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Singapore Business Tax Alert
Stay informed of changes

Greetings from your Singapore Business Tax Services group. This newsletter is your reference for practical information on relevant business tax issues.

Income Tax and Stamp Duty: Mergers and Acquisitions Scheme (Fourth Edition)

The Inland Revenue Authority of Singapore (IRAS) has published the fourth edition of its e-Tax Guide on "Income Tax and Stamp Duty: Mergers and Acquisitions Scheme" on 30 Jun 2016.

In the 2010 Budget, the mergers and acquisitions (M&A) scheme was introduced to encourage companies in Singapore to grow their businesses through mergers and acquisitions. Under the scheme, an M&A allowance will be granted to a company (the acquiring company) that acquires the ordinary shares of another company (the target company) during the period 1 Apr 2010 to 31 Mar 2020. The M&A allowance will be allowed on a straight-line basis over five years, and the allowance cannot be deferred. Companies must meet certain conditions to remain eligible for M&A allowance for each Year of Assessment (YA) during the five-year write-down period.

As announced by the Minister for Finance (Minister) in the 2016 Budget, to support more M&A transactions, qualifying M&A transactions executed from 1 April 2016 will enjoy the following revised tax benefits:

a) M&A allowance at the rate of 25% of up to $40 million (up from $20 million) of the acquisition value of all qualifying M&A transactions per YA, i.e. maximum M&A allowance of up to $10 million, that is claimable over five years on a straight-line basis;

b) Stamp duty relief on the transfer of unlisted ordinary shares for qualifying M&A of up to $40 million (up from $20 million) of the acquisition value of qualifying M&A transactions, i.e. a maximum stamp duty relief of up to $80,000 per financial year; and

c) 200% (no change) one-year tax deduction on transaction costs incurred on qualifying M&A, subject to an expenditure cap of $100,000 per YA, i.e. a maximum deduction of up to $200,000 per YA.

What has changed

This fourth edition of the IRAS' e-Tax Guide incorporates the changes announced by the Minister. At a glance, the M&A allowance rate and the cap on purchase consideration are dependent on the period in which the qualifying share acquisition is made, summarised as follows:

Period of acquisition	**M&A allowance rate**	**Cap on purchase consideration for each basis period**
1 April 2010 to 31 March 2015	5%	$100 million
1 April 2015 to 31 March 2016	25%	$20 million
1 Apr 2016 to 31 Mar 2020	25%	$40 million

Other than the cap on purchase consideration, the IRAS has also clarified that the amount of M&A allowance granted to an acquiring company for each YA for all qualifying share acquisitions executed in the basis period for that YA is subject to an overall cap as follows:

Basis period in which acquisitions are made	**Cap on M&A allowance for corresponding YA**
Ends before 1 April 2016	$5 million
Starts on or after 1 April 2016	$10 million
Straddles 1 Apr 2016	1) Shares acquired before 1 Apr 2016 - $5 million 2) Shares acquired on or after 1 Apr 2016 - $10 million (1) & (2) subject to overall cap of $10 million

Deloitte's view

The M&A scheme was first introduced in the 2010 Budget to help SMEs cope with economic restructuring brought about by a focus on productivity-led growth. The increase in the M&A tax allowance cap from $20 million to $40 million is to encourage bigger and stronger Singapore companies to compete globally. The doubling of the government support in the form of tax allowance from $5 million to $10 million is a significant enhancement as compared to the 2015 Budget.

250% Tax Deduction under the Business and IPC Partnership (BIPS) Scheme

To incentivise employee volunteerism through businesses, it was announced that a pilot BIPS would be introduced from 1 July 2016 to 31 December 2018.

Under BIPS, businesses will enjoy a 250% tax deduction on wages and incidental expenses when they send their employees to volunteer and provide services to IPCs, including secondments. This deduction will be subject to the receiving IPCs' agreement, with a yearly cap of $250,000 per business and $50,000 per IPC on the qualifying costs. The IRAS has published further details of the BIPS on its website on 30 June 2016, including an overview of how businesses and IPCs can participate in BIPS:

Step 1 Business establishes interest; IPC identifies areas of need	As the BIPS does not discriminate the types of services that are supportable, IPCs can decide the services most valuable to them.
Step 2 IPC and business form partnership and keep track of their caps	Both IPCs and businesses have to track their respective caps. This is because an IPC can only endorse up to $50,000 of qualifying expenditure to be provided with 250% tax deduction in every calendar year, and each business is subject to a qualifying expenditure cap of $250,000 each year of assessment. Any unutilised cap cannot be carried forward to the following year.
Step 3 IPC and business reach an agreement before provision of services	Before the voluntary service takes place, both IPC and business should agree on the type(s) of services and/or secondment to be provided, duration of services, and estimated (qualifying) expenditure. The

	business would provide this information in the BIPS Service Giving Declaration Form (Form A), found on the Charities Unit’s website. The completed Form A has to be endorsed by the IPC.
Step 4 IPC and business can consider longer term partnership	Upon the completion of services, the business is to update the Declaration Form (Form B) with the actual expenditure, to be endorsed by the IPC. The IPC can request to verify the expenditure incurred prior to endorsement. Both parties can consider if there are prospects for long-term partnership.
Step 5 IPC to submit BIPS Declaration Forms to IRAS and business to claim BIPS tax deduction	For services completed in a calendar year, the IPC is to submit the completed Forms A and B to IRAS by the end of January of the following calendar year.* The business is to include the BIPS tax deduction in its tax computation, based on the amount endorsed by the IPC in Form B, and file its income tax return to IRAS. * Based on the guidelines on the Charity Portal website, in the event that the deadline is not met, the business will not be allowed the BIPS tax deduction.

The IRAS has also published various FAQs for businesses on its website.

Deloitte’s view

The introduction of the BIPS demonstrates Singapore’s commitment to encourage employee volunteerism through businesses. Businesses may wish to review their current plans and work closely with IPCs to enjoy greater tax deductions on their qualifying costs incurred under BIPS.

Contacts

For more information on any of these issues, or any other Business Tax matters, please contact **Low Hwee Chua**, or your usual Business Tax Services contact in Deloitte.

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