

## **BENEFITS FOR BUSINESS**

### **(A) Making Innovation Pervasive in our Economy**

#### (A1) Tax Deduction for R&D Expenditure (for all companies)

- Increase the quantum of tax deduction for expenditure incurred on research and development (R&D) done in Singapore from 100% to 150%. This means that for every \$100,000 of local R&D expenditure incurred, \$150,000 may be claimed as a tax deduction. This higher deduction will be available from Year of Assessment (YA) 2009 to YA 2013.
- Allow a company's locally-done R&D expenses that are not related to the company's existing business to qualify for tax deduction. This will take effect from YA 2009 to YA 2013.

#### (A2) R&D Tax Allowance for All Companies (main benefits for SMEs)

- Introduce a new incentive to grant companies R&D Tax Allowance for YA 2009 to YA 2013, amounting to 50% of the first \$300,000 of chargeable income for each YA. This allowance can be utilised against incremental expenditure on ongoing R&D that the company does in Singapore. This allowance has to be used within three YAs from the year in which the allowance is granted.

#### (A3) R&D Incentive for Start-Up Enterprises (RISE)

- Allow start-ups that have yet to make taxable profits within their first three YAs to convert up to \$225,000 of the company's losses that arise from tax deductions for R&D which the company does in Singapore into cash grants of up to \$20,250 from the Government. To qualify for this new incentive, the start-up company needs to incur at least \$150,000 of expenditure on ongoing R&D done in Singapore in the basis period for each YA of claim. The company will have to give up the losses that have been converted, viz. not be able to carry them forward to set-off future chargeable income of the company. This incentive, named the R&D Incentive for Start-Up Enterprises (RISE), will be available from YA 2009 to YA 2013.
- The three schemes above (A1-A3) will provide a significant incentive for all companies, small and big, to do R&D. Start-ups which do not yet have taxable profits will benefit from reduced costs when they do R&D. A small company that is around the 80th percentile of taxpaying companies, and which spends an additional \$150,000 on R&D, would find its effective tax rate being reduced from around 9% currently to almost zero. For a medium-sized company, around the 90th percentile, its effective tax rate will come down from about 15% to 10%.

**(B) Enhancing Business Competitiveness**

*For All Companies*

(B1) Tax Incentive for Fixtures and Fittings (main benefits for SMEs)

- Grant an allowance to all companies for expenditure incurred on fixtures, fittings and installations, except those relating to structure or expansion of building space, up to a maximum expenditure of \$150,000 every three years per business entity. This new five-year incentive will take effect on qualifying cost of fixtures, fittings and installations incurred after 15 February 2008.

(B2) Foreign Tax Credit for Foreign-Sourced Income

- Extend the unilateral tax credit claim for foreign income taxes incurred to all types of foreign-sourced income earned in countries with which Singapore has yet to conclude an Avoidance of Double Taxation Agreement (DTA). This is to encourage businesses to expand regionally and globally. This takes effect from YA 2009.

(B3) Overseas Talent Recruitment Scheme

- Extend the Further Tax Deduction for Overseas Talent Recruitment Scheme, which grants double tax deduction for recruitment and relocation costs of hiring top global talent, for another five years to 30 September 2013.

(B4) Equity Remuneration Incentive Scheme (ERIS)<sup>1</sup>

- *ERIS (All Corporations)*. To liberalise the qualifying condition for ERIS (All Corporations) such that companies only need to issue stock options or share awards to at least 25% of their employees, instead of the 50% currently required. For large companies that would like to use equity remuneration for key employees to encourage them to take risks and grow the company, it will now be easier to do so.
- *ERIS (Small and Medium Enterprises), i.e. ERIS (SMEs)*. Rename the Entrepreneurial Employee Equity-based Remuneration Scheme as ERIS (SMEs).
- *ERIS (Start-Ups)*. Introduce ERIS (Start-Ups), which allows employees of qualifying start-up companies to be exempted from personal income tax on 75% of the gains derived from equity-based remuneration granted by qualifying start-up companies. The equity-based remuneration must be granted within the first three calendar years of the company's incorporation.

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<sup>1</sup> ERIS is a new scheme to consolidate the Company Employee Equity-based Remuneration Scheme (CEEER) and the Entrepreneurial Employee Equity-based Remuneration Scheme (EEEER), as well as a new equity remuneration tax incentive scheme targeted at start-ups, into one scheme. The CEEER scheme has been renamed ERIS (All Corporations) and the EEEER scheme has been renamed ERIS (SMEs).

Employees can claim tax exemption on 75% of up to \$10 million of qualifying gains arising over a period of 10 years.

- To qualify for ERIS (Start-Ups), the company needs to a) be incorporated and conducting a trade in Singapore; b) have gross assets with a market value of \$100 million or less at the time of being granted the equity-based remuneration; and c) have at least one individual shareholder owning at least 10% shareholding in the start-up company. ERIS (Start-Ups) will be available for stock options or share awards granted between 16 February 2008 and 15 February 2013 in the first three years of incorporation of the qualifying start-up companies.
- o ERIS will take effect from YA 2009 on stock options or share awards granted after 15 February 2008 by qualifying companies. Gains that employees of a qualifying company derive from qualifying stock options or share awards are to be incentivised only under one tier or ERIS, and the company has to meet the qualifying conditions applicable for the tier.

### **Promoting Financial Services**

#### **(B5) Promoting Financial Sector Activities and Islamic Finance**

- o Renew the Financial Sector Incentive (FSI) scheme for a period of five years from 1 January 2009 to 31 December 2013 (both dates inclusive).
- o Enhance the FSI scheme:
  - To give a 5% concessionary tax rate on income derived from performing specific Shariah compliant activities. The approval period is from 1 April 2008 to 31 March 2013 (both dates inclusive), with each successful applicant enjoying the incentive for a period of five years;
  - To include trading of Qualifying Debt Securities and Qualifying Project Debt Securities as a qualifying activity under the FSI-Bond Market enhanced-tier award with effect from 16 February 2008; and
  - To include trading of exchange-traded financial derivatives as a qualifying activity under the FSI-Derivatives Market enhanced-tier award with effect from 16 February 2008.
- o Enhance the offshore insurance business incentive scheme to give a 5% concessionary tax rate to an insurer (other than a captive insurer, a marine and hull liability insurer or an insurer underwriting specialised insurance risks) on income derived from offshore Islamic insurance (*takaful*) or reinsurance (*retakaful*) business. The approval period for this 5% tax rate is from 1 April 2008 to 31 March 2013 (both dates inclusive), with each successful applicant enjoying the incentive for a period of five years.

(B6) Promoting the Debt Market

- Renew the Qualifying Debt Securities (QDS) scheme for a period of five years from 1 January 2009 to 31 December 2013 (both dates inclusive). The scheme will be enhanced with effect from 16 February 2008 to exempt all investors from income tax on qualifying income derived from QDS that are qualifying *sukuks* (Islamic bonds) or debt securities with tenure of at least 10 years.
- Extend the period of tax exemption on income derived by primary dealers from trading in Singapore Government Securities from 28 February 2008 to 31 December 2013 (both dates inclusive).

(B7) Promoting the Project Finance Industry

- Extend the existing package of tax incentives to promote infrastructure financing from 1 January 2009 to 31 December 2011 (both dates inclusive).
- Introduce a new tax incentive to grant a 10% concessionary tax rate, for a period of up to 10 years on income derived by an approved company, from the provision of management services to a business trust or fund that owns offshore infrastructure assets and is listed on the Singapore Exchange. The incentive is valid from 1 April 2008 to 31 March 2011 (both dates inclusive).

(B8) Promoting Asset Securitisation

- Renew the Approved Special Purpose Vehicle scheme for a period of five years from 1 January 2009 to 31 December 2013 (both dates inclusive).

(B9) Promoting Insurance and Re-insurance Broking Activities

- Introduce a new tax incentive to grant a 10% concessionary tax rate, for a period of up to 10 years, on fees and commissions derived by qualifying licensed direct and reinsurance brokers from the provision of insurance broking and advisory services to non Singapore-based clients. The incentive is valid from 1 April 2008 to 31 March 2013 (both dates inclusive).

(B10) Promoting Wealth Management Activities

- Introduce a new tax incentive that grants tax exemption on locally-sourced investment income and foreign-sourced income received by qualifying family-owned investment holding companies, to the extent that such tax exemption mirrors the tax exemption on qualifying locally-sourced investment and foreign-sourced income exemption granted to individuals. The incentive is valid from 1 April 2008 to 31 March 2013 (both dates inclusive).
- Details of the above tax changes for promoting financial services will be released by MAS by May 2008.

(B11) Promoting Capital Markets

- Allow listed REITs and registered business trusts in infrastructure business, ship leasing and aircraft leasing to claim input GST on business expenses incurred, irrespective of whether they hold the underlying assets directly or indirectly through multi-tiered structures such as subtrusts or special purpose vehicles (SPVs). Details of this change will be released by IRAS by 29 February 2008.

**Developing the Maritime Hub**

(B12) Enhancements to the Maritime Finance Incentive Scheme

- Enhance the Maritime Finance Incentive with effect from 1 April 2008 to include container leasing activity and to allow partnerships to enjoy the incentive. A container investment enterprise will enjoy a concessionary tax rate of either 5% or 10% on its entire onshore and offshore container leasing income, depending on its commitments. A container investment manager will enjoy a 10% concessionary tax rate on its management fee income.

(B13) Tax Certainty on Treatment of Gains from Sale of Vessels

- Extend the administrative concession that all gains from the sale of vessels will not be subject to income tax so long as the vessels are registered with the Singapore Registry of Ships (“SRS”) or owned by Approved International Shipping Enterprise (“AIS”) companies, for a further period of five years, from YA 2010 to YA 2014. The scope of the concession is also expanded to include gains from the sales of ships which are subsequently leased back as well as gains from the sale of shares in a Special Purpose Company which owns ships.

(B14) Enhancement to Shipping Incentives

- Treat foreign exchange gains and gains from risk management activities that are in connection with and incidental to core shipping operations as qualifying income under Section 13A and Approved International Shipping Enterprise scheme with effect from YA 2009.
- Details of the above tax changes for Maritime Services will be released by MPA by May 2008.

## **(C) Tax Incentives to Support Start-Ups**

The following tax incentives are targeted to provide greater support to start-ups, especially start-ups that are research intensive:

### (C1) Start-Up Tax Exemption Scheme

- Allow start-up companies with corporate shareholders to qualify for the existing Start-Up Tax Exemption Scheme, provided that there is at least one individual shareholder of minimum 10% shareholding. The scheme grants qualifying start-up companies income tax exemption for up to \$100,000 of chargeable income for the first three YAs. This change will take effect from YA 2009.

### (C2) R&D Incentive for Start-Up Enterprises (RISE)

- Refer to (A3) above for details.

### (C3) ERIS (Start-Ups)

- Refer to (B4) above for details.

## **(D) Other Tax Change**

### (D1) Tax Deduction for Portable Medical Expenses

- Allow the current tax deduction limit for medical expenses to be extended beyond 1% (but not exceeding 2%) of total wage bill for companies that provide their employees with either of the following:
  - Inpatient medical benefits through portable medical shield plans, either by paying the insurance premiums on behalf of their employees to the insurance companies directly or by reimbursing the premiums into employees' Medisave accounts; or
  - Ad-hoc contribution to their employees' Medisave account but subject to a cap of \$1,500 per employee per year.

This change will take effect from YA 2008.