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Singapore Budget 2018: Tax Updates

The Singapore Budget 2018 ("**Budget**") was delivered by the Minister for Finance Heng Swee Keat on 19 February 2018. This year's Budget emphasises Singapore's long-term fiscal sustainability in preparation for major economic shifts brought about by the emergence of new technologies and an ageing population. At the same time, the measures seek to ensure that Singapore maintains its competitiveness as global economic weight shifts towards Asia. Amidst the discussion surrounding the future economy, the Budget also addressed the social and environmental themes of building a caring and cohesive society as well as a smart and green city.

On the tax issues, the Budget features several revenue raisers, including the introduction of Goods and Services Tax ("**GST**") on imported services, an increase in the top marginal buyer's stamp duty rate to 4%, as well as a new carbon tax of S$5 per ton. As with previous years, promoting research and development ("**R&D**") and intellectual property ("**IP**") exploitation continues to be a key focus of the Budget, which enhances existing tax deductions on qualifying R&D, IP registration and IP in-licensing. The Budget also introduces a series of changes that impact the financial services and asset management industries, particularly funds, with the introduction of a tax framework for Singapore Variable Capital Companies ("**S-VACCs**"), as well as the extension, enhancement and review of current schemes.

We highlight the key changes below.

1. Goods and Services Tax

A. Introduction of GST on imported services

Currently, GST is not applicable on imported services provided by an overseas supplier who does not have an establishment in Singapore. While Section 14 of the GST Act does provide for a reverse charge on prescribed services received from abroad, the reverse charge mechanism has not been invoked as the Minister for Finance has yet to prescribe any imported services for which the mechanism will apply.

Following the Budget, GST will apply on imported services with effect from 1 January 2020. The proposed changes will impact Business-to-Business ("**B2B**") and Business-to-Consumer ("**B2C**") imported services.

- **B2B imported services** will be taxed via a reverse charge mechanism. Local businesses that (i) make exempt supplies; or (ii) do not make any taxable supplies will need to apply the reverse charge and account for GST to the Inland Revenue Authority of Singapore ("**IRAS**") on the services they import. The local business customer can claim the GST accounted for as its input tax, subject to the input tax credit conditions being met.

- **For B2C imported services**, an Overseas Vendor Registration ("**OVR**") regime will be introduced. This requires overseas suppliers and electronic marketplace operators which make significant supplies of digital services to local consumers to register with the IRAS for GST.

Commentary: The introduction of GST on imported services did not come as a surprise given that the Minister for Finance had announced in last year's budget that the Singapore government was studying various options to impose GST on digital transactions and cross-border trade. The proposed changes to our GST regime are in line with the regional trend where tax authorities are imposing indirect taxes on digital transactions. Countries such as Australia, Korea and Japan have already introduced similar B2C regimes.

Following the Budget speech, the IRAS has released draft guidelines for public consultation on the implementation of the reverse charge mechanism and the OVR regime (deadline for submitting feedback is 20 March 2018). The proposed changes under the draft guidelines appear to be extensive. While the draft guidelines are not yet finalised, we summarise a few key observations and our comments below.

Reverse charge mechanism

The key objective of the reverse charge mechanism is to help level the playing field between supplies of services made by local suppliers and overseas suppliers. Without the reverse charge mechanism, an exempt or partially exempt business can avoid GST on its inputs by obtaining services from an overseas supplier rather than a local supplier. A majority of the businesses which will be affected by the reverse charge mechanism will include exempt or partially exempt businesses (e.g., financial institutions, charities and welfare organisations as well as businesses in the real estate sector).

Further, the scope of imported services which will be subject to the reverse charge mechanism will be broad. Affected businesses will need to account for GST on all imported services (e.g., information technology, legal, marketing services, etc.), unless certain exceptions apply. Imported services that fall within the scope of exempt or zero-rated supplies will not be imposed with the reverse charge.

From a practical perspective, the implementation of the reverse charge mechanism will likely lead to increased compliance costs for affected businesses as they will be required to establish or update their internal systems and protocols to track and report the imported services. Affected businesses should take advantage of the 1 January 2020 implementation deadline to prepare for the implementation of the reverse charge on payments made to overseas suppliers.

OVR regime

The OVR regime is intended to capture the provision of digital services by overseas vendors over the Internet or an electronic network to non-GST registered customers in Singapore. Such services may potentially include supplies of digital products, content, software and support services to arrange or facilitate the provision of transactions which may not be digital in nature.

Given the extra-territorial nature of the OVR regime, we would expect there to be certain challenges in implementing and enforcing the relevant rules for the OVR regime from a practical perspective. In particular, for overseas vendors and electronic marketplace operators with customers and end-users located in multiple jurisdictions, there may be practical challenges in accurately identifying where the customers are located.

B. Future increase in GST rate to 9%

GST will be raised by two percentage points from 7% to 9% between 2021 and 2025. The timing of implementation will depend on the state of the economy, the buoyancy of existing taxes, and growth figures on expenditure.

Commentary: It is worth noting that GST is the second-largest revenue generator (among all taxes, fees and charges) for the Singapore government in financial year ("**FY**") 2017.[1] A 9% GST rate is still competitive in the overall scheme of things, and still much lower than rates in Europe. The important aspect is to ensure lower income households are given assistance to make GST progressive and not regressive.

Businesses which are GST-registered and are able to meet all relevant conditions for claiming input tax credits should not be adversely impacted by the increase in GST rate. That said, a higher GST rate may impact the level of consumption of certain price-elastic goods and services in Singapore. This should be monitored closely so that the increase in GST rate will not adversely impact the level of consumption and economic growth in Singapore.

2. Incentivising R&D and Innovation

Businesses are able to claim enhanced deductions or opt for cash payouts on six qualifying activities under the Productivity and Innovation Credit ("**PIC**") scheme, subject to certain conditions being met. With the expiry of the PIC scheme after the year of assessment ("**YA**") 2018, such benefits will no longer be available.

The Budget introduces tax measures targeting R&D and innovation. These measures, which mainly take the form of enhanced tax deductions, will take effect from YA 2019. Compared to the PIC, the enhanced tax deductions following the Budget incentivise a narrower range of activities. In particular, the enhanced tax deductions do not cover the training of employees or the acquisition and leasing of information technology and automation equipment, for which businesses would be able to claim PIC before YA 2019. In addition, the new measures do not allow for cash payouts in lieu of tax deductions.

We elaborate on the new measures as follows.

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[1] Based on the Singapore government's statement of fiscal position in FY 2018, the GST collected in FY 2017 amounted to S$10.77 billion. In comparison, the corporate income tax collected in FY 2017 amounted to S$14.36 billion.

A. Enhancement of tax deduction for qualifying expenditure on qualifying R&D projects performed in Singapore

Currently, businesses that incur qualifying expenditure on qualifying R&D projects performed in Singapore will be entitled to claim a 150% tax deduction for staff costs and consumables incurred, and a 100% tax deduction for other qualifying expenditure.

The Budget will increase the tax deduction for staff costs and consumables incurred on qualifying R&D performed in Singapore from 150% to 250% from YA 2019 to YA 2025.

B. Enhancement of tax deduction on the cost of protecting IP

Businesses are entitled to claim a 100% tax deduction on qualifying IP registration costs under the current scheme, which is scheduled to lapse after YA 2020.

The Budget extends this tax deduction scheme to YA 2025. It also enhances the tax deduction on the first S$100,000 of qualifying IP registration costs to 200% for each YA, from YA 2019 to YA 2025.

C. Enhancement of tax deduction for costs of IP in-licensing

Under the current scheme, businesses are entitled to claim a 100% tax deduction on qualifying IP in-licensing costs.

The scheme will be enhanced to increase the tax deduction from 100% to 200% for the first S$100,000 of qualifying IP in-licensing costs incurred for each YA, from YA 2019 to YA 2025. Qualifying IP in-licensing costs would include payments made by a qualifying person to publicly funded research performers or other businesses. Related party licensing payments, as well as payments for IP for which any allowance was previously made to the same person, will not qualify for the deduction.

Commentary: We see the new measures as Singapore's attempt to implement a more targeted and refined approach towards incentivising innovation. The new measures would put Singapore in a better position to compete with other countries in the region which have introduced or are in the process of introducing fiscal incentives to attract IP and R&D investments. In particular, the increase in R&D deductions comes close on the heels of the proposed super deduction for R&D expenditure announced by Hong Kong in October 2017, which provides for a 300% tax deduction on the first HKD 2 million of R&D expenditure and 200% for the remainder.

In addition, the increased tax deductions for qualifying R&D expenditure will be a welcomed measure for companies, with the lapse of the PIC. In particular, businesses with significant spending on local R&D will stand to reap more benefits under the new scheme compared to the PIC scheme, even though the percentage of tax deduction is lower under the new scheme (i.e., 250% versus 400% under the PIC scheme), since the new scheme is not subject to any cap.

However, some difficulties which may prevail are the uncertainty and compliance costs faced by businesses in satisfying the IRAS that the conditions for claiming R&D deductions have been met. The success of the new measures, as such, would be dependent on Singapore's ability to balance anti-abuse considerations on one hand, and the need to increase certainty and mitigate taxpayers' compliance costs, on the other hand.

The new enhanced deduction for qualifying IP registration and in-licensing costs will entitle businesses to a lower percentage of enhanced deduction compared to the 400% deduction under the PIC, and are still subject to a cap, but would nonetheless serve to benefit businesses.

3. Key changes affecting financial services and asset management

A. Introduction of a tax framework for Singapore Variable Capital Companies ("**S-VACCs**")

The S-VACC is a proposed new structure for investment funds which the Monetary Authority of Singapore ("**MAS**") launched a public consultation for in March 2017. The deadline for comments on the proposed framework for S-VACCs was 24 April 2017. As at the time of writing, the MAS has not yet issued any further guidance or commentary on the proposed S-VACCs framework.

Under the current proposals, a S-VACC would be a company registered under the existing company incorporation system and supervised by the MAS. The S-VACC is designed to be a flexible vehicle to cater for collective investment schemes. Among other features, S-VACCs can have cellular sub-funds, which allow for segregation of assets and liabilities. Such sub-funds will not have separate legal personality, and will instead be registered with the Accounting and Corporate Regulatory Authority, as part of the umbrella S-VACC (i.e., there will only a single legal entity).

Further, an S-VACC will be permitted to freely redeem shares and pay dividends using its capital. It is proposed that the valuation and redemption of shares should be carried out at net asset value (with the exception of closed-end funds listed on a securities exchange). Investors will be able to invest in and exit out of S-VACCs, which would be more in line with the operation of an investment fund than the fixed capital of conventional Singapore companies.

To complement the S-VACC regulatory framework, a tax framework for S-VACCs will be introduced. The details are as follows:

a) A S-VACC will be treated as a company and a single entity for tax purposes;
b) Tax exemptions under Section 13R and 13X of the Income Tax Act ("**ITA**") will be extended to S-VACCs;
c) Approved fund managers managing an incentivised S-VACC can enjoy

the 10% concessionary tax rate under the Financial Sector Incentive - Fund Managers scheme; and

d) The GST remission for funds will be extended to S-VACCs.

The conditions under the existing schemes in points (b) to (d) above will remain unchanged.

These changes will take effect on or after the S-VACCs regulatory framework is introduced, with the MAS planning to release more details in October 2018.

Commentary: The introduction of a tax framework for S-VACCs is welcome. Given that the intention is to encourage investment funds to be set up in Singapore, the extension of the tax exemption schemes under Sections 13R and 13X of the ITA respectively to S-VACCs is critical to support this drive to enhance Singapore's attractiveness as a jurisdiction for investment funds.

The proposed tax framework for S-VACCs aligns the tax treatment for S-VACCs with that of other vehicles that are currently commonly used for investment funds in Singapore. This makes the S-VACC a genuinely viable fund vehicle from both a corporate and tax perspective, and will do much to attract fund managers to set up in Singapore.

B. Enhancement of the Enhanced-Tier Fund scheme under Section 13X of the ITA

The scheme, which is currently only available for limited partnerships, companies and trusts, will be extended to all fund vehicles irrespective of their form. All fund vehicles will be able to qualify for the Enhanced-Tier Fund scheme if all qualifying conditions are met.

The change will take effect for new awards approved on or after 20 February 2018. The MAS will release further details of the change by May 2018.

Commentary: Whilst the scope of the expansion described above remains to be clarified in detail, the potential for alternative vehicles such as Ireland's Collective Asset-Management Vehicle and Luxembourg's Reserved Alternative Investment Fund to qualify for the scheme will increase the options available for the fund management industry, as well as for family offices and the private wealth industry in Singapore.

C. Extension of tax transparency treatment for Singapore-listed Real Estate Investment Trusts ("**S-REITs**") to Singapore-listed Real Estate Investment Trusts Exchange-Traded Funds ("**REITs ETFs**")

Currently, distributions made by S-REITs to REITs ETFs out of specified income are subject to a 17% corporate tax rate, while all investors of REITs ETFs will not be taxed on the distributions made out of such income from REITs ETFs.

The following tax treatment will be accorded to REITs ETFs to ensure parity of

treatment between investing in individual S-REITs and investing via REITs ETFs with investments in S-REITs:

- tax transparency treatment on distributions received by REITs ETFs from S-REITs which are made out of specified income;
- tax exemption on REITs ETFs distributions derived by individuals, excluding individuals who derive any distribution (i) through a partnership in Singapore; or (ii) from the carrying on of a trade, business or profession; and
- 10% concessionary tax rate on such REITs ETFs distribution received by a qualifying non-resident non-individual who (i) does not have any permanent establishment in Singapore; or (ii) carries on any operation through a permanent establishment in Singapore, where the funds used by that person to acquire the units in that REITs ETF are not obtained from that operation.

Subject to conditions, such changes will take effect on or after 1 July 2018, with a review date of 31 March 2020. The IRAS will be accepting applications for tax transparent treatment on or after 1 April 2018. Further details will be released in March 2018 by the IRAS and MAS.

Commentary: Without the changes, there are disadvantages for an investor to invest in an S-REIT through a REITs ETF compared to investing directly in the S-REIT. If investors in a REITs ETF had invested directly in the S-REIT, the following tax treatment would apply to distributions received from the S-REIT out of specified income:

- the S-REIT is not taxed on specified income;
- individuals (who do not receive distributions through a partnership or from the carrying on of a trade, business or profession) are exempt from tax;
- individuals who do receive distributions through a partnership or from the carrying on of a trade, business or profession are taxed at their marginal tax rate;
- qualifying non-resident non-individual unitholders would be subject to withholding tax of 10%;
- non-qualifying non-resident non-individual unitholders would be subject to corporate income tax at 17%.

The proposed change accords tax transparency treatment to the distributions received by REITs ETFs from S-REITs. This would mean that investors in a REITs ETF would be subject to the tax treatment listed above (depending on which category they fall into) as if they had invested directly in the S-REIT.

Whilst the details of qualification conditions of REITs ETFs for such tax transparent treatment remain to be further clarified, this change makes Singapore-based REITs ETFs more attractive to investors and the fund management industry as a whole.

D. Extension and enhancement of the Financial Sector Incentive ("**FSI**") scheme

The FSI provides concessionary tax rates of 5%, 10%, 12% and 13.5% on income from qualifying banking and financial activities, headquarters and corporate services, fund management and investment advisory services. The FSI scheme was scheduled to lapse after 31 December 2018, but will be extended to 31 December 2023.

The trading in loans and their related collaterals, excluding immovable property, is a qualifying activity that is accorded a concessionary tax rate of 13.5%. With the Budget, the scope of trading in loans and their related collaterals will be expanded to include collaterals that are prescribed infrastructural assets or projects under regulation 5 of the Income Tax (Qualifying Project Debt Securities) Regulation 2008. These changes will apply to income derived on or after 1 January 2019 in respect of new awards or renewals approved on or after 1 June 2017.

The MAS will release more details by May 2018.

Commentary: The extension of the FSI scheme will certainly be welcomed by the financial sector. The extension follows the progress report released by the Forum of Harmful Tax Practices in October 2017, where Singapore’s FSI was reviewed as a banking and insurance regime, and was found to meet international standards on countering harmful tax practices.

The expansion of the scope of the qualifying activity of trading in loans and related collaterals that are prescribed infrastructural assets or projects reflects Singapore’s desire to promote infrastructure and project finance. It would be useful to note, however, that the scope expansion will only apply in respect of new awards or renewals approved on or after 1 June 2017 (i.e., awards that are granted the 13.5% on standard-tier activities, as opposed to the 12% rate).

E. Increase in Buyer's Stamp Duty ("**BSD**") on the value over $1 million for residential properties

Purchases of properties are currently subject to BSD rates of between 1% to 3%. The top marginal BSD rate for residential property is now raised from 3% to 4% for the portion of the value of residential property over S$1 million.

Rates	Tiers (Residential Property)
1%	First S$180,000 (No change)
2%	Next S$180,000 (No change)
3%	Next S$640,000 (Revised)
4%	Amount over S$1,000,000

There is no change to the BSD rates for non-residential property. This new BSD rate for residential properties applies from 20 February 2018 onwards. Note that under the newly issued *Stamp Duties Act - Stamp Duties (Instruments on or before 19 February 2018) (Remission) Rules 2018 (S 087 of 2018)* ("**2018**

Remission Rules"), this means that for options which are granted on or before 19 February 2018, remission of additional stamp duty payable following this change is available notwithstanding that conveyance may occur only after 19 February, subject to certain conditions being met.

Commentary: This change is designed to increase the duty for more expensive residential properties. This signals Singapore's continued commitment to a progressive tax system while refraining from introducing a new tax that might be perceived as a direct wealth tax, which may discourage entrepreneurship in Singapore.

It should be noted that a component of Additional Conveyancing Duties for Buyers ("**ACDB**") (which applies to acquisitions of shares in certain companies holding Singapore residential property) is calculated using BSD. Previously, the top marginal rate of ACDB was 18% (3% BSD plus additional buyer's stamp duty at 15%). With the new changes, the top marginal rate of ACDB is now 19% (4% BSD plus 15% additional buyer's stamp duty).

4. Other tax changes

A. Introduction of carbon tax

From 2019, a carbon tax will be applied on the total greenhouse gas emissions of facilities that produce 25,000 tonnes or more carbon dioxide equivalent ("**tCO_2e**") of emissions a year.

The tax will apply uniformly to all sectors, without exemption. From 2019 to 2023, the carbon tax rate will be set at S$5 per tCO_2e of emissions. The Government will review the carbon tax rate by 2023, and intends to increase the carbon tax rate to S$10-15 per tCO_2e of emissions by 2030.

More details on the carbon tax framework will be announced by the Ministry of the Environment and Water Resources' Committee of Supply. The Carbon Pricing Bill will be tabled in Parliament in March 2018.

B. Extend the Investment Allowance ("**IA**") scheme to include qualifying investment in submarine cable systems landing in Singapore

Currently, capital expenditure incurred on submarine cable systems does not qualify for IA.

The IA scheme will be extended to include capital expenditure incurred on newly-constructed strategic submarine cable systems landing in Singapore, subject to qualifying conditions. All other conditions of the IA scheme will apply, except for the following which will be permitted: (i) the submarine cable systems can be used outside Singapore; and (ii) the submarine cable systems on which IAs have been granted can be leased out under the indefeasible rights of use

arrangements. This change will take effect for capital expenditure incurred between 20 February 2018 and 31 December 2023, inclusive of both dates.

Commentary: Although the current IA scheme does not allow the productive equipment to be leased out within two years after the qualifying period, the leasing out of IA-qualifying submarine cable systems through indefeasible right of use arrangements will be permitted. This expanded IA scheme will work in tandem with the writing down allowance for acquiring indefeasible rights of use under Section 19D of the ITA.

We hope that the conditions to qualify for the IA scheme will be competitive, making the extension more attractive.

C. Extensions and enhancements

(i) Tax exemption on income derived by primary dealers trading in Singapore Government Securities

The tax exemption was scheduled to lapse after 31 December 2018 but will be extended till 31 December 2023.

(ii) Tax deduction for qualifying donations

The 250% tax deduction for qualifying donations was scheduled to lapse on 31 December 2018 but will be extended to donations made on or before 31 December 2021.

(iii) Business and IPC Partnership scheme

A qualifying person can, subject to conditions, enjoy a total of 250% tax deduction on qualifying expenditure. The scheme was scheduled to lapse on 31 December 2018 but will be extended to 31 December 2021.

*(iv) Corporate Income Tax ("**CIT**") rebate*

The YA 2018 CIT rebate was 20% of tax payable, capped at S$10,000. Under the Budget, the CIT rebate will be enhanced to 40% of tax payable for YA 2018, with an enhanced cap of S$15,000. The CIT rebate will also be extended to YA 2019, at a rate of 20% of tax payable, capped at S$10,000.

*(v) Double Tax Deduction for Internationalisation ("**DTDi**") scheme*

From YA 2019, the S$100,000 expenditure cap for claims without prior approval from IE Singapore or Singapore Tourism Board ("**STB**") will be raised to S$150,000 per YA. IE Singapore and STB will release further details of the change by April 2018.

D. Schemes and exemptions that will be streamlined and reviewed

*(i) Insurance Business Development - Insurance Broking Business ("**IBD-IBB**") scheme and Insurance Business Development - Specialised Insurance Broking Business ("**IBD-SIBB**") scheme*

The IBD-IBB, which offers a 10% concessionary rate on commission and fee income derived from insurance broking and advisory services by approved insurance and reinsurance brokers, was scheduled to lapse on 31 March 2018, and will be extended to 31 Dec 2023 under the same conditions.

The IBD-SIBB offered a 5% rate on commission and fee income derived from specialty insurance broking activities and will lapse on 31 March 2018.

(ii) Deduction for banks and qualifying finance companies for impairment and loss allowances under Section 14I of the ITA

Currently, the scheme allows banks and qualifying finance companies to claim a deduction on impairment losses on non-credit-impaired loans and debt securities made under Financial Reporting Standard (“**FRS**”) 109, and any additional loss allowances as required under MAS Notices 612, 811 and 1005, subject to a cap. This tax deduction under Section 14I of the ITA has been extended as follows:

Financial year end for banks and qualifying finance companies	Previous lapse date	Extension until
December	YA 2019	YA 2024
Non-December	YA 2020	YA 2025

Other conditions will remain unchanged. The MAS will release further details of the change in May 2018.

Commentary: The extension of the deduction for impairment and loss allowances is a timely measure, given the application of FRS 109 on companies with annual periods beginning on or after 1 January 2018. Under FRS 109, companies are required to recognise impairment losses in respect of credit-impaired and non-credit-impaired financial instruments. Under normal tax rules, a tax deduction will not be allowed for impairment losses in respect of non-credit-impaired financial instruments, regardless of whether they are on the revenue or capital account. The extension of the deduction under Section 14I for banks (including merchant banks) and qualifying finance companies will definitely be a welcomed measure as this represents an additional deduction amount to them, albeit subject to a cap.

*(iii) Tax incentive scheme for Approved Special Purpose Vehicle ("**ASPV**") engaged in asset securitisation transactions*

The scheme grants the following tax concessions to an ASPV engaged in asset securitisation transactions ("**AST**"):

- exemption of income derived by the ASPV from approved ASTs;
- GST recovery on its qualifying business expenses at a fixed rate of 76%;
- withholding tax ("**WHT**") exemption for payments to qualifying non-residents on over-the-counter financial derivatives in connection with an AST; and
- remission of stamp duty on the transfer instrument of assets to the ASPV for the approved AST.

These measures were scheduled to lapse on 31 December 2018 but will be extended until 31 December 2023, with the exception of the remission of stamp

duty, which will lapse on 31 December 2018.

(iv) *Qualifying Debt Security ("**QDS**") scheme and Qualifying Debt Securities Plus ("**QDS+**") scheme*

The QDS scheme, which provides a 10% concessionary tax rate to qualifying companies and bodies of persons in Singapore and a tax exemption for qualifying non-residents and individuals, was scheduled to lapse after 31 December 2018. It will be extended to 31 December 2023.

Although the QDS+ will lapse on 31 December 2018, securities which are issued on or before that date and meet the QDS+ criteria can still enjoy the tax concessions under the QDS+ scheme.

(v) *Rationalisation of withholding tax exemptions for the financial sector*

(a) As part of the continuous review of tax concessions, the following WHT exemptions will be reviewed on 31 December 2022:

- payments made under cross currency swap transactions by Singapore swap counterparties to issuers of SGD debt securities;
- payments made under interest rate or currency swap transactions by financial institutions;
- payments made under interest rate or currency swap transactions by the MAS; and
- specified payments made under securities lending or repurchase agreements by specified institutions.

(b) The following WHT exemptions will be legislated and reviewed on 31 December 2022:

- interest on margin deposits paid by members of approved exchanges for transactions in futures; and
- interest on margin deposits paid by members of approved exchanges for spot foreign exchange transactions (other than those involving SGD).

These WHT exemptions will apply to payments made under agreements entered into on or after 20 February 2018.

(c) The following exemptions will be withdrawn on or after 1 January 2019:

- interest from approved Asian Dollar Bonds; and
- payments from over-the-counter financial derivative transactions by companies with FSI-Derivative Market awards approved on or before 19 May 2007.

Unless the WHT exemptions under (a) and (b) are extended, the WHT exemptions will cease to apply to payments that are liable to be made under agreements entered into on or after 1 January 2023. WHT exemptions will continue to apply to payments that are liable to be made on or after 1 January 2023, under agreements entered into on or before 31 December 2022. The MAS will release further details of the changes by May 2018.

(vi) *Adjustment to the Start-Up Tax Exemption scheme*

Currently, a new company can qualify for, in each of the first three YAs, (a) 100%

exemption on the first S$100,000 of normal chargeable income; and (b) 50% exemption on the next S$200,000 of normal chargeable income, subject to qualifying conditions being met.

From YA 2020, the tax exemption that a new company can qualify for will be revised to (a) 75% exemption on the first S$100,000 of normal chargeable income, and (b) 50% exemption on the next S$100,000 of normal chargeable income. All other conditions remain unchanged.

(vii) Adjustment to the Partial Tax Exemption scheme

Currently, all companies (excluding those that can qualify for the Start-Up Tax Exemption scheme) and bodies of persons, can qualify for, in each YA, (a) 75% exemption on the first S$10,000 of normal chargeable income and (b) 50% exemption on the next S$290,000 of normal chargeable income.

From YA 2020, such tax exemption will be revised to (a) 75% exemption on the first S$10,000 of normal chargeable income, and (b) 50% exemption on the next S$190,000 of normal chargeable income. All other conditions remain unchanged.

(viii) Review of WHT exemption on container lease payments made to non-resident lessors

The WHT exemption on container lease payments made to non-resident lessors will be reviewed on 31 December 2022. Unless the scheme is extended, payments accruing to a non-resident under any lease or agreement entered into on or after 1 January 2023 in respect of the use of a qualifying container for the carriage of goods by sea will be subject to WHT.

(ix) Productivity Solutions Grant

Existing grant schemes that support pre-scoped, off-the-shelf productivity solutions will be streamlined into one grant - the Productivity Solutions Grant. Up to 70% funding may be obtained. Businesses may apply for the grant from 1 April 2018 onwards.

*(x) Enterprise Development Grant ("**EDG**")*

SPRING Singapore's Capability Development Grant and IE Singapore's Global Company Partnership Grant will be streamlined into one grant - the EDG, to be administered by Enterprise Singapore.

*(xi) Partnership for Capability Transformation ("**PACT**") scheme*

SPRING Singapore's Collaborative Industry Projects and PACT, as well as the Economic Development Board's PACT, will be combined into one PACT scheme and administered by Enterprise Singapore and the Economic Development Board.

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