporean households

Business Tax

Corporate tax rates and reliefs

- No change to corporate tax rates:
  - Corporate income tax rate remains at 17%
  - Corporate tax rebate reduced to 20% for YA 2019, capped at $10,000
  - Partial Tax Exemption and Start Up Tax Exemption remain the same for YA 2019

- Tax written down allowances on Intellectual Property Rights extended to cover qualifying expenditure up to the last day of the basis period for YA 2025.

- 100% Investment Allowance, net of grants, under the Automation Support Package extended to 31 March 2021, capped at $10 million per project.

Fund Management industry

- Qualifying funds managed by Singapore fund managers - extended to 31 December 2025.
  - From YA 2020, a fund can be 100% owned by Singapore persons.
  - The Enhanced tier fund scheme has been expanded with effect from 19 February 2019.
  - The lists of SI and DI have been widened from 19 February 2019.
  - 10% concessionary tax rate has been extended to qualifying non-resident non-individual investing in S-REITs and REITs Exchange Traded Funds during the period 1 July 2019 to 31 December 2025.
  - Extension to 31 December 2024 of concession to claim GST incurred on expenses at a fixed recovery rate.

Singapore REITs

- All current S-REITs concessions have been extended to 31 December 2025. Further details expected by May 2019.

- For individuals, S-REITs distributions will continue to be tax exempt and the sunset clause has been removed.

- Extension to 31 December 2025 for GST recovery scheme on business expenditure of S-REITs.

Tax treatments – new accounting standards

Tax Implications of FRS 109

Recap of FRS 109 Accounting Treatment

For accounting year-end beginning 1 January 2018 unless companies choose to adopt it earlier.

Out of scope

Subsidiaries, associates & joint ventures

Employee benefits

Share-based payments

Leases

Within Scope

Debt & equity investments

Originated loans

Own debt

Financial guarantees

Derivatives

Interest rate swaps

Currency forwards/swaps

Purchased written options

Commodity contracts

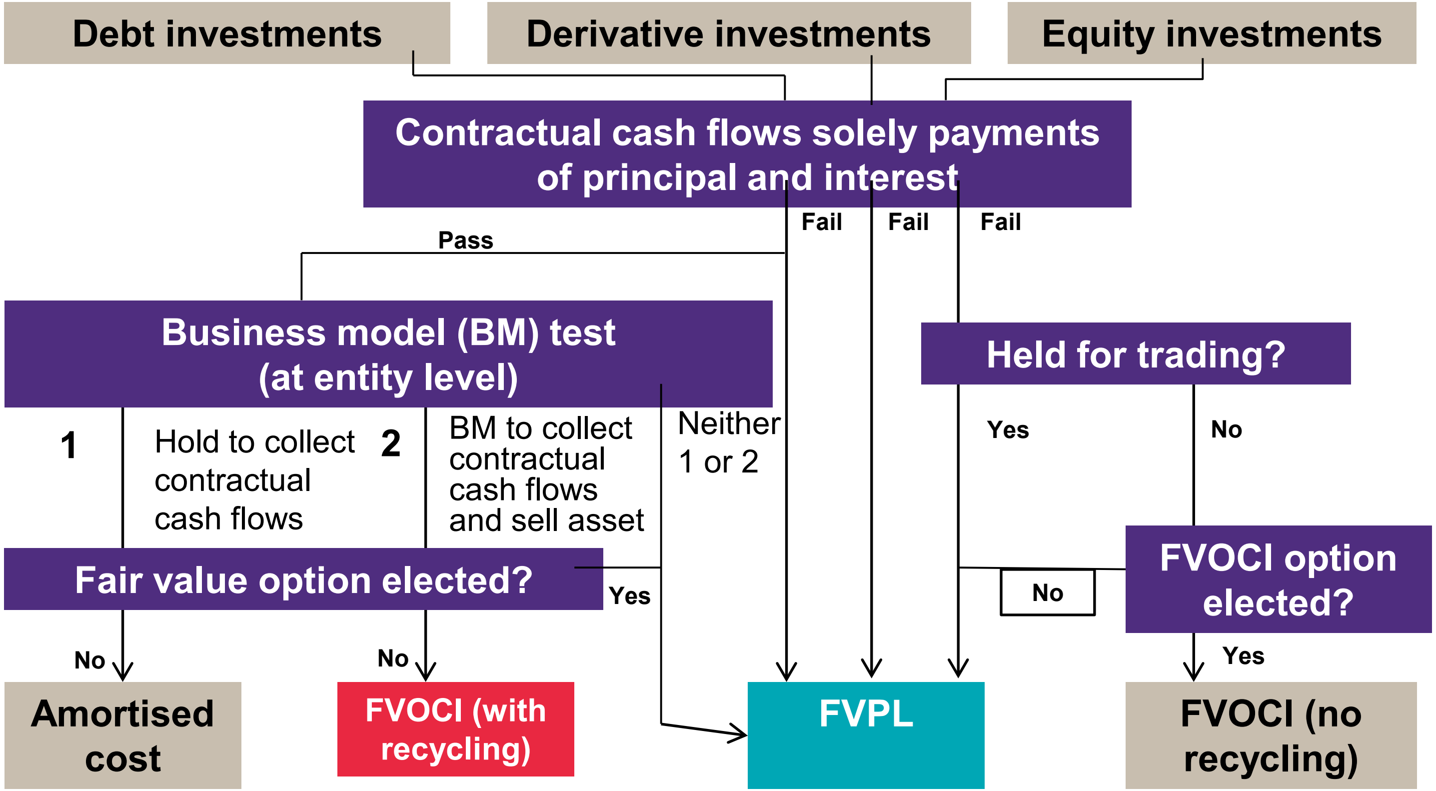
Collars/caps

Own equity instruments

Insurance contracts

Own use commodity contracts

Overview of FRS 109 applications



FRS 109 Tax Treatment

- New Section 34AA of the Singapore Income Tax Act

- Tax treatment generally aligned with accounting treatment
  - with similar exceptions as those under FRS 39 tax treatment ;
  - exceptions that apply specifically to FRS 109 such as Expected Loss Model that is not credit impaired is not tax deductible

- FRS 109 tax treatment is compulsory for all companies on FRS 109 accounting treatment (i.e., **no** opt-out option)

- Listing of the financial instruments on revenue or capital account, in particular supporting documents of the categorisation to support the ensuing FRS 109 tax treatment

“

Tax Implications of FRS 115 –
Revenue from contracts with customers

”

Tax Impact of FRS 115

When will the adjustments be taxed / deducted?

- “entitlement to income” principle
    - FRS 115 - An entity would be entitled to its income once the service is performed or goods are transferred.
    - General principle governing taxation of income – When the income has “come home” to the taxpayer, i.e., generally consistent with revenue recognized under FRS 115.
- Hence, **generally**, the revenue recognised under FRS 115 would be amount that would be accepted as the revenue for tax purposes except for **<u>three</u>** scenarios.

Tax Impact of FRS 115

When will the adjustments be taxed / deducted?

- **<u>Exceptions</u>** – where the revenue that would be subject to tax would differ from the revenue recognized under FRS 115:-

  - Specific tax treatment has been established through case law e.g. property developers;
  - Provided under the law e.g. Section 10F of the Income Tax Act (ITA) on ascertainment of income from certain public private partnership arrangements;
  - Contracts with financing components.

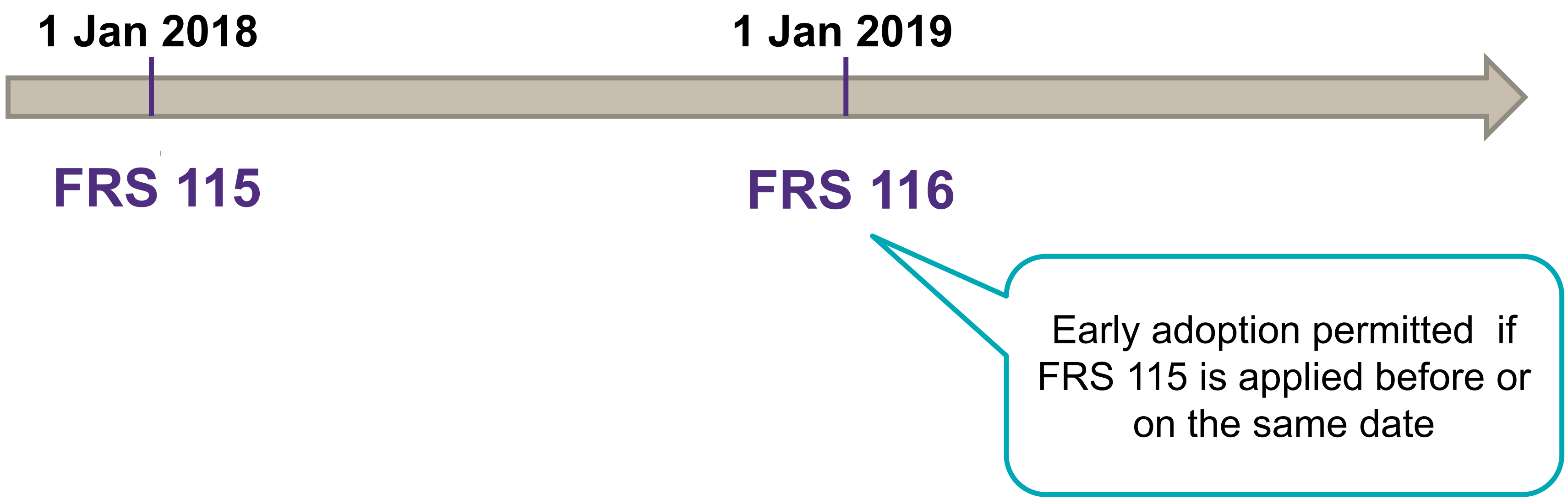
Tax Impact of FRS 115

When will the adjustments be taxed / deducted?

- The interest revenue and interest expense that are recognized due to FRS 115 are **notional** adjustments.
- The interest income / expense will **not** be taxed / deducted i.e. disregarded for tax purposes.
- If the revenue recognized under FRS 115 is **net** of any financing component (i.e. Interest income or expense), only the **gross** amount will be taxed.
- In the case of interest expense on loan granted by a non-tax resident of Singapore, Singapore withholding tax provisions will not apply on the notional amounts.

Tax Implications of FRS 116 - Leases

Mandatory date



FRS 116 and tax treatment

FRS 116

- Concept of Finance Lease (FL) and Operating Lease (OL) not relevant
- Based on the concept of the Right of Use (ROU)

Tax treatment

- Section 10D, Section 10D regulation and IRAS circular dated 8 October 2018

Lessor

- Like the accounting standard treatment, largely no change

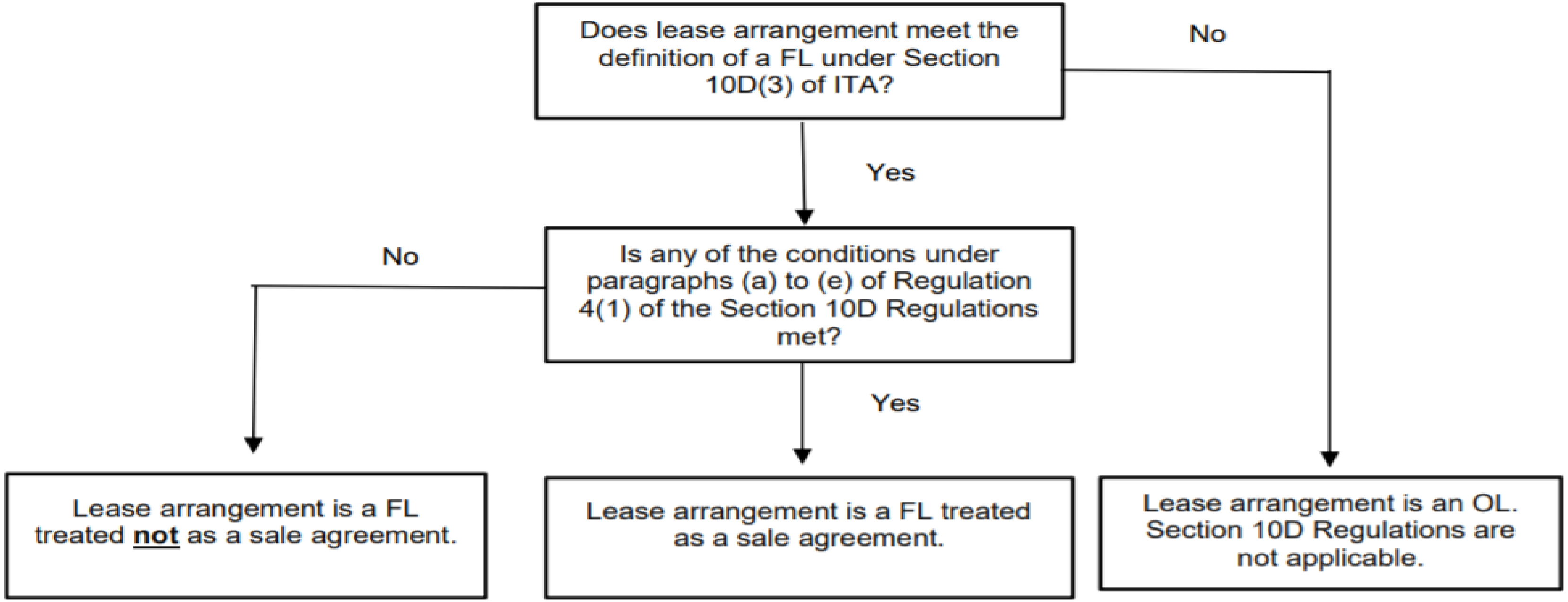
Lessee

- To determine if lease arrangement giving rise to the ROU asset is a FL
- If it is not a FL, it will be considered an OL
- If FL, need to evaluate if it is a sale agreement or not

Tax treatment for Lessor

Classification in accordance with the tax rules		Tax treatment
Operating Lease		Taxable when lease income accrues CA given if item qualifies for CA claims
Finance Lease treated as a sale agreement	No	Same as OL except CA can be offsetted against income from FL only Can offset against other income and/or transfer out only upon cessation of finance leasing activities
	Yes	Taxable on interest income on an accrual basis CA not allowed

Tax treatment for Lessee - classification of a lease arrangement under the Singapore tax rules



Tax treatment for Lessee – Section 10D(3)

‘finance lease’ means – a lease of plant or machinery which has the effect of **transferring substantially** the obsolescence, risks or rewards incidental to **ownership** of such plant or machinery to the lessee

Tax treatment for Lessee – Regulation 4(1) of section 10D

Lease to be treated as a sale if

- Lessee has the option to purchase the lease upon the expiry of the lease agreement; or
- Plant or machinery is a limited use asset; or
- Plant or machinery in a sale and lease back arrangement has been previously used by the lessee or any other person; or
- Additional conditions for related party transactions; or
- Lease is a leveraged asset.

Tax treatment for Lessee

Classification in accordance with the tax rules		Tax treatment
Operating Lease (one that is not a Finance Lease)		Contractual lease payment tax deductible No CA allowed
Finance Lease treated as a Sale	Yes	Claim interest and CA (if qualifying assets)
	No	Claim contractual lease payment Interest and depreciation charged to P/L to be added back No CA allowed

IRAS updates/news in FY2018

Circulars updated in 2018

1. Valuation reports and the format of such report to be presented for claiming written down allowance for **qualifying intellectual property rights** under Section 19B.

2. REIT ETF must **distribute all** distributions received from S-REITs to unitholders. Any undistributed income arising from the redemption of units in a REIT ETF after distribution declaration date must be rolled over the next distribution period and be distributed to unitholder.

3. Parity of tax treatment between investing in S-REITs and REIT ETFs – hence, distributions from REIT ETFs will not be subject to tax in the hands of the trustee in respect of distributions made during the period from 1 Jul 2018 to 31 Mar 2020

Circulars updated / issued in 2018

4. Deduction on Cost Sharing Agreement payment for Pharmaceutical manufacturing industry where the qualifying R&D activities are conducted in or outside Singapore during the basis periods from YA 2018 to YA 2025, even if the R&D expenditure is not related to its existing trade or business.

5. Section 14Q (R&R costs) deduction update :
   - Not allowable on R&R costs incurred to a place of residence for staff
   - Additional qualifying items include:-
     - fitting rooms in retail outlets
     - Hacking work on premises
     - Water meter installed to enable renovation works
     - Hoarding works; and
     - Insurance for renovation works qualifying for S14Q deduction

Multilateral Instrument ("MLI")

- MLI signed by Singapore on 7 June 2017 and will enter into force on 1 April 2019.
- MLI allows jurisdictions to swiftly amend their tax treaties to implement the tax treaty related Base Erosion and Profit Shifting (BEPS) recommendations
- With BEPS, recommendations were made on how the double tax agreements (DTA) can be amended.
- DTAs that are amended by the MLI will be referred to as Covered Tax Agreement.
  - Covered Tax Agreement
    - amended only if both treaty partners share the same position on the provisions of the MLI.
    - agreed changes will enter into effect after the treaty partner has also ratified the MLI.

Transfer Pricing

Transfer pricing – key changes in 2018

Transfer pricing rules in Income Tax Act effective YA 2019

Documentation

Introduction of mandatory transfer pricing documentation (TPD) requirements. General requirements the same as before but additional TPD exemption conditions introduced.

Additional guidance on the timing to updating TPD.

Penalty

Fine on TPD non-compliant – increased from SGD1,000 to SGD10,000.

Introduction of a 5% surcharge on transfer pricing adjustment.

Indirect Tax

2019 Budget and a recap of changes announced in 2018

1. Budget 2019 – Indirect tax changes affecting individuals

2. Imported services - the reverse charge

3. Businesses supplying to Singapore consumers (B2C) - Overseas Vendor Registration (OVR)

4. GST rate change

Budget 2019 announcements

1. Diesel excise changes
   I. 10 cent increase in excise duty per litre of diesel
   II. Mitigated by diesel rebates over next 3 years

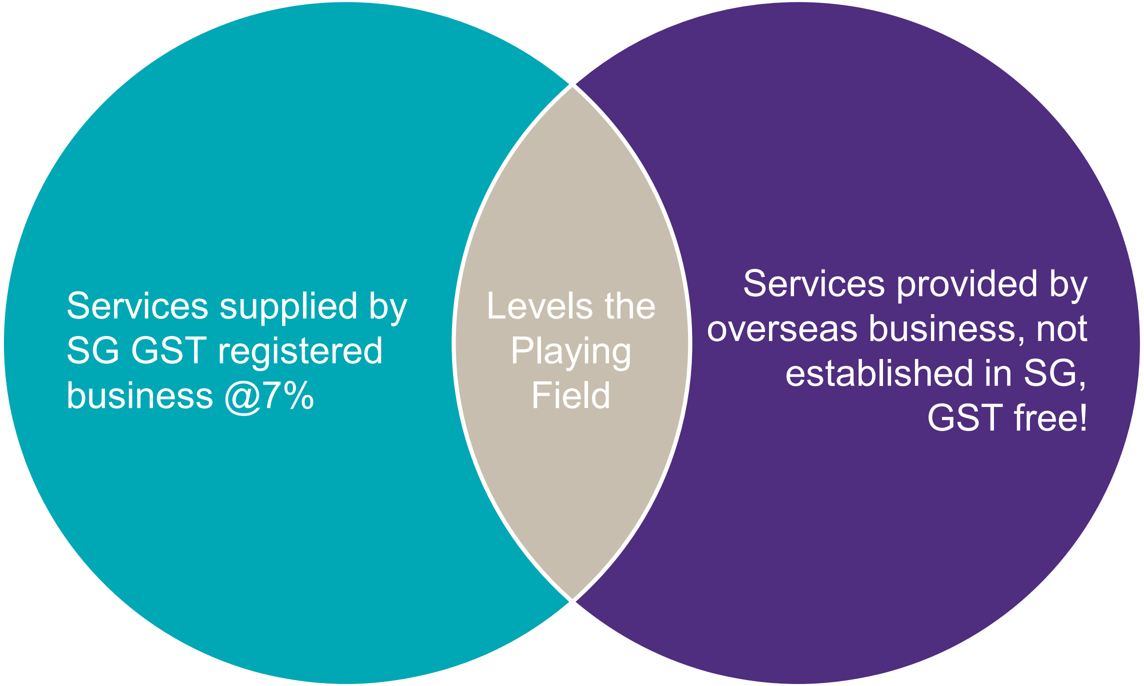
2. Reduction of import relief for travellers

3. Reduction of duty-free allowance for alcohol

4. $300 GST vouchers for individuals

5. REITs and RBTs enjoy extension of GST refund scheme to 31 December 2025

Reverse charge effective 1 January 2020 – reason for implementation



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Who will be affected by the reverse charge?

Supplies of imported services received by GST registered businesses

Supplies of imported services received by businesses that are not registered for GST

→

- Companies
- Partnerships
- Sole Proprietors
- Charities and Voluntary Welfare Organisations

Who will be affected by the reverse charge? Cont.

You will be affected by the reverse charge if:

GST registered business

- You are a GST registered business or GST group that is partially exempt and not entitled to full credit for input tax
- You are a GST registered charity or voluntary organisation that receives non business income

Non GST registered business

- The total value of your imported services exceeds $1m in a 12 month period

Key sectors affected:

- **Banks**
- **Financial institution**
- **Insurers (life insurance)**
- **Residential property developers/investors**
- **Holding companies**
- **Welfare and Charitable entities**

Examples of the types of services that will be subject to the reverse charge

Marketing	**Accounting**	**IT**	**Legal**
HR	**Management Services**	**Royalties/Licences**	**Consultancy**

Financial impact of the reverse charge for GST registered businesses

GST registered recipient receives imported services and is not entitled to full input tax recovery

Deemed output tax	Net	GST@7%	
Legal services from UK	$5,000.00	$350.00	
Management services from USA	$25,000.00	$1,750.00	
IP from Switzerland	$15,000.00	$1,050.00	
Total	**$45,000.00**	**$3,150.00**	**BOX 6**

Financial impact of the reverse charge for GST registered businesses Cont.

GST registered recipient receives imported services and entitled to 50% recovery of input tax

Deemed input tax	GST@7%	50% recovery	
Legal services from UK	$350.00	$175.00	
Management services from USA	$1,750.00	$875.00	
IP from Switzerland	$1,050.00	$525.00	
Total	**$3,150.00**	**$1,575.00**	**BOX 7**

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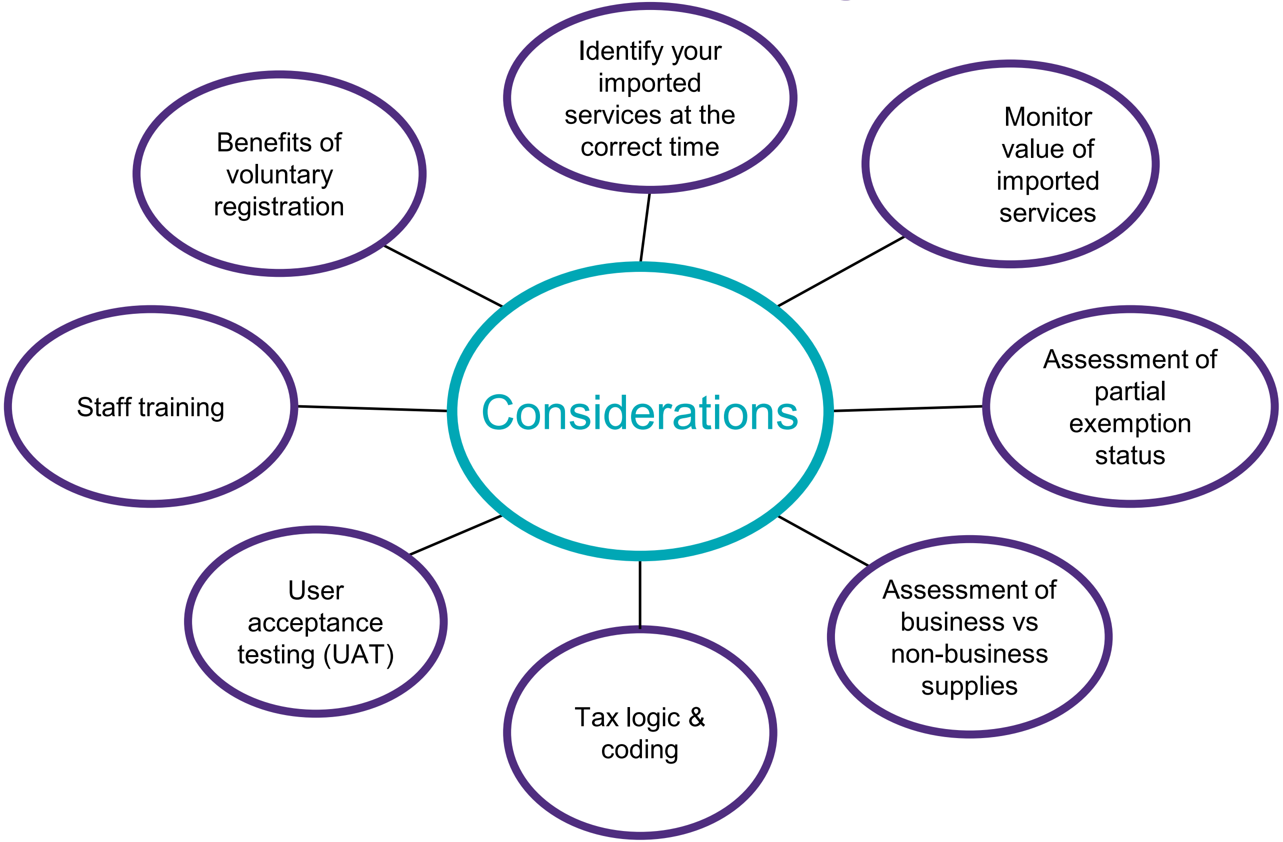
The effect of the reverse charge for businesses not registered for GST but importing services

Non registered recipient receives imported services and is not entitled to full input tax recovery

Imported Services	Net	
Legal services from UK	$125,000.00	
Management services from USA	$400,000.00	
IP from Switzerland	$500,000.00	
Total in 12 months	**$1,025,000.00**	**Register for GST**

What should businesses be doing now and how can we help?



Businesses supplying to Singapore consumers (B2C)

The upcoming changes, being implemented on 1 January 2020, are likely to impact businesses making supplies to customers in Singapore

Services ▶ The proposed changes affect supplies of digital services to private consumers and has been labelled the “Netflix tax”.

Goods ▶ No changes. IRAS has announced that they will continue to monitor the Low Value Consignment Relief (LVCR) of S$400

What is driving these changes?

The changes are aimed at trying to reduce the volume of non-taxation on digital services thus “levelling the playing field” for local businesses

Digital services – who is affected?

The new rules for the taxation of digital services will affect the following:

1. Overseas businesses supplying digital services to consumers in Singapore
2. Local businesses supplying digital services (clarification on place of supply)
3. Electronic marketplace operators supplying digital services
4. Consumers in Singapore buying digital services from overseas suppliers and electronic marketplaces

Digital services – what are they?

What are digital services?

"services which are delivered over the internet or an electronic network and the nature of which renders their supply essentially automated and involving minimal human intervention, and impossible to ensure in the absence of information technology"

- Downloadable digital content (e.g. mobile applications, e-books and movies)
- Subscription-based media (e.g. news, magazines, streaming of TV shows and music, and online gaming)
- Software programs (e.g. downloading of software, drivers, website filters and firewalls)
- Electronic data management (e.g. website hosting, online data warehousing, file-sharing and cloud storage services)
- Support services, performed via electronic means, to arrange or facilitate a transaction, which may not be digital in nature (e.g. commission, listing fees and service charges)

**We have reproduced IRAS's detailed list at the end of this pack*

Digital services – status & location of the customer

Is the customer in business or a private consumer?

- Default position = a private consumer (i.e. 7% GST applicable)
- Onus is on the customer to provided the supplier with sufficient evidence that they are in business

Determining location of private consumer:

- Generally, the residential address of an individual may be regarded as his usual place of residence
- IRAS are planning to implement an administrative concession, allowing TWO pieces of non-contradictory evidence e.g.
  1) Payment proxy (e.g. credit card country code)
  2) Residence proxy (e.g. billing/home address)
  3) Access proxy (e.g. country code of sim card, IP address of computer, location of fixed landline)
  4) IRAS may also accept other commercially available

Overseas businesses – impact of the changes

- What impact will these changes have on overseas suppliers?

Overseas supplier - Current

		Location of Customer	
		Singapore	Oustide Singapore
Status of customer	Business (GST registered)	Outside scope	Outside scope
	Private consumer	Outside scope	Outside scope

Overseas supplier - New

		Location of Customer	
		Singapore	Outside Singapore
Status of customer	Business (GST registered)	Outside scope[1]	Outside scope
	Private consumer	7% GST	Outside scope

1. Business customer required to account for GST under reverse charge

GST registration requirement?

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Overseas businesses - registration requirements

- IRAS are proposing a two-tiered registration threshold
  - Global revenue **S$1million** and
  - Value of digital services supplies to consumers in Singapore **S$100k**
- Registration threshold tests
  - Retrospective basis: global revenue and value of digital services made to non-GST registered customer in Singapore in last calendar year (i.e. 1 January – 31 December) exceeded S$1million and S$100k respectively
  - Prospective basis: expecting global revenue and value of digital services made to non-GST registered customer in Singapore to exceed these limits in the next 12 months
- Notifying IRAS
  - Within 30 days of the end of the relevant calendar year under the retrospective basis
  - Within 30 days of the day you are liable for GST registration under the prospective basis (i.e. 30 days from the day you know you income will exceed the limits in the next 12 months)

S$1m

in global revenue

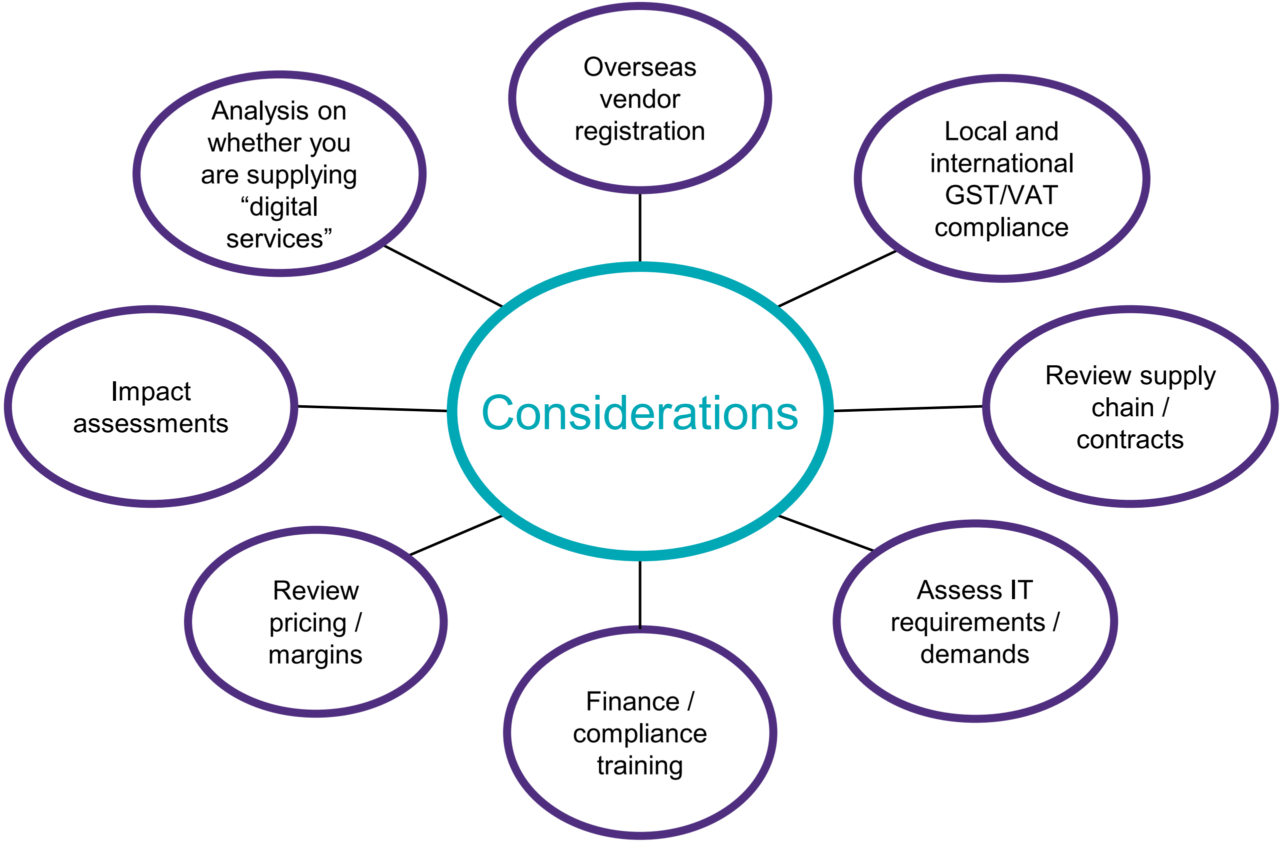
S$100k

in digital sales to consumers in Singapore

30 days

to notify and register for GST

What should businesses be doing now and how can we help?



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Change of GST rate

GST on track to increase by 2 percentage points, from 7% to 9% some time between 2021 - 2025

Key Issues

- Cashflow and profit
- Pricing and invoicing
- Contractual terms
- Stakeholder communication
- Systems and procedures
- Non-compliance

Thank you

Any questions?