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The Minister for Finance announced his proposal for Budget 2012 on 17 February 2012. The main theme for Budget 2012 is to create "An Inclusive Society, A Stronger Singapore".

Managing Dependence on Foreign Workers

The amount of foreign workers will be reduced through the following measures:

(a) raising the eligibility criteria, through tighter criteria and higher qualifying salaries, for Employment Pass (EP) and S Pass holders; (b) reducing the Dependency Ratio Ceiling (DRC) in the Manufacturing (down to 60%), Services (down to 45%) and S-Pass categories (down to 20%), companies will be given until July 2014 to comply; reducing Man-Year Entitlement (MYE) quotas by 5% in July 2012; and raising levies for basic skilled workers hired outside the MYE quotas

Incentives to companies

A Special Employment Credit (SEC) will be given to companies who have Singaporean workers older than 50 years old and earning up to \$3,000 per month. The SEC will form 8% of the wages. A lower SEC will be given to employers who have workers aged 50 years and above earning \$3,000 to \$4,000 per month. The SEC will be in place from 2012 to 2016.

A one-off Cash Grant will be given to help Small and Medium Enterprises (SMEs) offset higher business costs in the face of manpower changes and a possible economic slowdown. SMEs will receive a cash grant pegged at 5% of their revenues in 2012, with the payout capped at \$5,000. To qualify, SMEs must

make CPF contributions to at least one employee.

The Renovation and Refurbishment Deduction Scheme will be made permanent and the amount claimable will be doubled from \$150,000 to \$300,000. These changes will take effect from 2013.

Under the Mergers and Acquisitions (M&A) Allowance scheme, SMEs will be granted a 200% tax allowance on transaction costs, such as legal and tax advisory fees, subject to a \$100,000 cap. The changes will take effect from 17 February 2012 until 31 March 2015. The Capital Allowance Claims for low value assets will allow for up to \$5,000 to be written down for each asset. The changes will take effect from 2013.

A Special Employment Credit will be given to employers who hire special education schools' graduates. The employers will get a credit of 16% of the employee's wages. Tax deduction for collective impairment provisions made under MAS Notices for financial institutions will be extended until 2016 or 2017 depending on the particular institution's financial year end.

Increasing Productivity

The Productivity and Innovation Credit (PIC) scheme will be enhanced to provide for a 60% cash payout for up to \$100,000 of firm's PIC expenditures. The time it takes for paying out the cash will be reduced. The Government will remove the requirement of

having training programmes certified by the Singapore Workforce Development Agency (WDA) or the Institute of Technical Education (ITE). As such, in-house training costs of up to \$10,000 per year will be allowed, further in-house courses beyond the \$10,000 limit will have to be certified by WDA or ITE.

A 90% course subsidy will be given to SMEs and self-employed persons who upgrade their workers or themselves through courses certified by WDA, and Academic CET programmes at polytechnics and ITE. The absentee payroll cap will be increased from \$4.50 to \$7.50 an hour. These two enhancements are to last for the next three years.

Subsidies for capability development schemes will be increased from 50% to 70% for the next three years to help SMEs.

Going International

IE Singapore's trade financing schemes will be expanded to help SMEs dealing in emerging markets. Help will include securing insurance coverage for political risks for projects overseas, especially in emerging markets.

The Double Tax Deduction for Internationalisation Scheme will be simplified, from 1 April 2012, to allow a tax deduction of up to 200% on qualifying expenditure, subject to a \$100,000 per year cap. These changes will apply, without need for approval from the relevant agencies, to: (a) overseas business development trips/ missions; overseas investment study trips/ missions; participation in overseas trade fairs; and participation in approved local trade fairs

A new Integrated Investment Allowance Scheme will provide an additional allowance on fixed capital expenditure incurred for productive equipment placed overseas on approved projects. The Scheme is scheduled to take effect in 2013 and run for 5 years.

Developing the Economy

Investment-grade gold and other precious metals will be exempted from Goods and Service Tax (GST) starting 1 October 2012.

The Temporary Import Period under the Temporary Import Scheme extended from 3 months to 6 months. These changes will take effect from 1 April 2012.

The Government will inject \$905 million into the Tourism Development Fund (TDF). The GST Tourist Refund Scheme (TRS) will be extended to international cruise passengers departing from the Singapore Cruise Centre and International Cruise Terminal. This change will take effect in January 2013.

The GST relief for goods brought in by foreign and local travellers will be simplified and enhanced. This will be implemented on 1 April 2012.

\$150 million will be allocated to develop solutions for deepwater oil production.

Clearer guidelines have been laid out regarding when a company will not be taxed on gains from disposal of equity investments. The changes will take effect in on 1 June 2012 and will be reviewed in five years.

Withholding Tax

One additional month will be allowed to file and pay monies held as withholding tax form 1 July 2012.

The withholding tax exemption for Over-the-Counter financial derivatives payments will be extended to 31 March 2021.

Increase in CPF Contributions for Older Workers

CPF contribution rates for older workers will be increased from September 2012:

- 50 to 55 years old: 2 percentage point

increase for employer contribution (to 14%), 0.5 percentage point increase for employee contribution (to 18.5%)

- 55 to 60 years old: 1.5 percentage point increase for employer contribution (to 10.5%), 0.5 percentage point increase for employee contribution (to 13%)
- 60 to 65 years old: 1.5 percentage point increase for employer contribution (to 7%), no increase for employee contribution (remaining at 7.5%)

Contribution rates of self-employed persons (aged 50 and above) into their Medisave Accounts will be raised to 9.5% from January 2013.

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The firm is recommended for its work in Real Estate, Information Technology and Intellectual Property by Legal 500, Asia-Pacific 2005 to 2011 Editions, Chambers, Managing IP, Corp INTL and AsiaLaw.

The information contained in this newsletter is correct to the best of our knowledge and belief at the time of writing. Specific professional advice on such information should be sought before any action is taken.

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