

23 February 2010

Singapore Budget 2010

Focusing on improving productivity

Increasing productivity as expected. The Singapore Budget 2010 was largely within expectations and unveiled initiatives to help enterprises and workers to raise productivity. The government is setting aside S\$5.5b over the next five years to enhance productivity. There was also the usual emphasis on continuing education as well as higher course fee relief.

Several positives for the market. This included the introduction of a new Merger & Acquisition (M&A) allowance to encourage enterprise growth via M&A, effective from 1 Apr 2010 to 31 Mar 2015. This M&A allowance amounts to a 5% allowance of the value of the acquisition subject to a cap of S\$5m. Stamp duty on the transfer of unlisted shares for qualifying M&A deals will also be remitted. For angel investors, a new incentive will allow eligible individuals to enjoy a tax deduction at 50% of his investment at the end of his second year of holding of the investment, capped at \$500,000 of investment and with a required minimum investment of S\$100,000. There is also the extension of and enhancement to listed REIT concessions. The existing income tax, stamp duty and GST concessions for listed REITs, will be renewed till 31 Mar 2015. Similarly, the GST remission for listed Registered Business Trusts will be renewed till 31 Mar 2015.

Incentives for the SMEs. With the drive to develop and grow Singapore enterprises, there were also incentives for R&D, developing leaders of enterprises as well as the new M&A scheme mentioned above. See the following pages for more details and impact on listed companies.

Households and SMEs are beneficiaries. The Singapore government will be spending a total of S\$1.8b in direct transfers to households, benefiting more the lower and middle income families. There are minor changes to the property tax for owner-occupied units. For the enterprises, the above measures are aimed at growing the size of the local enterprises. Overall, the Singapore Budget 2010 is a budget for households and the enterprises, especially the small-medium sized firms.

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Oil and Gas Sector

Foreign worker levies unlikely to have negative impact. There were concerns that the 2010 Budget would unveil a hike in foreign worker levies, affecting shipyards such as Keppel Corp and Sembcorp Marine, amongst other companies. Both Keppel and Sembcorp Marine utilize a sizeable portion of foreign workers in their yards, which we estimate at about 45%. Foreign labour at ASL Marine is estimated to constitute an even lower percentage of its local workforce, at about 30%. Though there will be a total increase of about S\$100 in average levy per worker, given that the rate increase will come in phases over three years with only a "modest increase" of between S\$10 and S\$30 for most work permit holders starting 1 Jul 2010, this Budget announcement is unlikely to have a significant impact on the stocks of local rig builders and related stocks. Indeed, we understand from Sembcorp Marine that it sees this as an opportunity to increase productivity, rather than as an added cost.

Sector	Dependency ceiling	Category of foreign worker	Monthly levy rate (S\$)
Marine	1 local full-time worker to 5 foreign workers	Skilled	150
		Unskilled	295
Manufacturing	Up to 40% of total workforce	Skilled	150
		Unskilled	240
	40-55% of total workforce	Skilled	150
		Unskilled	280
55-65% of total workforce	Skilled/Unskilled	450	

Source: Ministry of Manpower, OIR

More M&As. The oil and gas industry has seen one of the greatest numbers of mergers and acquisitions compared to other sectors in the past year. Several companies entered the downturn with strong balance sheets while others raised funds in the equity markets to capitalize on distressed assets. As mentioned in our earlier sector report (25 Jan 2010), we expect to see more M&A activities in the global oil and gas industry, and the recent budget announcement (tax allowance of 5% of acquisition value) may support such activities in the local scene such as the proposed acquisition of Swissco by C2O Holdings.

Property Sector

Shifting to a progressive property tax regime. With the current system of property tax, all owner-occupied residential properties are subject to a concessionary flat rate of 4%. Under the progressive property tax regime announced during the Budget, three tiers of tax rates - 0%, 4% and 6% - will be introduced under the new schedule for owner-occupied residences. The first \$6,000 of Annual Value (AV) will be exempted from property tax. The next tier will be taxed at 4%, and the balance of AV in excess of \$65,000 will be taxed at 6%. This new schedule will apply for property tax payable from January 2011. For non-owner-occupied residential properties and other properties, these will continue to be subject to a flat 10% property tax.

Under the progressive property tax regime, all HDB flat owners and the large majority of private property owners will pay lower taxes due to the tax savings of S\$240 from the exemption of the first S\$6,000 of AV. Owners of high-end properties with AVs of more than \$77,000 will see a small increase in tax payable, as their effective tax rates will be higher than the current 4%. On the whole, we do not expect the change to have a major impact on the property market. Even though owners of high-end properties will have to pay higher properties taxes, this group of people are among the top 0.4% of all owner-occupied homes in Singapore. The increase in property tax will not have a significant impact on their net wealth.

Real Estate Investment Trusts

New treatment #1: Currently, non-resident non-individual investors enjoy a concessionary income tax rate of 10%. In addition, REITs enjoy stamp duty remission on a transfer of a Singapore immovable property to their portfolio. Thirdly, a GST remission allows REITs to claim input tax on their business expenses regardless of whether they hold the underlying assets directly or indirectly. These existing income tax, stamp duty and GST concessions for listed REITs, which expired on 17 February 2010, will be renewed for the period from 18 Feb 2010 to 31 Mar 2015 (both dates inclusive).

Comments: While REITs are now fairly well established in the market - the extension of these benefits still serves the sector. For one, institutional investor interest was dampened last year as foreign investors pulled out of the broader Singapore market and the S-REIT sector on concerns about the weaker property market, the global financial crisis and the consequent recession. This extension of the tax concession will serve to maintain foreign institutional investor interest, in our view. This competitive advantage is also important as other regional financial centers consider writing new legislation that will pave the way for competing REIT hubs. The stamp duty remission is another timely extension, in our view, as we believe 2010 will continue to be an acquisition-heavy year for the sector.

New treatment #2: The current requirement for unlisted REITs to be listed within one month (from the date of completion of the agreements for sale) in order to qualify for the stamp duty remissions has been relaxed to listing within six months.

Comments: This amendment makes the listing process easier for REITs, especially in turbulent equity markets when the actual listing date may be a moving target.

New treatment #3: Currently, listed REITs enjoy income tax exemption on qualifying foreign-sourced income (FSI, including foreign-sourced dividend income, interest income and trust distributions). There is currently no sunset clause for this concession. Now, this tax concession will be subject to a sunset clause of 31 March 2015. This means that for the FSI exemption to apply to listed REITs, the qualifying foreign-sourced income should be remitted on or before 31 March 2015.

Comments: The impact of the sunset clause is still unclear, in our opinion. Singapore has been attempting to establish itself as a regional hub for REITs. As a consequence, diversified REITs that hold assets located across the Asia-Pacific region have become increasingly popular. We spoke to a couple of diversified REITs about the change - their managers said that they will need to study the language and implications of the change further before they can gauge the impact of this new treatment. We do note that the addition of a sunset clause is typically implemented to give lawmakers added flexibility and control over a piece of legislation - the exact sunset provision date can always be pushed back any time before it is reached.

The Singapore government's stance on S-REITs remains benign and we maintain our **NEUTRAL** rating on the S-REIT sector.

Shipping Trusts

New treatment #1: The Maritime Finance Incentive (MFI) has been extended. An approved MFI entity will enjoy either tax exemption or a tax concession on its qualifying leasing income. Meanwhile, an approved manager of the MFI entity will enjoy a tax concession of 10% on its qualifying income. The MFI was originally meant to expire on 28 Feb 2011. Taxpayers applying for the MFI on or before 28 Feb 2011 will be given approval for a period of not more than 10 years. Now, the expiry date of the MFI will be extended from 28 Feb 2011 to 31 Mar 2016. Taxpayers applying for the MFI during the period from 1 Mar 2011 to 31 Mar 2016 (both dates inclusive) will be given approval for a period of not more than five years. We note that other benefits were also extended or established: for instance, ship management fees will now be treated as qualifying income to be exempted from tax.

Comment: The extension of this tax concession and the creation of other benefits are in line with Singapore's earlier strategy, in our view. The Singapore government has once again demonstrated its commitment to "support Singapore's development as a maritime financing hub".

New treatment #2: GST remission is currently granted to listed Registered Business Trusts in the sectors of infrastructure, ship leasing and aircraft leasing to allow such RBTs to claim input tax on their business expenses regardless of whether they hold the underlying assets directly or indirectly. The GST remission, which expired on 17 February 2010, will be renewed for the period from 18 Feb 2010 to 31 Mar 2015 (both dates inclusive).

Comment: This benefits the shipping trusts and the broader business trust space. We note that the renewal is in line with the concession granted to the S-REIT sector.

We maintain our **UNDERWEIGHT** rating on the shipping trusts sector.

Key highlights of Singapore's 2010 Budget

Thrust	Tax change	Details
Raising productivity	Productivity & Innovation Credit	Tax deductions for investments in: <ol style="list-style-type: none"> 1) R&D 2) Design 3) Acquisition & registration of IP rights 4) Investments in automation 5) Training
	M&A allowances & stamp duty remission for qualifying M&A deals	New allowance to encourage more M&As
	Phase out of Industrial Building Allowance	IRAS will release details in April
	Land Intensification Allowance incentive	Businesses may claim allowance on qualifying capex for building construction, but only limited to nine industries

Thrust	Tax change	Details
Growing globally competitive companies	Tax deduction for angel investors	Encourage eligible investors to help the growth of start-ups
	Extension of incentive to International Legal Services	Development & Expansion Incentive extended to international legal services
	Enhancements to Financial Sector Incentive	Helps lower compliance costs for financial institutions
	Review of existing tax incentives for futures members of SGX and SICOM	MAS will release further details by April
	REIT concessions	Extension of and enhancement to listed REIT concessions
	Removal of approved start-up Fund Manager scheme	Scheme will be allowed to lapse after expiry
	Tax concession for offshore insurance business	Review of tax concessions
	Maritime Finance Incentive	Extension of expiry date
	Shipbrokers and FFA traders	Concessionary tax rates
	Ship management fees	Inclusion of ship mgmt fees under ITA and AIS scheme
	GST zero-rating for marine industry	Ease GST compliance for businesses
	Qualifying registered business trusts	Extension of GST remission
	Scheme for aircraft rotables	Renewal and enhancement of scheme
Deferring import GST	Aims to ease import GST cashflow for GST-registered businesses	
Simplifying GST accounting rules	Takes effect from 1 Jan 2011	

Thrust	Tax change	Details
Including all Singaporeans in growth	Property rebate for owner-occupied residential properties	Progressive property tax schedule for owner-occupied housing
	Parent relief	Increase in parent relief
	Wife relief	Expansion of wife relief to spouse relief
	Handicapped dependant reliefs	Waiving of income threshold condition
	Course fees relief	Increase in relief
	Tax deduction on donations	Tax deduction of 250% to be extended for another year

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