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Singapore Budget 2016

The Ministry of Finance, Mr Heng Swee Keat, delivered the FY2016 Budget Statement on 24 March 2016.

Overall, the budget 2016 remains very large in focus of transforming Singapore Economy through Enterprise and Innovation. 2016 Budget seems to be prudent with spending largely focus in accommodating to support enterprises, in particular the Small and Medium Enterprises ("SMEs"), in the current economic climate as the Government continue their restructuring / transformation efforts.

Down to earth, how are the changes, enhancements or new elements introduced in the Budget 2016 affect you and your company's tax position and planning? We enclosed herewith the summary of tax changes introduced by Budget 2016 from the Ministry of Finance for your kind attention.

We highlight the following few important tax changes in the interest of the SMEs:

(i) Corporate Income Tax ("CIT") Rebate

The current CIT rebate of 30% will be increased to 50% with the maximum rebate cap remains at $20,000 per Year of Assessment ("YA") with effective from YA 2016. The 50% CIT rebate will be applicable for YA 2016 and YA 2017.

Although the rebate cap remains unadjusted at $20,000 which seems less attractive to large corporations, the 50% rebate on tax assessed will significantly improve the cash flows of SMEs, in particular it benefits those SMEs who are struggling in this current economic climate.

(ii) Productivity and Innovation Scheme ("PIC")

The PIC scheme, which has been extended for YA 2016 to YA 2018, will expire thereafter. It will not be available from YA 2019. Further scaling down the scheme, the PIC cash payout rate will be lowered from 60% to 40% for qualifying expenditure incurred on and after 1 August 2016. All other conditions of the scheme remains unchanged.

Companies particularly SMEs are advisable to speed up or bring forward their productivity improvement or automation projects so as to enable the company to maximise benefits of the PIC scheme.

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(iii) Automation Support Package ("ASP")

This scheme seems as an alternative to PIC scheme but with very much narrow scope. The ASP is administered by SPRING and aims to support SMEs to automate, drive and scale up productivity. The supports are in 3 forms:

(a) Cash grant

Up to 50% cash grant on the qualifying cost with cap at $1mil will be made available to qualifying companies to support the roll-out or scaling up of their automation projects.

(b) Tax Allowance

On top of existing capital allowance for plant and machinery, qualifying projects may be eligible for further allowance of 100% on the amount of approved capital expenditure, net of grants. The approved capital expenditure is capped at $10mil per project.

(c) Enhanced financing support

Government will increase its risk-share with the participating financial institution under the SPRING's Local Enterprise Finance Scheme equipment loan from 50% to 70% that shall expect to increase the ease of loans and borrowings to support the SMEs initiative for qualifying automation projects.

In short, assuming Company A embarked on automating its ordering and delivery system incurred $5mil qualifying capital expenditure. Company A may apply cash grant of $1mil with SPRING and claim capital allowance of S$4mil plus further allowance of $4mil (i.e. $5mil less $1mil) against its chargeable income. Effectively the real cost invested by the Company A in the automation project is only $2.64mil (i.e. $5mil less $1mil less ($4mil + $4mil)*17%) or 47.2% lower cost with the ASP.

More details on the ASP will be released by Ministry of Trade and Industry soon.

We hope the above highlights as well the enclosed summary of tax changes helps you in understanding the impact of the Budget 2016. We wish you and your good company a prosperous years ahead. Thank you.

Yours sincerely

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Enclosures.