

Budget Speech 2006

Annex A: Tax Changes to Promote the Financial Sector

To promote and encourage the development of financial products and services, the following tax changes will take effect from today.

Measures to Promote Asset and Wealth Management

	Current Treatment	New Treatment
Enhancement of the Designated Unit Trust (“DUT”) scheme	The DUT scheme is a special taxation regime for unit trusts introduced in 1995 to foster the development of the domestic retail unit trust industry. Specified income derived by a unit trust with the DUT status do not form part of the statutory income of the unit trust and are therefore not subject to tax at the trust level. An individual is also currently exempted from tax on any distribution ¹ made by retail unit trusts.	The DUT scheme will be extended to certain other types of unit trusts, which are targeted at sophisticated and institutional investors. Specified income derived on or after 17 Feb 06 by such unit trusts that are granted the DUT status will not form part of their statutory income. Individuals will also be able to enjoy tax exemption on the distributions (out of specified income derived on or after 17 Feb 06) from unit trusts that are Restricted Authorised Schemes under the Securities and Futures Act.

¹ Unless such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession.

	Current Treatment	New Treatment
Tax exemption scheme for qualifying domestic trusts	<p>Currently, certain specified locally-sourced investment income derived and all foreign-sourced income (“FSI”) received, directly by an individual, are exempt from tax.</p> <p>However, if an individual were to be a beneficiary of a domestic trust (i.e. a trust that does not meet the definition of “foreign trusts²” and where there are Singapore citizens or residents as settlors and/or beneficiaries) and the trust derives the locally-sourced investment income or receives FSI, such individuals would be subject to tax on the trust distribution.</p>	<p>Tax exemption will be granted on locally-sourced investment income derived on or after 17 Feb 06 and FSI received on or after 17 Feb 06, by qualifying domestic trusts and their underlying holding companies, to the extent such tax exemption mirrors the tax exemption on the locally-sourced investment income and FSI granted to individuals. Any distribution made by qualifying domestic trusts to their beneficiaries out of such locally-sourced investment income derived on or after 17 Feb 06, and FSI received on or after 17 Feb 06, will also be tax-exempt in the hands of the beneficiaries.</p> <p>To be a qualifying trust, one of the conditions is that the settlors must be all individuals and the beneficiaries must be either individuals or charities.</p>

² Foreign trust is defined in the Income Tax (Exemption of Income of Foreign Trusts) Regulations.

	Current Treatment	New Treatment
Enhancement of tax incentives relating to qualifying foreign trusts	<p>There are currently two tax concessions pertaining to qualifying foreign trusts:</p> <p>(a) Concessionary tax rate of 10% on certain income derived by Approved Trustee Companies (“ATCs”) administering qualifying foreign trusts; and</p> <p>(b) Tax exemption on specified income from designated investments derived by qualifying foreign trusts administered by a trustee company in Singapore.</p> <p>To be a “trustee company” for the purposes of the above tax concessions, the company must be either:</p> <p>(a) A company licensed as a trust company under the Trust Companies Act; or</p> <p>(b) A non-resident company incorporated outside Singapore having a branch in Singapore which provides services as a trustee or custodian.</p>	<p>The following enhancements to the tax concessions relating to the qualifying foreign trusts will take effect on 17 Feb 06:</p> <p>(a) To expand the scope of persons who can be considered as settlors and beneficiaries of qualifying foreign trusts by including various other forms of foreign entities;</p> <p>(b) To extend the tax exemption scheme for qualifying foreign trusts to those administered by companies which are exempted from the requirement to hold a trust business licence in respect of the carrying on of trust business in Singapore under the Trust Companies Act. Specified income derived on or after 17 Feb 2006 by such foreign trusts will be tax exempt; and</p> <p>(c) To extend the ATC tax incentive scheme to companies which are exempted from the requirement to</p>

	Current Treatment	New Treatment
	Foreign trusts will only be considered as qualifying foreign trusts for the purposes of the above tax concessions if their settlors and beneficiaries are qualifying individuals and/or qualifying companies.	hold a trust business licence in respect of the carrying on of trust business in Singapore under the Trust Companies Act and which are administering qualifying foreign trusts in Singapore. Specified income derived on or after 17 Feb 2006 by such companies which are approved as ATCs will be taxed at the concessionary tax rate of 10%.
New tax exemption scheme to encourage fund domiciliation in Singapore	Specified income derived by funds set up in the form of companies will be tax exempt under the tax exemption scheme for foreign investors if, subject to other qualifying conditions, the company is not resident in Singapore.	A new tax incentive will now be introduced to grant tax exemption to qualifying funds set up in the form of companies which are resident in Singapore and substantially owned by foreign investors. Approval will be granted under this incentive during the period from 17 Feb 06 to 16 Feb 11 (both dates inclusive).

Measures to Promote Capital and Treasury Markets

	Current Treatment	New Treatment
Tax measures to develop Singapore as choice listing location for REITs	<p>Singapore-listed REITs that invest in foreign properties:</p> <p>(a) May be granted tax exemption by the Minister for Finance under section 13(12) of the Income Tax Act on foreign-sourced dividends paid out of income/gains related to foreign properties; and</p> <p>(b) Will not be able to recover GST on expenses incurred to structure and set up the various tiers of Special Purpose Companies ("SPCs") to hold overseas non-residential properties. Input tax incurred on acquiring the overseas non-residential properties and operating the SPCs are also not recoverable.</p>	<p>The scope of tax exemption under Section 13(12) of the Income Tax Act, granted to Singapore-listed REITs, will be expanded to include <i>foreign-sourced interest and distributions by foreign trust</i>³ paid out of income/gains related to ownership of foreign properties, subject to the REIT satisfying the qualifying conditions. This change takes effect on 17 Feb 06.</p> <p>Singapore-listed REITs will be able to recover GST on expenses incurred to structure and set up the various tiers of SPCs to hold overseas non-residential properties, subject to the satisfaction of qualifying conditions. GST incurred on acquiring the overseas non-residential properties and the operating of the SPCs is also recoverable, subject to the satisfaction of qualifying conditions. This is effective for GST incurred during the period from 17 Feb 06 to 17 Feb 10 (both dates inclusive).</p>

³ This refers to a trust that is set up overseas. The trustee of such a trust is not tax resident in Singapore.

	Current Treatment	New Treatment
Enhancement of the Qualifying Debt Securities (“QDS”) incentive scheme	<p>Discount debt securities with tenure of more than one year currently do not qualify for the QDS incentive scheme and investors of such securities are subject to the following tax treatments:</p> <p>(a) 20% for companies and bodies of persons;</p> <p>(b) 15% or the rate under the tax treaty, whichever is the lower, for non-residents; and</p> <p>(c) Marginal personal income tax rate for resident individuals.</p>	<p>Discount debt securities with <u>tenure of more than one year</u>, which are issued during the period from 17 Feb 06 to 31 December 08 (both dates inclusive), will be included under the QDS scheme. Subject to satisfaction of qualifying conditions, investors of such discount debt securities will be able to enjoy the tax concessions under the QDS scheme.</p> <p>The tax exemption on locally-sourced investment income derived directly by individuals, will also be extended to cover discount from debt securities with tenures of more than one year.</p>
Enhancement of Finance and Treasury Centre (“FTC”) incentive scheme	<p>Currently, an approved FTC is granted a concessionary tax rate of 10% on its income derived from the provision of qualifying services to its approved offices and associated companies and from qualifying activities carried out on its own account.</p>	<p>The list of FTC qualifying activities and services will be expanded with effect from 17 Feb 06 to include trading and arranging of derivatives provided that such transactions are carried out with specified counter-parties.</p>

	Current Treatment	New Treatment
New tax incentive to promote the use of Over-The-Counter (“OTC”) Derivatives Clearing Facility	Income derived from provision of clearing services by a member of any clearing facility is subject to tax at normal corporate tax rate of 20%.	Income derived from the provision of clearing services in Singapore by approved clearing members of a Singapore OTC derivatives clearing facility will be accorded a 5% concessionary tax rate for a period of 5 years. The window period for clearing members to qualify for this concessionary tax rate will be from 17 Feb 06 to 16 Feb 11 (both dates inclusive).

Measures to Promote Islamic Finance Products and Services

	Current Treatment	New Treatment
Overall policy approach for Islamic Finance and tax treatment of qualifying financial products based on specified Islamic concepts	With effect from 1 Jan 05, the double or triple imposition of stamp duties incurred in Islamic transactions which involve real estate, namely Murabaha contract and Ijara Wa Igtina contract is removed, and the amount payable from Islamic debt securities is accorded the same concessionary income tax treatment that is currently granted to interest income arising from conventional debt securities, subject to conditions.	<p>Overall Policy Approach</p> <p>The overall policy approach is to align the tax treatment of Islamic contracts with the treatment of conventional financing contracts that they are economically equivalent to. To give the industry maximum flexibility for innovation whilst preventing any unintended tax consequences, tax rules are to be prescribed for each specific Islamic finance arrangement.</p> <p><i>Tax Treatment of Qualifying Financial Products based on Specified Islamic Concepts</i></p> <p>(A) Murabaha Concept</p> <p><u>Income Tax</u></p> <p>Any gains or profits accrued and any expenses incurred, in lieu of interest, will be regarded as interest.</p>

	Current Treatment	New Treatment
		<p><u>GST</u> For a loan used for the purchase of non-residential property, any mark-up on the selling price of the non-residential property by the bank to the buyer will be exempt from GST, and the bank will be allowed to claim GST on the purchase of the non-residential property from the vendor in full.</p> <p>(B) Mudarabah Concept <u>Income Tax</u> Any profit payable to a customer, in lieu of interest, by a qualifying financial institution, will be regarded as interest.</p> <p>(C) Ijara Wa Igtina Concept <u>Income Tax</u> Any gains or profits accrued and any expenses incurred, in lieu of interest, will be regarded as interest.</p> <p><u>GST</u> For a loan used for the purchase of non-residential property, any mark-up on the selling price of the non-residential property by the bank to the buyer will be</p>

	Current Treatment	New Treatment
		<p>exempt from GST, and the bank will be allowed to claim GST on the purchase of the non-residential property from the vendor in full.</p> <p>(D) Sukuk Concept</p> <p><u>Stamp Duty</u></p> <p>Stamp duty on instrument(s) related to the transfer of immovable properties that is <i>in excess</i> of that chargeable in the case of an equivalent conventional bond issue, may be remitted, subject to conditions.</p>

Measures to Promote Insurance Industry

	Current Treatment	New Treatment
Tax exemption for captive insurance companies	<p>Approved insurance companies, including captive insurance companies approved as such, are granted a concessionary tax rate of 10%⁴ on the following income:</p> <p>(a) Income derived from accepting insurance covering offshore risks; and</p> <p>(b) Dividends and interest derived from outside Singapore, the gains or profits realized from the sale of offshore investments, and interest from ACU deposits derived from:</p> <p>(i) The investment of its insurance fund for offshore insurance business; and</p> <p>(ii) The investment of its shareholders' funds used to support the offshore insurance business.</p>	<p>Approved captive insurance companies will be granted tax exemption on the following income for a period of 10 years:</p> <p>(a) Income derived from accepting insurance covering offshore risks; and</p> <p>(b) Dividends and interest derived from outside Singapore, the gains or profits realized from the sale of offshore investments, and interest from ACU deposits derived from:</p> <p>(i) The investment of its insurance fund for offshore insurance business; and</p> <p>(ii) The investment of its shareholders' funds used to support the offshore insurance business.</p>

⁴ Where an approved insurance company is an approved marine hull and liability insurer, tax exemption is granted on certain qualifying income.

	Current Treatment	New Treatment
		The window approval period for captive insurance companies to be approved for tax exemption will be from 17 Feb 06 to 16 Feb 11 (both dates inclusive).