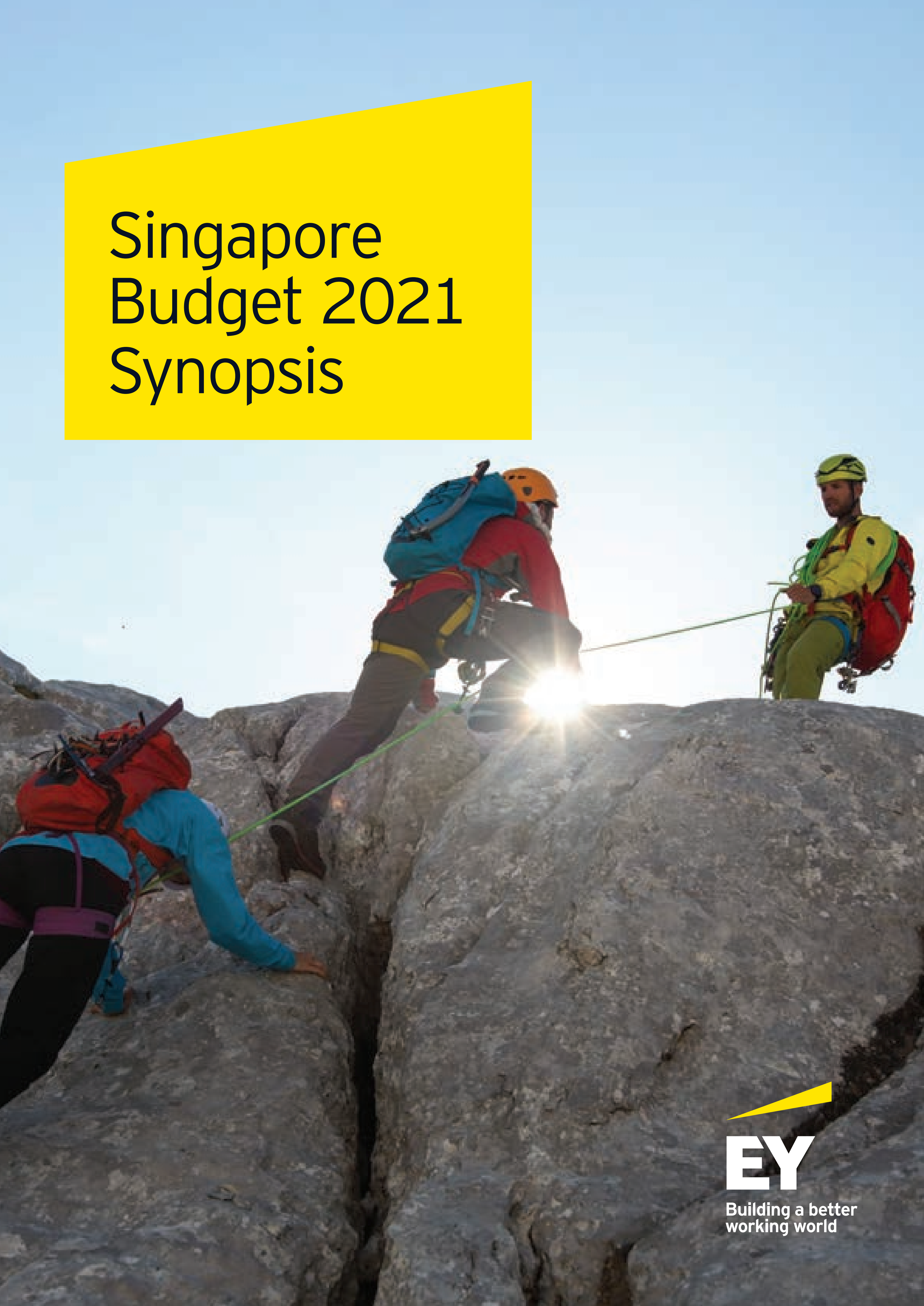
Singapore Budget 2021 Synopsis



Building a better working world

At a glance

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This synopsis focuses mainly on the tax measures covered in the Singapore Budget 2021.

1 Introduction

Staying relevant to the world beyond the pandemic

Overview

The recent Budgets have retained a similar theme – transforming and future-proofing the Singapore economy. Over the past year, with the COVID-19 pandemic sweeping across the globe, this need for transformation has been amplified, and the window period for making this change narrowed.

In FY 2020, due to various health and economic measures taken to address the COVID-19 crisis, Singapore witnessed its largest budget deficit of S$64.9b since its independence. The support measures rolled out in the recent Budgets have helped businesses and workers to survive the worst recession for Singapore since independence.

Against this backdrop, Budget 2021, which was unveiled by Deputy Prime Minister (DPM) and Finance Minister Heng Swee Keat, continued with the expansionary approach. The focus is very much on supporting the hardest-hit sectors and investing for the future, with an expected overall deficit of S$11b.

DPM Heng has made a tough call to draw upon past reserves for the second consecutive year, while deferring the GST rate hike.

Apart from imposing GST on low-value goods imported and some tax measures to enhance the competitiveness of Singapore, there are no significant tax changes announced in this Budget. Nonetheless, sizable funds are set aside to enhance various programmes to help local enterprises digitalise, scale up and internationalise.

In essence, this Budget addresses these three time horizons:

- Now: to provide relief in the immediate term
- Next: to invest strategically for growth and press on with the economic transformation in the medium term
- Beyond: to build a caring and sustainable home for generations to come

Now: providing immediate relief

There is uneven economic recovery across different sectors. Some businesses are forced to cease operations, while certain segments have enjoyed accelerated revenue growth during this pandemic.

This Budget is targeted in providing support to the hardest-hit sectors and households. Various support measures such as the Jobs Support Scheme will be extended up to September 2021 for the hardest-hit sectors to help them tide over the immediate challenges. These measures are designed to taper off in the coming months based on the projected recovery for the different sectors.

Budget 2021 has also set aside S$900m to provide additional support to families during this period of uncertainty.

Next: investing in growth and transformation in the medium term

To ride out the COVID-19 pandemic and emerge successfully, Singapore's businesses and economic landscape need to transform for the future. As DPM Heng said: "Singapore must never stop thinking of the future, even as we respond swiftly to meet current needs. This is how we stay exceptional, and staying exceptional is how we survive".

Indeed, this Budget focuses on building the following three enablers to drive the next phase of transformation:

- Grow a vibrant business community, with a strong spirit of innovation and enterprise, deeply connected with Asia and the world
- Catalyse a wide range of capital to enable businesses to transform and scale
- Create opportunities and redesign jobs, for our people to develop their skills, creativity and talents

Some of the interesting initiatives include:

- Emerging Technology Programme: to co-fund the costs of trials and adoption of frontier technologies like 5G, artificial intelligence and trust technologies

- Chief-Technology-Officer-as-a-Service initiative: to help firms to identify and adopt digital solutions by providing access to professional IT consultancies
- Digital Leaders Programme: to support promising firms in hiring a core digital team and in developing and implementing digital transformation roadmap

If rolled out and implemented well, these can really help SMEs make a difference.

Beyond: building a caring and sustainable home for future generations

There is also a slew of initiatives to build a sustainable Singapore for future generations, including the S$60m set aside for a new Agri-Food Cluster Transformation Fund, and the planned issuance of green bonds to finance up to S$19b of public sector green projects.

Conclusion

All in all, this is a Budget that weaves together the past (drawing on our reserves), present (providing immediate reliefs), and future (emerging stronger).

There is a very clear mandate to build the Singapore core: to help Singapore businesses transform and leapfrog the competition. It is about helping our workers and businesses innovate, grow and emerge stronger as one people and one Singapore.

Soh Pui Ming
Head of Tax
18 February 2021

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Business tax

Corporate income tax rate

Current

The corporate income tax rate is 17% with a partial tax exemption for normal chargeable income of up to S$200,000 as follows:

- 75% exemption of up to the first S$10,000
- 50% exemption of up to the next S$190,000

Proposed

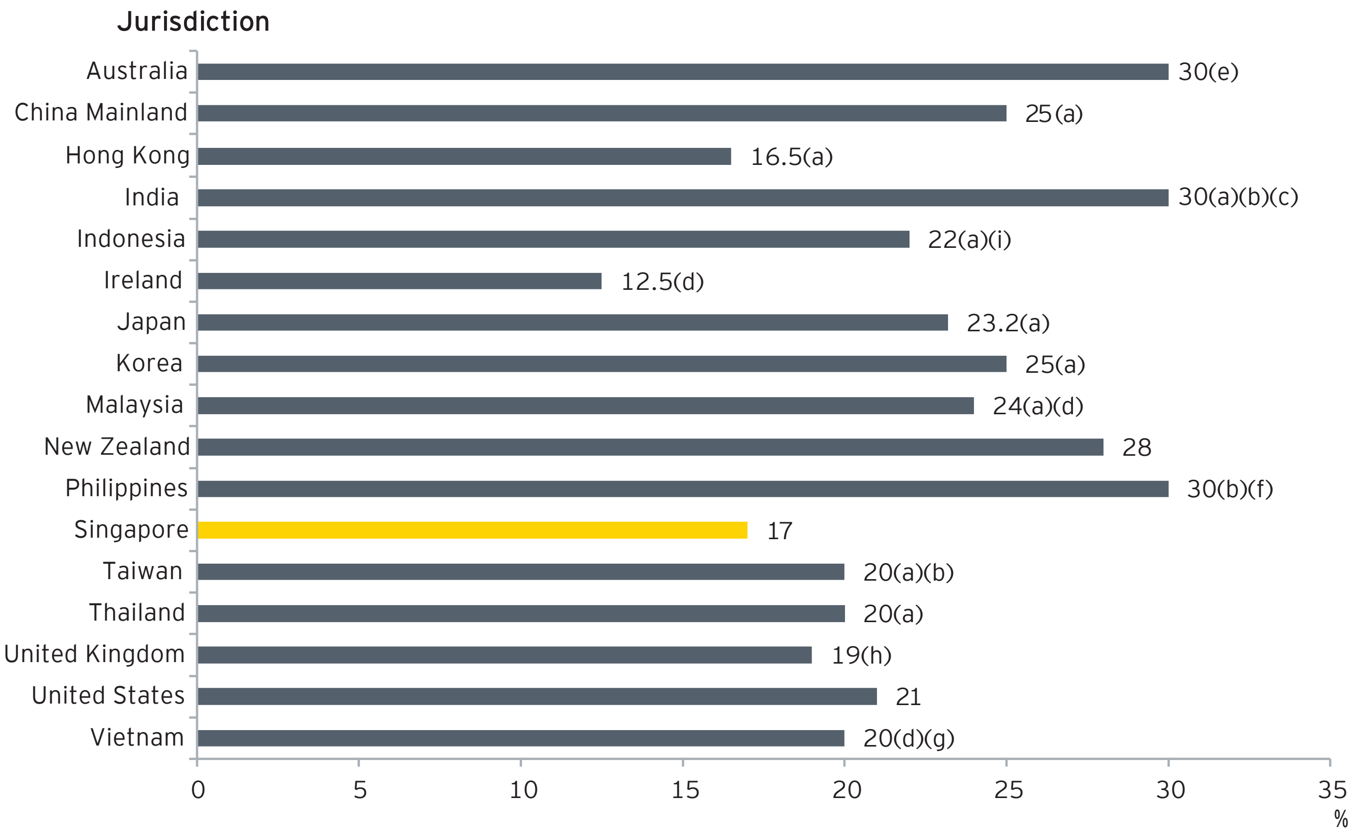
The Minister did not propose any change to the corporate income tax rate and the partial tax exemption threshold remains the same.

Points of view

- Given that close to S$100b was committed in support measures and S$52b drawn from past reserves last year, the pressure to increase revenue collection can be expected.
- The corporate income tax rate has not been increased and remains at 17% since YA 2010. At 17%, Singapore's headline corporate income tax rate continues to be one of the lowest in the world despite the global trend of lower rates.
- The Minister in the Budget speech 2021 specifically referred to the BEPS 2.0 project which could adversely impact Singapore's corporate income tax revenue. He said that "if and when these international tax rules are changed, we will consider if adjustments are required to our corporate tax system accordingly, in consultation with the industry."
- While Singapore has maintained its corporate income tax rate, worldwide average headline corporate income tax rates have generally declined over the last decade. Singapore will face increasing challenge of remaining attractive to investors vis-à-vis other nations, as they narrow the gap on our prevailing tax rate of 17%. That said, it remains to be seen whether the downward trend for corporate income tax rates will reverse as governments around the world look to replenish reserves after funding unprecedented COVID-19 support measures.

- Notably, the Budget 2021 announcement did not include any extension or enhancement of the corporate income tax rebate which has been given to companies every YA since YA 2013. The corporate tax rebate has provided relief to companies, although it benefitted only companies which were tax paying since it was computed on tax payable.
- Companies in Singapore continue to enjoy partial tax exemption on their normal chargeable income. The effective tax rate of a company in Singapore with S$300,000 of normal chargeable income will be only 11.2%. This is lower than the existing tax rate of 16.5% in Hong Kong. A company's effective tax rate in Singapore could also be reduced further through tax incentives.

Prevailing corporate income tax rates in selected jurisdictions as at 1 January 2021



Notes:

(a) Certain incomes or companies that meet certain conditions enjoy a lower rate of tax or lower income bands are generally (with exception and/or subject to certain conditions) taxed at lower rates.

(b) An alternative minimum tax may be applicable.

(c) A higher rate (40%) applies for foreign companies.

(d) Certain incomes or companies are taxed at a higher rate.

(e) The standard tax rate for resident corporations is 30%. A 26% rate applies to qualifying entities for 2020-21. This lower tax rate will be reduced to 25% for 2021-22.

(f) A proposed tax reform bill that seeks to reduce the 30% corporate income tax rate to 25% (beginning 1 July 2020) until 2022, followed by a 1% reduction annually starting January 2023 until it reaches 20% by January 2027 is pending with the Senate.

(g) A Ministry of Finance proposal to lower the corporate income tax rate applicable to micro, small and medium-sized enterprises from 20% to 17% or 15% has yet to be finalised or put in effect.

(h) Different rates apply for ring-fenced profits (from oil extraction and oil rights in the United Kingdom and United Kingdom continental shelf).

(i) The rate will be decreased to 20% starting from fiscal year 2022 onwards. Taxpayers with gross turnover of not more than Rp4.8b in a fiscal year are subject to a final tax at 0.5% of the gross turnover.

The above rates are the top corporate income tax rates, excluding dividend withholding tax, surcharges, trade tax, or other state or local taxes etc., where applicable.

Extend the 250% tax deduction for qualifying donations

Current

Donors are eligible for a 250% tax deduction for qualifying donations made to IPCs and other qualifying recipients from 1 January 2016 to 31 December 2021.

Proposed

To continue encouraging Singaporeans to give back to the community, the Government will extend the 250% tax deduction to qualifying donations made from 1 January 2022 to 31 December 2023.

All other conditions of the scheme remain the same.

Points of view

- The extension of the 250% tax deduction for qualifying donations is in line with the Government's aim to foster a more caring and inclusive society. As the COVID-19 pandemic continues to put a toll on certain segments of the Singapore society, this extension is welcomed as it continues to foster the spirit of giving in these trying times.
- The 250% tax deduction will result in an effective tax saving of 42.5% of the value of the qualifying donation by a corporate donor, which is subject to tax at the rate of 17%. That is, for every S$1,000 of qualifying donation by a corporate donor, the donor will enjoy a reduction in tax of S$425, resulting in a post-tax cost of S$575 to the donor. For an individual donor, the effective tax saving can be as high as 55% of the value of the qualifying donation if the individual donor falls within the highest marginal individual tax bracket of 22%. That is, for every S$1,000 of qualifying donation, the donor will enjoy a reduction in tax of S$550, resulting in a post-tax cost of S$450 to the donor.
- Unutilised qualifying donations can only be carried forward for five years. As such, corporate donors that are not generating sufficient taxable profits may not be able to reap the full benefit of the tax deduction. Corporate donors that have unutilised donations may wish to defer capital allowances claims so that they can utilise as much of the tax deduction before it expires.
- Unutilised qualifying donations are also not allowed to be carried back under the carry-back relief scheme. They are however eligible for transfer to members of the same group within the same year under the group relief system if the conditions for group relief are met.
- To further enhance the effort to encourage philanthropy, the Government should perhaps consider lifting the five-year utilisation period and allowing unutilised donations to be carried back.

Extension of Jobs Support Scheme

Current

Introduced in the Unity Budget in February 2020, the Jobs Support Scheme (JSS) provides wage support for employers to retain their local employees (Singapore Citizens and PRs) during this period of economic uncertainty. All active employers, except for Government organisations (local and foreign) and representative offices, are eligible for the JSS.

Proposed

The JSS will be extended for firms in Tier 1 and 2 sectors by up to six months, covering wages paid up to September 2021.

Under the extended JSS, support levels will be tapered based on the projected recovery of the various sectors, as follows:

- Tier 1 sectors (aviation, aerospace and tourism) that are currently receiving 50% JSS support, will receive 30% JSS support for wages paid from April to June 2021 and 10% JSS support for wages paid from July to September 2021
- Tier 2 sectors (e.g., food services, retail, marine & offshore, and arts and entertainment) that are currently receiving 30% JSS support, will receive 10% JSS support for wages paid from April to June 2021
- Tier 3A sectors currently receive 10% JSS support for wages paid from September 2020 to March 2021. JSS support will cease thereafter
- Employers that are not allowed to resume on-site operations currently receive Tier 1 JSS support for wages paid up to March 2021. For wages paid from April 2021 onwards, JSS support will revert to the firms' base JSS tier

Points of view

- The extension of the JSS will provide much reprieve to local businesses that are struggling to stay afloat in the face of challenges brought about by the COVID-19 pandemic. This should help businesses to continue to operate and workers to retain their jobs to a certain extent and is a much welcomed move in view of the protracted economic downturn.
- The tiered approach and tapering of the support levels based on the projected recovery of the different sectors is a tailored and calibrated move by the Government to provide targeted support to sectors according to the extent that they are hit by the slow recovery from the COVID-19 pandemic.
- The JSS payouts are not subject to income tax and therefore allow businesses to benefit fully. Further, businesses that incur medical expenses for their employees are allowed to include the gross salaries of employees (i.e., before the JSS payouts) as part of total remuneration for the purpose of computing the quantum of deductible medical expenses. This is especially beneficial for businesses that have incurred more medical expenses amidst the COVID-19 pandemic.

Extend the option to accelerate the write-off of the cost of acquiring plant and machinery

Current

Taxpayers who incurred capital expenditure on the acquisition of plant and machinery (P&M) in the basis period for YA 2021 (i.e., FY 2020) were given an irrevocable option to accelerate the write-off of the cost of acquiring such P&M over two years.

The rates of accelerated capital allowance (CA) allowed were as follows:

- 75% of the cost incurred to be written off in first year (i.e., in YA 2021)
- 25% of the cost incurred to be written off in second year (i.e., in YA 2022)

The option above was in addition to the options currently available under section 19 and 19A of the ITA.

No deferment of CA claims was allowed under the above option. This meant that if a taxpayer opted for the accelerated write-off option, it would need to claim the capital expenditure incurred for acquiring P&M based on the rates of 75% (in YA 2021) and 25% (in YA 2022).

Proposed

To continue providing support to businesses, the option to accelerate the write-off of the cost of acquiring P&M will be extended to capital expenditure incurred on the acquisition of P&M in the basis period for YA 2022 (i.e., FY 2021), with the same parameters.

Points of view

- During this period of economic uncertainty caused by the COVID-19 pandemic, the proposed extension would encourage businesses which are profitable or planning to spend on capital expenditure, to continue investing in P&M in FY 2021 by easing their cash flows on such investments.
- Businesses which are in a tax loss position in YA 2022 can nonetheless consider the accelerated CA claims if they can meet the conditions to carry back the excess CA (restricted to S$100,000) to offset against assessable income in YA 2021 to claim tax refund or reduce tax payable. Businesses may also choose to transfer the current year excess CA to other companies under the group relief system to enable the group to manage its overall cash tax burden, subject to meeting the relevant conditions.
- In view of the partial tax exemption on normal chargeable income, businesses which are in a taxable position should consider whether it is beneficial before exercising the option to accelerate the write-off. This consideration is also applicable to businesses that are planning to optimise foreign tax credit claims on foreign taxes suffered on their income taxable in Singapore.
- The above option would be helpful to more businesses if it can provide them with the flexibility to defer the accelerated CA claims and manage their cash flow requirements while they ride through and emerge from this period of economic uncertainty.

Extend the option to accelerate the deduction of expenses incurred on renovation and refurbishment

Current

Under section 14Q of the ITA, a taxpayer which incurs qualifying expenditure on renovation and refurbishment (R&R) for the purposes of its trade, profession or business is allowed to claim tax deduction on such expenditure over three consecutive YAs, starting from the YA relating to the basis period in which the R&R expenditure is incurred.

Taxpayers who incurred qualifying expenditure on R&R during the basis period for YA 2021 (i.e., FY 2020) for the purposes of their trade, profession or business were given an irrevocable option to claim R&R deduction in one YA (i.e., accelerated R&R deduction). This option was in addition to the existing option under section 14Q of the ITA.

The cap of S$300,000 for every relevant period of three consecutive YAs applies.

Proposed

To continue providing support to businesses, the option for accelerated R&R deduction will be extended to qualifying expenditure incurred on R&R in the basis period for YA 2022 (i.e., FY 2021), with the same parameters.

Points of view

- The proposed extension will further encourage businesses (especially those in the F&B, arts and culture, hotels and retail sectors which have yet to undertake R&R works in FY 2020) to refurbish and renovate their business premises during their FY ending in 2021.
- The accelerated R&R deduction will allow businesses to alleviate their cash flow concerns on such expenses while enabling them to enhance their premises. This is provided that these businesses are not in a tax loss position, else they will not be able to enjoy the cash flow benefit immediately.
- As the section 14Q deduction cap of S$300,000 applies every three years, businesses may also not benefit from the proposed extension if they had already substantially used up the cap of S$300,000 in the earlier year(s) of the three-year term.

Extend the YA 2020 enhancements to the carry-back relief scheme

Current

The carry-back relief scheme was enhanced for YA 2020. Under the enhanced scheme, current year unabsorbed capital allowances (CA) and trade losses (collectively referred to as "qualifying deductions") for YA 2020 may be carried back up to three immediate preceding YAs, capped at S$100,000 of qualifying deductions, subject to conditions.

Taxpayers were allowed to elect to carry back to the relevant preceding YAs an estimated amount of qualifying deductions available for YA 2020, before the actual filing of their income tax returns for YA 2020.

Proposed

To continue providing support to businesses, the enhancements to the carry-back relief scheme for YA 2020 will be extended to apply to qualifying deductions for YA 2021, with the same parameters.

Points of view

- One of the critical problems facing businesses in the current COVID-19 pandemic situation is cash flow. With the extension of the enhanced carry-back relief scheme, businesses can receive cash refunds on taxes paid in prior years to ease business costs and improve their cash flow during such tough times.
- It is expected that most businesses will elect for the one-year carry-back relief scheme or the enhanced carry-back relief scheme in YA 2021, before their tax returns are submitted and assessments completed. This will enable the processing of cash refunds earlier.
- Similar to the one-year carry-back relief scheme, the qualifying deductions will be carried back to set-off against the assessable income before taking into account the partial tax exemption for companies. Therefore, after taking into account the partial tax exemption scheme for companies, the tax refund claimable could be lower, the extent of which would depend on the company's effective tax rate.
- Further, for businesses that can qualify for group relief, tax rebates, foreign tax credits, or other tax incentives, they may not be able to reap the maximum cash flow benefit arising from the one-year carry-back relief scheme and enhanced carry-back relief scheme in view of the order of set-off. Any loss carry-back may also impact the amount of foreign tax credits claimable by a Singapore company in the preceding YAs. Companies with foreign-sourced income should take this into consideration prior to making any carry-back election.
- The enhanced carry-back relief scheme is subject to the same conditions as the one-year carry-back relief scheme, which include the same business test and the shareholding test. Where the conditions are met for the carry-back of unutilised CA, businesses may consider accelerating their CA claims to optimise the amount of current year unutilised CA available for carry-back.

Enhance the Double Tax Deduction for Internationalisation scheme

Current

Under the Double Tax Deduction for Internationalisation (DTDi) scheme, businesses are allowed a tax deduction of 200% on qualifying market expansion and investment development expenses, subject to approval from Enterprise Singapore or Singapore Tourism Board (STB).

No prior approval is required from Enterprise Singapore or STB for tax deduction on the first S$150,000 of qualifying expenses incurred on the following activities for each YA:

- Participation in overseas market development trips or missions
- Participation in overseas investment study trips or missions
- Participation in overseas trade fairs
- Participation in approved local trade fairs

The DTDi scheme is scheduled to lapse after 31 December 2025.

Proposed

To continue supporting internationalisation efforts of businesses amid changes in the business environment, the scope of the DTDi scheme will be enhanced to cover the following specified expenses incurred to participate in approved virtual trade fairs:

- Package fees charged by event organisers for virtual exhibition hall and booth access, collateral creation, business meeting or match sessions, pitches or product launches or speaking slots, webinar or conference, and post event analytics
- Third-party costs for design and production of digital collaterals and promotion materials for virtual fairs
- Logistics costs incurred to send materials or samples overseas to potential clients met at virtual trade fairs

The list of qualifying expenses for overseas investment study trips will also be expanded to include logistics costs to transport materials or samples used during the investment trips.

In addition, the scope of qualifying activities which do not require prior approval from Enterprise Singapore or STB will be enhanced to cover the following additional activities, up to the current annual expense cap of S$150,000:

- Product or service certification (primarily to increase buyer's acceptance in overseas markets) approved by Enterprise Singapore
- Overseas advertising and promotional campaign
- Design of packaging for overseas markets
- Advertising in approved local trade publication
- Participation in virtual trade fairs approved by Enterprise Singapore

The above enhancements will take effect for qualifying expenses incurred on or after 17 February 2021.

Enterprise Singapore will provide further details of the changes by 28 February 2021.

Points of view

- The enhancement of the DTDi scheme to include participation in virtual trade fairs reflects the Government's continued efforts in encouraging and supporting businesses to internationalise amid changes in the business environment due to the COVID-19 pandemic.
- This move is especially timely given that the COVID-19 pandemic has, in particular, wreaked havoc on the meetings, incentives, conferences and exhibitions industry worldwide. To put matters into perspective, TravelRevive 2020 (which took place on 25 and 26 November 2020) was the first trade show to take place physically in Singapore during the COVID-19 pandemic since the 2020 Singapore Airshow held in February 2020. Event organisers have adapted and started to pivot their businesses by organising virtual trade fairs and online conferences. The enhancement could also lead to business opportunities for event organisers embracing technology to change their offerings.
- This enhancement of the DTDi scheme follows the expansion of the scope of the Market Readiness Assistance (MRA) grant with effect from 1 November 2020 to include support for participation in virtual trade fairs. For companies that can also qualify for the MRA grant (e.g., certain local SMEs), it is likely that the MRA grant will be more beneficial as it is an outright cash grant whereas the DTDi benefit is a reduction of corporate income taxes (i.e., companies that are in a tax loss position will not be able to enjoy the benefit immediately). Enterprise Singapore has clarified that companies can also apply for DTDi on the same expenses supported by the MRA grant and the amount qualifying for DTDi will simply be computed net of the MRA grant.
- Additionally, the expansion of the scope of qualifying activities for the automatic DTDi scheme will help to reduce the administrative burden on companies. It should be noted that qualifying expenses above the S$150,000 annual cap would still require approval from Enterprise Singapore or STB.
- All in all, these enhancements to the DTDi scheme are welcomed, and together with some of the other Government initiatives such as the MRA grant, can help Singapore companies venture overseas and achieve a new growth trajectory.

Extend and enhance the Investment Allowance (Energy Efficiency) (IA-EE) scheme

Current

The scheme provides for investment allowance for energy efficiency (EE) improvement projects, subject to conditions.

Data centres are subject to additional qualifying conditions under the IA-EE scheme, such as the following:

- Be compliant with the Singapore Standard for Green Data Centres (SS564:2010)
- Have a minimum capacity of 400m^2 (floor space)

The conditions above apply to EE improvement projects approved by the EDB on or before 31 March 2021.

Proposed

The IA-EE scheme will be renamed the Investment Allowance for Emissions Reduction scheme, with the following revisions:

- Expansion in the scope of qualifying projects to include projects involving a reduction of greenhouse gas emissions
- Streamlined and updated eligibility conditions. These will apply to all projects (i.e., there will no longer be a distinction between data centres and non-data centres)

The revised conditions will apply to projects approved by the EDB from 1 April 2021 to 31 December 2026 (both dates inclusive).

The EDB will release further details of the changes by 30 June 2021.

Points of view

- The existing IA-EE scheme appears to be narrowly targeted at data centres and EE improvement projects. The expansion of the scope to include projects involving a reduction of greenhouse gas emissions is a step in the right direction in supporting Singapore's sustainability agenda.
- Under the Singapore Green Plan 2030, which was recently released by five Singapore ministries, Singapore has outlined ambitious goals of charting its way towards a more sustainable future over the next decade. This included the plan to transform Jurong Island into a sustainable energy and chemicals park and use of technological solutions such as decarbonisation, waste up-cycling and water treatment for sustainable development. Given the heavy capital expenditure expected in such endeavours, the enhanced IA-EE scheme is expected to play a key role in supporting these projects and should be seen as part of a broader plan to grow Singapore's green economy.
- As part of the amendments to the Economic Expansion Incentives (Relief from Income Tax) Act that was gazetted on 3 February 2020, the Investment Allowance scheme has been extended to certain partnerships and their partners. This would complement the enhanced IA-EE scheme and allow for broader applicability of the scheme across different types of business structures with the common goal of tackling greenhouse emissions.
- To enhance the attractiveness of the enhanced IA-EE scheme, the authorities can consider including ancillary costs such as set-up cost, qualification cost and consultancy fees as part of the qualifying capital expenditure supported by the scheme.

Allow the Automation Support Package to lapse, but retain the 100% Investment Allowance scheme to support automation

Current

The Automation Support Package (ASP) was introduced in Budget 2016 to support businesses to automate, drive productivity, and scale up.

The ASP includes 100% Investment Allowance (IA) support on the amount of approved capital expenditure, net of grants, for automation projects approved by Enterprise Singapore from 1 April 2016 to 31 March 2021. The approved capital expenditure for the 100% IA support is capped at S$10m per project.

Proposed

The ASP will lapse after 31 March 2021.

Schemes including the Enterprise Development Grant, IA scheme, and the Enterprise Financing Scheme will continue to be available to support businesses in their automation, productivity and scale-up efforts.

Specifically, the 100% IA scheme to support automation will be extended by two years, for automation projects approved by Enterprise Singapore from 1 April 2021 to 31 March 2023. All other conditions of the scheme remain the same.

Points of view

- The 100% IA on approved capital expenditure is a relatively generous incentive given that it is an additional allowance on top of capital allowances available. The extension of the 100% IA scheme is welcomed as it is in line with Singapore's wider objective to enhance productivity and move into Industry 4.0.
- Generally, schemes are introduced or renewed with a sunset clause of five years to allow the Government to review and fine-tune as necessary. The two-year extension period is atypical.

Extend the Not-for-Profit Organisation tax incentive

Current

The Not-for-Profit Organisation (NPO) tax incentive provides tax exemption on the income derived by an approved NPO, subject to conditions.

The incentive is scheduled to lapse after 31 March 2022.

Proposed

To continue attracting NPOs to Singapore, the NPO tax incentive will be extended to 31 December 2027.

Points of view

- Having NPOs with regional or international charter based in Singapore will continue to enhance the development of Singapore as a centre for a range of "high-trust" services including legal services, accreditation and research services.
- The extension of the NPO tax incentive is a very welcomed move to encourage more global NPOs with worthy causes to move their base to Singapore, and manage their global and regional operations from Singapore.
- As some of the NPOs could be grantmakers which channel funds to IPCs or charities, the extension of the NPO tax incentive could encourage such grantmakers to be based in Singapore, which is in line with one of the Budget's objectives of encouraging philanthropy and volunteerism.
- Given that the Budget announced the intent to extend the NPO tax incentive without any mention of details to be released, it appears unlikely that there will be further changes made to the incentive, such as the eligibility criteria.

Extension of Business and IPC Partnership Scheme

Current

A qualifying person can, subject to conditions, enjoy a total of 250% tax deduction on qualifying expenditure such as wages incurred by the person from 1 July 2016 to 31 December 2021 in respect of:

- The provision of services by the person's qualifying employee to an IPC during that period

  Or

- The secondment of the person's qualifying employee to an IPC during that period.

Proposed

To continue supporting corporate volunteering, the Business and IPC Partnership Scheme (BIPS) will be extended until 31 December 2023.

All other conditions of the scheme remain the same.

Points of view

- BIPS was introduced in Budget 2016 as part of the Government's efforts to promote volunteerism and partnership with the community besides donating monies.
- The proposed extension is a positive move by the Government to encourage the corporate sector to continue to share its expertise and experience and give back to society.
- With the COVID-19 pandemic, there are businesses that are facing a slowdown in operations. On the other hand, some charities are facing a reduction in the number of volunteers as organisations and individuals scale back on their activities. Businesses can consider BIPS as a win-win opportunity by sending their employees to volunteer their services or be seconded to an IPC that champions a cause that resonates with them.
- Many MNCs and large local enterprises already have a corporate social responsibility (CSR) policy in place. The proposed extension of BIPS will further encourage businesses with CSR activities to benefit the Singapore society. Surveys have shown that organisations that have embraced a CSR policy as part of their corporate culture are more attractive to consumers and potential employees.

Withdraw the Accelerated Depreciation Allowances for Highly Efficient Pollution Control Equipment scheme

Current

The Accelerated Depreciation Allowances for Highly Efficient Pollution Control Equipment (ADA-PCE) scheme was introduced in Budget 1996 to encourage businesses to purchase and install clean technologies to improve air quality in Singapore.

Under the scheme, a taxpayer who incurs capital expenditure to install qualifying highly efficient PCE can accelerate the write-off of the cost of acquiring such equipment over one year.

Proposed

The ADA-PCE scheme will be withdrawn from 17 February 2021.

Since the introduction of this scheme in 1996, regulatory measures have been introduced including air emission standards, which set emission concentration limits for a list of controlled pollutants. These measures are reviewed over time.

The Ministry of Sustainability and the Environment and the National Environment Agency will continue to regularly review measures to manage pollution and improve air quality in Singapore.

Points of view

- The ADA-PCE scheme was one of the first schemes introduced to promote energy efficiency and reduce pollution of the environment by granting accelerated capital allowance (CA) over one year to taxpayers who incur capital expenditure on qualifying efficient PCE i.e., equipment that met certain specified (and highly detailed) emission control standards in respect of their maximum levels of airborne or waterborne pollutant emissions. Other schemes that provide similar accelerated CA claims have been progressively introduced with the aim of reducing greenhouse gas emissions and promoting a greener environment.
- Since the release of the Sustainable Singapore Blueprint in 2009, an array of programmes and incentive schemes aimed at promoting and facilitating energy efficiency in Singapore have also been rolled out to provide greater support to companies in their drive to become more energy- and carbon-efficient. These include cash grants, co-fundings and investment allowances, which offer additional tax savings to qualifying taxpayers. Hence, the proposed withdrawal of the ADA-PCE scheme is not expected to have a significant impact on businesses.
- In line with the withdrawal of the Accelerated Depreciation Allowance for Energy Efficient Equipment and Technology scheme after 31 December 2017, the proposed withdrawal of the ADA-PCE scheme from 17 February 2021 is a reflection of the Government's continual efforts to review the relevance of tax incentives and schemes.

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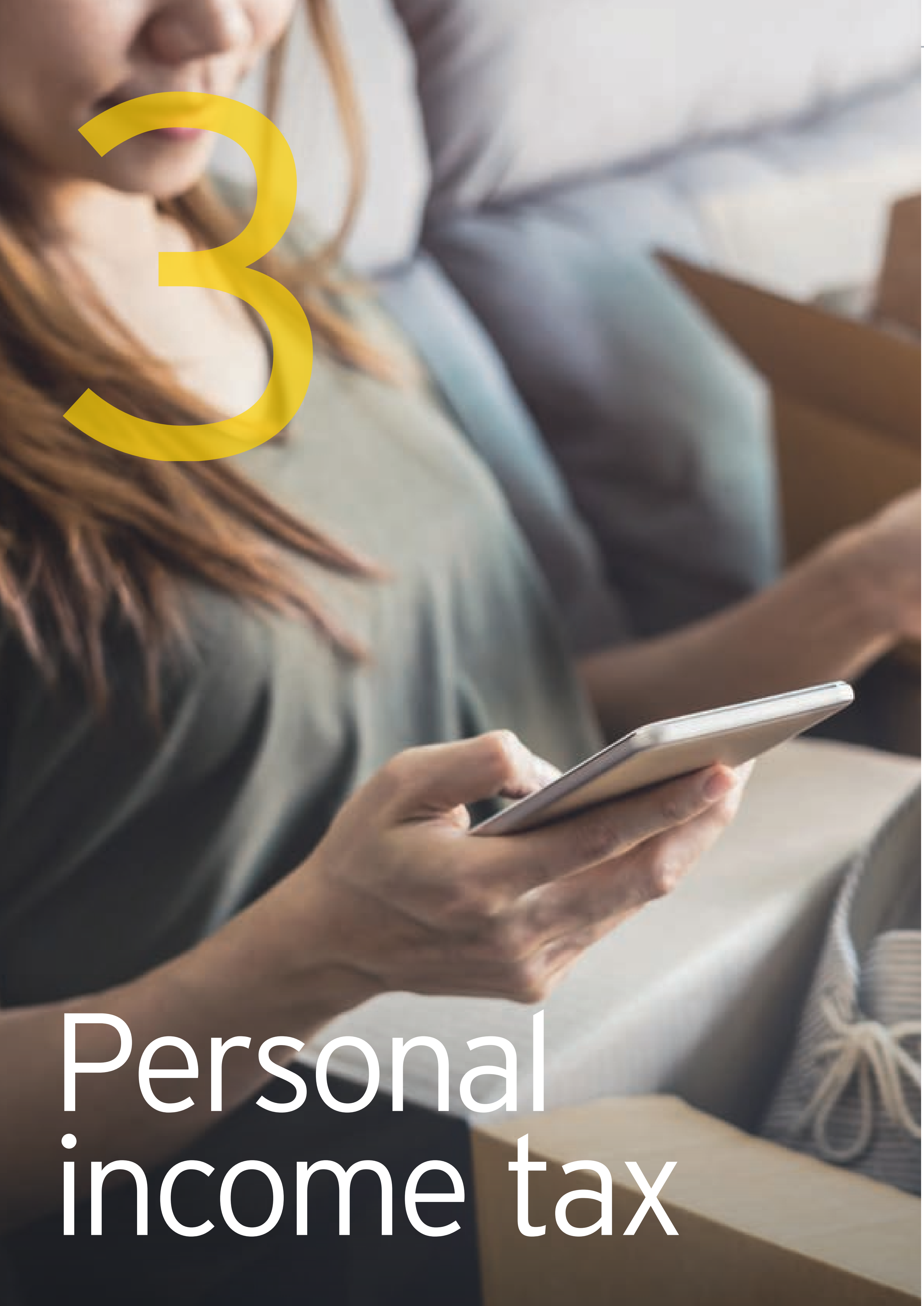
Personal income tax



Personal income tax rate and tax rebate

Current

The income tax rates for Singapore tax resident individuals with effect from YA 2017 range from 0% for the first S$20,000 of chargeable income to 22% for chargeable income exceeding S$320,000.

Proposed

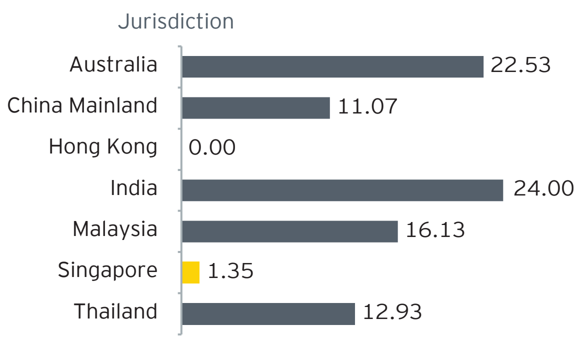
There is no change to the personal income tax rates and the personal income tax relief cap.

Points of view

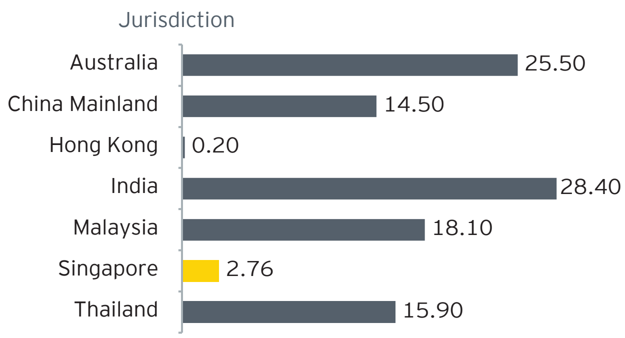
The Singapore personal income tax regime remains one of the most competitive in the region. Please refer to the charts below.

Comparison of effective personal income tax rates (in percentages) in selected jurisdictions with employment income of S$75,000, S$100,000, S$200,000 and S$400,000

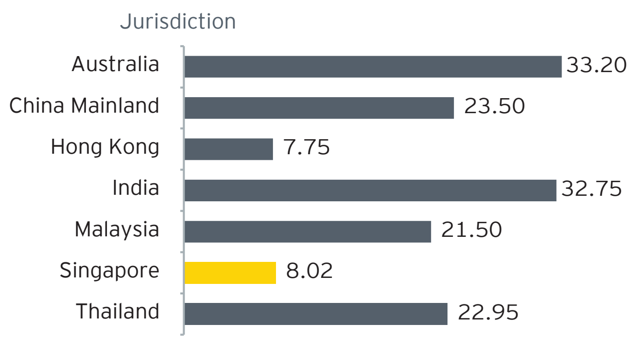
Employment income S$75,000



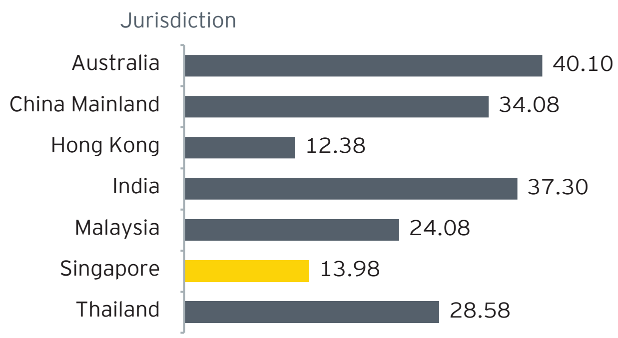
Employment income S$100,000



Employment income S$200,000



Employment income S$400,000



Notes:

- Based on the assumption of a married man with two children, whose wife has no income and that the sole source of income is from his employment.
- Difference in definitions of taxable income, allowable deductions and like factors can distort effective tax rate comparisons between different jurisdictions.
- All figures are approximate and based on latest tax rates applicable to tax years ended in calendar year 2020.

4

Goods and services tax

GST rate

The Minister had announced in 2018 that the Government plans to raise GST by two percentage points from 7% to 9%, sometime in the period from 2021 to 2025.

However, as announced by the Minister in the Unity Budget in February 2020, in view of the economic conditions then, the GST rate increase will not take effect in 2021 and this remains as planned.

The Minister has highlighted that the Government will not be able to defer the increase for too long. The Government will have to make the move to increase the GST rate sometime during 2022 to 2025, and sooner rather than later, subject to the economic outlook.

The Minister has reiterated that the Government will ensure that the overall taxes and transfers system remains fair and progressive:

- GST on publicly-subsidised education and healthcare will continue to be fully absorbed.
- To help cushion the impact when the GST rate is raised, the Government has set aside S$6b for an Assurance Package.
- The permanent GST Voucher scheme will help defray GST expenses for lower- and middle-income households.

Based on past GST collections, foreigners residing in Singapore, tourists and the top 20% of resident households are estimated to account for over 60% of the net GST borne by households and individuals. This is after taking into account the GST Voucher scheme, and GST refunded under the Tourist Refund Scheme for goods bought locally for consumption abroad.

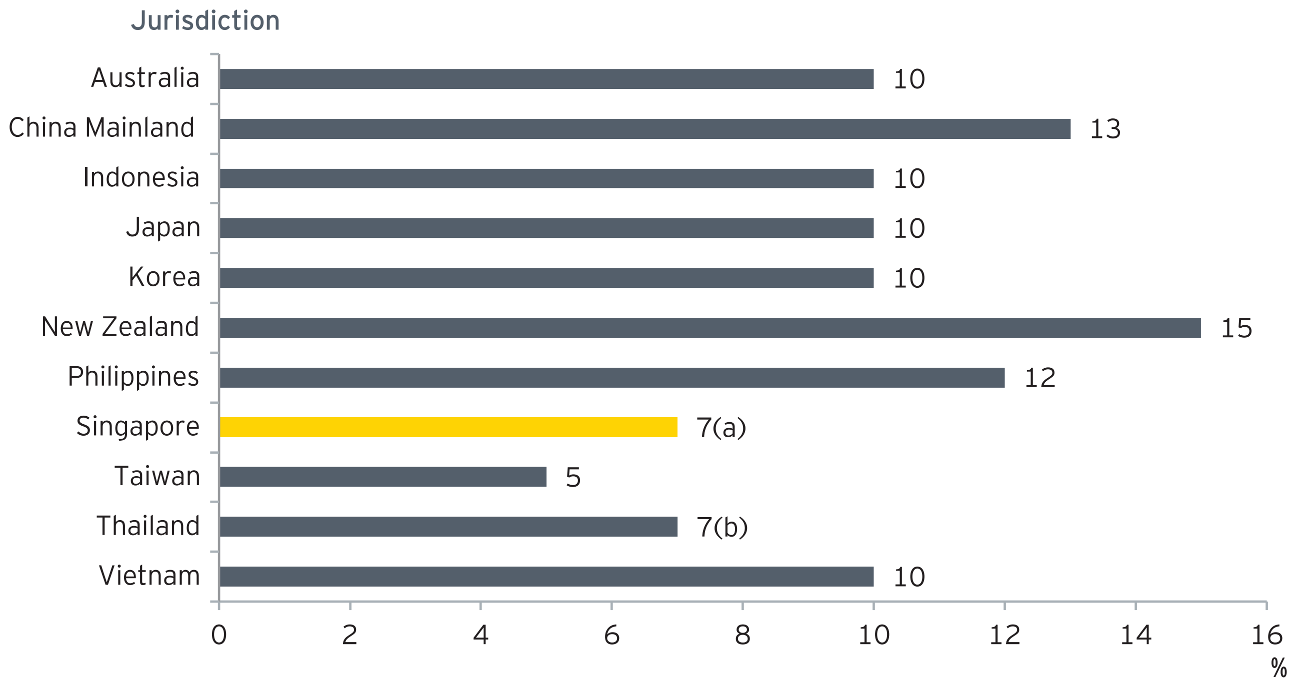
Points of view

- Singapore relies heavily on the net investment returns to maintain a balanced budget. Hence, raising operating revenue becomes critical, and increasing GST is a necessary strategic decision.
- Given the fiscal pressure, the Government may announce the GST rate increase to take effect in 2022. We saw this in 2007 when the Government had announced then that the GST rate would be increased from 5% to 7% from 1 July 2007, i.e., in the same year as the Budget announcement.
- Having a higher GST rate will mean higher penalties for non-compliance as penalties are generally imposed on the value of the tax under-paid or over-claimed. GST-registered businesses should therefore focus on developing efficient and robust GST reporting process to avoid penalties from GST non-compliance.
- There will be costs associated with the preparation for the GST rate change, such as modifying accounting systems to cater for the rate increase. However, as many businesses have already experienced past rate increases, the cost of preparing for another round of GST rate increase is not expected to be significant.
- Although not primarily a tax on businesses, the GST rate increase will result in additional irrecoverable GST costs to businesses that are not registered for GST, and GST-registered businesses who are not entitled to recover input tax in full. Businesses that are not registered for GST should assess whether it is beneficial to opt for voluntary GST registration.

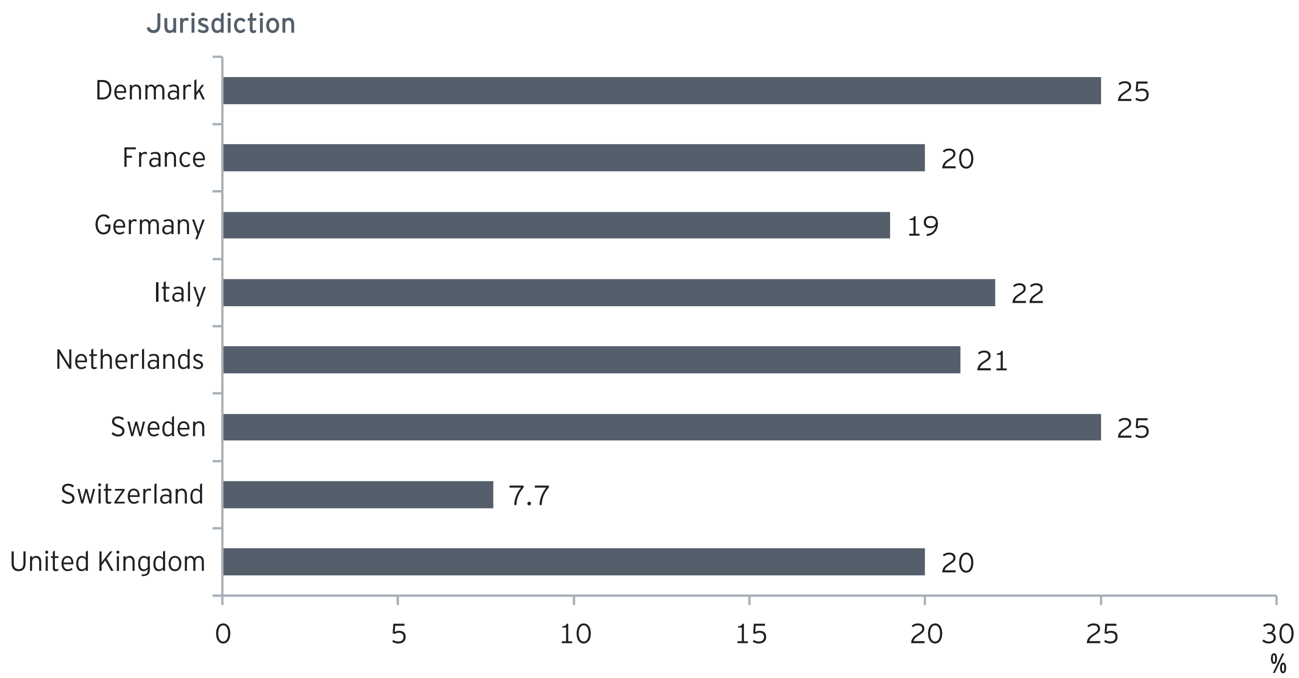
- Even after the planned increase to 9%, the Singapore GST rate remains low by international standards. Amongst the Asia-Pacific countries, many have standard GST rates that exceed 9%. Please refer to the tables of comparative rates below.

Prevailing standard GST or value-added tax rates in selected jurisdictions as at 1 January 2021

Asia-Pacific



Europe



Notes:
(a) The Government has announced that the GST rate will be increased from 7% to 9%, sometime between 2022 to 2025.
(b) Until 30 September 2021, unless further extension is announced.

GST on imported low-value goods and non-digital services

Current

Currently, goods imported via air or post that are valued up to (and including) S$400 (low-value goods) are not subject to GST. Business-to-consumer (B2C) imported non-digital services (such as live interaction with overseas providers of educational learning, fitness training, counselling and telemedicine) are also not subject to GST.

The digital economy has grown significantly over the years. In Budget 2018, GST was extended to:

- B2C imported digital services (such as video and music streaming services, apps, software, and online subscription fees). This is effected via the Overseas Vendor Registration regime. Under the existing Overseas Vendor Registration regime, overseas suppliers and electronic marketplace operators that make significant sales of digital services to local consumers are required to register with the IRAS for GST.
- Business-to-business imported services (both digital and non-digital). This is effected via the reverse charge regime. Under the existing reverse charge regime, GST-registered persons that make non-taxable supplies of goods or services such as exempt supplies (e.g., provision of certain financial services, and the sale and lease of residential properties) are required to account for GST to the IRAS on their imports of services.

The above GST measures took effect from 1 January 2020, to ensure parity in GST treatment between local and overseas suppliers on their sales to local consumers and businesses, and ensure that Singapore's GST system remains resilient in a digital economy.

Proposed

GST will be extended to:

- Low-value goods that are imported via air or post. This will be effected via the Overseas Vendor Registration and reverse charge regimes. Jurisdictions that have extended their GST or value-added tax regimes to cover imported low-value goods include Australia, New Zealand, Norway, Switzerland, and the United Kingdom. GST is already and will continue to be collected on goods imported via land or sea, regardless of value.
- B2C imported non-digital services. This will be effected via the Overseas Vendor Registration regime. Jurisdictions that already tax similar services include Australia and New Zealand.

This change, together with the change announced in Budget 2018, will ensure a level playing field for local businesses to compete effectively. Overseas suppliers of goods and services will be subject to the same GST treatment as local suppliers. This change will also ensure that Singapore's GST system remains resilient as the digital economy grows.

This change will take effect from 1 January 2023.

The IRAS will consult the industry shortly, before the implementation details are finalised.

Points of view

- The plan to impose GST on the importation of low-value goods has been on the Government's radar for quite some time. With the rise of online shopping, which is further accelerated by the COVID-19 pandemic, the Government probably saw it timely to extend the Overseas Vendor Registration and the reverse charge regimes to imported low-value goods. By implementing the change only with effect from 1 January 2023, it will give sufficient lead time for overseas suppliers and local consumers and businesses to make the transition.
- Besides ensuring a level playing field for local businesses to compete effectively, the implementation of GST on imported low-value goods and B2C imported non-digital services will also provide a much-needed revenue boost for the Government.
- For local consumers, the implementation of GST on imported low-value goods will mean an increase in the costs of online purchases by the additional GST payable from 1 January 2023. However, the convenience of purchasing online and the attractive pricing of goods sold online will probably still attract many local consumers to shop online.
- It is interesting to note that the Overseas Vendor Registration regime will be extended to B2C imported non-digital services. Essentially, this means that from 1 January 2023, GST will be applicable to all imported services (digital or non-digital) supplied by overseas suppliers to local consumers in Singapore.
- Currently, under the Overseas Vendor Registration regime, foreign suppliers supplying digital services with annual global taxable turnover of more than S$1m and supplying digital services to consumers in Singapore of more than S$100,000 are required to register for GST in Singapore. Besides the value of digital services, with effect from 1 January 2023, overseas suppliers will also need to aggregate the value of low-value goods and non-digital services supplied to consumers in Singapore in determining whether they have a liability to register for GST in Singapore under the Overseas Vendor Registration regime.
- For GST-registered persons that make non-taxable supplies of goods or services, in addition to imported services, reverse charge will also apply to the importation of low-value goods with effect from 1 January 2023.

Updates to the zero-rating provision for media sales

Current

Currently, for GST purposes, the basis for determining whether zero-rating applies to a supply of media sales[1] is based on the place of circulation of the advertisement:

- If the advertisement is intended to be substantially circulated outside Singapore, the media sales is zero-rated

  Or

- If the advertisement is intended to be substantially circulated in Singapore, the media sales is standard-rated.

Proposed

Online advertising has grown and is expected to account for an increasing share of advertising spending in future. Developments in digital technologies have also changed the way media sales are supplied, and have made it more difficult for suppliers of digital media sales to determine the place of circulation.

Given this trend, the basis for determining whether zero-rating applies to a supply of media sales will be updated, to be based on the place where the customer (i.e., the contractual customer) and direct beneficiary of the service belong:

- If the customer of the service belongs outside Singapore and the direct beneficiary either belongs outside Singapore or is GST-registered in Singapore, the media sales will be zero-rated.
- If the customer belongs in Singapore, the media sales will be standard-rated.

This change will take effect for the supply of media sales on or after 1 January 2022.

1 Media sales refer to the sale of advertising space for hardcopy print and outdoor advertisements, the sale of advertising airtime for broadcasting via TV and radio, and the sale of media space for web advertising via email, internet or mobile devices.

Points of view

- This is the second time that the GST rules for media sales have been updated since GST was introduced in 1994. Prior to 1 January 2007, the GST treatment for media sales had depended on the underlying subject matter advertised and the belonging status of the advertiser. The GST treatment for media sales was amended on 1 January 2007, where the GST treatment is based on the place of circulation of the advertisement.
- Online advertising has evolved rapidly. Through the use of sophisticated audience targeting algorithms, online advertisements can now be targeted at selected geographical areas or specific interest groups on social media. The current GST rules on media sales have not kept up with these developments relating to online advertising. Currently, the supply of online advertising can be zero-rated if the advertisements are accessible by internet users globally (i.e., the place of circulation of advertisement is substantially outside Singapore), even though the advertisements may also be targeted at Singapore audiences, thus making it difficult to apply the existing circulation rules to determine the appropriate GST treatment.
- The proposed changes will be consistent with the GST treatment for the supply of media sales in other tax jurisdictions such as Australia, New Zealand and the United Kingdom, which look at the customer's belonging status (instead of the place of circulation) to determine the GST treatment for the supply of media sales.
- With the proposed changes, businesses procuring imported advertising services from overseas suppliers may now fall within the scope of reverse charge with effect from 1 January 2022.
- Businesses may find it difficult to determine all the direct beneficiaries of the services provided in order to apply the zero-rating provision. Additional guidelines will be useful in assisting companies to determine the appropriate proxies to be used in such an instance.

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5 Financial services

Extend and refine the double tax deduction for qualifying upfront cost attributable to retail bonds issued under MAS' Seasoning Framework and Exempt Bond Issuer Framework

Current

Currently, bond issuers who carry on a trade or business in Singapore, are allowed to claim a tax deduction of up to 200% on qualifying upfront cost incurred on or after 19 May 2016 that is attributable to retail bonds issued during the period from 19 May 2016 to 18 May 2021 (both dates inclusive) under the Seasoning Framework[1] and Exempt Bond Issuer Framework[2].

The Double Tax Deduction (DTD) scheme is scheduled to lapse after 18 May 2021.

Proposed

To promote rated retail bond issuances, the DTD scheme will be extended for qualifying upfront cost incurred on or after 19 May 2021 that is attributable to rated retail bonds[3] (instead of all retail bonds) issued during the period from 19 May 2021 to 31 December 2026 (both dates inclusive) under the Seasoning Framework and Exempt Bond Issuer Framework. The refinement of the DTD scheme seeks to provide investors with access to rated retail bonds. Credit rating improves market transparency by providing timely and independent assessments of the creditworthiness of bond issuers.

All other conditions of the DTD scheme remain the same.

The MAS will provide further details of the changes by 31 May 2021.

Points of view

On 19 May 2016, the MAS introduced the Seasoning Framework and Exempt Bond Issuer Framework to widen the investment options available to retail investors through better access to simple investment products that are relatively less risky. At the same time, it allowed corporate issuers to tap the retail market in a relatively easy and cost-efficient manner.

- Under the regulatory frameworks, retail bonds may be issued to or accessed by retail investors via one of the following ways:
  - Seasoned Bonds: Wholesale bonds which are initially offered to institutional and accredited investors or issued in denominations of at least S$200,000, which may be re-sized into smaller denominations after a six-month seasoning period. The Seasoned Bonds may be traded by retail investors in smaller lot sizes on SGX in the secondary market. To qualify under the Seasoning Framework, an issuer must satisfy the prescribed criteria (Eligible Issuer)[4].
  - Re-taps: An Eligible Issuer may also issue additional or subsequent offers of new bonds to retail investors with similar terms as the Seasoned Bonds, each subsequent offering being a "re-tap" of the bond market for the initial wholesale offer, up to a specified limit. To facilitate retail access

1 Issuers' wholesale bonds offered in denominations of at least S$200,000 can be re-sized into smaller denominations after six months for retail investors' secondary trading on SGX. Issuers can also make additional offers of new bonds (Re-tap) up to 50% of the initial wholesale offer size to retail investors based on the Seasoned Bonds' terms.

2 New retail bond issuances by issuers who meet a more stringent credit test under the Exempt Bond Issuer Framework will be exempted from prospectus requirements.

3 Rated by credit rating agencies such as Standard & Poor, Moody's and Fitch.

4 Details of the Seasoning Eligibility Criteria are set out in the *Securities and Futures (Offers of Investments) (Exemption for Post-seasoning Debentures) Regulations 2016*.

to such bonds, the Eligible Issuers will be exempted from the prospectus requirements for such subsequent offers, subject to certain conditions.

- New retail bond issuances by Exempt Bond Issuers: Issuers that satisfy specified thresholds that are higher than the eligibility criteria under the Seasoning Framework can offer bonds directly to retail investors at the start of a bond offer without a prospectus.

- As an additional incentive to promote retail bond issuances, Eligible Issuers or Exempt Bond Issuers who carry on a trade or business in Singapore (i.e., have a taxable presence in Singapore) are eligible to a tax deduction of up to 200% on qualifying expenditure incurred on qualifying bonds. The MAS has prescribed further conditions with respect to the period during which the bonds should be issued or made available to the retail investors in order to be qualifying bonds. Further, expenses eligible for enhanced tax deduction are also prescribed to meet the condition of qualifying expenditure.

- A summary of the tax treatment pursuant to this DTD scheme is as follows:

Nature of expenses	Tax treatment without DTD scheme	Tax treatment with DTD scheme effective from 19 May 2016 for five years
Capital (e.g., to raise funds to finance the acquisition of capital assets)	Not deductible	200% tax deduction
Revenue (e.g., to raise funds to finance the acquisition of trading stocks)	100% tax deduction	A further 100% tax deduction

- The claim for qualifying expenditure under this tax concession is currently subject to a cap of S$500,000 per qualifying bond issue, and a cumulative cap of S$1m per issuer for the whole duration of the concession.

- According to findings from the MAS' Singapore Corporate Debt Market Development 2020 report, the size of Singapore's total outstanding corporate bonds rose 10.2% to S$420b as of 31 December 2019. The COVID-19 pandemic caused significant disruptions to the global bond markets and issuance volumes fell. As corporate issuers return to the bond markets, the MAS is keen to support these issuers through targeted grant schemes, such as the Global-Asia Bond Grant Scheme, launched in January 2020.

- In addition, to continue to encourage corporate bond offerings to retail investors and deepen Singapore's bond market, the DTD scheme is proposed to be extended for qualifying expenditure incurred on or after 19 May 2021 for bonds issued during the period from 19 May 2021 to 31 December 2026.

- It should be noted, however, that the extension of the DTD scheme will only apply to qualifying expenditure attributable to rated retail bonds under the Seasoning Framework and Exempt Bond Issuer Framework. This is aligned to the Government's intention to offer investment options to retail investors while limiting the risks faced by retail investors by adopting a credit rating mechanism to support market transparency and provide timely and independent assessments of the creditworthiness of bond issuers.

- Further details supporting the DTD scheme such as features and period of retail offerings of bonds issuance, nature of expenses and clawback provisions will be issued by 31 May 2021.

Extend and rationalise the WHT exemptions for the financial sector

Current

There is a range of WHT exemptions or remission for the financial sector for all interest and other payments falling within section 12(6) of the ITA (section 12(6) payments).

a) All section 12(6) payments made pursuant to interbank or interbranch transactions by banks in Singapore for the purpose of their trade or business.

b) All section 12(6) payments made to any non-resident person (excluding any PEs in Singapore) by the specified entities[1], for the purpose of the specified entities' trade or business, are exempt from tax where such payments:

- Are made during the period from 1 April 2011 to 31 March 2021 (both dates inclusive) under a contract that took effect before 1 April 2011

  Or

- Are made under a contract that takes effect during the period from 1 April 2011 to 31 March 2021 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the contract, including payments that are made beyond 31 March 2021 under that contract.

c) Specified entities are not required to withhold tax on all section 12(6) payments made to any PE in Singapore if the payments:

- Are made during the period from 17 February 2012 to 31 March 2021 (both dates inclusive) under a contract that took effect before 17 February 2012

  Or

- Are made under a contract that takes effect during the period from 17 February 2012 to 31 March 2021 (both dates inclusive). In such cases, the specified entities do not need to withhold tax on all section 12(6) payments that are made for the entire duration of the contract, including payments that are made beyond 31 March 2021 under that contract.

- Notwithstanding paragraph (c), the PEs in Singapore are required to declare the section 12(6) payments in their annual income tax returns and are assessed to tax on such payments (unless the payments are specifically exempt from tax).

- For (b) and (c), the WHT exemption is scheduled to lapse after 31 March 2021.

Proposed

To support Singapore's value proposition and competitiveness of our financial sector, the following changes will be made:

a) The existing WHT remission for interbank or interbranch transactions will be legislated as a WHT exemption with effect from 1 April 2021, along with a review date of 31 December 2031.

1 Specified entities are:
- Banks licensed under the Banking Act or merchant banks approved under the MAS Act
- Finance companies licensed under the Finance Companies Act
- Approved entities that are (a) licensed under the Securities and Futures Act for dealing in capital markets products and advising on corporate finance; (b) involved or will be involved in the underwriting of debt or equity issuances; and (c) approved by the MAS for the purpose of the exemption

Under this WHT exemption, all section 12(6) payments made by banks in Singapore[2], for the purpose of their trade or business, to their branches or head offices outside Singapore or other banks outside Singapore will be exempt from tax where such payments:

- Are made during the period from 1 April 2021 to 31 December 2031 (both dates inclusive) under a contract that takes effect before 1 April 2021

  Or

- Are made under a contract that takes effect during the period from 1 April 2021 to 31 December 2031 (both dates inclusive). In such cases, the WHT exemption will apply to the entire duration of the contract, including payments that are made beyond 31 December 2031 under that contract.

b) The WHT exemption will be extended until 31 December 2026. All other conditions of the WHT exemption remain the same.

All section 12(6) payments made to any non-resident person (excluding any PEs in Singapore) by the specified entities, for the purpose of the specified entities' trade or business, are exempt from tax where such payments:

- Are made during the period from 1 April 2011 to 31 December 2026 (both dates inclusive) under a contract that took effect before 1 April 2011

  Or

- Are made under a contract that takes effect during the period from 1 April 2011 to 31 December 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the contract, including payments that are made beyond 31 December 2026 under that contract.

c) The WHT exemption will be extended until 31 December 2026. All other conditions of the WHT exemption remain the same.

Specified entities are not required to withhold tax on all section 12(6) payments made to any PE in Singapore if the payments:

- Are made during the period from 17 February 2012 to 31 December 2026 (both dates inclusive) under a contract that took effect before 17 February 2012

  Or

- Are made under a contract that takes effect during the period from 17 February 2012 to 31 December 2026 (both dates inclusive). In such cases, the specified entities do not need to withhold tax on all section 12(6) payments that are made for the entire duration of the contract, including payments that are made beyond 31 December 2026 under that contract.

- As per the existing tax treatment, the PEs in Singapore are required to declare the section 12(6) payments that they received in their annual income tax returns and are assessed to tax on such payments (unless the payments are specifically exempt from tax).
- The MAS will release further details of all the changes by 31 May 2021.

Points of view

- The legislation of the WHT exemption on interbank or interbranch transactions will provide more certainty to banks. While the previous WHT remission did not have a sunset clause, the introduction of a review date of 31 December 2031 on the WHT exemption is in line with the Government's policy to periodically review and assess the relevance of exemptions and incentive schemes.
- The extension of the WHT exemption on section 12(6) payments made by specified entities to non-residents or PEs in Singapore is a welcomed move. This will continue to reduce the administrative burden and compliance costs incurred by the specified entities.
- As the definition of "specified entities" is prescriptive, new entrants to the financial industry may need to seek specific approval to avail of the relevant WHT exemption on section 12(6) payments.

2 Refer to banks licensed under the Banking Act or merchant banks approved under the MAS Act.

Extend the WHT exemption on payments made for structured products

Current

WHT exemption is allowed on payments made to a non-individual, non-resident person (excluding any PE in Singapore) from structured products offered by a financial institution in Singapore if such payments are made under a contract that takes effect during the period from 1 January 2007 to 31 March 2021 (both dates inclusive).

The WHT exemption is scheduled to lapse after 31 March 2021.

Proposed

To support Singapore's value proposition and competitiveness of our financial sector, the WHT exemption will be extended for another five years and will cover payments made under a contract that takes effect during the period from 1 January 2007 to 31 December 2026 (both dates inclusive).

All other conditions of the WHT exemption remain the same.

The MAS will release further details of the changes by 31 May 2021.

Points of view

- Singapore, as a key financial hub in Asia, plays an important role in facilitating fund flows and investment opportunities in Asia. Structured products are sophisticated financial instruments that allow exposure to embedded derivatives and may offer regular, fixed coupons. Certain payments made in relation to such structured products may attract Singapore WHT.
- The extension of the WHT exemption for another five years is necessary to enable Singapore's financial institutions to continue to meet the needs of non-resident market participants as Asian financial markets look to become more vibrant in future. This also complements Singapore's position as a thriving derivatives trading hub.
- The current WHT exemption applies to a contract that is renewed or extended, and the period for which the contract is renewed or extended commences before 1 April 2021. Similarly, we expect the proposed extension to also apply to renewed or extended contracts that commence before 1 January 2027.

Extend the WHT exemption on payments for over-the-counter financial derivatives

Current

WHT exemption is allowed on payments made to any non-resident person (excluding any PE in Singapore) from over-the-counter (OTC) financial derivatives made by a financial institution in Singapore, where such payments:

- Are made during the period from 20 May 2007[1] to 31 March 2021 (both dates inclusive) under a contract that took effect before 15 February 2007

  Or

- Are made under a contract that takes effect during the period from 15 February 2007 to 31 March 2021 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the OTC financial derivatives contract, including payments that are made beyond 31 March 2021 under that contract.

The WHT exemption is scheduled to lapse after 31 March 2021.

Proposed

To support Singapore's value proposition and competitiveness of our financial sector, the WHT exemption will be extended for another five years until 31 December 2026.

All other conditions of the WHT exemption remain the same.

All payments on OTC financial derivatives made by a financial institution in Singapore to any non-resident person (excluding any PE in Singapore) are exempt from WHT, where such payments:

- Are made during the period from 20 May 2007 to 31 December 2026 (both dates inclusive) under a contract that took effect before 15 February 2007

  Or

- Are made under a contract that takes effect during the period from 15 February 2007 to 31 December 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the OTC financial derivatives contract, including payments that are made beyond 31 December 2026 under that contract.

The MAS will release further details of the changes by 31 May 2021.

1 The WHT exemption was previously allowed for such payments made during the period from 27 February 2004 to 19 May 2007.

Points of view

- The extension of the WHT exemption will reduce the administrative burden and compliance costs incurred by financial institutions in connection with the Singapore WHT requirements.
- While the WHT exemption reduces administrative burden and compliance costs, it is useful to note that the reporting requirements associated with the WHT exemption are expected to remain the same:
  - Institutions that are exempted from licensing or approval under any Act administered by the MAS would be required to submit a one-time declaration of their status to the IRAS in order to qualify as a financial institution for purpose of the WHT exemption.
  - Where there are payments on OTC financial derivatives entered into with related parties during the basis period relating to the YA for which the financial institution's tax return is made, the financial institution has to submit a letter to the IRAS, together with its tax return, undertaking that such transactions were carried out at arm's length. The financial institution also has to maintain documentation supporting the arm's length claim, which may be requested by the IRAS.

Allow the Insurance Business Development-Specialised Insurance scheme to lapse after 31 August 2021

Current

Under the Insurance Business Development (IBD) umbrella scheme, the Insurance Business Development-Specialised Insurance (IBD-SI) scheme provides for a concessionary tax rate of 8% and 10% for new and renewal award recipients respectively, on qualifying income derived by a (re)insurer from carrying on specialised insurance and reinsurance business.

It is scheduled to lapse after 31 August 2021.

Proposed

To streamline and simplify the IBD umbrella scheme, the IBD-SI scheme will lapse after 31 August 2021.

With the lapse of the IBD-SI scheme, insurers engaged in the specialised insurance and reinsurance business can apply for the IBD scheme.

Points of view

- The IBD umbrella scheme has been rationalised several times since Budget 2015, to ensure its relevance to the insurance industry as well as to streamline and simplify the tax incentives for insurance businesses.
- The table below summarises the IBD umbrella scheme after the lapsing of the IBD-SI scheme:

Insurance tax incentive schemes	IBD	IBD-Captive Insurance	IBD-Insurance Broking Business
Tax rate	10%		
Sunset date	31 December 2025		31 December 2023

- The consolidation of the various tax incentives for the insurance sector under one scheme provides a comprehensive yet simplified framework for insurance businesses and enables new entrants to easily assimilate into Singapore's developed insurance sector. As the insurance industry in Singapore is relatively mature and developed, the removal of the enhanced concessionary tax rate of 8% for new IBD-SI applicants should not negatively impact its position as a key insurance hub in Asia and no doubt, Singapore will continue to provide a conducive, certain and robust tax environment for insurance businesses.
- (Re)insurers carrying on specialised insurance and reinsurance business should not be negatively impacted by the lapsing of the IBD-SI scheme as a concessionary tax rate of 10% remains available for qualifying income under the IBD scheme.
- The current reporting of the various lines of business in Insurance Company Returns filed with the MAS does not correspond with the qualifying lines of business under the IBD-SI scheme. With the lapsing of the IBD-SI scheme, which was subsumed under the IBD scheme in year 2016, (re)insurers carrying on specialised insurance and reinsurance business are no longer required to manually and separately identify such income for tax incentive purposes.
- The IBD scheme is more attractive as the risks covered are broader, incentivising both specialised and non-specialised risks with a concessionary tax rate of 10%. However, this concessionary tax rate may be less attractive as compared to Hong Kong, which offers a concessionary tax rate of 8.25% for profits derived by a (re)insurer underwriting general insurance business (other than profits from certain local demand-driven business).

6 Miscellaneous

Changes to vehicle tax and petrol duties

Enhancement of Electric Vehicle Early Adoption Incentive

In the last Budget, the Government provided an Electric Vehicle (EV) Early Adoption Incentive for a period of three years with effect from 1 January 2021. Under this incentive, owners who register fully electric cars and taxis will receive a rebate of 45% off the Additional Registration Fees (ARF), capped at S$20,000 (subject to a minimum ARF floor of S$5,000). From 1 January 2022 to 31 December 2023, this ARF floor will be reduced to S$0.

The EV Early Adoption Incentive, coupled with the enhanced Vehicular Emission Scheme, allow a vehicle owner to enjoy combined cost savings of up to S$45,000 and S$57,500 in rebates for fully electric cars and taxis respectively, which can be used to offset the ARF. With the enhancement, it is conceivable that the owner of a mass-market EV registered during the period from 1 January 2022 to 31 December 2023 can enjoy the full extent of the incentive by not having to pay any ARF.

Petrol duties

The Government has increased petrol duties on premium grade petrol (RON 97 and above, unleaded) by 15 cents per litre and intermediate grade petrol (RON 90 and above but under RON 97, unleaded) by 10 cents per litre. The new duty rate for premium grade petrol is 79 cents per litre and for intermediate grade petrol is 66 cents per litre. As such, petrol duty increases for premium and intermediate grade petrol represent an increase of about 23% and 18% respectively.

These changes took effect from 16 February 2021 and further details can be found in the Singapore Customs' Circular No. 02/2021.

Transitional offset measures for vehicles using petrol

The Government will provide rebates for petrol and petrol-hybrid vehicles to ease the transition towards higher petrol duties:

- A road tax rebate will be provided for petrol and petrol-hybrid vehicles for one year, effective from 1 August 2021 to 31 July 2022
- Active drivers of taxis and private hire cars using petrol will receive an additional petrol duty rebate of S$360 to be paid out over four months in view of their higher mileage
- Individual owners of motorcycles using petrol, registered as at 16 February 2021, with specified engine capacity will receive an additional petrol duty rebate

According to the Land Transport Authority (LTA), the road tax rebates and additional petrol duty rebates will be disbursed automatically to eligible recipients. The LTA is expected to release further details on the additional petrol duty rebates in April 2021.

Foreign workforce measures

Reduction in S Pass sub-Dependency Ratio Ceiling

To encourage the manufacturing sector to develop a strong, highly skilled local core in their workforce and to moderate further the reliance on foreign workers, the Government will be adjusting the S Pass sub-Dependency Ratio Ceiling (DRC) in two steps starting from 1 January 2022. This is to allow more time for firms to adjust.

- Reduce the S Pass sub-DRC from 20% to 18% from 1 January 2022
- Further reduce the S Pass sub-DRC from 18% to 15% from 1 January 2023

Firms in the manufacturing sector that have exceeded the revised sub-DRC will not be able to hire or renew the S Passes of their foreign employees. However, they can retain excess S Pass holders until the expiry of the work passes to minimise business disruptions.

Foreign Worker Levy rates

There is no change to the Foreign Worker Levy (FWL) rates for all sectors. The earlier-announced adjustments to FWL rates for the marine shipyard and process sectors will be deferred for another year.

Tax services in Singapore

Our tax professionals in Singapore provide you with deep technical knowledge, both globally and locally, combined with practical, commercial and industry experience. We draw on our global insights and perspectives to build proactive, truly integrated direct and indirect tax strategies that help you build sustainable growth, in Singapore and wherever else you are in the world.

Business Tax Services

Tax Policy and Controversy Services

EY's global tax policy network has extensive experience helping develop policy initiatives, both as external advisors to governments and companies and as advisors inside government. Our dedicated tax policy professionals and business modelers can help address your specific business environment and improve the chance of a successful outcome.

Our global tax controversy network will help you address your global tax controversy, enforcement and disclosure needs. In addition, support for pre-filing controversy management can help you properly and consistently file returns and prepare relevant backup documentation. Our professionals leverage the network's collective knowledge of how tax authorities operate and increasingly work together to help resolve controversy and pre-filing controversy issues.

Quantitative Services

EY's Quantitative Services network offers a scalable set of services to assist clients with analysing tax opportunities, typically related to large data sets, systematically and efficiently. This helps clients identify multi-country tax regulations and the benefits that can be attained. Our services can include assistance with:

- Accounting methods and inventory – advising on the application of tax rules and regulations related to income and expense recognition
- Research incentives – identifying tax incentives associated with a company's qualifying research investments
- Flow through – tax planning and advice related to partnerships, joint ventures and other tax flow-through legal entities
- Capital assets and incentives – our technological capabilities help streamline fixed asset analysis and identify tax deductions

These approaches can help clients improve cash flow, plan for cash tax and effective tax rates in upcoming years, and create refund opportunities. Our process improvements can help streamline tax compliance.

Private Client Services

EY's Private Client Services offers tax-related domestic and cross-border planning and compliance assistance to business-connected individuals and their associated entities. In addition, in today's global environment, cross-border services can help meet the ever-growing needs of internationally positioned clients. Our dedicated resources in major markets around the world serve individual clients needing a wide range of tax services, including tax compliance, tax planning and tax advice relating to their business interests, investments and other financial-related assets.

We have experience working with individuals and companies of all sizes across many aspects of the tax life cycle – planning, provision, compliance and controversy.

Business Tax Advisory Services

EY Business Tax Advisory services combines technical skills with practical, commercial and industry knowledge to give you advice tailored to your business needs. Our tax professionals bring you their deep understanding of tax issues.

We can help you reduce inefficiencies, mitigate risk and make the most of opportunities, building sustainable tax strategies that can help your business succeed.

Tax Technology and Transformation Services

The EY Tax Technology and Transformation (TTT) services connect the 1,000+ professionals focused on helping organisations meet their tax operating and compliance challenges whilst redefining their tax function for the digital age, whether full-scale transformation or strategic incremental improvements. TTT brings together a new breed of tax professionals, seasoned in technology and innovation, along with operational and transformation strategy. The TTT team will help accelerate your ability to deliver on a tax function that is cost-effective whilst it keeps pace with escalating trends toward business globalisation, digital tax administration/ regulation, transparency and technology.

Global Compliance and Reporting

EY Global Compliance and Reporting (GCR) can help you meet your reporting requirements wherever you do business. GCR comprises the key elements of a company's finance and tax processes used to prepare statutory financial and tax filings in countries around the world. These include:

- Business tax compliance services
- Tax accounting and risk advisory services
- Corporate services (which comprise company secretarial and accounting support)
- Payroll services

Business Tax Compliance Services

Compliance and reporting make huge demands on tax and finance functions today. So how do you reduce risk and inefficiencies and improve value cost-effectively? Our market-leading approach combines a standard global compliance process and tools with extensive local compliance and accounting experience, giving you the access, visibility and control you want. In one country or many, you can benefit from an integrated, consistent, flexible quality service with tax compliance, statutory accounts preparation and tax accounting calculation support. This can enhance your compliance function whilst improving efficiencies across your financial supply chain.

Tax Accounting and Risk Advisory Services

To help you meet the challenges of today's complex business environment, including demands for more transparency and greater tax department effectiveness, we provide assistance in three key areas:

- Tax accounting: under IFRS and local GAAP
- Tax function performance: improving organisational strategy, processes, and data and systems effectiveness
- Tax risk: identifying, prioritising, monitoring and remediating risk

Our talented people, consistent global methodologies and tools, and unwavering commitment to quality service can help you build strong compliance and reporting foundations, sustainable organisational strategies and effective risk management protocols to help your business succeed.

Corporate Services

EY Corporate Services team supports your business in the following areas: entity formation and company secretarial matters, the preparation of management and statutory financial statements, monthly book-keeping and payroll outsourcing. We work with all stakeholders to help you meet deadlines and comply with statutory requirements.

Company secretarial: We help our clients and their officers comply with the Singapore Companies Act requirements principally and other relevant regulations from a company secretarial perspective. In addition to compliance matters, we are often involved in corporate structuring work such as share capital reduction and share buy-back initiatives.

Accounting: From day-to-day to complex transactions, our accounting professionals assist to facilitate that the transactions are recorded accurately, timely and in accordance with applicable accounting standards. We are also familiar with all aspects of the accounting function like management reporting, debtors/ creditors control and XBRL conversion.

Payroll: We provide broad payroll outsourcing services. We assist to facilitate that your employee payrolls are computed in accordance with the Singapore Employment Act and with the Ministry of Manpower regulations.

Financial Services Tax

EY Financial Services Tax team is dedicated to providing value to our clients in the financial services industry who are facing a constantly evolving tax landscape. Whether you are in Banking and Capital Markets, Wealth and Asset Management, or the Insurance sector, we will be able to assist you in issues including managing your direct and indirect tax obligations and tax risks, navigating the complex tax rules across jurisdictions, pursuing tax incentives or concessions, dealing with transfer pricing issues, handling tax authority queries, assessing your tax provisions, and analysing your uncertain tax positions.

We can also advise you on the tax implications of new financial products or transactions, and assist in applying for Revenue rulings where applicable. We can advise on the structuring of your new businesses and new funds, or on the review of such structures in an internal reorganisation or in the event of mergers or acquisitions, from the tax perspective.

Indirect Tax Services

Global Trade

In today's global economy, moving goods across borders can be complex and costly. More than ever before, effective management of customs and international trade issues is crucial to maintaining a competitive advantage.

EY's customs and international trade professionals can help you manage costs and reduce the risk of penalties and significant supply chain disruption. Our core offerings include strategic planning to manage customs and excise duties, trade compliance reviews for imports and exports, internal controls and process improvement, and participation in customs supply chain security programs.

We develop proactive, pragmatic and integrated strategies that can help you address the challenges of doing business in today's global environment and help your business succeed.

GST Services

Indirect taxes affect the supply chain and the financial system. They can have significant impacts on cash flow, absolute costs and risk exposures. The dedicated indirect tax professionals combines technical knowledge with industry understanding and access to technologically advanced tools and methodologies. We identify risk areas and sustainable planning opportunities for indirect taxes throughout the tax life cycle, helping you meet your compliance obligations and your business goals around the world. We can provide you with effective processes to help improve day-to-day reporting, reduce attribution errors and costs, and make certain indirect taxes are handled correctly in transactions. Our highly integrated teams across the globe will give you the perspective and support you need to manage indirect taxes effectively.

International Tax and Transaction Services

International Corporate Tax Advisory Services

Executives are constantly looking to align their global tax position with their overall business strategy. We can help you manage your tax responsibilities by leveraging the global EY network of dedicated international tax professionals – working together to help you manage global tax risks, meet cross-border reporting obligations and deal with transfer pricing issues.

EY's multidisciplinary teams can help you assess your strategies, assisting with international tax issues, from forward planning through reporting, to maintaining effective relationships with the tax authorities. We can help you build proactive and integrated global tax strategies that address the tax risks of today's businesses and achieve sustainable growth.

Transfer Pricing

Our Transfer Pricing professionals help you build, manage, document, review and defend your transfer pricing policies and processes – aligning them with your business strategy.

Here's how we can help you:

- Strategy and policy development
- Governance optimisation and decision making process to help:
  - Reduce impact of year-end adjustments
  - Monitor transfer pricing footprint
  - Coordinate across organisation
- Global or regional assistance to support transitions to new documentation requirements
- Controversy risk assessment, remediation or mitigation as a result of documentation requirements
- Global transfer pricing controversy and risk management

Transaction Tax Advisory Services

Every transaction has tax implications, whether it's an acquisition, disposal, refinancing, restructuring or initial public offering. Understanding these implications can mitigate transaction risk, enhance opportunity and provide crucial negotiation insights. Transaction Tax Services comprises a worldwide network of professional advisors who can help you navigate the tax implications of your transaction. We mobilise wherever needed, assembling personalised, highly integrated teams across the globe, to work with you throughout the transaction life cycle, from initial due diligence through post-deal implementation. And we can suggest structuring alternatives to balance investor sensitivities, promote exit readiness and raise opportunities for improved returns.

Global Tax Desk

The market leading EY Global Tax Desk network – a co-located team of highly experienced professionals from multiple countries – is located strategically in major business centers so that our desks can respond to your challenges immediately and cost-effectively, avoiding time zone barriers and the high price of international travel.

The desks work as a team – tackling the same problem from all sides – thoughtfully identifying considerations with your cross-border transaction. We work with you to help you manage global operational changes and transactions, capitalisation and repatriation issues, transfer pricing and your supply chain – from forward planning, through reporting, to maintaining effective relationships with tax authorities.

Operating Model Effectiveness

The multi-disciplinary EY Operating Model Effectiveness teams work with you on operating model design, business restructuring, systems implications, transfer pricing, direct and indirect tax, customs, human resources, finance and accounting. We can help you build and develop the structure that makes sense for your business, improve your processes and manage the cost of trade.

People Advisory Services

As the world continues to be impacted by globalisation, demographics, technology, innovation and regulation, organisations are under pressure to adapt quickly and build agile people cultures that respond to these disruptive forces. EY People Advisory Services believes a better working world is helping our clients harness their people agenda – the right people, with the right capabilities, in the right place, for the right cost, doing the right things.

We work globally and collaborate to bring you professional teams to address complex issues relating to organisation transformation, end-to-end employee lifecycles, effective talent deployment and mobility, gaining value from evolving and virtual workforces, and the changing role of HR in support of business strategy. Our EY professionals ask better questions and work with clients to create holistic, innovative answers that deliver quality results.

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If you would like to know more about our services or the issues discussed, please contact the Singapore Tax Partners, Associate Partners and Directors below.

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Glossary of terms

The following definitions apply throughout this Budget Synopsis unless otherwise stated:

BEPS	- Base Erosion and Profit Shifting
EDB	- Singapore Economic Development Board
F&B	- Food and beverage
FY	- Financial year
GAAP	- Generally Accepted Accounting Principles
Government	- Government of Singapore
GST	- Goods and services tax
IFRS	- International Financial Reporting Standards
IPC	- Institution of a Public Character
IRAS	- Inland Revenue Authority of Singapore
ITA	- Income Tax Act
MAS	- Monetary Authority of Singapore
Minister	- Minister for Finance
MNC	- Multinational corporation
PE	- Permanent establishment
PR	- Permanent Resident
R&D	- Research and development
SGX	- Singapore Exchange
SME	- Small-and-medium enterprise
WHT	- Withholding tax
YA	- Year of Assessment

Tax thought leadership

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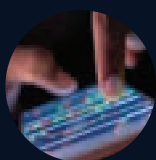
Tax challenges arising from COVID-19


How COVID-19 is impacting transfer pricing models


What lies ahead for Singapore's corporate tax regime


Ways to enhance workforce resilience and manage COVID-19 disruption

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Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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