

29 February 2024

## Tax alert

### Singapore Budget 2024: Introduction of RIC and additional CTR tier on various incentives incentives concessionary tax rate tier on various incentives

Singapore Budget 2024 introduced a Refundable Investment Credit (RIC), a Global Anti-Base Erosion Rules (GloBE) compliant qualified refundable tax credit with the aim to encourage sizeable investments into Singapore.

Adding on to the enhancement of Singapore's suite of investment promotion tools, the Finance Minister also introduced an additional concessionary tax rate tier to a number of tax incentives, namely: Development and Expansion Incentive (DEI), Intellectual Property Development Incentive (IDI), Global Trader Programme (GTP), Finance and Treasury Centre Incentive (FTC) and Aircraft Leasing Scheme (ALS).

Both the RIC and the additional concessionary tax rate (CTR) tier will have significant impact on companies' existing and future investment and incentives in Singapore.

With Singapore's impending implementation of Income Inclusion Rule and Domestic Top-up Tax in 2025, companies should consider how the availability of the above could be factored into their tax strategy.

Overview of RIC

Singapore announced the introduction of the RIC to encourage sizeable investments that bring substantive economic activities to Singapore in key economic sectors and new growth areas such as:

- ▶ Investing in new productive capacity.
- ▶ Expanding or establishing the scope of activities in digital services, professional services, and supply chain management.
- ▶ Expanding or establishing headquarter activities or Centres of Excellence.
- ▶ Setting up or expansion of activities by commodity trading firms.
- ▶ Carrying out R&D and innovation activities.
- ▶ Implementing solutions with decarbonisation objectives.

Depending on project type, qualifying expenditure categories may include:

- ▶ Capital expenditure
- ▶ Manpower costs
- ▶ Training costs
- ▶ Professional fees
- ▶ Intangible asset costs
- ▶ Fees for work outsourced in Singapore
- ▶ Materials and consumables
- ▶ Freight and logistics costs

Salient points of the RIC include:

- ▶ The RIC is to be awarded on an approval basis through the Singapore Economic Development Board (EDB) and Enterprise Singapore (EnterpriseSG).
- ▶ Each RIC award will have a qualifying period of up to 10 years.
- ▶ Support rates will commensurate with the economic outcomes (or decarbonisation outcomes for decarbonisation projects) that the project is expected to bring.
- ▶ Up to 50% of support on each qualifying expenditure category.
- ▶ The credits are to be offset against corporate income tax payable.
- ▶ Unutilised credits will be refunded to the company in cash within four years from when the company satisfies the conditions for receiving the credits.

Observations

- ▶ From a GloBE perspective, the RIC does not reduce the GloBE Effective Tax Rate (ETR) - unlike tax deductions and could thus prove to be more attractive to companies impacted by the Organisation for Economic Co-operation and Development (OECD) Pillar Two GloBE Rules, as compared to other tax incentive schemes such as enhanced tax deductions, tax holidays or concessionary tax rate incentives.
- ▶ The list of economic activities and expenditure supported under the RIC appears to be broad and covers a spectrum of activities ranging from manufacturing to sustainability. This scope is wider than the tax credit schemes in other jurisdictions, which primarily focus on R&D activities.
- ▶ The inclusion of intangible assets costs in the qualifying expenditure list is an alternative to the current intellectual property (IP) writing-down allowance scheme and is noteworthy as it ensures that Singapore continues to remain attractive as a key IP hub.
- ▶ While more details on the RIC are expected to be published in the third quarter of 2024, where companies are expecting incremental investments in Singapore, discussions with the authorities should be initiated before such investment costs are incurred.

Overview of introduction of additional concessionary tax rate tier to tax incentives

To enhance Singapore's suite of investment promotion toolkit and ensure that the tax incentives remain relevant and competitive, the Finance Minister also introduced an additional CTR tier for the following incentives, effective 17 February 2024:

Incentive	Current CTR	Additional CTR tier
Development and Expansion Incentive (DEI)	5% or 10%	15%
Intellectual Property Development Incentive (IDI)	5% or 10%	15%
Global Trader Programme (GTP)	5% or 10%	15%
Finance and Treasury Centre Incentive (FTC)	8%	10%
Aircraft Leasing Scheme (ALS)	8%	10%

## Observations

- ▶ Existing incentive recipients may have the option to engage the relevant government agencies to re-negotiate their existing incentives to the CTR tier of 10% (for ALS and FTC) and 15% (for DEI, IDI and GTP) starting from 17 February 2024 (i.e., with immediate effect)
- ▶ The additional CTR tier offers existing incentive recipients and prospective applicants flexibility to choose the appropriate incentive award depending on their specific facts and circumstances.
- ▶ For FTC and ALS, given the CTR of 10% is still lower than the global minimum tax rate of 15% under the Pillar Two GloBE Rules, the impact from a top-up tax perspective will need to be considered.
- ▶ The proposed introduction of the additional CTR tier of 10% appears to be in response to the impending implementation of the Subject to Tax Rule (STTR) under the BEPS 2.0 initiative, to safeguard the tax revenue collection in Singapore and to ease compliance requirements under the STTR for Singapore companies.
  - ▶ In brief, the STTR allows a source jurisdiction (i.e., the jurisdiction in which the income arises) to tax back certain cross-border intragroup payments, including interest and rental payments, that are subject to a nominal tax rate of below 9% in the recipient's jurisdiction and where domestic taxing rights over that income have been ceded under a tax treaty. This means that for companies enjoying the CTR of 8% provided under the FTC incentive, any interest payments (for example) that they receive from foreign related parties may potentially be subject to the STTR.
  - ▶ The same treatment potentially applies to ALS companies whose lease income is subject to the CTR of 8%.

## Considerations for companies

Companies looking to make significant investments should consider the RIC in its investment strategy, together with potential other tax and non-tax incentives and model its impact to GloBE ETR as part of its planning exercise.

US companies should also consider how RIC would be treated from a US foreign tax credit perspective. For companies assessing whether there is value to move to a higher concessionary tax rate, it should consider whether this impacts the foreign tax credit claims in the US.

Existing incentive recipients and prospective applicants should model the tax costs under the respective CTR tiers before engaging in discussions with the EDB or EnterpriseSG on the suitable CTR tier incentive.

Existing incentive recipients should also consider how the RIC would interact with their existing incentives in Singapore.

## Detailed updates

More details are expected to be released by the EDB and EnterpriseSG by the second quarter and third quarter of 2024 on the additional concessionary tax rate tier and the RIC respectively.

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