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Notification No. B 46 — The Economic Expansion Incentives (Relief from Income Tax) (Amendment) Bill is hereby published for general information. It was introduced in Parliament on the 25th day of November 2002.

Economic Expansion Incentives (Relief from Income Tax) (Amendment) Bill

Bill No. 46/2002.

Read the first time on 25th November 2002.

A BILL

i n t i t u l e d

An Act to amend the Economic Expansion Incentives (Relief from Income Tax) Act (Chapter 86 of the 2001 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 Economic Expansion Incentives (Relief from Income Tax) (Amendment) Act 2002.

5 (2) Section 11 shall be deemed to have come into operation on 1st June 2001.

(3) Section 6 shall be deemed to have come into operation on 3rd May 2002.

10 (4) Sections 2(c), (d) and (e), 4(b), (c) and (d), 7(b) and (c), 8(c) and (d), 9(c) and (d) and 13(a) (in relation to section 97Q(4) and (5)), (b), (c) and (d) shall come into operation on 1st January 2003.

(5) Sections 3, 5 and 12 shall have effect for the year of assessment 2003 and subsequent years of assessment.

Amendment of section 14

15 2. Section 14 of the Economic Expansion Incentives (Relief from Income Tax) Act (referred to in this Act as the principal Act) is amended —

(a) by deleting subsection (3A) and substituting the following subsection:

“(3A) Notwithstanding subsections (3) and (9) —

20 (a) no dividend paid on any share of a preferential nature shall be exempt from tax in the hands of the shareholder;

25 (b) any dividend paid on any share of a preferential nature shall be deemed as interest income of the shareholder if the dividend is paid by a company —

(i) which has not been subjected to the provisions of section 44 of the Income Tax Act (Cap. 134) in force immediately before 1st January 2003; or

30 (ii) which before 1st January 2003 had been subjected to the provisions of section 44 of that Act in force immediately before that date and the dividend is paid on or after —

- (A) the 44A balance of the company referred to in section 44A of that Act becomes nil;
- (B) the company exercises the option referred to in section 44(6A) of that Act; or
- 5 (C) 31st December 2007,
whichever is the earliest; and
- (c) any dividend paid on any share of a preferential nature shall be deemed as interest expense of the company if the company so elects.”;
- 10 (b) by deleting the words “in the same proportions as the shareholders were entitled to payment of the dividends giving rise to the debit” in the 3rd, penultimate and last lines of subsection (4) and substituting the words “in accordance with the proportion of their shareholdings in the pioneer enterprise”;
- 15 (c) by deleting the words “including any dividend paid by a holding company to which subsection (9) applies,” in subsection (6)(b);
- (d) by deleting subsection (9) and substituting the following subsection:
 “(9) Where an amount has been received by way of dividends
 20 from a company by a shareholder and the amount is exempt from tax under this section, if that shareholder is a company, any dividends paid by that company to its shareholders, to the extent that the Comptroller is satisfied that those dividends are paid out of that amount, shall be exempt from tax in the hands
 25 of those shareholders; and section 44 of the Income Tax Act (Cap. 134) shall not apply to any such dividends or part thereof.”; and
- (e) by deleting subsection (10).

Amendment of section 19E

- 30 **3.** Section 19E of the principal Act is amended by deleting paragraph (b) and substituting the following paragraph:
 “(b) the deduction of capital allowances, losses and donations otherwise than in accordance with sections 23 and 37 of the Income Tax Act.”.

Amendment of section 19F

4. Section 19F of the principal Act is amended —

- (a) by deleting subsection (3A) and substituting the following subsections:

“(3A) Notwithstanding subsections (3) and (5) —

(a) no dividend paid on any share of a preferential nature shall be exempt from tax in the hands of the shareholder;

(b) any dividend paid on any share of a preferential nature shall be deemed as interest income of the shareholder if the dividend is paid by a company —

(i) which has not been subjected to the provisions of section 44 of the Income Tax Act (Cap. 134) in force immediately before 1st January 2003; or

(ii) which before 1st January 2003 had been subjected to the provisions of section 44 of that Act in force immediately before that date and the dividend is paid on or after —

(A) the 44A balance of the company referred to in section 44A of that Act becomes nil;

(B) the company exercises the option referred to in section 44(6A) of that Act; or

(C) 31st December 2007,

whichever is the earliest; and

(c) any dividend paid on any share of a preferential nature shall be deemed as interest expense of the company if the company so elects.

(3B) Any dividends debited to the account shall be treated as having been distributed to the shareholders of the post-pioneer company or any particular class of the shareholders in accordance with the proportion of their shareholdings in the post-pioneer company.”;

- (b) by deleting subsection (5) and substituting the following subsection:

5 “(5) Where an amount has been received by way of dividends from a company by a shareholder and the amount is exempt from tax under this section, if that shareholder is a company, any dividends paid by that company to its shareholders, to the extent that the Comptroller is satisfied that those dividends are paid out of that amount, shall be exempt from tax in the hands of those shareholders; and section 44 of the Income Tax Act (Cap. 134) shall not apply to any such dividends or part thereof.”;

- (c) by deleting subsection (5A); and
 (d) by deleting the words “, including a dividend paid by a holding company under subsection (5),” in subsection (7)(b).

15 **Amendment of section 19H**

5. Section 19H of the principal Act is amended —

- (a) by deleting the words “at the rate of tax under section 43(1)(a) of the Income Tax Act” in subsection (2)(b) (4th and penultimate lines), (d) and (e) (6th and penultimate lines) and substituting in each case the words “at a different rate of tax under this Act or the Income Tax Act”;
- 20 (b) by deleting the word “and” at the end of subsection (2)(d);
- (c) by deleting the full-stop at the end of paragraph (e) of subsection (2) and substituting the word “; and”, and by inserting immediately thereafter the following paragraphs:
- 25 “(f) any unabsorbed donation for that year of assessment shall be deducted in accordance with subsection (3) against the other income of the company subject to tax at a different rate under this Act or the Income Tax Act;
- 30 (g) the balance, if any, of the donations after the deduction in paragraph (f) shall be available for deduction for any subsequent year of assessment in accordance with section 37 of the Income Tax Act

firstly against the qualifying income, and any balance of the donations shall be deducted against the other income of the company subject to tax at a different rate under this Act or the Income Tax Act in accordance with subsection (3).”; and

- (d) by deleting subsections (3) and (4) and substituting the following subsections:

“(3) Section 37B of the Income Tax Act shall apply, with the necessary modifications, in relation to the deduction of the allowances provided for in sections 16, 17, 18, 19, 19A, 20, 21 and 22 of that Act, the losses or donations under section 37 of that Act in respect of qualifying income of the post-pioneer company and such part of its income as is subject to tax at a different rate under this Act or the Income Tax Act.

(4) For the purpose of the application under subsection (3), any reference in section 37B of the Income Tax Act to income of a company subject to tax at a higher or lower rate of tax or income of the company subject to tax at a higher or lower rate of tax, as the case may be, shall be read as a reference to its qualifying income.”.

Amendment of section 19J

6. Section 19J(5) of the principal Act is amended by deleting “10%” in the 2nd line and substituting “5%”.

Amendment of section 19L

7. Section 19L of the principal Act is amended —

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

“(4) Notwithstanding subsections (3) and (6) —

(a) no dividend paid on any share of a preferential nature shall be exempt from tax in the hands of the shareholder;

(b) any dividend paid on any share of a preferential nature shall be deemed as interest income of the shareholder if the dividend is paid by a company —

- (i) which has not been subjected to the provisions of section 44 of the Income Tax Act (Cap. 134) in force immediately before 1st January 2003; or
- (ii) which before 1st January 2003 had been subjected to the provisions of section 44 of that Act in force immediately before that date and the dividend is paid on or after —
 - (A) the 44A balance of the company referred to in section 44A of that Act becomes nil;
 - (B) the company exercises the option referred to in section 44(6A) of that Act; or
 - (C) 31st December 2007,
 whichever is the earliest; and
- (c) any dividend paid on any share of a preferential nature shall be deemed as interest expense of the company if the company so elects.
 - (4A) Any dividends debited to the account shall be treated as having been distributed to the shareholders of the development and expansion company or any particular class of the shareholders in accordance with the proportion of their shareholdings in the development and expansion company.”;
- (b) by deleting subsection (6) and substituting the following subsection:
 - “(6) Where an amount has been received by way of dividends from a company by a shareholder and the amount is exempt from tax under this section, if that shareholder is a company, any dividends paid by that company to its shareholders, to the extent that the Comptroller is satisfied that those dividends are paid out of that amount, shall be exempt from tax in the hands of those shareholders; and section 44 of the Income Tax Act (Cap. 134) shall not apply to any such dividends or part thereof.”; and
- (c) by deleting the words “, including any dividends paid by a holding company under subsection (6),” in subsection (8)(b).

Amendment of section 25

8. Section 25 of the principal Act is amended —

(a) by deleting subsection (3A) and substituting the following subsection:

“(3A) Notwithstanding subsections (3) and (9) —

(a) no dividend paid on any share of a preferential nature shall be exempt from tax in the hands of the shareholder;

(b) any dividend paid on any share of a preferential nature shall be deemed as interest income of the shareholder if the dividend is paid by a company —

(i) which has not been subjected to the provisions of section 44 of the Income Tax Act (Cap. 134) in force immediately before 1st January 2003; or

(ii) which before 1st January 2003 had been subjected to the provisions of section 44 of that Act in force immediately before that date and the dividend is paid on or after —

(A) the 44A balance of the company referred to in section 44A of that Act becomes nil;

(B) the company exercises the option referred to in section 44(6A) of that Act; or

(C) 31st December 2007,

whichever is the earliest; and

(c) any dividend paid on any share of a preferential nature shall be deemed as interest expense of the company if the company so elects.”;

(b) by deleting the words “in the same proportions as the shareholders were entitled to payment of the dividends giving rise to the debit” in the 3rd, penultimate and last lines of subsection (4) and substituting the words “in accordance with the proportion of their shareholdings in the expanding enterprise”;

(c) by deleting the words “including any dividend paid by a holding company to which subsection (9) applies,” in subsection (6)(b); and

(d) by deleting subsection (9) and substituting the following subsection:

“(9) Where an amount has been received by way of dividends from a company by a shareholder and the amount is exempt from tax under this section, if that shareholder is a company, any dividends paid by that company to its shareholders, to the extent that the Comptroller is satisfied that those dividends are paid out of that amount, shall be exempt from tax in the hands of those shareholders; and section 44 of the Income Tax Act (Cap. 134) shall not apply to any such dividends or part thereof.”.

Amendment of section 40

9. Section 40 of the principal Act is amended —

(a) by deleting subsection (3A) and substituting the following subsection:

“(3A) Notwithstanding subsections (3) and (9) —

(a) no dividend paid on any share of a preferential nature shall be exempt from tax in the hands of the shareholder;

(b) any dividend paid on any share of a preferential nature shall be deemed as interest income of the shareholder if the dividend is paid by a company —

(i) which has not been subjected to the provisions of section 44 of the Income Tax Act (Cap. 134) in force immediately before 1st January 2003; or

(ii) which before 1st January 2003 had been subjected to the provisions of section 44 of that Act in force immediately before that date and the dividend is paid on or after —

(A) the 44A balance of the company referred to in section 44A of that Act becomes nil;

(B) the company exercises the option referred to in section 44(6A) of that Act; or

(C) 31st December 2007,

whichever is the earliest; and

5 (c) any dividend paid on any share of a preferential nature shall be deemed as interest expense of the company if the company so elects.”;

10 (b) by deleting the words “in the same proportions as the shareholders were entitled to payment of the dividends giving rise to the debit” in the 3rd, penultimate and last lines of subsection (4) and substituting the words “in accordance with the proportion of their shareholdings in the export enterprise”;

15 (c) by deleting the words “including any dividend paid by a holding company to which subsection (9) applies,” in subsection (6)(b); and

(d) by deleting subsection (9) and substituting the following subsection:

20 “(9) Where an amount has been received by way of dividends from a company by a shareholder and the amount is exempt from tax under this section, if that shareholder is a company, any dividends paid by that company to its shareholders, to the extent that the Comptroller is satisfied that those dividends are paid out of that amount, shall be exempt from tax in the hands of those shareholders; and section 44 of the Income Tax Act (Cap. 134) shall not apply to any such dividends or part thereof.”.

Amendment of section 53

10. Section 53 of the principal Act is amended —

30 (a) by deleting subsection (3A) and substituting the following subsection:

“(3A) Notwithstanding subsections (3) and (6) —

(a) no dividend paid on any share of a preferential nature shall be exempt from tax in the hands of the shareholder;

(b) any dividend paid on any share of a preferential nature shall be deemed as interest income of the shareholder if the dividend is paid by a company —

(i) which has not been subjected to the provisions of section 44 of the Income Tax Act (Cap. 134) in force immediately before 1st January 2003; or

(ii) which before 1st January 2003 had been subjected to the provisions of section 44 of that Act in force immediately before that date and the dividend is paid on or after —

(A) the 44A balance of the company referred to in section 44A of that Act becomes nil;

(B) the company exercises the option referred to in section 44(6A) of that Act; or

(C) 31st December 2007,
whichever is the earliest; and

(c) any dividend paid on any share of a preferential nature shall be deemed as interest expense of the company if the company so elects.”; and

(b) by deleting the words “in the same proportions as the shareholders were entitled to payment of the dividends giving rise to the debit” in the 3rd, penultimate and last lines of subsection (4) and substituting the words “in accordance with the proportion of their shareholdings in the company”.

Amendment of section 66

11. Section 66(1) of the principal Act is amended by deleting the definition of “concessionary income” and substituting the following definition:

“ “concessionary income” means income subject to tax at the concessionary rate of tax under section 13H, 43A, 43C, 43D, 43E, 43F, 43G, 43H, 43I, 43J, 43K, 43L, 43M, 43N, 43O or 43P of the Income Tax Act, as the case may be;”.

Amendment of section 97M

12. Section 97M of the principal Act is amended —

- (a) by inserting, immediately after the words “other income” in the last line of paragraphs (d) and (g), the words “or be available for transfer under section 37C of the Income Tax Act”;
- (b) by deleting paragraph (f) and substituting the following paragraph:
 - “(f) where the overseas enterprise has, during its tax relief period, incurred a loss or has unabsorbed donation for any year in respect of its qualifying activity, that loss or donation shall during the tax relief period, subject to section 37 of the Income Tax Act, only be deducted against the qualifying income and the balance of such loss or donation shall not be available as a deduction against any other income or be available for transfer under section 37C of that Act;”;
- (c) by deleting the words “and losses” in the 2nd line of paragraph (h) and substituting the words “, losses and donations”.

Amendment of section 97Q

13. Section 97Q of the principal Act is amended —

- (a) by deleting subsections (4), (4A), (4B), (4C), (4D) and (5) and substituting the following subsections:
 - “(4) Where an amount has been received by way of dividends from a company by a shareholder and the amount is exempt from tax under this Part, if that shareholder is a company, any dividends paid by that company to its shareholders, to the extent that the Comptroller is satisfied that those dividends are paid out of that amount, shall be exempt from tax in the hands of those shareholders; and section 44 of the Income Tax Act (Cap. 134) shall not apply to any such dividends or part thereof.
 - (4A) Notwithstanding subsections (3) and (4) —

- (a) no dividend paid on any share of a preferential nature shall be exempt from tax in the hands of the shareholder;
- 5 (b) any dividend paid on any share of a preferential nature shall be deemed as interest income of the shareholder if the dividend is paid by a company —
 - (i) which has not been subjected to the provisions of section 44 of the Income Tax Act (Cap. 134) in force immediately before 1st January 2003; or
 - 10 (ii) which before 1st January 2003 had been subjected to the provisions of section 44 of that Act in force immediately before that date and the dividend is paid on or after —
 - (A) the 44A balance of the company referred to in section 44A of that Act becomes nil;
 - 15 (B) the company exercises the option referred to in section 44(6A) of that Act; or
 - (C) 31st December 2007,
 - whichever is the earliest; and
- 20 (c) any dividend paid on any share of a preferential nature shall be deemed as interest expense of the company if the company so elects.
 - (4B) Any dividends debited to the account shall be treated as having been distributed to the shareholders of the overseas enterprise or any particular class of the shareholders in accordance with the proportion of their shareholdings in the overseas enterprise.
 - 25
 - (5) The overseas enterprise or any company to which this section applies shall deliver to the Comptroller a statement of the account made up to any date specified by him, if the Comptroller so requires by written notice.”;
 - 30
- (b) by deleting the words “including any dividend paid by a holding company to which subsection (4B) applies or by a relevant

holding company to which subsection (4C) applies,” in subsection (6)(b);

(c) by deleting the words “or designated account, as the case may be,” in subsection (6)(ii); and

5 (d) by deleting subsections (9), (10) and (11).

New Part XIIC

14. The principal Act is amended by inserting, immediately after section 97R, the following Part:

“PART XIIC

10

TECHNOPRENEUR INVESTMENT INCENTIVE

Interpretation of this Part

97S. In this Part, unless the context otherwise requires —

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“eligible investor”, in relation to a technopreneur start-up company, means a person who holds such qualifying shares in the company as specified in a letter issued by the company to the person under section 97U(2);

“technopreneur start-up company” means a company approved as a technopreneur start-up company under section 97T(2).

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Application for and issue of certificate to technopreneur start-up company

97T.—(1) Any company which —

(a) is incorporated in Singapore and not listed on the Singapore Exchange or elsewhere;

(b) has a paid-up capital of not less than \$10,000; and

25

(c) is solely or primarily engaged in Singapore in innovative and high growth activities with substantial developmental contents in relation to any product, process or service,

may make an application to the Minister to be approved as a technopreneur start-up company.

(2) Where the Minister is satisfied that the activities of the company are in an area of high growth potential and, if introduced in Singapore, would promote or enhance the economic or technological development of Singapore, the Minister may approve the company as a technopreneur start-up company for a period not exceeding 5 years and issue a certificate to the company subject to such conditions as he may impose.

(3) No approval under subsection (2) shall be given on or after 1st September 2009.

Allotment of qualifying shares by company

97U.—(1) A technopreneur start-up company may, on or after 1st September 1999, allot to any person shares of the company as qualifying shares if the following conditions are satisfied:

- (a) the shares are not shares of a preferential nature;
- (b) the purchase price of the shares allotted to the person at any one time is not less than \$1,000;
- (c) the shares are not shares allotted to or acquired by the person under a share option or share award scheme;
- (d) the shares are not acquired by the person through a conversion of any loan or debt securities;
- (e) the shares are paid in cash by the person; and
- (f) at the time the shares are allotted to the person, the total amount paid to the company for all qualifying shares by eligible investors (including the amount paid for those shares by that person) has not in the aggregate exceeded \$3 million.

(2) Where a technopreneur start-up company has allotted any qualifying shares under subsection (1) to any person, the company shall issue to the person a letter for the purposes of this Part.

(3) Every letter issued by a technopreneur start-up company to any person under subsection (2) shall specify —

- (a) the date on which the qualifying shares are allotted to the person; and

(b) the number of qualifying shares allotted to the person and the purchase price of such shares.

(4) A technopreneur start-up company shall keep and maintain records of the persons to whom letters under subsection (2) are issued and such other particulars as may be required by the Minister for the purposes of this section.

(5) Any letter issued under subsection (2) shall not be transferable.

(6) Where a technopreneur start-up company is listed at any time whether or not during or after the period referred to in section 97T(2) on the Singapore Exchange or elsewhere or where the certificate issued under section 97T(2) to a technopreneur start-up company is revoked under section 99, any qualifying shares allotted by the company to any person shall, as from the date of such listing or revocation, as the case may be, be deemed not to be qualifying shares and the person shall be deemed not to be an eligible investor.

Deduction of losses allowable to eligible investor

97V.—(1) Subject to this section, where, in any basis period for any year of assessment, any eligible investor has incurred any loss arising from —

(a) the sale of qualifying shares held by him in a technopreneur start-up company; or

(b) the liquidation of the technopreneur start-up company,

the loss shall be allowed as a deduction against the statutory income of the eligible investor for that year of assessment in accordance with section 37 of the Income Tax Act (Cap. 134) as if the loss were incurred from a trade or business carried on by the eligible investor.

(2) For the purposes of this section —

(a) any gain made or loss incurred on the sale of any qualifying share which occurred during the period of less than one year from the date of allotment to the eligible investor of such share shall be disregarded;

(b) any gain made or loss incurred on the sale of any qualifying share, or from the liquidation of the technopreneur start-up company which occurred after 6 years from the date of

allotment of such share to the eligible investor shall be disregarded;

(c) no deduction under this section shall be allowed for any year of assessment unless —

5 (i) the total losses in respect of the sale of any qualifying share, or from the liquidation of the technopreneur start-up company up to the end of the basis period for that year of assessment exceed the total gains made in respect of the sale of any qualifying share, or from the
10 liquidation of the technopreneur start-up company up to the end of that basis period; and

 (ii) the Comptroller is satisfied that the loss was not incurred for the purpose of obtaining a tax advantage;

15 (d) the amount of deduction under this section shall not exceed the excess of the total losses over the total gains referred to in paragraph (c)(i); and

 (e) in computing the gain or loss from the sale of any qualifying share by an eligible investor, the shares allotted to him on an earlier date shall be deemed to have been sold first.

20 (3) Where in the basis period for any year of assessment an eligible investor makes a gain from the sale of any qualifying share, or from the liquidation of a technopreneur start-up company and where any loss from the sale of any qualifying share of that technopreneur start-up company has been allowed as a deduction to the eligible investor
25 under this section for any previous year of assessment, such gain shall, so far as it is not chargeable to tax as a revenue or trading receipt, be deemed to be income of the eligible investor chargeable to tax for that year of assessment, subject to the following provisions:

30 (a) no gain shall be so deemed to be income unless the total amount of the losses allowed for the previous years of assessment exceed the total amount of the gains deemed to be income for previous years of assessment;

 (b) the amount of the gain chargeable to tax shall not exceed the excess of the total amount of the losses allowed for previous

years of assessment over the total amount of the gains deemed to be income for previous years of assessment; and

- (c) the losses and gains referred to in subsection (2)(a) and (b) shall be disregarded.

(4) Where in the basis period for any year of assessment an eligible investor incurs a loss from the sale of any qualifying share or from the liquidation of a technopreneur start-up company and where any gain made from the sale of any qualifying shares of that technopreneur start-up company, so far as it is not chargeable to tax as a revenue or trading receipt, has not been deemed to be income of the eligible investor chargeable to tax under this section for any previous year of assessment, such loss shall be allowed as a deduction against the statutory income of the eligible investor for that year of assessment under this section subject to the following provisions:

- (a) the amount of deduction shall not exceed the excess of the loss over the total amount of gains not deemed to be income for previous years of assessment;
- (b) the total amount of gains not deemed to be income for previous years of assessment shall be reduced by the excess of loss for that basis period over the deduction referred to in paragraph (a); and
- (c) the losses and gains referred to in subsection (2)(a) and (b) shall be disregarded.

(5) For the purposes of this section, the loss shall be the excess of the purchase price of the qualifying shares —

- (a) over the proceeds from the sale; and where the value of net asset backing of the technopreneur start-up company as determined by the Comptroller at the date of sale of such shares is greater than the sale proceeds, that value shall be deemed to be the proceeds from the sale; or
- (b) over the proceeds from the liquidation of the technopreneur start-up company,

as the case may be.

(6) For the purposes of this section, the gain shall be the excess of —

- (a) the proceeds from the sale; and where the value of net asset backing of the technopreneur start-up company as determined by the Comptroller at the date of sale of such shares is greater than the sale proceeds, that value shall be deemed to be the proceeds from the sale; or
- (b) the proceeds from the liquidation of the technopreneur start-up company,

as the case may be, over the purchase price of the shares.

(7) Section 37B of the Income Tax Act (Cap. 134) shall not apply to any loss allowed under subsection (1).

Power of Comptroller to give directions

97W. For the purposes of the Income Tax Act and this Act, the Comptroller may direct that —

- (a) any loss incurred in respect of the sale of any qualifying share by an eligible investor on any day during the period from the first day of the second year to the last day of the sixth year (both dates inclusive) from the date of allotment of such share, which, but for the provisions of this Act, might reasonably and properly have been expected to be incurred in the normal course of business before or after that period, shall be treated as not having been incurred on that day but as having been incurred on such day before or after that period as the Comptroller thinks fit; and
- (b) any gain made in respect of the sale of any qualifying share by an eligible investor before the second year or after the sixth year from the date of allotment of such share, which, but for the provisions of this Act, might reasonably and properly have been expected to be made in the normal course of business on any day during the period from the first day of the second year to last day of the sixth year (both dates inclusive) from the date of allotment of such share, shall be treated as not having been made on that day but as having been made on such day during that period as the Comptroller thinks fit.

Prohibition of other activity

97X. A technopreneur start-up company shall not, without the written approval of the Minister, carry out any activity other than the activity to which its certificate relates.

Recovery of tax

97Y. Notwithstanding anything in this Part, where it appears to the Comptroller that any deduction under section 97V ought not to have been given to an eligible investor by reason of a direction made under section 97W or the revocation under section 99 of the certificate issued under section 97T(2) to a technopreneur start-up company or the loss was incurred for the purpose of obtaining a tax advantage, the Comptroller may, subject to section 74 of the Income Tax Act (Cap. 134), make such assessment or additional assessment upon the eligible investor as may be necessary in order to recover any tax which should have been payable by the eligible investor.

Savings provision

97Z. Any certificate issued by the Minister to a technopreneur start-up company and any letter of allotment of qualifying shares issued by a technopreneur start-up company before the date of commencement of the Economic Expansion Incentives (Relief from Income Tax) (Amendment) Act 2002 shall be deemed to be issued under sections 97T(2) and 97U(2), respectively.”.

EXPLANATORY STATEMENT

This Bill seeks to amend the Economic Expansion Incentives (Relief from Income Tax) Act (Cap. 86) —

- (a) to implement the tax changes announced in the Government’s 2002 Budget Statement, namely, to reduce the tax rate under the Development and Expansion Incentive from not less than 10% to not less than 5%, and to allow unlimited flow-through of tax exempt dividends to the shareholders at all levels for all incentives without any minimum shareholding requirements;
- (b) to make provision for the Technopreneur Investment Incentive; and

- (c) to make certain other amendments to the Act.

Clause 1 relates to the short title and the dates or years of assessment from which certain clauses in the Bill are to take effect.

Clauses 2, 4, 7, 8, 9, 10 and 13 amend sections 14, 19F, 19L, 25, 40, 53 and 97Q respectively to —

- (a) treat exempt dividends paid by a company as having been distributed to shareholders in accordance with the proportion of their shareholdings in the company;
- (b) provide that exempt dividends paid by a company shall, subject to certain conditions, be exempt from tax in the hands of shareholders at all levels; and
- (c) deem certain dividends as interest income in the hands of shareholders and in certain circumstances as interest expense in the hands of a company.

Clauses 3, 5 and 12 make consequential amendments to sections 19E, 19H and 97M arising from the amendments to sections 37, 37B and 37C of the Income Tax Act (Cap. 134).

Clause 6 amends section 19J(5) to reduce the tax rate under the Development and Expansion Incentive from not less than 10% to not less than 5%.

Clause 11 makes a consequential amendment to section 66(1) arising from the amendments to sections 13H and 43P of the Income Tax Act.

Clause 14 inserts a new Part XIIC (comprising sections 97S to 97Z) which deals with Technopreneur Investment Incentive. Under this incentive, an investor may subject to certain conditions, deduct any loss arising from the sale of qualifying shares held by him in a technopreneur start-up company or from the liquidation of the technopreneur start-up company up to the full amount of his investment.

The new section 97S defines certain terms used in the new Part XIIC.

The new section 97T prescribes the conditions for approving a Singapore-incorporated company, not being listed on the Singapore Exchange or elsewhere, as a technopreneur start-up company and the maximum period for which it can be approved as a technopreneur start-up company.

The new section 97U prescribes the conditions for shares issued by a technopreneur start-up company to be qualifying shares and the requirements to be complied with by the company.

The new section 97V specifies how the amount of loss incurred by an eligible investor of a technopreneur start-up company which qualifies for tax deduction under Technopreneur Investment Incentive shall be computed. Where any loss has been allowed to the investor under the Technopreneur Investment Incentive, any gain made by him during the specified period from the sale of qualifying shares in that technopreneur start-up company shall be deemed to be his income chargeable to tax up to the amount of loss previously allowed.

The new section 97W empowers the Comptroller of Income Tax to direct that any loss or gain from the sale of qualifying shares to be treated as having been incurred or made on such date as he thinks fit.

The new section 97X prohibits a technopreneur start-up company from carrying out any other activity without the written approval of the Minister.

The new section 97Y empowers the Comptroller of Income Tax to recover from any eligible investor any loss of tax as a result of granting a deduction of losses to him under section 97V.

The new section 97Z contains a savings provision.

EXPENDITURE OF PUBLIC MONEY

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