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Singapore's 2016 Budget: Tax Implications for the Wealth Management Industry

The 2016 Budget was delivered by the Minister for Finance Heng Swee Keat on 24 March 2016. This was his first budget as Minister for Finance and it was appropriately themed "Partnering for the Future", in charting Singapore's next phase of development. While there will not be drastic changes to Singapore's economic policy, smaller changes will be introduced to address concerns about a slowing economy, as Singapore embarks on a journey to transform its economy through innovation and enterprise.

The 2016 Budget introduces a few changes relevant to the wealth management industry.

We highlight the key changes below.

1. Extending and refining the Tax Incentive Scheme for Trustee Companies

The Tax Incentive Scheme for Trustee Companies was introduced to encourage Singapore's financial services and wealth management industries. Under the existing scheme, qualifying income from the provision of trustee, custodian, trust management and administration services is taxed at 10%. The scheme was scheduled to lapse on 31 March 2016.

Following the 2016 Budget, the scheme will be subsumed under the Financial Sector Incentive Scheme with effect from 1 April 2016. The scope of qualifying activities will be expanded to align with trustee activities covered under the Financial Sector Incentive-Standard Tier scheme from 1 April 2016 for new and current incentive recipients. A concessionary tax rate of 12% will apply to new awards from 1 April 2016.

The Monetary Authority of Singapore ("**MAS**") is due to release further details of the change in the scheme by June 2016.

Comments: The existing Tax Incentive Scheme for Trustee Companies under section 43J of the *Income Tax Act* ("**ITA**") only covers the situation where trustee and custodian services are provided for foreign trusts, foreign collective investment schemes, foreign business trusts and foreign philanthropic purpose trusts. Given the comments in the 2016 Budget that the scope of qualifying activities will be expanded, it will be interesting to see if the refined scheme will now cover trustee and custodian services provided to trust structures with settlors and/or beneficiaries who are Singapore citizens or residents.

2. Philanthropy Updates

A. Introduction of the Business and Institutions of Public Character Partnership Scheme

The 2016 Budget introduced the pilot Business and Institutions of Public Character ("**IPC**") Partnership Scheme ("**BIPS**") to encourage corporate social responsibility ("**CSR**") and employee volunteerism with charities registered as IPCs. IPCs are registered charities that are able to issue tax-deductible receipts for qualifying donations.

Under the BIPS, all businesses, including sole proprietorships, partnerships, companies and registered business trusts, will enjoy a 250% tax deduction on qualifying expenditure incurred when they send their employees to volunteer at IPCs. This includes the secondment of employees to the IPCs. The deductible wages and volunteering expenditure will be subject to the IPC's agreement, with a yearly cap of S$250,000 per business and S$50,000 per IPC.

The BIPs will be effective from 1 July 2016 to 31 December 2018. The Ministry of Finance and the Inland Revenue Authority of Singapore ("**IRAS**") are due to release further details on the BIPS by June 2016.

Comments: With the growing emphasis on CSR, the BIPS is significant as it recognises alternative ways in which businesses can contribute to philanthropy and encourages businesses to support volunteerism by their employees.

B. Extending the Not-for-Profit Organisation tax incentive

Currently, Not-for-Profit Organisations ("**NPOs**") can apply for a tax incentive which exempts the income of approved NPOs. The tax incentive was was scheduled to lapse after 14 February 2017.

In order to continue promoting Singapore as a hub for NPOs, the NPO tax incentive will be extended until 31 March 2022.

3. Extension of upfront certainty on tax treatment of gains on share disposals under the Section 13Z exemption

Currently, under Section 13Z of the ITA, gains derived from the disposal of equity investments by companies will not be taxed if:

a) The divesting company holds a minimum shareholding of 20% in the company whose shares are being disposed; and

b) The divesting company maintains the minimum 20% shareholding for a minimum period of 24 months immediately prior to the disposal.

While capital gains are not taxable in Singapore, whether a gain is capital or revenue in nature is a question in fact, to be determined by applying the "badges of trade". Section 13Z was introduced to provide upfront certainty to certain qualifying disposals and was scheduled to expire on 31 May 2017.

Following the 2016 Budget, Section 13Z will be extended until 31 May 2022. All conditions of the scheme remain the same.

4. Extension of upfront certainty on tax treatment of gains on share disposals under the Section 13Z exemption

Currently, there is no limit to the total amount of income tax relief a resident individual taxpayer can claim, provided that the conditions for the respective reliefs are met.

To enhance progressivity of the income tax system and increase the Government's collection of revenue, the 2016 Budget has introduced a cap of S$80,000 on the total amount of personal income tax relief an individual can claim per year of assessment. The tax-relief cap is to take effect from YA2018.

Comments: While the reason given for this change is to enhance progressivity of the income tax system, this cap on relief is more likely to affect the tax bill of salaried employees rather than wealthy individuals who typically derive tax exempt investment income and capital gains.