

	Questions	Answers
A	<p>ENHANCEMENTS TO THE PRODUCTIVITY & INNOVATION CREDIT (PIC) SCHEME</p> <p><u>Tax Deferral Option</u></p> <p>1. How is it effected at partnership level given the fact that assessment is not raised at partnership level, and each partner's tax assessment would be raised at different time? And at what tax rate would the deferral be given?</p> <p>2. Which partner is responsible for the payment of the deferred tax?</p> <p>3. If the qualifying expenditure is on automation equipment, does the minimum holding period apply for the tax deferral option? Or will the tax become immediately payable if the equipment is disposed of?</p> <p><u>PIC Claims</u></p> <p>4. Can PIC claim be deferred?</p>	<p>Partners will decide on the allocation of tax deferral amongst themselves and provide IRAS with the allocation together with the PIC Tax Deferral Form. The amount allocated to the respective partner will be used to defer payment of his current YA tax.</p> <p>Each partner is responsible for his own income tax matters. As such, the partner who has utilized the tax deferral will be responsible for the payment of the deferred tax.</p> <p>As a concession, if the automation equipment is disposed of after the tax deferral election is made, the minimum holding period will not apply. However, if the equipment was already disposed of when the election is made, the tax deferral election will not be approved.</p> <p>Besides capital expenditure incurred on the acquisition of prescribed automation equipment where capital allowances is granted on due claim, PIC claim for other qualifying expenditure cannot be deferred. If income for a particular YA is insufficient to offset the PIC enhanced deductions and allowances, the excess can be carried forward or carried back, subject to the shareholding test and "same trade" test. And where applicable, the excess losses can also be transferred to a group company or spouse.</p> <p>PIC claim relating to prescribed automation equipment may be deferred on the basis that capital allowances for such capital expenditure is granted on due claim. However, please note that:</p> <ul style="list-style-type: none"> i. In applying the expenditure cap, the cap applicable to the YA in respect of which the capital expenditure was incurred will be taken into account. ii. The base and enhanced capital allowances should be deferred and claimed together.

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	<p>5. Why is enhanced deduction not applicable to expenses incurred on training for sole proprietors/partners? Does this restriction of enhanced deduction extend to directors who are also shareholders? Why?</p> <p>6. Is PIC claim on leasing of prescribed automation equipment applicable only to assets acquired after 15/10/2010? If the lease of automation equipment is incurred prior to 15/12/2010 but the equipment is listed in the "Income Tax (Automation Equipment) Rules 2004", could the company still be eligible for the enhanced deductions?</p> <p>7. What is the rationale for giving priority to the claim for overseas R&D activities under the Enhanced PIC Scheme?</p>	<p>The PIC training component is targeted at enhancing the skills of <u>employees</u>. As sole-proprietors and partners are not considered as employees, the training expenditure that they incur would not qualify for any tax deduction. A company may claim an enhanced deduction on training expenditure incurred on its directors who are also employees of the company. This is regardless of whether such directors have any shareholding in the company.</p> <p>No. The law as provided under Section 14T (Deduction for expenditure on leasing of prescribed automation equipment under qualifying lease) is effective only from YA 2011.</p> <p>This treatment will accord maximum benefits to businesses.</p>
B	<p>DEDUCTION FOR PARENT COMPANY'S SHARES ACQUIRED THROUGH A SPECIAL PURPOSE VEHICLE (SPV) FOR TAXPAYER'S EMPLOYEE EQUITY-BASED REMUNERATION (EEBR) SCHEME</p> <p>1. What is the rationale for the requirement that SPV must be set up solely to administer EEBR for companies within the group? Commercially, this means additional costs. In reality, there could be a central corporate service company which also administers EEBR purchase of shares. In this instance, would such a company qualify for the new measure?</p> <p>2. The Budget Speech appendix states that the deduction is allowed on the "application of the parent company's shares for the benefit of employees under EEBR through a SPV". What is meant by "applying the shares for the benefit of employees"? Once the shares are designated to specific employees, with the employees</p>	<p>Based on industry representations, the SPV is usually set up solely to administer EEBR scheme(s) for the group. This ensures independence and greater accountability on the part of the SPV. IRAS has conducted a public consultation on the proposed tax change and will take into account the feedback in finalizing the framework.</p> <p>This refers to the point in time when the employee acquires the legal and beneficial interest in the shares.</p>

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	<p>having rights (to) the dividends and voting (even if the shares are still held by the SPV?)</p> <p>3. If the parent company charges the Singapore company for the costs of the shares (i.e. instead of the SPV charging the Singapore company), will a deduction be allowed?</p>	<p>Yes</p>
C	<p>SME CASH GRANT</p> <p>1. Where employees are employed centrally but seconded to other entities in the group, with specific recharge made regarding salary and CPF with no markup, would the entity with the seconded employee be eligible for the SME cash grant since it is effectively bearing the CPF cost?</p> <p>2. For trusts where tax is assessed and paid at the Trustee's level, is the Trust entitled to this rebate/grant. If not, any reasons which this is not applicable?</p>	<p>No, as the entity is not the employer of the seconded employees and does not make CPF contributions to CPF Board for these employees.</p> <p>The CIT rebate and SME grant are available only to companies. Where trusts (including REITs) make distribution of their income to their beneficiaries, these beneficiaries will be able to enjoy the rebates (in the case of companies and individuals) or SME cash grant (in the case of companies making losses) at their respective levels.</p>
D	<p>LIBERALISATION OF WITHHOLDING TAX EXEMPTION FOR FINANCIAL SECTOR</p> <p>Withholding tax exemption only applies if the payments are made "for the purpose of the qualifying entity's trade of business". However, slide 79 states that this includes "long-term/passive investment" which by definition does not fall within the above condition! Is this an administrative concession? Otherwise what is the scope of the exemption that applies to "long-term/ passive investment"?</p>	<p>For the purpose of withholding tax exemption, payments falling within section 12(6) of the Income Tax Act would not be regarded as being made by the qualifying entities such as banks, finance companies etc. for the purpose of their trade or business if the payments arise from transactions which are tax motivated. The exemption will be effected by way of legislation.</p>

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E	<p>FOREIGN TAX CREDIT POOLING</p> <p>1. Currently, I understand that IRAS will allow DTR/FTC claim only if tax was withheld from technical services rendered in treaty countries if the tax was withheld according to treaty provisions/rate. If the other country continues to withhold at domestic tax regime rate, does IRAS still allow FTC claim under the FTC pooling? E.g. China, Taiwan, Egypt still continue to withhold at domestic rate (eg. 20% instead of treaty rate, which should be 0%)</p> <p>2. For companies whose trade income include royalties or interest (eg companies in the trade of managing & licensing intellectual properties; or finance & treasury centres), these income often suffer foreign withholding taxes at source. On the assumption that the Singapore company does not have a permanent establishment in the foreign country, these foreign withholding taxes are suffered in accordance with the Avoidance of Double Taxation Agreements (DTAs) which Singapore has concluded. In this regard, for the purpose of elimination of double taxation as specified in the DTAs, a double tax relief is granted to the Singapore company. I note that the foreign tax credit pooling only applies to foreign-sourced income. Will it cover the Singapore-sourced income specified in the scenario above?</p>	<p>The foreign income must first qualify for FTC under Sections 50, 50A or 50B. If there is no FTC to be given under those sections, FTC pooling will not apply.</p> <p>Where the royalty or interest income qualifies for DTR under the relevant tax treaties or UTC under s50A, the FTC pooling system will apply to those income which met the conditions for FTC pooling.</p>
F	<p>MARITIME SECTOR INCENTIVES</p> <p>More details on the withholding tax exemption for interest and qualifying related payments on qualifying foreign loans please. E.g. Is an application required, or is the exemption conferred automatically upon fulfillment of certain conditions and if the latter, what are the main conditions (if these are available now)?</p>	<p>The automatic exemption applies only if the application comes within the MSI and meets the required conditions. The details of the conditions will be released in MPA's circular by May 2011.</p>