

## Budget Statement 2003

### Annex E – Tax Measures to Help the Manufacturing and Services Sectors

#### Intellectual Property (IP)

##### *Unilateral Tax Credit Scheme for Royalty Income*

1. The current unilateral tax credit scheme eliminates double taxation on certain income received from non-treaty countries, but does not cover royalty income. Royalties remitted from a non-treaty country would not receive any tax credit for the foreign tax and would be subject to Singapore tax, resulting in it effectively being taxed twice.

2. To encourage firms to hold their IP rights in Singapore, the unilateral tax credit scheme will be extended to royalties remitted from all non-treaty countries from YA 2004.

##### *Automatic Writing-Down Allowance for IP Acquisition*

3. Companies can currently apply to EDB or IDA for writing-down allowances over a five-year period for capital expenditure incurred in acquiring one of seven classes of IP:

- a) Patents;
- b) Copyrights and Related Rights;
- c) Trade Marks;
- d) Registered Designs;
- e) Geographical Indications;
- f) Layout Designs of Integrated Circuits; and
- g) Protection of Confidential Information

4. To increase Singapore's attractiveness as an international IP holding location, writing-down allowances will be granted automatically for capital expenditure incurred in the acquisition of IP on or after 1 November 2003. This is provided the legal and economic ownership of the IP lies with the Singapore company. This concession will last for an initial period of five years.

##### *Tax Deduction for Patenting Costs*

5. To encourage more companies to patent their inventions and make Singapore an attractive base for R&D and IP management activities, EDB administers a Patent Application Fund Plus (PAFP) grant scheme, which helps individual inventors and Singapore-based SMEs defray part of the cost of patenting an invention. This scheme will be complemented with a tax deduction for the cost of patenting an invention, provided the invention has not received any PAFP grant and that the legal and economic ownership of the resulting IP lies with the Singapore company. This

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incentive will apply to patenting costs incurred on or after 1 June 2003, and will last for an initial period of 10 years.

6. The Economic Development Board (EDB) will release more details by May 2003.

### *Exemption of Foreign Income Used for R&D*

7. In order to increase the level of R&D activity conducted in Singapore or controlled from Singapore, companies in Singapore must have a sustained pool of funds to support such activities. The current stockpile of funds comes in the form of the company's income sourced in Singapore, or debt or equity injections into the company.

8. To increase the stockpile of funds for R&D activities, a new R&D incentive will be introduced from 1 June 2003. Companies under this incentive will be granted tax exemption on foreign source royalties and interest income that are used for R&D purposes only. The incentive will last for an initial period of five years.

9. EDB will release more details by May 2003.

### Withholding Tax Exemption for Provision of Information and Digitised Goods

10. The numbers of online information and content providers and the sale of digitised goods are growing with advances in electronic communications. Currently, payments made to a non-resident person for the provision of information and digitised goods are subject to withholding tax.

11. To facilitate the flow of information and digitised goods, payments made by end-users to non-resident persons will be exempted from withholding tax. This will take effect immediately for an initial period of 10 years.

12. The IRAS will release more details by March 2003.

### Integrated Industrial Capital Allowance

13. At present, capital allowance deductions are only granted on equipment that is used in a company's own trade or business. There is a rapidly growing trend for corporate groups to concentrate marketing or other high value-added activities in a single centralised company, and have their regional subsidiaries perform other activities.

14. To accommodate this business model, an Integrated Industrial Capital Allowance incentive will be introduced from 1 March 2003. Under this incentive,

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companies will be allowed to claim capital allowance deductions on equipment which they own wholly, but are used by their subsidiaries outside Singapore.

15. This incentive is part of a package of measures under an “Integrated Industrial Initiative”. Companies can apply to EDB for this incentive, which will last for an initial period of 10 years.

16. EDB will release the details of the Integrated Industrial Capital Allowance incentive by March 2003.

### Upfront Land Premium for Leased Land

17. Currently, tax deductions are granted for the upfront land premium paid by a lessee in respect of a designated lease for the construction or use of a building on JTC or HDB industrial land, provided the lease tenure is not more than 30 years long. This restriction was imposed at a time when it was unlikely for lessees to have upfront premium scheme terms exceeding 30 years for an industrial land.

18. To encourage companies to undertake investments in Singapore for longer periods of time, the current 30-year lease tenure restriction will be lengthened to a 60-year limit with effect from YA 2004.

### Private Wealth Management

19. The development of world-class trustee and custodian services in Singapore is integral to Singapore’s development as a wealth management centre. To support this thrust, the following changes will be implemented.

#### *Income Tax Exemption for Foreign Trusts*

20. Tax exemption is currently only granted on the income of foreign trusts administered by Approved Trustee Companies (ATCs). To encourage trust companies that are not ATCs to take on more global trust business from Singapore and provide assurance to trust clients that tax exemption will not cease the moment a trustee company falls out of the ATC scheme, income tax exemption will be extended to foreign trusts administered by all trust companies in Singapore, and not just those administered by ATCs. This measure will come into effect from YA 2004.

#### *Exclusion List for Investments and Income*

21. The existing lists of designated investments and specified income under the ATC scheme will be replaced with an exclusion list instead. This approach will ensure that new financial products will be covered under the scheme, in view of the frequency with which new financial products are introduced.

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22. MAS will announce further details by June 2003.

### *Alignment of Qualifying Conditions for Income Tax Exemption and Zero-rating*

23. International services are currently zero-rated for GST purposes. Trustee services provided to a foreign trust are considered as international services and are zero-rated if they meet a certain set of conditions. However, the conditions on what constitutes a foreign trust for GST purposes are different from that for income tax purposes. For ease of compliance, the set of conditions for zero-rating in respect of trustee services provided to foreign trusts will be aligned to that in the Income Tax Regulations. The proposed change will come into effect from 1 June 2003.

### *Extension of GST Relief to Trust Administration Services*

24. Currently, trustee services provided by a Singapore trust company to a foreign trust are zero-rated. GST relief in respect of trustee services will be extended to services provided by a Singapore trust company to a foreign trust of which it is not the trustee. This will increase the competitiveness of Singapore trust companies serving as management and administration hubs for offshore trusts. This change will come into effect from 1 June 2003.

### Approved Marine Hull and Liability Insurer Scheme

25. The Approved Marine Hull and Liability Insurer Scheme currently provides tax exemption for income derived by approved marine hull and liability insurers from writing offshore marine hull and liability insurance business for a period of 10 years. The scheme is administered by MAS. To encourage the development of marine insurance expertise in Singapore, the scheme will be extended to cover income derived from writing onshore marine hull and liability insurance business as well.

26. Therefore, with effect from YA 2004, approved marine hull and liability insurers will enjoy tax exemption on the following:

- a) underwriting income derived from writing both onshore and offshore marine hull and liability insurance business; and
- b) dividends and interest from outside Singapore, gains from sale of offshore investments and interest from ACU deposits. Exemption will only be given if these are derived from investing onshore and offshore marine hull and liability insurance business income or shareholders' funds used to support onshore and offshore marine hull and liability insurance business.

### Approved Third Party Logistics (3PL) Company Scheme

27. Third party logistics companies undertake vendor-managed inventory operations where they import and hold goods belonging to foreign principals, and

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deliver the goods to local customers only upon instruction by the foreign principals. The presence of 3PLs in Singapore is in line with the ERC's vision of developing Singapore into a leading global integrated logistics hub. Their presence will also provide an important supporting role for local manufacturers.

28. To support the business needs of 3PLs, qualifying 3PLs will be allowed to import goods belonging to them or foreign principals without payment of GST. Under this new scheme, 3PLs can also move goods to their customers who are under the Major Exporter Scheme (MES), and other qualifying 3PLs under the same scheme, without charging GST. GST will be charged only on goods that are released into the local market for consumption. This will result in cost savings in terms of interest and administrative costs for 3PLs, since most of their imports are eventually re-exported.

29. To be eligible for the new scheme, the proportion of exports and supplies to MES customers and other qualifying 3PLs must exceed 50% of the total supplies made by the 3PLs. The scheme will be effective from 1 January 2004.

30. The details of the scheme will be announced by the IRAS in June 2003.

### Improved Global Trader Programme

31. To strengthen our competitiveness vis-à-vis the regional trading hubs, the Global Trader Programme (GTP) will be enhanced and expanded as follows:

#### *Tiered GTP Concessionary Tax Regime*

32. The current 10% GTP concessionary tax rate will be replaced by a tiered concessionary tax rate to make the scheme more attractive. Under the enhanced GTP, an approved global trading company would be granted concessionary tax rates of 5% and 10% on qualifying offshore trading incomes, depending on the company's turnover and business spending.

#### *Medium-Sized Global Trading Companies*

33. With globalisation and market liberalisation, companies are likely to establish decentralised procurement and distribution operations. To seize this opportunity to attract high-growth globalising companies to use Singapore as a springboard for their trade between Asia and the rest of the world, the GTP will be expanded to include high-growth and medium-sized trading companies as 'qualifying global trading companies' under the GTP scheme.

34. The changes will apply from 28 February 2003. IES, which administers the scheme, will announce more details by April 2003.

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### Tax Holiday for the Singapore Commodity Exchange

35. The Singapore Commodity Exchange (SICOM) was granted a five-year tax holiday when it was first established in 1994. In 1997, the tax holiday was extended for an additional five years to support the growth of SICOM. This incentive has enabled the Exchange to build up its reserves and improve on its trading infrastructure. This has helped SICOM successfully develop into a global rubber futures trading centre.

36. In order to meet the challenges of global competition and the emergence of other exchanges in the region, SICOM must continue to improve on its facilities and strengthen its financial reserves. SICOM will be granted another five-year tax holiday with effect from YA 2004.

### Use of Submarine Cable Capacity

37. Submarine cable systems are a crucial element in the international connectivity provided by the broadcasting and telecommunications industries. Currently, payments made to a non-resident for the use of submarine cable capacity are subject to a 15% withholding tax. To encourage broadcasting and telecommunications operators to provide international connectivity, payments for the use of capacity on submarine cable operated by non-resident persons will be exempt from withholding tax. The exemption will take immediate effect for an initial period of five years.

38. To boost our local broadcasting and telecommunications industries, payments for Indefeasible Rights of Use for submarine cable systems will also be granted a writing-down allowance over the period of use. This will take effect from YA 2004.