

HR & Tax Alert



Quality In Everything We Do

Singapore – 2006 Budget and Other Recent Updates

April 2006

Executive summary

On 17 February 2006, the Minister for Finance announced the Singapore Budget for 2006. This alert is a summary of some of the proposed changes.

2006 Budget updates

This year's Budget has only one announcement that will affect personal income tax for individuals.

Qualifying domestic trusts

Currently, where an individual is a beneficiary of a domestic trust, he is subject to tax on all locally sourced investment income and foreign sourced income received through the trust. In contrast, where the individual taxpayer receives such income directly he is exempted from tax on certain specified Singapore source investment income and all foreign source income.

With effect from 17 February 2006, any distribution made by qualifying domestic trusts to their beneficiaries out of locally-sourced investment income or foreign-sourced income will be tax exempt in the hands of the beneficiaries. This change has corrected the anomaly in the current tax regime in respect of income received by an individual via trusts when compared with the tax treatment on income received directly by the individual.

To be a qualifying trust, one condition is that the settlors must all be individuals and the beneficiaries must be either individuals or charities.

Another change announced is in relation to companies' share-based compensation schemes.

Employee stock options granted through treasury shares

Currently, companies with share-based compensation schemes may incur costs to buy back their own shares and hold them as "treasury shares" to fulfill their obligations under stock options or share award schemes. There is no tax law that addresses the deductibility of the costs incurred for these treasury shares.

In recognition that share-based compensation also forms a part of staff costs, the Government will allow tax deductions to companies that have incurred actual outlay for employee stock options and other share-based compensations granted through treasury shares. This will take effect from the Year of Assessment 2007.

Other updates

Reduction in personal income tax rates

The top personal income tax rate will be lowered to 21% in the Year of Assessment 2006 and to 20% in the Year of Assessment 2007. The marginal tax rates for all the other income brackets will also be reduced. This change was first announced in the 2005 Budget.

CPF voluntary contributions (VC) cap

The CPF voluntary contribution cap will be aligned

with the mandatory contribution cap of 17 months of the CPF salary ceiling. For the year 2006, the VC limit is \$25,245 (US\$15,151) (i.e. \$4,500 (US\$2701 x 17 x 33%).

Further update on taxation of benefits-in-kind

Based on feedback received from the public and various organizational bodies, the Inland Revenue Authority of Singapore (IRAS) has since made the following clarifications on the tax treatment of travel-related allowances and reimbursements as well as extended the tax exempt concession further in respect of overtime meal and transport claims /reimbursements in a move to help employers reduce their tax compliance costs:

Per diem allowances

- IRAS's yearly published rates for per diem allowances are to serve as a guide only
- Companies which adopt rates higher than the published rates may request IRAS to consider their higher rates as subsistence in nature. This is on a case-by-case basis.
- Reimbursements of employees' overseas expenditures are not taxable if incurred for business purposes.
- The above will take effect from the Year of Assessment 2006.

Transport reimbursements

The following payments will not be taxable from the Year of Assessment 2006:

- Transport reimbursements between home and

airport in respect of overseas business trips.

- Transport reimbursements between home and business venue meetings if the travel is for business purposes.

Overtime meal and transport allowances or reimbursements

- Allowances or reimbursements for meals and transport for employees working beyond official working hours on off-days, Saturdays, Sundays and public holidays on an ad-hoc basis due to pressures of work will not be taxable.
- This will take effect from the Year of Assessment 2006.

In addition, the IRAS has also provided clarification on the taxation of the following benefits:

Gifts for festive or special occasions

The gift is taxable if it is of substantial value. Generally, a gift is of substantial value if it exceeds \$100 (US\$60). The threshold of \$100 (US\$60) is applicable per occasion.

Insurance premiums paid by the employer

The premium is not taxable if the employer is the beneficiary of the insurance policy.

Subscriptions to professional bodies

If the employer pays the membership subscription to professional bodies like ICPAS or ACCA on behalf of its staff, the payment is taxable. However, the employee can claim the cost of the membership subscription against his income when filing his income tax return.

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