MGI Alliance Singapore PAC

Public Accountants, Chartered Accountants

MGI Perspective:
Singapore Budget 2019

A member of mgiworldwide

mgiworldwide

MGI Perspective: Singapore Budget 2019

1. The Big Picture

Finance Minister Heng Swee Keat delivered the Budget 2019 statement in Parliament on Monday, 18 February 2019, outlining a strategic plan "to build a strong, united Singapore." The strategic thrust of Budget 2019 is to build a vibrant economy to adapt to the unpredictable global economic landscape.

This year there were no budget goodies nor tax reduction for both companies and individuals.

Instead the Minister focused on Singapore's need to be more competitive in an uncertain economic landscape. As in 2018, he highlighted three key thrusts for Singapore to transform itself.

First, government agencies will continue to support and be committed to supporting SMEs via tailor made assistance (ranging from digital transformation to various co-financing schemes).

Second, he urged companies to re-look at their mode of operations. With the proposed reduction of the foreign worker quotas in the services sector, all companies would have to re-look at how they can upscale the local work force and harness the power of technology to increase productivity and profits.

Third, he emphasised the importance of both strategic and symbiotic partnerships within Singapore and across globally. Trade associations and the various Chambers of Commerce will play a key role in facilitating network building for local companies. It is envisaged that this would make Singapore companies more competitive in the global arena.

Although there were no specific "tax goodies" for Companies, the Minister did announce the Merdeka Generation Package for those born in the 1950s as well as the various form of bonuses and cash benefits for all Singaporeans as the country marks its bicentennial.

In a nutshell, Budget 2019 seeks to address how Singapore should prepare itself in an uncertain global business environment as she faces her own demographic and economic challenges and the various strategies that the government can undertake to build the capacity and competency of its local workforce.

2. Impact on business -Corporate Income Tax (CIT) Rebate

The CIT rate will remain at 17%. And companies can qualify for a corporate income tax rebate of 20% of tax payable, capped at $10,000 for YA 2019.

At 17%, Singapore's corporate tax rate still remains attractive (no change from Budget 2018)

Year of Assessment (YA)	Corporate Income Tax Rebate	Capped at
2019	20%	$10,000.00 (no change)
2018	40%	$15,000.00 (no change)

Table A: CIT rebates given from till YA 2019

	YA 2018 ($)	YA 2019 ($)	YA 2020 ($)
C.I before **tax** exemptions and before rebates	500,000.00	500,000.00	500,000.00
Less: Partial tax exemptions First 10k@75%	(7,500)	(7,500)	(7,500)
Next 290k/190k@50%	(145,000)	(145,000)	(95,000)
Taxable income	347,500	347,500	397,500
Tax @ 17%	59,075	59,075	67,575
Workings and tax rebate	85K @ 40% Capped at $15K	85K @ 20% Capped at $10K	NIL
Less: Rebates	(15,000.00)	(10,000.00)	NIL
Tax payable	44,075	49,075	67,575
Increase in tax payable over prior year	NIL	+5,000	+18,500
Effective tax rate	8.82%	9.82%	13.52%

Table B: Worked example to show the impact of the tax rebates on CIT clearly showing that tax costs will increase from YA2019 and even more so in YA2020 where there will be no rebates.

3. Start -up Tax exemption scheme for new companies ("SUTE")

The partial tax exemption scheme and SUTE scheme will be limited to the first $200k ($300k previously) with effect from YA 2020. In addition to this, the tax exemption on the first $100k of chargeable income will be reduced to 75%. This will take effect from YA 2020. Refer to Table B for a worked example on the effective tax rates. (no change from Budget 2018)

	Existing		NEW (wef YA 2020)	
Chargeable Income	% exempt from tax	Subject to tax	% exempt from tax	Subject to tax
First $100k	100%	0	75%	$25,000.00
Next $200k	50%	$100,000.00		
Next $100k			50%	$50,000.00
Next $100k			0%	$100,000.00
Tax payable on first $300k @ 17%		$17,000.00		$29,750
Effective tax rate		**5.67%**		**9.92%**

Table C: Adjustments to start up new companies wef YA2020. The example shows that wef 2020 new Companies must pay even more taxes.

4. Partial tax exemption (PTE) scheme for existing Companies

The PTE scheme for all Companies other than the qualifying start-ups will be adjusted. Table C below provides a worked example. (no change from Budget 2018)

	Existing		NEW (wef YA 2020)	
Chargeable Income	% exempt from tax	Subject to tax	% exempt from tax	Subject to tax
First $10k	75%	$2,500.00	75%	$2,500.00
Next $290k	50%	$145,000.00		
Next $190k			50%	$95,000.00
Next $100k			0%	$100,000.00
Tax payable on first $300k @ 17%		$25,075.00		$33,575.00
Effective tax rate		**8.36%**		**11.19%**

Table D: Adjustments for Partial Tax Exemptions to all other companies. With effect from 2020, all other companies must pay more taxes.

5. Writing Down Allowance ("WDA") and Automation Support Package

Company can claim Writing Down Allowance ("WDA") under Section 19B of the Income Tax Act ("ITA") for the acquisition of qualifying Intellectual Property Rights ("IPRs") over five, ten or fifteen years. The WDA will be extended to cover capital expenditure incurred in respect of qualifying IPRs acquired on or before the last day of the basis period for YA 2025.

The 100% Investment Allowance under the Automation Support Package to support companies in their automation, productivity and scale-up efforts, will be extended by two years, for projects approved by Enterprise Singapore from April 1, 2019 to March 31, 2021. The approved capital expenditure will remain capped at $10 million per project.

6. Increase of Goods and Services Tax (GST) GST on imported services and Tightening of GST import relief for travellers

The GST rate will be increased from 7% to 9% sometime between 2021 to 2025. Whilst the full details are unknown, the pace of increase would depend on the state of the economy.

Imported services such as consultancy, marketing, app stores will be taxed via an Overseas Vendor Registration Regime (OVRR). These overseas suppliers and e-market places must register for GST in Singapore if they make significant supplies of digital services to Singapore consumers exceeding the registration threshold. GST on imported services will be introduced on or after 1 January 2020 (no change from Budget 2018).

GST import relief for certain travellers arriving in Singapore are reduced as follows:

Time spent outside SG	Value of goods granted GST relief (previous)	Value of goods granted GST relief (new)
48 hours and above	SGD 600	SGD 500
Less than 48 hours	SGD 150	SGD 100

Table E: Tightening of GST import relief for travellers (effective from 19 February 2019)

7. Enterprise Development Grant (EDG) and Productivity Solutions Grant (PSG)

The EDG enhanced support level of up to 70% will be extended for three more years, up to 31 March 2023. To ensure that the benefits are tangible and that Singaporeans workers will benefit, firms will have commit to specific outcomes such as wage increase in order to qualify for the EDG wef 1 April 2020.

The PSG will be enhanced to include aspects of worker (competency) upgrading. Eligible companies can receive up to 70% of their training expenses (the remaining portion not already covered under other government schemes such as SkillsFuture) capped at $10,000 per Company.

Both of the grants above can be applied via the Business Grants Portal. https://www.businessgrants.gov.sg/

8. Dependency Ratio Ceiling (DRC) and Foreign Worker Levy (FWL): Services Sector

The FWL increases for the Marine Shipyard and Process (MPS) sectors will be deferred for one more year. This is one way that the government is assisting this sector which has been hard hit by cyclical weakness.

The dependency ratio will be reduced to 38% for the services sector wef 1 Jan 2020 and to 35% wef 1 Jan 2021.

9. Special Employment Credit (SEC) and Additional Special Employment Credit (ASEC)

Both the SEC and ASEC schemes will be extended for another year to 31 December 2020.

10. Individual Income Tax

A one-off Personal Income Tax Rebate of 50% of tax payable, capped at S$200, will be granted to tax residents for YA 2019. No further changes for personal income tax rates were announced.

The rebate is part of the Bicentennial Bonus given by the government for all tax resident individuals.

<u>Personal Income Tax Rebate</u>

Tax resident individuals with chargeable income of at least $35,715 will be able to enjoy the full benefit of the $200 personal income tax rebate

<u>Grandparent Caregiver Relief (effective from YA 2020)</u>

Removal of age limit allows the above claim in respect of an unmarried dependent handicapped child regardless of age provided all the other conditions are met.

<u>Lapse of Not Ordinarily Resident (NOR) Scheme (Lapse after YA 2020)</u>

The last of NOR status will be granted for YA 2020 and expire in YA 2024.