

Income Tax (Amendment No. 2) Bill

Bill No. 43/2007.

Read the first time on 22nd October 2007.

A BILL

intituled

An Act to amend the Income Tax Act (Chapter 134 of the 2004 Revised Edition) and to make consequential amendments to the Economic Expansion Incentives (Relief from Income Tax) Act (Chapter 86 of the 2005 Revised Edition).

Be it enacted by the President with the advice and consent of the Parliament of Singapore, as follows:

Short title and commencement

1.—(1) This Act may be cited as the Income Tax (Amendment No. 2) Act 2007.

5 (2) Sections 3(*e*) and 5 shall be deemed to have come into operation on 17th February 2006.

(3) Sections 6(*a*) (in relation to section 13(1)(*b*)(*i*)), (*h*) (in relation to section 13(2C)(*a*), (2D)(*a*) and (2E)), (*k*) and (*m*) and 31(*d*) shall be deemed to have come into operation on 1st November 2006.

10 (4) Sections 6(*g*) (in relation to section 13(1)(*zj*)(*ii*) and (*iii*)), 25(*e*) and 29 shall be deemed to have come into operation on 1st January 2007.

(5) Sections 3(*c*) and (*d*), 6(*a*) (in relation to section 13(1)(*b*)(*ii*), (*iii*), (*ba*) and (*bb*)), (*g*) (in relation to section 13(1)(*zk*) and (*zl*)), (*h*) (in relation to section 13(2C)(*b*) and (*c*), (2D)(*b*) and (*c*), (2F) and (2G)), (*i*), (*l*) and (*n*), 9, 11 (in relation to section 13U), 16(*b*), (*c*) and (*d*), 23, 27 and 32 shall be deemed to have come into operation on 15th February 2007.

(6) Sections 15(*a*), 28, 42(*c*), (*d*), (*g*) and (*i*) and 43(*b*) shall be deemed to have come into operation on 1st March 2007.

(7) Sections 11 (in relation to section 13V) and 12(*b*) shall be deemed to have come into operation on 1st July 2007.

20 (8) Sections 7, 10, 14 and 42(*o*) shall be deemed to have come into operation on 1st September 2007.

(9) Sections 6(*b*) and (*d*), 34, 35(*a*), 39(*b*), 40 and 43(*c*) shall come into operation on 1st January 2008.

25 (10) Sections 4, 6(*e*), (*g*) (in relation to section 13(1)(*zj*)(*i*) and (*zm*)), (*j*) and (*o*), 8, 12(*a*), 13, 18, 19, 20(*f*), 22, 24, 25(*a*) to (*d*), (*f*), (*g*), (*h*) and (*j*), 26, 31(*a*) and (*c*), 33, 41 and 43(*a*) shall have effect for the year of assessment 2008 and subsequent years of assessment.

30 (11) Sections 15(*b*) to (*e*), 16(*a*) and (*e*), 20(*a*), (*c*), (*d*) and (*e*), 21, 36, 37, 38 and 39(*a*) shall have effect for the year of assessment 2009 and subsequent years of assessment.

Amendment of section 6

2. Section 6 of the Income Tax Act (referred to in this Act as the principal Act) is amended by inserting, immediately after subsection (11), the following subsections:

“(12) Notwithstanding subsections (1) and (2) and without prejudice to subsections (5) to (11), the Comptroller may disclose information relating to the income or items of income of any person to any of the following with the express consent of the person to whom the information relates:

(a) to any public officer or officer of a statutory board for the performance of his official duties in administering or facilitating the administration of any written law or public scheme; or

(b) to any other person who is engaged by the Government or a statutory board to facilitate the administration of such written law or public scheme, if the Comptroller has obtained a written undertaking from the other person that he shall be bound by the same obligations as to secrecy imposed by subsections (1), (2) and (3).

(13) Notwithstanding anything in this section, the Comptroller may furnish to the Government or any statutory board for any statistical or research purpose any information relating to any person in a manner that does not identify, and is not reasonably capable of being used to identify, that person.”.

Amendment of section 10

3. Section 10 of the principal Act is amended —

(a) by inserting, immediately after subsection (8), the following subsections:

“(8A) For the purpose of subsection (1)(d) —

(a) any discount on any debt security shall be deemed to accrue when the debt security is redeemed;

(b) subject to any exemption from tax provided under this Act, the discount shall be deemed to be income chargeable to tax of the holder of the debt security immediately before such redemption; and

(c) the discount on any debt security shall be deemed to be an amount equal to the difference between —

(i) the amount payable to the holder of the debt security upon the maturity or any earlier redemption of the debt security; and

(ii) the amount paid by the first holder of the debt security for the issue of the debt security.

(8B) In subsection (8A), “debt security” has the same meaning as in section 43N(4).”;

(b) by deleting the word “and” at the end of subsection (20A)(f);

(c) by deleting the comma at the end of paragraph (g) of subsection (20A) and substituting a semi-colon, and by inserting immediately thereafter the following paragraphs:

“(h) prepayment fee, redemption premium and break cost from qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008; and

(i) such other income directly attributable to qualifying debt securities issued on or after a prescribed date, as may be prescribed by regulations,”;

(d) by inserting, immediately after the definition of “approved CPF unit trust” in subsection (23), the following definitions:

““break cost”, “prepayment fee” and “redemption premium” have the same meanings as in section 13(16);”;

(e) by inserting, immediately after subsection (26), the following subsections:

“(27) Where any income is derived by a special purpose vehicle under any approved Islamic debt securities arrangement entered into on or after 17th February 2006, the income shall be deemed to have been derived at the end of the arrangement by the originator of the arrangement.

(28) In subsection (27) —

“approved” means approved by the Minister or such person as he may appoint, subject to such conditions as the Minister or person may impose;

“Islamic debt securities” has the same meaning as in section 43N(4);

“Islamic debt securities arrangement” means an arrangement under which —

- 5 (a) immovable properties in Singapore are acquired by a special purpose vehicle from a person (referred to in this subsection and subsection (27) as the originator) where the acquisition is funded through the issuance of Islamic debt securities by the special purpose vehicle;
- 10 (b) the immovable properties are leased by the special purpose vehicle to the originator; and
- (c) the immovable properties are reacquired by the originator upon the maturity of the Islamic debt securities;
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“special purpose vehicle” means a company whose only business is to acquire the originator’s immovable properties in Singapore, lease them back to the originator and transfer such properties to the originator upon the maturity of the Islamic debt securities.”.

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Amendment of section 10D

4. Section 10D of the principal Act is amended —

- (a) by deleting paragraphs (b) to (f) of subsection (2) and substituting the following paragraphs:
- 25 “(b) where the lessor derives income from onshore leasing or offshore leasing or both and such income is subject to tax under section 42(1) or 43(1), the allowances under section 19, 19A, 20, 21, 22 or 23 in respect of finance leasing shall only be available as a deduction against the income from finance leasing, and any
- 30 balance of the allowances shall not, subject to paragraph (d), be available as a deduction against any other income or be available for transfer under section 37C, 37D or 37F;

- 5 (c) where the lessor is a leasing company which derives income from onshore leasing as well as from offshore leasing subject to the concessionary rate of tax under section 43I, any balance of the allowances under section 19, 19A, 20, 21, 22 or 23 in respect of onshore finance leasing in any year of assessment after deduction against the income from such leasing shall be available as a deduction against any income from offshore finance leasing for that year of assessment, and any balance of the allowances shall not, subject to paragraph (d), be available as a deduction against any other income or be available for transfer under section 37C;
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- 15 (d) where the lessor referred to in paragraph (b) or (c) ceases to derive income from finance leasing in the basis period for any year of assessment, any balance of the allowances after the deduction in paragraph (b) or (c) shall be available as a deduction against any other income for that year of assessment and for any subsequent year of assessment in accordance with section 23;
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- 25 (e) where the lessor is a leasing company which derives income from onshore leasing as well as from offshore leasing subject to the concessionary rate of tax under section 43I —
- 30 (i) the allowances under section 19, 19A, 20, 21, 22 or 23 in respect of operating leasing shall firstly be available as a deduction against the income from such leasing, and any balance of the allowances shall be available as a deduction against any other income; and
- (ii) any losses incurred in respect of finance leasing or operating leasing shall be available as a deduction against any other income.”;
- 35 (b) by inserting, immediately after the definition of “finance lease” in subsection (3), the following definition:

““finance leasing” means the leasing of any machinery or plant under any finance lease;”;

- (c) by deleting the definitions of ““leasing company” and “offshore leasing”” in subsection (3) and substituting the following definitions:

““leasing company”, “offshore finance leasing” and “offshore leasing” have the same meanings as in section 43I(9);”;

- (d) by deleting the definition of “onshore operating leasing” in subsection (3) and substituting the following definition:

““operating leasing” means the leasing of any machinery or plant, other than finance leasing.”.

Amendment of section 10E

5. Section 10E of the principal Act is amended —

- (a) by inserting, immediately after subsection (1), the following subsection:

“(1A) Where subsection (1) would apply to the originator of any approved Islamic debt securities arrangement if that arrangement had not been entered into, that subsection shall continue to apply to the originator as if the arrangement had not been entered into.”; and

- (b) by inserting, immediately before the definition of “business of the making of investments” in subsection (2), the following definitions:

““approved Islamic debt securities arrangement” and “originator” have the same meanings as in section 10(28);”.

Amendment of section 13

6. Section 13 of the principal Act is amended —

- (a) by inserting, immediately after paragraph (ab) of subsection (1), the following paragraphs:

“(b) subject to subsections (2C) and (2D) and such conditions as may be prescribed by regulations —

- (i) the interest derived by any person from any qualifying project debt securities issued during the period from 1st November 2006 to 31st December 2008;
- 5 (ii) the discount, prepayment fee, redemption premium and break cost derived by any person from any qualifying project debt securities issued during the period from 15th February 2007 to 31st December 2008; and
- 10 (iii) such other income derived by any person that is directly attributable to qualifying project debt securities issued on or after a prescribed date, as may be prescribed by regulations;
- (*ba*) subject to subsection (2F) and such conditions as may
15 be prescribed by regulations, the prepayment fee, redemption premium and break cost from any qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008 that is derived by any person —
- 20 (i) who is not resident in Singapore and who does not have any permanent establishment in Singapore; and
- (ii) who is not resident in Singapore and who carries
25 on any operation in Singapore through a permanent establishment in Singapore where the funds used by that person to acquire the qualifying debt securities are not obtained from the operation;
- (*bb*) subject to subsection (2G) and such conditions as may
30 be prescribed by regulations, such other income directly attributable to qualifying debt securities issued on or after a prescribed date as may be prescribed by regulations, that is derived by any person —
- 35 (i) who is not resident in Singapore and who does not have any permanent establishment in Singapore; and

- 5 (ii) who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore where the funds used by that person to acquire the qualifying debt securities are not obtained from the operation;”;
- (b) by inserting, immediately after the word “received” in subsection (1)(e), the words “before 1st January 2008”;
- 10 (c) by inserting, immediately after paragraph (t) of subsection (1), the following paragraph:
- “*(ta)* the income derived from interest on moneys held on deposit in an approved bank in Singapore by a non-resident person (not being an individual nor a permanent establishment in Singapore) who carries on any operation in Singapore through a permanent establishment in Singapore if the funds used by that person to make the deposit are not obtained from the operation;”;
- 15 (d) by deleting paragraph (za) of subsection (1) and substituting the following paragraph:
- 20 “*(za)* any dividends paid on or after 1st January 2008 by any company resident in Singapore;”;
- (e) by deleting paragraph (zh) of subsection (1) and substituting the following paragraph:
- 25 “*(zh)* any distribution made by any trustee of a real estate investment trust of any income of the kinds referred to in section 43(2A)(a)(i), (ii), (iii) and (iv) to an individual, except where such distribution is derived by the individual through a partnership in Singapore or is derived from the carrying on of a trade, business or profession;”;
- 30 (f) by deleting the word “and” at the end of subsection (1)(zi);
- (g) by deleting paragraph (zj) of subsection (1) and substituting the following paragraphs:
- 35 “*(zj)* any income from any structured product offered by a financial institution derived from Singapore —

- 5 (i) by an individual, in the basis period relating to the year of assessment 2008 and any subsequent year of assessment, except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession;
- 10 (ii) by a non-resident person (not being an individual) if —
- (A) it does not, by itself or in association with others, carry on a business in Singapore, and does not have a permanent establishment in Singapore; and
- 15 (B) the contract in respect of the structured product between it and the financial institution takes effect during the period from 1st January 2007 to 31st December 2011 (both dates inclusive) and, if such contract is renewed or extended, the period for which it is renewed or extended commences before 1st January 2012; or
- 20 (iii) by a non-resident person (not being an individual nor a permanent establishment in Singapore) who carries on any operation in Singapore through a permanent establishment in Singapore if —
- 25 (A) the funds used by that person to invest in the structured product are not obtained from the operation; and
- 30 (B) the contract in respect of the structured product between that person and the financial institution takes effect during the period from 1st January 2007 to 31st December 2011 (both dates inclusive) and, if such contract is renewed or extended, the period for which it is renewed or extended commences before 1st January 2012;
- 35 (zk) any prepayment fee, redemption premium or break cost from debt securities derived from Singapore on

or after 15th February 2007 by any individual, except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession;

5 (zl) such other income directly attributable to debt securities as may be prescribed by regulations derived from Singapore on or after a prescribed date by any individual, except where such income is derived through a partnership in Singapore or is derived from
10 the carrying on of a trade, business or profession; and

(zm) the income of any charity registered or exempt from registration under the Charities Act (Cap. 37).”;

(h) by inserting, immediately after subsection (2B), the following subsections:

15 “(2C) Subsection (1)(b) shall not, unless otherwise approved by the Minister or such person as he may appoint, apply to —

(a) any interest derived from any qualifying project debt securities issued during the period from 1st November 2006 to 31st December 2008;

20 (b) any discount, prepayment fee, redemption premium or break cost derived from any qualifying project debt securities issued during the period from 15th February 2007 to 31st December 2008; or

25 (c) such other income directly attributable to qualifying project debt securities issued on or after a prescribed date, as may be prescribed by regulations,

if 50% or more of the issue of the securities is beneficially held or funded, directly or indirectly, at any time during the life of the issue by related parties of the issuer of those securities.

30 (2D) Subsection (1)(b) shall not apply to —

(a) any interest derived from any qualifying project debt securities issued during the period from 1st November 2006 to 31st December 2008;

35 (b) any discount, prepayment fee, redemption premium or break cost derived from any qualifying project debt

securities issued during the period from 15th February 2007 to 31st December 2008; or

- (c) such other income directly attributable to qualifying project debt securities issued on or after a prescribed date, as may be prescribed by regulations,

if the securities are held by less than 4 persons at any time during the life of the issue, unless —

- (i) approval has been granted by the Minister or such person as he may appoint to such application;

- (ii) all the persons holding the securities are companies resident in Singapore;

- (iii) such companies are listed on the Singapore Exchange either on the date of issue of the securities or within 6 months from that date; and

- (iv) the income from the securities received by such companies is declared to be distributable to their shareholders within 6 months from the end of the basis period in which it is received.

(2E) Regulations made under subsection (1)(b) may provide for the determination of the amount of income of the person to be exempted and for the deduction of expenses, allowances, losses and donations of the person otherwise than in accordance with this Act.

(2F) Subsection (1)(ba) shall not, unless otherwise approved by the Minister or such person as he may appoint, apply to any prepayment fee, redemption premium or break cost derived from any qualifying debt securities where —

- (a) 50% or more of the issue of those securities is beneficially held or funded, directly or indirectly, at any time during the life of the issue by related parties of the issuer of those securities; and

- (b) such fee, premium or cost is derived by —

- (i) any related party of the issuer of those securities;
or

- (ii) any other person where the funds used by such person to acquire those securities are obtained, directly or indirectly, from any related party of the issuer of those securities.

5 (2G) Subsection (1)(*bb*) shall not, unless otherwise approved by the Minister or such person as he may appoint, apply to such other income directly attributable to qualifying debt securities as may be prescribed by regulations under that provision where —

- 10 (a) 50% or more of the issue of those securities is beneficially held or funded, directly or indirectly, at any time during the life of the issue by related parties of the issuer of those securities; and

(b) such income is derived by —

- 15 (i) any related party of the issuer of those securities; or

- (ii) any other person where the funds used by such person to acquire those securities are obtained, directly or indirectly, from any related party of the issuer of those securities.”;

- (i) by inserting, immediately after the definition of “approved bond intermediary” in subsection (16), the following definition:

25 ““break cost”, in relation to debt securities, qualifying debt securities or qualifying project debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;”;

- 30 (j) by inserting, immediately after the definition of “deposit” in subsection (16), the following definition:

35 ““financial derivative” means a derivative the payoffs of which are linked, whether in whole or in part, to the payoffs or performance of any financial assets, securities, financial instruments or indices, but does not

include a derivative the payoffs of which are wholly linked to the payoffs or performance of commodities;”;

- (k) by inserting, immediately after the definition of “financial sector incentive (bond market) company” in subsection (16), the following definition:

“ “financial sector incentive (project finance) company” means a company approved as such by the Minister or such person as he may appoint;”;

- (l) by inserting, immediately after the definition of “Islamic debt securities” in subsection (16), the following definition:

“ “prepayment fee”, in relation to debt securities, qualifying debt securities or qualifying project debt securities, means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities;”;

- (m) by inserting, immediately after the definition of “qualifying debt securities” in subsection (16), the following definition:

“ “qualifying project debt securities” means debt securities —

- (a) which are issued during the period from 1st November 2006 to 31st December 2008 and arranged in accordance with regulations made for this purpose —

(i) by any financial institution in Singapore; or

(ii) by any financial sector incentive (bond market) company or financial sector incentive (project finance) company;

- (b) the interest and other income directly attributable to which are funded primarily by cash flows from an infrastructure asset or project prescribed by regulations (referred to in this definition as a prescribed asset or project); and

- (c) the proceeds from the issue of which are only used to acquire, develop or invest in a prescribed asset

or project, or to refinance a previous borrowing which was only used for that purpose; where the gearing ratio of such prescribed asset or project is approved by the Minister or such person as he may appoint in a case where the debt securities are issued by a person in Singapore or the prescribed asset or project is in Singapore,

but does not include, except with the approval of the Minister or such person as he may appoint (which approval may be subject to such conditions as the Minister may impose), any debt securities —

(A) which are issued to less than 4 persons; or

(B) 50% or more of the issue of which is beneficially held or funded, directly or indirectly, by related parties of the issuer of those debt securities;”;

(n) by inserting, immediately after the definition of “real estate investment trust” in subsection (16), the following definition:

““redemption premium”, in relation to debt securities, qualifying debt securities or qualifying project debt securities, means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity;” and

(o) by deleting the definition of “structured product” in subsection (16) and substituting the following definitions:

““structured product” means a sum of money paid on terms under which —

(a) it may not be repaid in full and the return from which is, partly or wholly, determined by the performance of any embedded derivative instrument; and

(b) its repayment may be in money or money’s worth,

but does not include any sum paid in respect of any debt securities, units of a real estate investment trust, units of a unit trust, loan, stand-alone financial derivative or such other financial product as the Minister may by regulations prescribe;

“unit trust” has the same meaning as in section 10B.”.

Repeal and re-enactment of section 13C and new section 13CA

7. Section 13C of the principal Act is repealed and the following sections substituted therefor:

5 **“Exemption of income of trustee of trust fund arising from funds managed by fund manager in Singapore**

13C.—(1) There shall be exempt from tax such income as the Minister may by regulations prescribe of the trustee of any prescribed trust fund arising from funds managed in Singapore by any prescribed
10 fund manager.

 (2) The Minister may by regulations make such transitional and savings provisions as he may consider necessary or expedient in relation to the repeal of section 13C in force immediately before 1st September 2007.

15 **Exemption of income of non-resident arising from funds managed by fund manager in Singapore**

13CA.—(1) There shall be exempt from tax such income as the Minister may by regulations prescribe of any prescribed person arising from funds managed in Singapore by any prescribed fund
20 manager.

 (2) Where —

- (a) income of any prescribed person, being a company, has been exempt from tax under subsection (1) in any year of assessment; and
25 (b) a person (referred to in this section as the relevant owner), either alone or together with his associates, beneficially owns on the relevant day issued securities of the prescribed person the value of which is more than the prescribed percentage of the total value of all issued securities of the
30 prescribed person on the relevant day,

then the relevant owner shall be liable to pay to the Comptroller, in such manner and within such reasonable time as may be determined by the Comptroller, a penalty to be computed in accordance with the following formula:

$$A \times B \times C$$

where A is the percentage which the value of the issued securities of the prescribed person beneficially owned on the relevant day by the relevant owner bears to the total value of all issued securities of the prescribed person on the relevant day;

B is the amount of income of the prescribed person as reflected in the audited account of the prescribed person for the basis period relating to that year of assessment; and

C is the tax rate specified in section 43(1)(a) applicable to that year of assessment.

(3) Subsection (2) shall not apply to a relevant owner if —

(a) the Comptroller permits the relevant owner to take steps to reduce the ownership of the issued securities by him or his associates within such period as the Comptroller may specify, being a period of no more than one month from the relevant day; and

(b) by the end of the specified period, the value of the issued securities beneficially owned by the relevant owner together with his associates is no more than the prescribed percentage of the total value of all issued securities of the prescribed person on the relevant day.

(4) Where —

(a) income of any prescribed person, being the trustee of a trust fund, has been exempt from tax under subsection (1) in any year of assessment; and

(b) a person (referred to in this section as the relevant beneficiary), either alone or together with his associates, beneficially owns on the relevant day any part of the trust fund the value of which is more than the prescribed percentage of the total value of the trust fund on the relevant day,

then the relevant beneficiary shall be liable to pay to the Comptroller, in such manner and within such reasonable time as may be determined by the Comptroller, a penalty to be computed in accordance with the following formula:

$$A \times B \times C$$

where A is the percentage which the value of the part of the trust fund beneficially owned on the relevant day by the relevant beneficiary bears to the total value of the trust fund on the relevant day;

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B is the amount of income of the prescribed person as reflected in the audited account of the prescribed person for the basis period relating to that year of assessment; and

C is the tax rate specified in section 43(1)(c) applicable to that year of assessment.

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(5) Subsection (4) shall not apply to a relevant beneficiary if —

(a) the Comptroller permits the relevant beneficiary to take steps to reduce the ownership of the trust fund by him or his associates within such period as the Comptroller may specify, being a period of no more than one month from the relevant day; and

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(b) by the end of the specified period, the value of the part of the trust fund beneficially owned by the relevant beneficiary together with his associates is no more than the prescribed percentage of the total value of the trust fund on the relevant day.

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(6) In a case where subsection (2) or (4) applies but the relevant owner or relevant beneficiary is a non-bona fide entity, then he shall not be liable to pay the penalty referred to in that subsection; but a person who —

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(a) beneficially owns on the relevant day equity interests of the relevant owner or relevant beneficiary where the percentage which the value of those equity interests bears to the total value of all equity interests of the relevant owner or relevant beneficiary on the relevant day is at least 25%; and

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(b) is not himself a non-bona fide entity,

shall be liable to pay to the Comptroller, in such manner and within such reasonable time as may be determined by the Comptroller, a penalty to be computed in accordance with the following formula:

$$A \times B$$

where A is the percentage referred to in paragraph (a); and

B is the amount of penalty which the relevant owner or relevant beneficiary would (but for this subsection) have been liable to pay under subsection (2) or (4).

(7) For the purposes of subsection (6), if —

(a) a person beneficially owns (including by virtue of one or more applications of this subsection) equity interests of a person (referred to in this subsection as a first level entity); and

(b) the first level entity beneficially owns equity interests of another person (referred to in this subsection as a second level entity),

then the first-mentioned person is taken to beneficially own equity interests of the second level entity; and the percentage which the value of those equity interests bears to the total value of all equity interests of the second level entity shall be computed in accordance with the following formula:

$$A \times B$$

where A is the percentage which the value of equity interests of the first level entity beneficially owned by the first-mentioned person bears to the total value of all equity interests of the first level entity; and

B is the percentage which the value of equity interests of the second level entity beneficially owned by the first level entity bears to the total value of all equity interests of the second level entity.

(8) Regulations made under this section may —

(a) provide for the determination of the amount of income of any prescribed person to be exempt from tax;

(b) provide for the circumstances under which a person would be considered to be an associate for the purposes of this section;

- (c) exempt any person or class of persons from subsection (2), (4) or (6); and
- (d) make provision generally for giving full effect to or for carrying out the purposes of this section.

5 (9) In this section —

“equity interest” means —

- (a) in relation to a company, any issued security of that company; or
- (b) in relation to a person other than a company, such right or interest as may be prescribed;

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“non-bona fide entity” means a person not resident in Singapore (excluding a permanent establishment in Singapore) who —

- (a) is set up solely for the purpose of avoiding or reducing payment of tax or penalty under this Act; or
- (b) does not carry out any substantial business activity for a genuine commercial reason;

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“relevant day” means the last day of the basis period of the prescribed person relating to the year of assessment referred to in subsection (2) or (4);

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“securities”, in relation to a company, means —

- (a) debentures of, or shares or stocks in, the company;
- (b) any right, option or derivative in respect of such debentures, shares or stocks; or
- (c) such other securities of the company as may be prescribed;

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“value”, in relation to issued securities of a company, means the value of those securities at the time of their issue by the company.”.

Repeal of section 13M

30 **8.** Section 13M of the principal Act is repealed.

Amendment of section 13Q

9. Section 13Q(3) of the principal Act is amended by deleting the words “or (zj)” in paragraph (a) of the definition of “relevant income” and substituting the words “, (zj), (zk) or (zl)”.

5 Repeal and re-enactment of section 13R

10. Section 13R of the principal Act is repealed and the following section substituted therefor:

“Exemption of income of company incorporated and resident in Singapore arising from funds managed by fund manager in Singapore

13R.—(1) There shall be exempt from tax such income as the Minister may by regulations prescribe of a company incorporated and resident in Singapore and approved by the Minister or such person as he may appoint (referred to in this section as an approved company) arising from funds managed —

- (a) in Singapore by such fund manager as may be prescribed; or
- (b) by such person as may be approved by the Minister or by a person appointed by him, subject to such conditions as the Minister may impose.

(2) No approval shall be granted under subsection (1) after 16th February 2011.

(3) Where —

- (a) income of any approved company has been exempt from tax under subsection (1) in any year of assessment; and
- (b) a person (referred to in this section as the relevant owner), either alone or together with his associates, beneficially owns on the relevant day issued securities of the approved company the value of which is more than the prescribed percentage of the total value of all issued securities of the approved company on the relevant day,

then the relevant owner shall be liable to pay to the Comptroller, in such manner and within such reasonable time as may be determined by the Comptroller, a penalty to be computed in accordance with the following formula:

$$A \times B \times C$$

where A is the percentage which the value of the issued securities of the approved company beneficially owned on the relevant day by the relevant owner bears to the total value of all issued securities of the approved company on the relevant day;

B is the amount of income of the approved company as reflected in the audited account of the approved company for the basis period relating to that year of assessment; and

C is the tax rate specified in section 43(1)(a) applicable to that year of assessment.

(4) Subsection (3) shall not apply to a relevant owner if —

(a) the Comptroller permits the relevant owner to take steps to reduce the ownership of the issued securities by him or his associates within such period as the Comptroller may specify, being a period of no more than one month from the relevant day; and

(b) by the end of the specified period, the value of the issued securities beneficially owned by the relevant owner together with his associates is no more than the prescribed percentage of the total value of all issued securities of the approved company on the relevant day.

(5) In a case where subsection (3) applies but the relevant owner is a non-bona fide entity, then he shall not be liable to pay the penalty referred to in that subsection; but a person who —

(a) beneficially owns on the relevant day equity interests of the relevant owner where the percentage which the value of those equity interests bears to the total value of all equity interests of the relevant owner on the relevant day is at least 25%; and

(b) is not himself a non-bona fide entity,

shall be liable to pay to the Comptroller, in such manner and within such reasonable time as may be determined by the Comptroller, a penalty to be computed in accordance with the following formula:

$$A \times B$$

where A is the percentage referred to in paragraph (a); and

B is the amount of penalty which the relevant owner would (but for this subsection) have been liable to pay under subsection (3).

(6) For the purposes of subsection (5), if —

(a) a person beneficially owns (including by virtue of one or more applications of this subsection) equity interests of a person (referred to in this subsection as a first level entity); and

(b) the first level entity beneficially owns equity interests of another person (referred to in this subsection as a second level entity),

then the first-mentioned person is taken to beneficially own equity interests of the second level entity; and the percentage which the value of those equity interests bears to the total value of all equity interests of the second level entity shall be computed in accordance with the following formula:

$$A \times B$$

where A is the percentage which the value of equity interests of the first level entity beneficially owned by the first-mentioned person bears to the total value of all equity interests of the first level entity; and

B is the percentage which the value of equity interests of the second level entity beneficially owned by the first level entity bears to the total value of all equity interests of the second level entity.

(7) Regulations made under this section may —

(a) provide for the determination of the amount of income of any approved company to be exempt from tax;

(b) provide for the circumstances under which a person would be considered to be an associate for the purposes of this section;

- (c) exempt any person or class of persons from subsection (3) or (5); and
- (d) make provision generally for giving full effect to or for carrying out the purposes of this section.

5 (8) In this section —

“equity interest” means —

- (a) in relation to a company, any issued security of that company; or
- (b) in relation to a person other than a company, such right or interest as may be prescribed;

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“non-bona fide entity” means a person not resident in Singapore (excluding a permanent establishment in Singapore) who —

- (a) is set up solely for the purpose of avoiding or reducing payment of tax or penalty under this Act; or
- (b) does not carry out any substantial business activity for a genuine commercial reason;

15

“relevant day” means the last day of the basis period of the approved company relating to the year of assessment referred to in subsection (3);

20

“securities”, in relation to a company, means —

- (a) debentures of, or shares or stocks in, the company;
- (b) any right, option or derivative in respect of such debentures, shares or stocks; or
- (c) such other securities of the company as may be prescribed;

25

“value”, in relation to issued securities of a company, means the value of those securities at the time of their issue by the company.

30

(9) The Minister may by regulations make such transitional and savings provisions as he may consider necessary or expedient in relation to the repeal of section 13R in force immediately before 1st September 2007.”.

New sections 13U and 13V

11. The principal Act is amended by inserting, immediately after section 13T, the following sections:

“Exemption of income of not-for-profit organisation

5 **13U.**—(1) There shall be exempt from tax any income of an approved not-for-profit organisation.

(2) The Minister or such person as he may appoint may, during the period from 15th February 2007 to 14th February 2017, approve any not-for-profit organisation for the purposes of subsection (1).

10 (3) The approval under subsection (2) shall be subject to such conditions as the Minister or such person as he may appoint may impose and shall be for such period not exceeding 10 years as he may specify.

(4) Notwithstanding subsection (2), the period specified under subsection (3) may be extended on expiry by the Minister or such person as he may appoint for such further period or periods, not exceeding 10 years at any one time, as he thinks fit.

15 (5) The Minister may make regulations to provide for the deduction of expenses, allowances, losses and donations of an approved not-for-profit organisation otherwise than in accordance with this Act.

20 (6) Notwithstanding subsection (1), where it appears to the Comptroller that any income of an approved not-for-profit organisation which has been exempted from tax under subsection (1) ought not to have been so exempted for any year of assessment, the
25 Comptroller may at any time, subject to section 74, make such assessment or additional assessment on the approved not-for-profit organisation as may appear to be necessary in order to make good any loss of tax.

30 (7) In this section, “not-for-profit organisation” means any person, not being a person registered or exempt from registration under the Charities Act (Cap. 37) —

(a) who is not established or operated for the object of deriving a profit;

(b) whose income and property —

(i) may only be applied for the furtherance of its objects;
and

(ii) are not distributable to any shareholder, member,
trustee or officer of the person except as reasonable
compensation for services rendered; and

(c) whose property may only be distributed to persons
established for a similar object as that person's upon that
person's dissolution.

**Exemption of income derived by law practice from international
arbitration held in Singapore**

13V.—(1) Any law practice intending to provide legal services in
connection with any international arbitration the hearing of which is
to be held in Singapore may, from 1st July 2007 to 30th June 2012,
apply to the Minister, or such person as he may appoint, for approval
as an approved law practice.

(2) Where the Minister, or such person as he may appoint,
considers it expedient in the public interest to do so, he may approve
the application and issue a letter to the law practice subject to such
conditions as he thinks fit.

(3) Every letter issued under subsection (2) shall specify a date as
the commencement day from which the approved law practice shall
be entitled to tax relief under this section.

(4) The tax relief period of an approved law practice shall
commence on its commencement day and shall continue for such
period, not exceeding 5 years, as is specified in the letter issued to it
under subsection (2).

(5) The amount of the income of an approved law practice which
will qualify for the relief for any year of assessment shall be the
excess of the total amount of the qualifying income of the approved
law practice for the basis period for that year of assessment over its
base income.

(6) Where an approved law practice has satisfied the conditions
specified in the letter issued to it under subsection (2), one-half of the
amount of the income of the approved law practice for any year of

assessment which qualifies for the relief as ascertained under subsection (5) shall not form part of the statutory income of the approved law practice for that year of assessment and shall be exempt from tax.

5 (7) Where an approved law practice is a law corporation, the exemption under section 43(6) or (6A), as the case may be, shall not apply to the balance of the qualifying income exceeding the base income of the approved law practice that is not exempt under subsection (6).

10 (8) The base income referred to in subsection (5) is —

(a) where an approved law practice had in the period of 3 years immediately preceding the commencement day provided legal services in connection with any qualifying international arbitration the hearing of which had been held
15 at least once in Singapore within the period —

(i) the amount ascertained by dividing the total income derived from providing those legal services in the period by the actual number of years in the period in which those legal services were provided; or

20 (ii) if the amount ascertained under sub-paragraph (i) is less than zero, deemed to be zero; or

(b) such amount as the Minister may specify.

(9) The Comptroller shall determine the manner and extent to which allowances under section 19, 19A, 20, 21, 22 or 23 and any
25 expenses, losses and donations allowable under this Act which are attributable to the qualifying income of an approved law practice are to be deducted.

(10) In determining the qualifying income of an approved law practice for the basis period for any year of assessment, there shall be
30 deducted from the income —

(a) expenses and donations allowable under this Act for that year of assessment which are attributable to that income; and

35 (b) any allowances for that year of assessment under section 19, 19A, 20, 21 or 22 attributable to that income

notwithstanding that no claim for those allowances has been made.

(11) The Comptroller may require an auditor to certify the income derived by an approved law practice from legal services in connection with any qualifying international arbitration and any direct costs and expenses incurred therefor.

(12) Where an approved law practice has in any year of assessment during the tax relief period incurred any loss from providing legal services in connection with any qualifying international arbitration or any allowances or donations attributable to the qualifying income remaining unabsorbed, 50% of the loss, allowances or donations, in each case, shall be deducted as provided for in section 23 or 37, as the case may be, and the balance shall be disregarded.

(13) The following provisions shall apply during the period from 1st July 2007 to 31st December 2007 to an approved law practice which is a law corporation resident in Singapore:

- (a) as soon as any amount of income of the approved law practice is exempted under subsection (6), such amount shall be credited to an account to be kept by the approved law practice for the purpose of this section;
- (b) where such account is in credit at the date on which any dividends are paid by the approved law practice out of income which has been exempted, an amount equal to such dividends or to such credit, whichever is the less, shall be debited to such account;
- (c) so much of the amount of any dividends debited to such account as are received by a shareholder in the approved law practice shall, if the Comptroller is satisfied with the entries in such account, be exempt from tax in the hands of such shareholder;
- (d) any dividends debited to such account shall be treated as having been distributed to the shareholders of the approved law practice or any particular class of such shareholders in accordance with the proportion of their shareholdings in the approved law practice;

(e) section 44 shall not apply to any dividends or part thereof which are exempt from tax under this section;

(f) notwithstanding paragraph (c), no dividend paid on any share of a preferential nature shall be exempt from tax under this section in the hands of the shareholder.

(14) An approved law practice which is a law corporation shall deliver to the Comptroller a copy of the accounts referred to in subsection (13) made up to any date specified by him whenever called upon to do so by notice in writing.

(15) In this section —

“arbitral tribunal”, “award”, “international arbitration” and “party” have the same meanings as in the International Arbitration Act (Cap. 143A);

“client”, “foreign law firm”, “Formal Law Alliance”, “Joint Law Venture”, “law corporation”, “law firm” and “limited liability law partnership” have the same meanings as in the Legal Profession Act (Cap. 161);

“hearing” means a hearing by the arbitral tribunal on the substance of the dispute;

“law practice” means a law firm, law corporation, limited liability law partnership, foreign law firm, Formal Law Alliance or Joint Law Venture;

“legal services in connection with any qualifying international arbitration” means any professional work of a legal nature provided by lawyers of the approved law practice for a client who is a party to an international arbitration the hearing of which is held in Singapore during its tax relief period (or the period referred to in subsection (8)(a)) for the purposes of the international arbitration, beginning from —

(a) where the client is the claimant serving the request for arbitration, the date of issue of the request for arbitration; or

(b) where the client is the respondent being served the request for arbitration, the date of receipt of the request for arbitration by the client or approved law practice,

and ending on —

- (i) the date on which the final award is made by the arbitral tribunal; or
- (ii) the date on which the arbitration proceeding has otherwise finally terminated,

whichever is the earlier;

“qualifying income” means the income derived by an approved law practice from the provision of legal services in connection with any qualifying international arbitration.”.

10 **Amendment of section 14**

12. Section 14(1) of the principal Act is amended —

- (a) by deleting paragraph (a) and substituting the following paragraph:

“(a) except as provided in this section —

- (i) any sum payable by way of interest; and
- (ii) any sum payable in lieu of interest or for the reduction thereof, as may be prescribed by regulations (including the restriction of the deduction of the sum in respect of money borrowed before the basis period relating to the year of assessment 2008),

upon any money borrowed by that person where the Comptroller is satisfied that such sum is payable on capital employed in acquiring the income;”;

- (b) by deleting the comma at the end of sub-paragraph (F) of proviso (i) to paragraph (e) and substituting a semi-colon, and by inserting immediately thereafter the following sub-paragraph:

“(G) commencing on or after 1st July 2007 shall not exceed 14½%.”.

30 **Amendment of section 15**

13. Section 15(1) of the principal Act is amended by deleting paragraph (j) and substituting the following paragraph:

- “(j) any sum referred to in section 12(6) payable by any person outside Singapore to another person outside Singapore except where the sum is exempt from tax, or tax has been deducted and accounted for under section 45;”.

5 **Amendment of section 18**

14. Section 18(1) of the principal Act is amended by inserting, immediately after the word “approved” in paragraph (h), the words “before 1st September 2007”.

Amendment of section 19

10 **15.** Section 19 of the principal Act is amended —

- (a) by inserting, immediately after the words “section 43I” in subsection (2)(b), the words “or is acquired by an approved aircraft leasing company within the meaning of section 43Y”;
- 15 (b) by deleting the words “subsections (1) and (2)” in subsection (3) and substituting the words “subsection (1) or (2) or section 19A(1)”;
- (c) by inserting, immediately after the words “subsection (2)” in subsection (3)(b), the words “or section 19A(1)”;
- (d) by inserting, immediately after the words “this section” in 20 subsection (5), the words “or section 19A”; and
- (e) by inserting, immediately after subsection (5A), the following subsection:

25 “(5B) For the purposes of subsection (2), where, at the end of the basis period for the year of assessment 2009, a person has in use any of the following motor vehicles within the meaning of the Road Traffic Act (Cap. 276):

- (a) a motor car;
- (b) a motor cycle;
- 30 (c) a goods vehicle the maximum weight of which laden does not exceed 3,000 kilograms,

in respect of which allowances have been made under this section, there shall be made to him, on due claim for that or any subsequent year of assessment and in lieu of any further

annual allowance under this section, an annual allowance of 33 $\frac{1}{3}$ % in respect of the capital expenditure remaining unallowed under this section in respect of the motor vehicle as at the beginning of the basis period for the year of assessment 2009.”.

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Amendment of section 19A

16. Section 19A of the principal Act is amended —

(a) by deleting subsection (1) and substituting the following subsections:

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“(1) Notwithstanding section 19, where a person carrying on a trade, profession or business incurs capital expenditure on the provision of machinery or plant for the purposes of that trade, profession or business, there shall be made to him, on due claim for any year of assessment and in lieu of the allowances provided by section 19, an annual allowance of 33 $\frac{1}{3}$ % in respect of the capital expenditure incurred.

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(1A) Any annual allowance under this section in respect of any asset for any year of assessment shall not exceed the amount of the capital expenditure of the asset remaining unallowed as at the beginning of the basis period for that year of assessment.”;

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(b) by deleting subsection (9) and substituting the following subsections:

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“(9) Notwithstanding section 19, where a person proves to the satisfaction of the Comptroller that he has, for the purposes of a trade, business or profession carried on by him, registered any new vehicle as a replacement for an existing vehicle which used diesel oil as fuel and which was registered before 1st January 1991 and deregistered on or after 27th February 1999, he shall, in lieu of the allowances provided by subsection (1) or section 19, be entitled, if he so elects, to an allowance of 100% in respect of the capital expenditure incurred on the provision of that new vehicle.

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(9A) Notwithstanding section 19, where a person proves to the satisfaction of the Comptroller that he has, for the purposes of a trade, business or profession carried on by him, registered

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during the period from 15th February 2007 to 14th February 2012 any new vehicle which uses diesel oil as fuel, as a replacement for an existing vehicle which used diesel oil as fuel and which was registered on or after 1st January 1991 but before 1st October 2006, he shall, in lieu of the allowances provided by subsection (1) or section 19, be entitled, if he so elects, to an allowance of 100% in respect of the capital expenditure incurred on the provision of that new vehicle.”;

- (c) by deleting the words “, and registered before 1st January 1991,” in the definition of “existing vehicle” in subsection (15);
- (d) by deleting the words “on or after 27th February 1999 but” in paragraph (b) of the definition of “existing vehicle” in subsection (15); and
- (e) by deleting subsection (16).

Amendment of section 19B

17. Section 19B(10) of the principal Act is amended by deleting the words “31st October 2008” and substituting the words “31st October 2013”.

Amendment of section 26A

18. Section 26A(2) of the principal Act is amended —

- (a) by deleting “43(1)(b)” and substituting “43(1)(c)”; and
- (b) by deleting the words “(other than a company)” and substituting the words “(other than a company, an individual or a Hindu joint family)”.

Amendment of section 34A

19. Section 34A(2) of the principal Act is amended by deleting the full-stop at the end of paragraph (g) and substituting a semi-colon, and by inserting immediately thereafter the following paragraphs:

- “(h) a gain from discounts or premiums on debt securities, being a gain chargeable to tax under section 10(1)(d), shall be deemed —
- (i) to accrue only on the maturity or redemption of the debt securities; and

- (ii) to be equal to the difference between the amount received on the maturity or redemption of the debt securities and the amount for which the debt securities were first issued;
- 5 (i) in a case where a qualifying person issues debt securities at a discount or redeems issued debt securities at a premium, and section 14(1)(a) applies in respect of the outgoing represented by such discount or premium, such outgoing shall be deemed to be incurred and deductible only when it is paid on the maturity or redemption of the debt securities and —
- 10 (i) in the case of debt securities issued in the basis period relating to the year of assessment 2008 or subsequent years of assessment, to be equal to the difference between the amount paid on the maturity or redemption of the debt securities and the amount for which the debt securities were first issued; or
- 15 (ii) in the case of debt securities issued before the basis period relating to the year of assessment 2008, to be equal to such part of the difference referred to in subparagraph (i) that would be attributable to the year of assessment 2008 and subsequent years of assessment;
- 20 (j) in a case where —
- 25 (i) a qualifying person issues debt securities at a discount or redeems issued debt securities at a premium;
- (ii) the debt securities were issued with an embedded derivative to acquire shares or units in the qualifying person; and
- 30 (iii) the outgoing represented by such discount or premium is deductible under section 14(1),
- such part of the outgoing that is attributable to the embedded derivative shall not be deductible.”.

Amendment of section 35

20. Section 35 of the principal Act is amended —

- (a) by deleting subsection (4) and substituting the following subsection:

“(4) Where the Comptroller is satisfied that any person usually makes up his accounts to a day other than 31st December, he may direct that —

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(a) where the person is not an individual or a Hindu joint family, the statutory income of that person from all sources be computed on the amount of gains or profits of the year ending on that day in the year preceding the year of assessment;

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(b) where the accounts relate to a partnership, the income of the partnership be computed under section 36 on the amount of gains or profits of the year ending on that day in the year preceding the year of assessment; or

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(c) where the person is an individual or a Hindu joint family, the statutory income of that person from any trade, business, profession or vocation to which the accounts relate be computed on the amount of gains or profits of the year ending on that day in the year preceding the year of assessment.”;

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- (b) by deleting the full-stop at the end of paragraph (f) of subsection (5) and substituting a semi-colon, and by inserting immediately thereafter the following paragraphs:

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“(g) derived during the period from 1st January 2006 to 31st December 2006 shall be treated as his statutory income for the year of assessment 2007 and be charged to tax at the rate applicable to him for that year of assessment;

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(h) derived during the period from 1st January 2007 to 31st December 2007 shall be treated as his statutory income for the year of assessment 2008 and be charged to tax at the rate applicable to him for that year of assessment.”;

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- (c) by deleting the words “from a trade, business, profession or vocation” in subsection (6);

- (d) by deleting the words “from the trade, business, profession or vocation” in subsection (6);
- (e) by deleting the words “in the case of any trade, business, profession or vocation” in subsection (7); and
- 5 (f) by deleting subsection (16) and substituting the following subsection:

“(16) In subsection (15), “statutory income of the trustee” does not include —

- 10 (a) in relation to a trustee of a real estate investment trust within the meaning of section 43(10), any income from any trade or business carried on by the trustee other than the income of the kinds referred to in section 43(2A)(a)(i), (ii), (iii) and (iv);
- 15 (b) in relation to a trustee of an approved sub-trust of a real estate investment trust within the meaning of section 43(10), any income from any trade or business carried on by the trustee other than income of the kinds referred to in section 43(2A)(b)(i) and (ii); or
- 20 (c) in relation to a trustee of any other trust, any income from any trade or business carried on by the trustee.”.

Amendment of section 37

21. Section 37 of the principal Act is amended by inserting, immediately after subsection (10), the following subsection:

25 “(10A) For the purposes of subsection (3)(b) to (f), the reference to the year preceding any year of assessment shall —

- (a) if the person making the donation is not an individual or a Hindu joint family and is one to whom a direction is made under section 35(4);
- 30 (b) if the persons making the donation are the partners of a partnership, a direction is made under section 35(4) in relation to the income of that partnership, and the donation is made by them in the name of the partnership;
- (c) if the person making the donation is an individual or a Hindu joint family, is one to whom a direction is made

under section 35(4), and the donation is made by him in the name of the trade, business or profession to which the accounts relate,

be read as a reference to —

- 5 (i) the period of 12 months or such other period as the Comptroller may allow, ending on the day the accounts of the person or the partnership (as the case may be) are made up to; or
- 10 (ii) such other period as the Comptroller, having regard to any special circumstance, otherwise directs.”.

Amendment of section 39

22. Section 39 of the principal Act is amended —

- (a) by deleting “33%” in the 8th line of subsection (2)(h) and substituting “34½%”;
- 15 (b) by deleting “\$25,245” wherever it appears in subsection (2)(h) and substituting in each case “\$26,393”;
- (c) by deleting subsection (3) and substituting the following subsection:
- 20 “(3) In the case of an individual resident in Singapore in the year of assessment who is a citizen or permanent resident of Singapore and who, in the year preceding the year of assessment, has paid money in accordance with section 18 of the Central Provident Fund Act (Cap. 36) to his, his spouse’s, his sibling’s, his parent’s or his grandparent’s retirement
- 25 account, there shall be allowed a deduction of the amount of such payment or \$7,000, whichever is the less; except that no payment made to his spouse’s or his sibling’s retirement account shall be allowed as a deduction if the income of that spouse or sibling exceeds \$2,000 in the year preceding the year
- 30 of payment.”;
- (d) by inserting, immediately after the words “his spouse’s,” in subsection (4), the words “his sibling’s,”; and
- (e) by inserting, immediately after the words “the same spouse,” in subsection (4), the word “sibling,”.

Amendment of section 42

23. Section 42 of the principal Act is amended —

(a) by deleting the word “and” at the end of subsection (6)(b);

(b) by deleting the full-stop at the end of paragraph (c) of subsection (6) and substituting a semi-colon, and by inserting immediately thereafter the following paragraphs:

“(d) prepayment fee, redemption premium or break cost from qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008; and

(e) such other income directly attributable to qualifying debt securities issued on or after a prescribed date, as may be prescribed by regulations.”;

(c) by deleting the word “and” at the end of subsection (7)(b);

(d) by deleting the comma at the end of paragraph (c) of subsection (7) and substituting a semi-colon, and by inserting immediately thereafter the following paragraphs:

“(d) any prepayment fee, redemption premium or break cost from qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008; and

(e) such other income directly attributable to qualifying debt securities issued on or after a prescribed date, as may be prescribed by regulations.”;

(e) by deleting the words “interest, discount or amount payable, as the case may be,” in subsection (7) and substituting the word “income”; and

(f) by deleting the definitions of ““qualifying debt securities” and “related party” ” in subsection (8) and substituting the following definitions:

““break cost”, “prepayment fee”, “qualifying debt securities”, “redemption premium” and “related party” have the same meanings as in section 13(16).”.

Amendment of section 42A

24. Section 42A of the principal Act is amended by inserting, immediately after subsection (12), the following subsections:

5 “(13) For the purposes of subsection (11), a child is a member of a household if —

- (a) the members of the household include both the parents of the child or, if there is only one surviving parent, that parent;
- (b) in the case where the parents of the child are divorced, any member of the household is a parent of the child who has sole legal custody of the child; or
- 10 (c) in the case where the parents of the child are divorced and neither has sole legal custody of the child, any member of the household is a parent of the child who has been given rights of care and control in respect of the child by any court.

(14) If the child is a member of more than one household by virtue of subsection (13)(c), he shall be treated as such member of the household of only one parent as determined by the Comptroller (whose decision shall be final) having regard to the circumstances of the case, including the child’s living arrangements.

(15) In subsection (13), “parent” includes an adoptive parent and a step-parent.”.

Amendment of section 43

25. Section 43 of the principal Act is amended —

25 (a) by deleting subsection (1) and substituting the following subsection:

“(1) Subject to section 40, there shall be levied and paid for each year of assessment upon the chargeable income of —

- 30 (a) every company, tax at the rate of 18% on every dollar of the chargeable income thereof;
- (b) every individual or Hindu joint family not resident in Singapore, tax at the rate of 20% on every dollar of the chargeable income thereof; and

- (c) every other person not resident in Singapore, trustee (other than the trustee of an incapacitated person) and executor, tax at the rate of 18% on every dollar of the chargeable income thereof.”;
- 5 (b) by deleting sub-paragraphs (ii) and (iii) of subsection (2A)(a) and substituting the following sub-paragraphs:
- “(ii) income that is ancillary to the management or holding of immovable property but not including gains from the disposal of immovable property and Singapore dividends;
- 10 (iii) income (excluding Singapore dividends) that is payable out of rental income or income from the management or holding of immovable property in Singapore, but not out of gains from the disposal of such immovable property;
- 15 (iv) distribution from an approved sub-trust of the real estate investment trust out of income referred to in paragraph (b)(i) and (ii);”;
- (c) by deleting paragraph (b) of subsection (2A) and substituting the following paragraphs:
- 20 “(b) in the case of any approved sub-trust of a real estate investment trust, any income from any trade or business carried on by the trustee, other than the following income distributed by the trustee to the trustee of the real estate investment trust:
- 25 (i) rental income or income from the management or holding of immovable property but not including gains from the disposal of immovable property;
- (ii) income that is ancillary to the management or holding of immovable property but not including gains from the disposal of immovable property and Singapore dividends; or
- 30 (c) in the case of any other trust, any income from any trade or business carried on by the trustee.”;
- 35 (d) by deleting the words “and (iii)” in subsection (3B) and substituting the words “, (iii) and (iv)”;

- (e) by inserting, immediately after subsection (3B), the following subsection:

“(3C) Notwithstanding anything in this Act, tax at the rate of 18% shall be levied and paid on the gross amount of any Singapore dividends paid during the period from 1st January 2007 to 31st December 2007 by a company resident in Singapore to a person (being an individual or a Hindu joint family) not resident in Singapore unless such person elects for such income to be taxed under subsection (1)(b).”;

- (f) by deleting “2002” in subsection (6) and substituting “2008”;
- (g) by deleting “\$90,000” in subsection (6)(b) and substituting “\$290,000”;
- (h) by deleting subsection (6A) and substituting the following subsection:

“(6A) Notwithstanding subsections (1) and (6), for each of the first 3 years of assessment, falling in or after the year of assessment 2008, of a qualifying company, there shall be levied and paid upon the chargeable income of the company tax at the rate prescribed in subsection (1)(a) on every dollar of the chargeable income thereof except that —

- (a) every dollar of the first \$100,000 of the chargeable income (excluding Singapore dividends) shall be exempt from tax; and
- (b) for every dollar of the next \$200,000 of the chargeable income (excluding Singapore dividends), only 50% shall be charged with tax.”;

- (i) by deleting subsection (8) and substituting the following subsection:

“(8) The reference to 18% in subsection (1) shall, for the years of assessment 2005, 2006 and 2007, be read as a reference to 20%.”; and

- (j) by inserting, immediately before the definition of “first 3 years of assessment” in subsection (10), the following definition:

“ “approved sub-trust”, in relation to a real estate investment trust, means any trust —

- (a) not listed on the Singapore Exchange or elsewhere;
- (b) where the trustee of the real estate investment trust holds any right or interest in the property of the trust for the benefit of the beneficiaries of the real estate investment trust; and
- (c) approved by the Comptroller;”.

Amendment of section 43I

26. Section 43I of the principal Act is amended —

- 10 (a) by deleting paragraphs (b) to (j) of subsection (2) and substituting the following paragraphs:
 - 15 “(b) the allowances under section 19, 19A, 20, 21, 22 or 23 in respect of offshore finance leasing in any year of assessment after deduction against the income from such leasing shall be available as a deduction against any income from onshore finance leasing for that year of assessment, and any balance of the allowances shall not, subject to paragraph (c), be available as a deduction against any other income or be available for transfer under section 37C;
 - 20 (c) where the leasing company ceases to derive income from finance leasing in the basis period for any year of assessment, any balance of the allowances in respect of finance leasing after the deduction in paragraph (b) shall be available as a deduction against any other income for that year of assessment and for any subsequent year of assessment in accordance with section 23;
 - 25 (d) the Comptroller shall determine the manner and extent to which —
 - 30 (i) allowances under section 19, 19A, 20, 21, 22 or 23 and any expenses and donations allowable under this Act are to be deducted; and
 - (ii) any loss may be deducted under section 37.”;
- 35 (b) by deleting subsections (4) and (5);

- (c) by deleting the words “to (5)” in subsection (8)(a) and substituting the words “to (3)”;
- (d) by deleting paragraph (b) of subsection (8) and substituting the following paragraph:

5 “(b) any allowance or the balance thereof in respect of
finance leasing which was not deducted against the
income of the leasing company for any year of
assessment during which the concessionary rate
prescribed by subsection (1) applies shall be available
10 as a deduction against the income from finance
leasing for the first year of assessment to which
paragraph (a) applies and for any subsequent year of
assessment.”; and

- (e) by deleting the definition of “finance lease” in subsection (9) and
15 substituting the following definitions:

 ““finance lease”, “finance leasing” and “onshore finance
leasing” have the same meanings as in
section 10D(3);”.

Amendment of section 43N

20 **27.** Section 43N of the principal Act is amended —

- (a) by inserting, immediately after paragraph (ab) of subsection (1),
the following paragraphs:

 “(ac) any prepayment fee, redemption premium or break
cost derived by any company from qualifying debt
25 securities issued during the period from 15th February
2007 to 31st December 2008;

 (ad) such other income derived by any company that is
directly attributable to qualifying debt securities
issued on or after a prescribed date, as may be
30 prescribed by regulations;”;

- (b) by deleting the words “or (ab)” in subsection (2) and substituting
the words “, (ab), (ac) or (ad)”;
- (c) by deleting the word “and” at the end of subsection (2)(b);

(d) by deleting the comma at the end of paragraph (c) of subsection (2) and substituting a semi-colon, and by inserting immediately thereafter the following paragraphs:

5 “(d) any prepayment fee, redemption premium or break cost from qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008; and

10 (e) such other income directly attributable to qualifying debt securities issued on or after a prescribed date, as may be prescribed by regulations,”;

(e) by deleting the words “interest, discount or amount payable, as the case may be,” in subsection (2) and substituting the word “income”; and

15 (f) by deleting the definitions of ““financial institution”, “qualifying debt securities” and “related party”” in subsection (4) and substituting the following definitions:

20 ““break cost”, “financial institution”, “prepayment fee”, “qualifying debt securities”, “redemption premium” and “related party” have the same meanings as in section 13(16);”.

New sections 43Y and 43Z

28. The principal Act is amended by inserting, immediately after section 43X, the following sections:

“Concessionary rate of tax for leasing of aircraft and aircraft engines

25 **43Y.**—(1) Notwithstanding section 43, tax at the rate of 10% or 5% as the Minister (or such person as the Minister may appoint) may specify, shall be levied and paid for each year of assessment upon the income of an approved aircraft leasing company accruing in or derived from Singapore in respect of leasing of any aircraft or aircraft engine or such other activity as may be prescribed by regulations.

30 (2) The concessionary rate of tax referred to in subsection (1) shall apply to an approved aircraft leasing company subject to such conditions as the Minister or such person as he may appoint may impose.

35

(3) Tax at the concessionary rate of the income of an approved aircraft leasing company under subsection (1) shall be for a period not exceeding 5 years, except that the Minister or such person as he may appoint may extend that period for a further period or periods, each of which shall not exceed 5 years.

(4) Approval may be granted under this section between 1st March 2007 and 29th February 2012.

(5) In determining the income of an approved aircraft leasing company from the leasing of any aircraft or aircraft engine —

(a) the allowances under section 19, 19A, 20, 21, 22 or 23 shall be taken into account notwithstanding that no claim for such allowances has been made;

(b) the allowances under section 19, 19A, 20, 21, 22 or 23 in respect of finance leasing in any year of assessment shall be deducted against the income from such leasing for that year of assessment, and any balance of the allowances shall not, subject to paragraph (c), be available as a deduction against any other income or be available for transfer under section 37C;

(c) where the approved aircraft leasing company ceases to derive income from finance leasing in the basis period for any year of assessment, any balance of the allowances in respect of finance leasing after the deduction against the income from such leasing shall be available as a deduction against any other income for that year of assessment and for any subsequent year of assessment in accordance with section 23; and

(d) the Comptroller shall determine the manner and extent to which —

(i) allowances under section 19, 19A, 20, 21, 22 or 23 and any expenses and donations allowable under this Act are to be deducted; and

(ii) any loss may be deducted under section 37.

(6) Subsection (5) shall apply, with the necessary modifications, in determining the income of an approved aircraft leasing company

from any activity prescribed by regulations made under subsection (1) as if such income were income from operating leasing.

(7) In this section —

5 “aircraft leasing company” means a company incorporated and resident in Singapore or a registered business trust, carrying on a business of leasing aircraft or aircraft engines;

“approved” means approved by the Minister or such person as he may appoint;

10 “finance leasing”, in relation to any aircraft or aircraft engine, means a lease of the aircraft or aircraft engine (including any arrangement or agreement in connection with the lease) which has the effect of transferring substantially the obsolescence, risks or rewards incidental to ownership of such aircraft or aircraft engine to the lessee;

15 “leasing of any aircraft or aircraft engine” means the leasing of any aircraft or aircraft engine, other than one which has been treated as though it had been sold pursuant to regulations made under section 10D(1);

20 “operating leasing”, in relation to any aircraft or aircraft engine, means the leasing of the aircraft or aircraft engine, other than finance leasing.

Concessionary rate of tax for aircraft investment manager

25 **43Z.**—(1) Notwithstanding section 43, the Minister may by regulations provide that tax at the rate of 10% shall be levied and paid for each year of assessment upon such income as the Minister may specify of an approved aircraft investment manager derived by it on or after 1st March 2007 from —

- 30 (a) managing an approved aircraft leasing company; or
 (b) such other services or activities carried out for an approved aircraft leasing company as may be prescribed by regulations.

(2) Regulations made under subsection (1) may provide for the deduction of losses otherwise than in accordance with section 37(3).

(3) The concessionary rate of tax referred to in subsection (1) shall apply to an approved aircraft investment manager subject to such conditions as the Minister or such person as he may appoint may impose.

5 (4) Approval may be granted under this section between 1st March 2007 and 29th February 2012.

(5) In this section —

“aircraft investment manager” means any company incorporated in Singapore;

10 “aircraft leasing company” has the same meaning as in section 43Y;

“approved” means approved by the Minister or such person as he may appoint.”.

Amendment of section 44

15 **29.** Section 44(20) of the principal Act is amended by deleting paragraph (g) and substituting the following paragraph:

“(g) relevant rate of tax —

(i) in relation to a dividend paid from 1st January 2004 to 31st December 2006, is 20%; and

20 (ii) in relation to a dividend paid from 1st January 2007 to 31st December 2007, is 18%.”.

Amendment of section 44A

30. Section 44A of the principal Act is amended by deleting subsection (4) and substituting the following subsection:

25 “(4) Notwithstanding anything in this Act, where the tax on any dividend paid by a company in the year 2007 has been deducted at the rate of 20% —

30 (a) the amount of such dividend received by a shareholder shall be deemed to have been paid without deduction of tax and to be a dividend of such a gross amount as after deduction of tax at the rate of 18% would be equal to the net amount paid; and a sum equal to the difference between such gross

amount and the net amount paid shall be deemed to have been deducted from the dividend as tax; and

- (b) the difference between the amount of tax deducted at 20% from such dividend and the amount deemed to have been so deducted under paragraph (a) shall be added to the 44A balance of the company and deemed to be a part thereof.”.

Amendment of section 45

31. Section 45 of the principal Act is amended —

- (a) by deleting paragraph (a) of subsection (1) and substituting the following paragraph:

“(a) deduct therefrom tax —

(i) where the person to be paid is an individual or a Hindu joint family, at the rate of 20%;

(ii) where the person to be paid is any other person, at the rate of 18%; or

(iii) where section 43(3) or (3A) is applicable to the person to be paid, at the rate specified in that provision,

on every dollar of the interest; and”;

- (b) by deleting subsection (1A) and substituting the following subsection:

“(1A) Notwithstanding subsection (1), tax shall be deducted at the rate of 20% on every payment (other than payment subject to tax at the rate specified in section 43(3) or (3A)) made on or after 1st January 2007 which would be assessable on the person receiving the payment for the year of assessment 2007.”;

- (c) by inserting, immediately after “20%” in subsection (2)(b), the words “or 18%”; and

- (d) by deleting subsections (9) and (10) and substituting the following subsections:

“(9) This section shall not apply to —

(a) any interest derived from any qualifying debt securities issued during the period from 27th February 1999 to 31st December 2008, subject to such conditions as the Minister may impose;

(b) any interest derived from any qualifying project debt securities issued during the period from 1st November 2006 to 31st December 2008, subject to such conditions as the Minister may impose.

(10) In this section, “qualifying debt securities” and “qualifying project debt securities” have the same meanings as in section 13(16).”.

Amendment of section 45A

32. Section 45A of the principal Act is amended —

(a) by inserting, immediately after subsection (2A), the following subsections:

“(2B) Subject to such conditions as the Minister may impose, subsection (1) shall not apply to —

(a) any prepayment fee, redemption premium or break cost from any qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008; or

(b) any discount, prepayment fee, redemption premium or break cost from any qualifying project debt securities issued during the period from 15th February 2007 to 31st December 2008.

(2C) Subject to such conditions as the Minister may impose, subsection (1) shall not apply to —

(a) such other income directly attributable to any qualifying debt securities issued on or after a prescribed date, as may be prescribed by regulations; or

(b) such other income directly attributable to any qualifying project debt securities issued on or after a

prescribed date, as may be prescribed by regulations.”; and

(b) by deleting the definition of “qualifying debt securities” in subsection (3) and substituting the following definitions:

5 ““break cost”, “prepayment fee”, “qualifying debt securities”, “qualifying project debt securities” and “redemption premium” have the same meanings as in section 13(16).”.

Amendment of section 45G

10 **33.** Section 45G(3) of the principal Act is amended by deleting the words “rate specified under section 43(1)(a)” and substituting the words “applicable rate specified under section 43(1)”.

New section 45GA

15 **34.** The principal Act is amended by inserting, immediately after section 45G, the following section:

“Application of section 45 to income derived as public entertainer

20 **45GA.**—(1) Subject to subsection (2), section 45 shall apply in relation to the payment by any person to any public entertainer or his representative, not known to the person to be resident in Singapore, of any income derived from Singapore as a public entertainer on or after 1st January 2008 as that section applies to any interest paid by a person to another person not known to him to be resident in Singapore, and for the purpose of such application, any reference in that section to interest shall be construed as a reference to such payment.

(2) For the purpose of this section, the deduction of tax under section 45 shall be at the rate of 15%.

(3) In this section, “public entertainer” has the same meaning as in section 40A.”.

30 Amendment of section 46

35. Section 46 of the principal Act is amended —

(a) by deleting the words “or 45E(1)(a)” in subsection (1)(a) and substituting the words “, 45E(1)(a) or 45GA”; and

(b) by deleting subsection (2) and substituting the following subsection:

“(2) Notwithstanding subsection (1), where the tax on any dividend paid in the year 2007 has been deducted at the rate of 20%, the tax to be set-off under subsection (1) shall be the sum deemed to be the tax deducted from such dividend under section 44A(4).”

Amendment of section 50

36. Section 50(5) of the principal Act is amended by deleting the words “; but notwithstanding anything in paragraphs (a) and (b) a deduction shall be allowed of any amount by which the foreign tax in respect of the income exceeds the credit therefor” in the 8th to last lines of paragraph (c).

Amendment of section 63

37. Section 63 of the principal Act is amended —

(a) by deleting subsection (1) and substituting the following subsections:

“(1) Every person, not being an individual or a Hindu joint family, who has not made a return under section 62 for any year of assessment shall, within 3 months after the end of the accounting period relating to that year of assessment, furnish to the Comptroller an estimate of his chargeable income.

(1A) Every individual or Hindu joint family carrying on or exercising any trade, business, profession or vocation who has not made a return under section 62 for any year of assessment shall, within 3 months after the end of the accounting period relating to that year of assessment, furnish to the Comptroller an estimate of his chargeable income.”; and

(b) by inserting, immediately after the words “subsection (1)” in subsection (2), the words “or (1A)”.

Amendment of section 71

38. Section 71 of the principal Act is amended by inserting, immediately after subsection (2), the following subsection:

“(3) If a return in relation to the partnership for any year of assessment has not been made, the person required to make the return under subsection (1) or (2) (as the case may be) shall, within 3 months after the end of the accounting period relating to that year of assessment, furnish to the Comptroller an estimate of the income from all sources of the partnership, and the names and identification numbers of all the partners together with the amount of the share of the income to which each partner was entitled for that year.”.

Amendment of section 94A

10 **39.** Section 94A of the principal Act is amended —

- (a) by deleting “71” in subsections (1), (2)(b) and (c) and (3) and substituting in each case “71(1)”; and
- (b) by deleting the words “3 years” in subsection (3) and substituting the words “2 years”.

15 **New section 107**

40. The principal Act is amended by inserting, immediately after section 106, the following section:

“Consequential provision arising from abolition of imputation system

20 **107.** The following provisions shall cease to have effect from 1st January 2008:

- (a) sections 13(14), 13A(6), 13B, 13D, 13E, 13H(9) to (14), 13I, 13K, 13S(10) to (16) and 14B(7)(b), (8) and (9); and
- (b) paragraphs (i) (in relation to paragraph (b)) and (ii) of sections 13A(8), 13H(16), 13S(18) and 14B(10).”.

Amendment of Fifth Schedule

41. The Fifth Schedule to the principal Act is amended —

- (a) by deleting the words “this Schedule” in paragraph 4 and substituting the words “paragraph 1”;
- (b) by deleting the words “has a child who is a citizen of Singapore as at 31st December of the year immediately preceding the year of assessment” in paragraph 5 and substituting the words

“maintained, in the year immediately preceding the year of assessment, a child who is a citizen of Singapore as at 31st December of that year”; and

- (c) by inserting, immediately after paragraph 5, the following paragraph:

“5A. Where more than one married woman, divorcee or widow is entitled to claim a deduction in respect of the same child under paragraph 5, the deduction shall be allowed to one such claimant only as determined by the Comptroller (whose decision shall be final) having regard to the circumstances of the case, including rights of custody, care and control and level of maintenance provided by each claimant.”.

Miscellaneous amendments

42. The principal Act is amended —

- (a) by inserting, immediately after the words “within 6 years” in section 10(17), the words “(if that year of assessment is 2007 or a preceding year of assessment) or 4 years (if that year of assessment is 2008 or a subsequent year of assessment)”;

- (b) by inserting, immediately after the words “within 6 years” in section 13A(8) (8th line), the words “(if the year of assessment to which the statement relates is 2007 or a preceding year of assessment) or 4 years (if the year of assessment to which the statement relates is 2008 or a subsequent year of assessment)”;

- (c) by deleting the words “regulations prescribed under” in section 13B(1) and (2);

- (d) by deleting the words “or 43X” in the following provisions and substituting in each case the words “, 43X, 43Y or 43Z, or the regulations made thereunder”:

Sections 13B(1), (2) and (8)(a), 13E(12)(b), 14C(6) (definition of “concessionary rate of tax”) and 37E(17) (definition of “concessionary rate of tax”);

- (e) by inserting, immediately after the words “within 6 years” in sections 13B(8) (11th line), 13E(10), 14B(10) (8th line), 14M(23) (7th line) and 74(1), the words “(if the year of assessment is 2007 or a preceding year of assessment) or 4 years (if the year of assessment is 2008 or a subsequent year of assessment)”;

- 5 (f) by inserting, immediately after the words “within 6 years” in sections 13H(16) (9th and 10th lines), 13P(3) and 13S(18) (8th line), the words “(if that year of assessment is 2007 or a preceding year of assessment) or 4 years (if that year of assessment is 2008 or a subsequent year of assessment)”;
- (g) by deleting the words “the regulations made under” in paragraph (b) of the definition of “concessionary rate of tax” in sections 14C(6) and 37E(17);
- 10 (h) by inserting, immediately after the words “within 6 years” in section 16(10), the words “(if the year of assessment relating to the basis period in which the approval is revoked is 2007 or a preceding year of assessment) or 4 years (if the year of assessment relating to the basis period in which the approval is revoked is 2008 or a subsequent year of assessment)”;
- 15 (i) by deleting paragraph (b) of the definition of “higher rate of tax” or “lower rate of tax” in section 37B(7) and substituting the following paragraph:
- “(b) section 13H, 43A, 43C (in respect of those relating to offshore general insurance business only), 43D, 43E, 20 43F, 43G, 43H, 43I, 43J, 43K, 43L (repealed), 43M (repealed), 43N, 43O, 43P, 43Q, 43R, 43S, 43T, 43U, 43V, 43W, 43X, 43Y or 43Z, or the regulations made thereunder, as the case may be;”;
- 25 (j) by inserting, immediately after the words “within 7 years” in sections 37E(8) and 37F(9), the words “(if that year of assessment is 2007 or a preceding year of assessment) or 5 years (if that year of assessment is 2008 or a subsequent year of assessment)”;
- 30 (k) by deleting the word “clerk” wherever it appears in sections 78(7) and (10), 79(1) and (3), 80(1), 82(3) and 93A(5) and substituting in each case the word “secretary”;
- (l) by deleting the word “clerks” in section 78(7) and substituting the word “secretaries”;
- 35 (m) by inserting, immediately after the words “within 6 years” in section 93(2), the words “(if the year of assessment to which the claim relates is 2007 or a preceding year of assessment) or

4 years (if the year of assessment to which the claim relates is 2008 or a subsequent year of assessment)”;

(n) by inserting, immediately after the words “not later than 6 years” in section 93A(1), the words “(if the year of assessment within which the assessment was made is 2007 or a preceding year of assessment) or 4 years (if the year of assessment within which the assessment is made is 2008 or a subsequent year of assessment)”; and

(o) by deleting the words “section 44(19)” in section 100(2) and substituting the words “section 13CA(2), (4) or (6), 13R(3) or (5), 44(19)”.

Consequential amendments to Economic Expansion Incentives (Relief from Income Tax) Act

43. The Economic Expansion Incentives (Relief from Income Tax) Act (Cap. 86) is amended —

(a) by deleting the words “section 43(1)(b)” in sections 59(1) and 64(1) and substituting in each case the words “section 43(1)”; and

(b) by deleting the words “or 43X of the Income Tax Act” in the definition of “concessionary income” in section 66(1) and substituting the words “, 43X, 43Y or 43Z of the Income Tax Act, or the regulations made under any of those provisions”; and

(c) by inserting, immediately after section 103, the following section:

“Consequential provision arising from abolition of imputation system

104. The following provisions shall cease to have effect from 1st January 2008:

(a) sections 14(1) to (6), (9) and (10), 19L(1) to (8), 72, 74(2), 97Q(1) to (7) and (10) and 97ZI(1) to (8); and

(b) paragraphs (i) (in relation to paragraph (b)) and (ii) of sections 14(7), 19L(9), 73, 97Q(8) and 97ZI(9).”.

EXPLANATORY STATEMENT

This Bill seeks to implement the tax changes announced in the Government's 2007 Budget Statement, to make certain other amendments to the Income Tax Act (Cap. 134) and to make consequential amendments to the Economic Expansion Incentives (Relief from Income Tax) Act (Cap. 86).

Clause 1 relates to the short title and commencement.

Clause 2 amends section 6 (Official secrecy) to provide explicitly that the Comptroller of Income Tax (the Comptroller) may disclose to a public officer or an officer of a statutory board for the administration of any written law or public scheme, or to a person engaged by the Government or a statutory board for the administration of such law or scheme, information relating to any person with his consent. The section is further amended to enable the Comptroller to furnish information to the Government or any statutory board, for a statistical or research purpose, in a manner that does not identify and is not reasonably capable of being used to identify the person to whom the information relates.

Clause 3 amends section 10 (Charge of income tax) —

- (a) to extend subsection (20A) (which deems certain types of income as the income of a unit holder of a designated unit trust or approved CPF unit trust if he is not a foreign investor) to prepayment fee, redemption premium and break cost from qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008, and to other prescribed income that is directly attributable to qualifying debt securities issued on or after a prescribed date;
- (b) to provide explicitly the time of accrual and amount of the discount from debt security that is chargeable to tax under subsection (1)(d); and
- (c) to provide that income derived by a special purpose vehicle under any approved Islamic debt securities arrangement entered into on or after 17th February 2006 will be deemed to be derived at the end of the arrangement by the originator of the arrangement.

Clause 4 makes technical amendments to section 10D (Income from finance or operating lease) so as to provide in the Act instead of in regulations the set-off rules in respect of allowances made to a leasing company from finance leasing or operating leasing, and losses incurred by such company from such leasing.

Clause 5 amends section 10E (Ascertainment of income of investment holding company) to provide that where that section would apply to the originator of any approved Islamic debt securities arrangement if the arrangement had not been entered into, it will continue to apply to the originator as if the arrangement had not been entered into.

Clause 6 amends section 13 (Exempt income) —

- (a) to extend tax exemption to interest derived from qualifying project debt securities which are issued during the period from 1st November 2006 to

31st December 2008, to discount, prepayment fee, redemption premium and break cost from qualifying project debt securities issued during the period from 15th February 2007 to 31st December 2008, and to other prescribed income directly attributable to qualifying project debt securities issued on or after a prescribed date, subject to conditions;

- (b) to extend, subject to conditions, tax exemption to prepayment fee, redemption premium and break cost from qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008, and to other prescribed income directly attributable to qualifying debt securities issued on or after a prescribed date, derived by any non-resident person who does not have a permanent establishment in Singapore, or who carries on an operation in Singapore through such a permanent establishment but did not use funds from the operation to acquire the securities;
- (c) to extend tax exemption to prepayment fee, redemption premium and break cost from any debt securities derived on or after 15th February 2007, and to other prescribed income directly attributable to any debt securities derived on or after a prescribed date, by any individual where such income is not derived through a partnership in Singapore or from the carrying on of a trade, business or profession;
- (d) to make consequential amendments to subsection (1)(e) and (za) arising from the abolition of the imputation system for paying Singapore franked dividends, and to provide for tax exemption on all dividends received on or after 1st January 2008 by any entity specified in the First Schedule;
- (e) to extend tax exemption to interest derived from money held on deposit in an approved bank in Singapore by a non-resident person (not being an individual or permanent establishment in Singapore) who carries on any operation in Singapore through a permanent establishment in Singapore, provided that the funds used by that person to make the deposit are not obtained from that operation;
- (f) to make a consequential amendment to subsection (1)(zh) arising from the amendment of section 43(2A) by clause 25;
- (g) to extend tax exemption to income derived by a qualifying non-resident person from any structured product (the contract for which, including any renewal or extension, takes effect during a specified period) offered by a financial institution; and
- (h) to insert a new subsection (1)(zm) to provide for tax exemption of income of charities arising from the repeal of section 13M by clause 8.

Clause 7 repeals and re-enacts section 13C (Exemption of income of non-resident arising from funds managed by fund manager in Singapore). The re-enacted section 13C provides for tax exemption on prescribed income derived by a trustee of a prescribed trust fund from funds managed in Singapore by a prescribed fund manager.

The clause also inserts a new section 13CA which provides for tax exemption on prescribed income of a prescribed person arising from funds managed in Singapore by a

prescribed fund manager. Where the beneficial ownership by any person (either alone or together with his associates) of the issued securities of the prescribed person (being a company) is more than a prescribed threshold, he (referred to as the relevant owner) will be liable to pay a financial penalty. Where the beneficial ownership by any person (either alone or together with his associates) of a trust fund of a prescribed person (being a trustee of that trust fund) is more than a prescribed threshold, he (referred to as the relevant beneficiary) will be liable to pay a financial penalty. In a case where the relevant owner or relevant beneficiary is a non-bona fide entity (defined as a non-resident shell entity or a non-resident entity set up solely to avoid or reduce payment of tax or penalty, but excluding a permanent establishment in Singapore), then he will not be liable for the financial penalty; but a financial penalty will be payable by a person who is not a non-bona fide entity and who beneficially owns directly (or indirectly through one or more non-bona fide entities) at least 25% in value of all equity interests of the relevant owner or relevant beneficiary.

To illustrate, if A, the relevant owner of a prescribed person, is a non-bona fide entity and B (another non-bona fide entity) has full beneficial ownership of A, then A and B will not be liable for the financial penalty. If C, by the operation of subsection (7), beneficially owns at least 25% in value of all equity interests of A, then C will be liable for a financial penalty if C is not a non-bona fide entity.

The liability for the financial penalty under the new section is subject to any exemption made by the Minister by regulations.

Clause 8 repeals section 13M (Exemption of income of charities). The income of all registered and exempt charities under the Charities Act (Cap. 37) will be exempt from tax under the new section 13(1)(*zm*), and the requirement that charities spend at least 80% of certain of their income and receipts accrued in the preceding year on charitable objects within Singapore before such income can qualify for exemption has been removed.

Clause 9 makes a consequential amendment to section 13Q (Exemption of relevant income of prescribed locally administered trust) arising from the insertion of section 13(1)(*zk*) and (*zl*) by clause 6.

Clause 10 repeals and re-enacts section 13R (Exemption of income of company incorporated and resident in Singapore arising from funds managed by fund manager in Singapore). The re-enacted section 13R provides for tax exemption on prescribed income derived by an approved Singapore-incorporated resident company from funds managed in Singapore by a prescribed fund manager or by an approved person. Where the beneficial ownership by any person (either alone or together with his associates) of the issued securities of the approved company is more than a prescribed threshold, he (referred to as the relevant owner) will be liable to pay a financial penalty. In a case where the relevant owner is a non-bona fide entity (defined as a non-resident shell entity or a non-resident entity set up solely to avoid or reduce payment of tax or penalty, but excluding a permanent establishment in Singapore), then he will not be liable for the financial penalty; but a financial penalty will be payable by a person who is not a non-bona fide entity and who beneficially owns directly (or indirectly through one or more non-bona fide entities) at least 25% in value of all equity interests of the

relevant owner. The liability for the financial penalty is subject to any exemption made by the Minister by regulations.

Clause 11 inserts new sections 13U and 13V.

The new section 13U provides for a tax exemption on the income of an approved not-for-profit organisation for a period not exceeding 10 years, which may be extended by the Minister or such person as he may appoint, subject to conditions.

The new section 13V provides for a tax exemption on the qualifying income of an approved law practice from the rendering of legal services in connection with any international arbitration the hearing of which is held in Singapore, subject to conditions. The exemption applies to 50% of such income that exceeds the average annual income derived from the rendering of similar services in the 3 years before the commencement day (as defined). The approval is for a period not exceeding 5 years.

Clause 12 amends section 14 (Deductions allowed) —

- (a) to allow the deduction of prescribed borrowing cost incurred which is in lieu of interest expense or for the reduction of interest expense, and to allow regulations to be made to restrict deduction in respect of money borrowed before the basis period relating to the year of assessment 2008; and
- (b) to provide that the deduction allowable to any employer for contributions made from 1st July 2007 to the Central Provident Fund or any designated pension or provident fund in respect of an employee will not exceed 14½% of the remuneration paid to the employee.

Clause 13 amends section 15 (Deductions not allowed) to disallow deduction in certain circumstances for any payment falling within section 12(6).

Clause 14 amends section 18 (Definitions for sections 16 and 17) to provide that only hotels on the island of Sentosa approved before 1st September 2007 will qualify for industrial building allowances.

Clause 15 amends section 19 (Initial and annual allowances for machinery or plant) to extend subsection (5) (capital allowance for certain motor cars only) to allowances under section 19A, subject to conditions. The clause also makes a consequential amendment to that section arising from the insertion of section 43Y by clause 28. A new subsection (5B) is further inserted to provide for accelerated capital allowances for qualifying motor vehicles in use at the end of the basis period for the year of assessment 2009 and in respect of which allowances have already been made under section 19.

Clause 16 amends section 19A (Allowances of 3 years write off for machinery and plant, and 100% write off for computer, prescribed office automation equipment and robot, etc.) —

- (a) to provide for accelerated capital allowance of 33⅓% under subsection (1) to be made to any qualifying person for any year of assessment only if the person makes a claim for such allowance for that year of assessment;
- (b) to provide for 100% capital allowance to be made in respect of any new goods vehicle or bus that uses diesel oil as fuel and that is registered in the

period from 15th February 2007 to 14th February 2012 as a replacement for any existing goods vehicle or bus that used diesel oil as fuel and was registered in the period from 1st January 1991 to 30th September 2006, subject to conditions; and

- (c) to extend the provision of accelerated capital allowance of 33 $\frac{1}{3}$ % under subsection (1) to qualifying motor vehicles.

Clause 17 amends section 19B (Writing-down allowances for intellectual property rights) to extend the provision of writing-down allowances for capital expenditure incurred in respect of intellectual property rights acquired up to 31st October 2013.

Clause 18 makes a consequential amendment to section 26A (Ascertainment of income of member of Lloyd's syndicate) arising from the reduction in company tax rate as a result of the amendment of section 43(1) by clause 25.

Clause 19 makes certain exceptions to the rule under section 34A(1) (any amount to be brought into account for any financial instrument is that which in accordance with FRS 39 is recognised in determining the profit, loss or expense for that instrument) by —

- (a) providing for the time which a discount or premium from any debt security that is chargeable to tax under section 10(1)(d) is deemed accrued, and the amount of such discount or premium;
- (b) providing for the time which a discount or premium from any debt security that is allowed as a deduction under section 14(1)(a) is deemed incurred, and the amount of such discount or premium; and
- (c) disallowing the deduction of a discount or premium attributable to certain derivative embedded in certain debt securities.

Clause 20 amends section 35 (Basis for computing statutory income) —

- (a) to empower the Comptroller to direct a person (not being an individual or a Hindu joint family) who makes up its accounts to a day other than 31st December, to compute its statutory income from all sources on the amount of gains or profits of its accounting year instead;
- (b) to empower the Comptroller to direct an individual or a Hindu joint family who makes up his accounts to a day other than 31st December, to compute his statutory income from a trade, business, profession or vocation to which the accounts relate on the amount of gains or profits of his accounting year instead;
- (c) to make a consequential amendment to subsection (5) arising from the reduction in company tax rate to 18% as a result of the amendment of section 43(1) by clause 25, and from the amendments referred to in paragraphs (a) and (b) so as to disapply those amendments to Singapore franked dividends; and

- (d) to make certain changes to the types of income of the trustee of a trust which are excluded from the statutory income of a beneficiary under a trust, as such income is assessable in the hands of the trustee.

Clause 21 amends section 37 (Assessable income) to provide that, where a person's statutory income is computed according to his accounting year under section 35(4), the reference in subsection (3) of that section to the year in which any donation is made by him is a reference to the accounting year (or such other period as the Comptroller may allow) in which the donation is made.

Clause 22 amends section 39 (Relief and deduction for resident individual and Hindu joint family) —

- (a) to increase the limit of relief given to a self-employed individual in respect of his voluntary contributions to the Central Provident Fund; and
- (b) to provide for deduction to an individual who has paid money into the Central Provident Fund retirement account of his sibling, subject to conditions.

Clause 23 amends section 42 (Rates of tax upon individuals) to extend the 10% concessionary tax rate applicable to a body of persons under subsection (6) to prepayment fee, redemption premium and break cost from qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008 and other prescribed income directly attributable to qualifying debt securities issued on or after a prescribed date, subject to conditions.

Clause 24 amends section 42A (Rebate for second, third and fourth child of family) to provide for the manner of determining the household of which a child is a member for the purpose of tax rebates.

Clause 25 amends section 43 (Rate of tax upon companies and others) —

- (a) to reduce the tax rate in subsection (1) from 20% to 18% for companies, trustees (other than trustees of incapacitated persons), executors and non-resident persons who are not individuals or Hindu joint families;
- (b) to provide tax transparency treatment to certain other income distributed by the trustee of a real estate investment trust, and to certain income distributed by the trustee of an approved sub-trust to the trustee of a real estate investment trust (such income would be charged to tax as income of the beneficiaries of the trust and not as income of the trustee of the trust);
- (c) to provide for a final tax of 18% on the gross amount of Singapore franked dividends paid to a non-resident individual or Hindu joint family during the period from 1st January 2007 to 31st December 2007, unless the non-resident elects to be taxed at 20% on the net amount of the dividends;
- (d) to extend the 50% exemption of the income (excluding Singapore franked dividends) of a company under subsection (6) to the next \$290,000 after the first \$10,000 of the chargeable income (excluding Singapore franked dividends) of the company; and

- (e) to remove the expiration date for the application of subsection (6A) (first \$100,000 of the chargeable income of a qualifying company to be exempt from tax for the company's first 3 consecutive years of assessment falling within the years of assessment 2005 to 2009), and provide in that subsection (similar to subsection (6)) a 50% tax exemption for the next \$200,000 of the company's chargeable income (excluding Singapore franked dividends).

Clause 26 amends section 43I (Concessionary rate of tax for offshore leasing of machinery and plant) —

- (a) to provide in the Act instead of in regulations that allowances made to a leasing company from offshore finance leasing may be deducted against its income from onshore finance leasing;
- (b) to remove restrictions on the deduction of allowances made to a leasing company in respect of offshore operating leasing; and
- (c) to remove restrictions on the deduction of losses incurred by a leasing company in respect of offshore finance leasing and offshore operating leasing.

Clause 27 amends section 43N (Concessionary rate of tax for income derived from debt securities) to extend the 10% concessionary tax rate to prepayment fee, redemption premium and break cost derived by a company from qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008 and other prescribed income directly attributable to qualifying debt securities issued on or after a prescribed date, subject to conditions.

Clause 28 inserts new sections 43Y and 43Z.

The new section 43Y provides that concessionary tax rates of 5% or 10% will be levied upon specified income derived by an approved aircraft leasing company from the leasing of any aircraft or aircraft engine or from other prescribed activity, subject to conditions. The approval may be granted during the period from 1st March 2007 to 29th February 2012 and the concessionary tax rate granted to the company will be valid for a period not exceeding 5 years, with one or more possible extensions not exceeding 5 years each.

The new section 43Z enables regulations to be made to levy a concessionary tax rate of 10% upon specified income derived on or after 1st March 2007 by an approved aircraft investment manager from managing an approved aircraft leasing company or from other prescribed services or activities carried out for such company, subject to conditions.

Clauses 29 and 30 make consequential amendments to section 44 (Deduction of tax from dividends of companies) and section 44A (Transitional provisions for company subjected to former imputation system), respectively, arising from the reduction in the company tax rate to 18% as a result of the amendment of section 43(1) by clause 25.

Clause 31 amends section 45 (Withholding of tax in respect of interest paid to non-resident persons) to extend the waiver (subject to conditions) of the obligation to withhold tax on interest liable to be paid to non-resident persons in respect of qualifying

project debt securities issued during the period from 1st November 2006 to 31st December 2008. The clause also makes consequential amendments arising from the changes in the tax rate as a result of the amendment of section 43(1) by clause 25.

Clause 32 amends section 45A (Application of section 45 to royalties, management fees, etc.) to extend the waiver (subject to conditions) of the obligation to withhold tax on discount, prepayment fee, redemption premium and break cost from qualifying project debt securities issued during the period from 15th February 2007 to 31st December 2008, prepayment fee, redemption premium and break cost from qualifying debt securities issued during the period from 15th February 2007 to 31st December 2008, and other prescribed income that is directly attributable to qualifying debt securities or qualifying project debt securities issued on or after a prescribed date, liable to be paid to non-resident persons.

Clause 33 makes a consequential amendment to section 45G (Application of section 45 to distribution from any real estate investment trust) arising from the changes in the tax rate as a result of the amendment of section 43(1) by clause 25.

Clause 34 inserts a new section 45GA to provide for the application of section 45 (Withholding of tax in respect of interest paid to non-resident persons) to payment for public entertainment in Singapore made to any public entertainer or his representative not known by the payer to be resident in Singapore. Tax will be deducted from the taxable payment at the rate of 15%.

Clause 35 makes a consequential amendment to section 46 (Tax deducted from dividends, interest, etc.) arising from the changes in the tax rate as a result of the amendment of section 43(1) by clause 25, and the insertion of new section 45GA by clause 34.

Clause 36 amends section 50 (Tax credits) to disallow the deduction of any foreign tax attributable to any foreign dividend income that exceeds the tax credit allowed in respect of the dividend.

Clause 37 amends section 63 (Furnishing of estimate of chargeable income if no return is made under section 62) to require every person, not being an individual or a Hindu joint family, and every individual or Hindu joint family carrying on a trade, business, profession or vocation, to furnish to the Comptroller an estimate of his chargeable income within 3 months after the end of his accounting year if no return has been made by him for the relevant year of assessment.

Clause 38 amends section 71 (Return to be made by partnership) to require a precedent partner of a partnership (or other person liable to make the partnership's return) to furnish to the Comptroller an estimate of the income of the partnership within 3 months after the end of the accounting year of the partnership if no return has been made in relation to the partnership for the relevant year of assessment.

Clause 39 amends subsection (3) of section 94A (Penalty for failure to make return) which provides for the offence of failing to make a return for an extended period of time, by reducing the minimum period from 3 to 2 years. The clause also makes consequential amendments arising from the amendment of section 71 by clause 38.

Clause 40 inserts a new section 107 which provides that certain provisions of the Act (including provisions allowing the Comptroller to direct a company to adjust its account for paying exempt dividends, or to make an assessment on a shareholder, if it appears to him that any exempt dividends ought not to have been so exempt) will cease to have effect from 1st January 2008 as a result of the abolition of the imputation system for paying Singapore franked dividends.

Clause 41 amends the Fifth Schedule (Child Relief) —

- (a) to provide that the deduction under paragraph 5 will only be made to a married woman, divorcee or widow who has maintained the child; and
- (b) to provide that the deduction under paragraph 5 in respect of any child will be allowed to only one claimant and, where there are competing claims, the Comptroller will determine, having regard to the circumstances of the case, to whom the deduction will be allowed.

Clause 42 makes consequential amendments to certain provisions of the Act arising from —

- (a) the reduction of the period for record-keeping under section 67 for matters relating to year of assessment 2008 and subsequent years of assessment;
- (b) the insertion of new sections 43Y and 43Z by clause 28;
- (c) the levying of financial penalties under new section 13CA and re-enacted section 13R; and
- (d) the change of title of the clerk of the Board of Review to that of secretary.

Clause 43 makes consequential amendments to certain provisions of the Economic Expansion Incentives (Relief from Income Tax) Act (Cap. 86) arising from the changes in the tax rate as a result of the amendment of section 43(1) by clause 25, and the insertion of new sections 43Y and 43Z by clause 28. The clause also inserts a new section 104 which provides that certain provisions of that Act (including provisions allowing the Comptroller to direct a company to adjust its account for paying exempt dividends, or to make an assessment on a shareholder, if it appears to him that any exempt dividends ought not to have been so exempt) will cease to have effect from 1st January 2008 as a result of the abolition of the imputation system for paying Singapore franked dividends.

EXPENDITURE OF PUBLIC MONEY

This Bill will not involve the Government in any extra financial expenditure.
