

**CORPORATE
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BUDGET 2005 COMMENTARY

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INTRODUCTION

Prime Minister and Minister for Finance, Mr Lee Hsien Loong delivered the 2005 Budget Speech in Parliament on 18 February 2005, with the underlying theme of "Creating Opportunity, Building Community" in Singapore.

The Singapore economy rebounded strongly in 2004, aided by a strong recovery in global demand, supportive monetary and fiscal policies and Singapore's efforts to restructure its economy.

The 2005 Budget aims to make the economy more resilient, help companies thrive and prepare Singapore for the needs of an ever-changing economy, whilst at the same time, fostering a caring and inclusive society.

This newsletter focuses on the key initiatives mentioned in the 2005 Budget Speech which will impact businesses and individuals.

CORPORATE AND BUSINESSES

Loss Carry-back for Corporate Taxes

One-year carry-back of current year unutilised capital allowances ("CA") and trade losses will be introduced with effect from Year of Assessment (YA) 2006.

- Only current year unutilised CAs and trade losses will be allowed to be carried back for one YA immediately preceding the YA in which the CAs were granted or trade losses incurred.
- An aggregate amount of \$100,000 of current year unutilised CAs and trade losses can be carried back.
- Carry-back will be available to all businesses, including sole proprietors and partnerships.
- Current requirements for substantial shareholding and the same business tests apply.
- The carry-back will be given on due claim.
- Section 10E companies will be disallowed from carrying back their losses and CAs

IRAS will provide more details on the loss carry-back by June 2005.

Tax Incentives to promote Premier Wealth Management Centre

- Financial and Treasury Centre ("FTC") Incentive expanded
 - Associated companies of the FTCs may qualify as approved network companies.
 - Scope of qualifying activities and services expanded to include Singapore-dollar denominated transactions

Income derived by FTCs from the provision of financial and treasury services from above enhancements will qualify for concessionary tax rate of 10%, with effect from 18 February 2005.

- To encourage start-up fund managers to locate in Singapore, a 12-month grace period will be given to meet the requirement that 80% of the value of their funds must come from foreign investors.
- New tax incentive to exempt Qualifying Foreign Charitable Trusts from tax on specified foreign income earned, without restrictions on expenditure levels or where funds may be spent.

Incentive for Capital Markets

- 10% tax rate for income earned by approved companies, including intermediaries, in securities borrowing and lending arrangements, including local securities.
- Removal of double stamp duties for real estate mortgage financing structured in accordance with Islamic practices and concessionary tax treatment extended to payouts from "Islamic" bonds.
- Commodity Derivatives Trading incentive enhanced by conferring 5% concessionary tax rate on qualifying income from trading exchange-traded commodity derivatives.

Real Estate Investment Trusts (REITs) Enhancements

- Waiver of stamp duty for five years on instruments of transfer of Singapore properties into REITs to be listed, or already listed on SGX.
- Withholding tax on REIT distributions to non-individual investors reduced from 20% to 10% for five years.

Logistics Incentives

- Bonded Warehouse Scheme expanded by lifting the 80% export requirement for qualifying operators with effect from 1 January 2006.
- Approved International Shipping Enterprise (AIS) incentive extended to ship leasing companies.
- Global Trader Programme (GTP) widened to include qualifying transactions denominated in Singapore dollars to be taxed at concessionary tax rates of not more than 10% with effect from YA 2006.

Tourism and Retail Incentives

- Investment Allowance incentive extended to flagship concept projects in retail, food & beverage and entertainment projects approved from 1 April 2005 to 31 March 2010.
- Concessionary tax rate of 10% extended to event companies which bring in qualifying tourism events approved from 1 April 2005 to 31 March 2010.

Foreign Worker Policies

- Skilled Foreign Worker Levy to be raised from \$50 to \$80 from 1 July 2005 and to \$100 from 1 January 2006.
- Companies given flexibility to employ more foreign workers beyond dependency ceiling subject to a higher foreign worker levy of \$500 for each extra foreign worker.

The current dependency ceiling is:

- Service and manufacturing sector:
70% locals; 30% foreigners
- Construction sector:
20% locals; 80% foreigners

MOM will announce details.

INDIVIDUALS

Income Tax Reductions

- Top personal income tax rate lowered from 22% to 21% with effect from YA 2006, and further reduced to 20% in YA 2007. Marginal tax rates of all other brackets also reduced as follows: -

Chargeable Income band	Current marginal tax rates	Marginal tax rates for YA 2006	Marginal tax rates for YA 2007
\$0 – \$20,000	0.00%	0.00%	0.00%
\$20,001 - \$30,000	4.00%	3.75%	3.50%
\$30,001 - \$40,000	6.00%	5.75%	5.50%
\$40,001 - \$80,000	9.00%	8.75%	8.50%
\$80,001 - \$160,000	15.00%	14.50%	14.00%
\$160,001 - \$320,000	19.00%	18.00%	17.00%
> \$320,000	22.00%	21.00%	20.00%

Retirement Savings for Self-employed

- CPF voluntary contribution cap increased and aligned to the mandatory contribution cap of 17 months of CPF salary ceiling with immediate effect. The CPF salary ceiling is as follows:-

Date	Ordinary Wage Ceiling (A)	Overall income cap (17 x A)
1 Jan 2005	\$5,000	\$85,000
1 Jan 2006	\$4,500	\$76,500

- Tax relief cap on voluntary CPF contributions increased and aligned to the tax relief cap for CPF contributions by employees with effect from YA 2006.
- Contribution cap for the Supplementary Retirement Scheme (SRS), set at 17 months of the CPF salary ceiling, effective from YA 2006. This will allow Singaporeans who earn below the CPF income ceiling and those who are self employed to contribute more to SRS accounts.

- Criteria for CPF members to top up the Retirement Accounts of their parents and non-working spouses liberalised to allow top-ups as long as net balances in Ordinary and Special Accounts are more than 1.5 times the prevailing Minimum Sum.

CPF Board will announce the details later.

Foreign Maid Levy Reduction

- Foreign maid levy reduced by \$50 per month with effect from 1 April 2005. The above will bring the levy down to \$295, from \$345. The reduction will also be applicable to the concessionary levy of \$250, which will be adjusted to \$200. The concessionary levy was part of the marriage and procreation package announced in August 2004.

Donations

- Double tax deduction currently granted for donations to Institutions of a Public Character (IPCs) and other approved beneficiaries, extended to those with naming opportunities, made on or after 1 January 2005.
- Double tax deduction granted on computer hardware and software donated to IPCs, made on or after 1 January 2005.

Top-Ups

- \$100 top-up to the CPF Special or Retirement Accounts of Singaporeans aged 50 and above.
- Special one-off Edusave top-ups of \$100 for all primary and secondary school students, over and above Edusave contributions given annually by the Government.
- Medisave top-ups for adult Singaporeans.

	Age as at 1 Jan 2005			
	21-39	40-49	50-59	60 and above
Top-Up Quantum	\$50	\$100	\$250	\$350

- Injection of \$100 million into the Medifund to help lower-income Singaporeans or older people who are not covered by MediShield, to meet healthcare expenses.

Medifund grants are provided to approved hospitals and medical institutions for them to help Singapore Citizens pay their medical bills. Singapore Citizens which are unable to pay for their medical treatment in approved hospitals and medical institutions either by themselves or with the help of their family, can benefit from Medifund.

Baby Bonus Scheme Enhancements

Under the Baby Bonus Scheme, benefits will be given to the 1st to 4th child from birth till his sixth birthday as follows:-

Birth Order	Cash Gift from Government	Total Matching from Government under Co-Savings Plan	Total
First	\$3,000	-	\$3,000
Second	\$3,000	\$6,000	\$9,000
Third	\$6,000	\$12,000	\$18,000
Fourth	\$6,000	\$12,000	\$18,000

- Co-saving contributions up to the co-savings limit allowed any time within the six year period. Parents can now choose to save more in 1 year and less in another, subject to the co-savings limit for 6 years
- Expansion of range of uses of co-savings to include health insurance, and early intervention programmes for children with special needs.

Details will be announced later.

Utilities Save Rebates

- Utilities-Save scheme for HDB households to provide utilities rebates payable in instalments in July 2005 and January 2006 as follows:-

	Household type			
	1 and 2 room HDB flats	3 room HDB flats	4 room HDB flats	5 room HDB flats
Rebates	\$200	\$100	\$80	\$60

Relief on Estate Duties

For deaths from 1 Jan 2006, estate duty paid on the earlier death to be deducted from the estate duty payable on the same assets assessed in the beneficiaries' subsequent deaths.

The relief will start at 100% if the deaths occur within six months of each other, graduating to the full estate duty payable if the deaths are more than two years apart.

Estate duty relief for successive deaths occurring within	Estate Duty Relief
< 6 months	100%
7-12 months	75%
13-18 months	50%
19-24 months	25%
> 24 months	0%

OTHERS

Relief from Stamp Duties

- Remission of stamp duties paid on aborted property transactions except for a charge of \$50 to cover administrative costs.
- In respect of stamp duties on transfer of assets between associated companies, the Government has removed the requirement for transferee companies to be tax residents in order to qualify for stamp duty relief, and to extend relief to include the transfer of mortgages, with immediate effect.

Excise Duties

- Increase in excise duty on cigarettes from \$293 to \$352 per 1,000 sticks, with immediate effect.

Horse-betting Duties

- Horse betting duty changed from 12% of gross stakes to 25% of gross profits.

Encourage New Charities Set-up

- Recognise the advancement of sport as a charitable purpose. Qualifying sports groups will be eligible for income tax exemption from YA 2006.

Free GeBiz Account for Government Suppliers

- Government suppliers will be given one free Government e-procurement account ("GeBiz"), effective from 1 April 2005 to lower cost for businesses involved in government procurement projects.