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Securing our Future

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At a glance:
Singapore Budget 2019

Overview of Fiscal Position

- Estimated FY 2019 overall budget deficit of **$3.5 billion (0.7% of GDP).**
- $80.3 billion expected expenditure, **1.6% higher than in FY 2018.**

Enhancing support for our Small and Medium Enterprises and start-ups

- **Scale-up SG programme** to provide customised support to high growth local firms.
- **Innovation Agents programme** to provide a pool of experts to advise on opportunities to innovate and commercialise technology.
- **$100 million** to establish SME Co-Investment Fund III.
- A single **Enterprise Financing Scheme.**
- Extend the **SME Working Capital Loan scheme** and **Automation Support Package** to 31 March 2021.
- Expand **SMEs Go Digital programme** to the Accountancy, Sea Transport and Construction industries and increase the number of pre-approved digital solutions.

Managing manpower growth in the services sector

- Reduce Dependency Ratio Ceiling (DRC) for foreign workers to **35%** by 1 January 2021.
- Reduce S Pass Sub-DRC to **10%** by 1 January 2021.
- Extend the **70% funding support** level for the Enterprise Development Grant and Productivity Solutions Grant to 31 March 2023, and expand the scope of the latter.

Building deeper partnerships within Singapore and across the world

- **Local Enterprise and Association Development programme** to continue driving industry transformation.
- Develop systems to facilitate the secure exchange of electronic trade documents.

Bicentennial commemoration schemes

- New **Bicentennial Community Fund** to provide dollar-for-dollar matching for donations made to Institutions of a Public Character in FY 2019.
- Share **$1.1 billion Bicentennial Bonus** with Singaporeans through GST vouchers, workfare bonus, personal income tax rebate, edusave, post-secondary education accounts and CPF top-ups.
- Enhance the one-stop platform, **Giving.sg,** to better match donors and volunteers.

Merdeka Generation Package

- One-time **$100 top-up** to PAssion silver cards to **support active lifestyles.**
- MediSave top up of **$200 per year** from 2019 to 2023.
- **Additional subsidies** at Community Health Assist Scheme GP and dental clinics, MediShield Life premium subsidies for life and participation incentive of **$1,500** for joining CareShield Life.

Changes impacting travellers

- **GST import relief** for value of goods bought overseas is reduced to **$100** (less than 48 hours outside Singapore) and **$500** (48 hours or more outside Singapore).
- **Reduce alcohol duty-free concession** for travellers to **2 litres.**

Diesel Taxes

- Increase in **diesel excise duty** to **$0.20** per litre.
- Reduce annual special tax for diesel cars and taxis by **$100** and **$850** respectively.
- Road tax rebates for commercial diesel vehicles and additional cash grants for diesel buses ferrying students.

Foreword

While the Singapore economy grew by 3.2% last year, there is no place for the nation to rest on its laurels.

Budget 2019 is about strengthening Singapore's economic competitiveness in an era of increasing uncertainty, brought about by rapid technological advancements, changing trade winds and decline in support for globalisation in many parts of the world.

For it is only through transforming its economy that Singapore can seize the opportunities for growth.

Against this backdrop, Finance Minister Heng Swee Keat has built on the foundation laid down in previous Budgets, and proposed measures to continue to deepen enterprise and workforce capabilities, as well as to forge strong partnerships within Singapore and globally. The vision is to position Singapore as a Global-Asia node of technology, innovation and enterprise to ride the wave of the Fourth Industrial Revolution or Industry 4.0.

Central to the first thrust of deepening enterprise capabilities is the move from supporting start-ups to enabling them to scale up, so as to innovate, grow and internationalise. The Minister is continuing to encourage enterprises to make innovation pervasive, having set aside $19 billion as part of a five-year Research, Innovation and Enterprise 2020 plan. The launch of a pilot Innovation Agents programme for firms to tap on experts' advice on how to grow their business should come useful for businesses seeking to expand. On the financing front, the Minister has certainly taken on board industry feedback – more than 71% of the small and medium sized enterprises (SMEs) surveyed believe favourable financing will make the biggest difference to their businesses. The move to build a larger pool of patient capital through the SME Co-Investment Fund III, as well as the consolidation of existing schemes into a single Enterprise Financing Scheme, with the Government sharing up to 70% of the risk of bank loans to new companies, should be much welcomed.

The Government will also expand the SMEs Go Digital programme, and support firms to integrate technology and re-engineer business processes by, among other things, extending the Automation Support Package. This package, which comprises grants to defray automation cost and tax relief from investment allowances for equipment cost (subject to certain caps), as well as loan financing through the enhanced Local Enterprise Finance Scheme, is to encourage companies to undertake larger scale automation projects with a goal to achieve significant productivity gains.

The Minister stresses the need to deepen workforce capabilities, and for life-long learning to stay relevant in a technology-intensive environment for all phases of one's career. The current local and overseas internship programmes will be combined into a Global Ready Talent Programme, with enhanced funding for students going on overseas internships with Singapore firms. With the aim of building a pool of talents that are ready for the international stage, the programme will also provide funding to support the posting of Singaporeans with up to three years of working experience to key markets such as South East Asia, China and India. Finally, to enable experienced professionals to build on their experience to move into new growth areas, new Professional Conversion Programmes relating to blockchain, embedded software and prefabrication will be launched. The urgency in upskilling and re-skilling the workforce as a means to improve productivity and to reduce reliance on lower skilled foreign workers is underlined by the phased tightening of the dependency ratio ceiling for the services sector over the next two years.

Singapore has negotiated various free trade agreements to help businesses gain greater access to new markets. To develop stronger partnerships, the Government will continue to work through Trade Associations and Chambers by strengthening support for those which are able to develop five-year roadmaps and adopt a strategic approach to drive industry transformation.

These initiatives will be underpinned by a competitive and resilient tax system that is meant to help attract and retain investments - it is through growing the economy that Singapore will have a sustainable source of tax revenues. In recognition of this, the Minister has proposed extensions and enhancements to various tax schemes, particularly for those in the asset management sector. These enhancements should provide greater structuring flexibility for fund managers and investors alike, and help promote cross border investments and capital flows. Along with measures to extend the tax concessions for real estate investment trusts and registered business trusts, the excellent physical and regulatory infrastructure and the implementation of Variable Capital Company framework later this year, these proposals will place Singapore in an enviable position as one of the world's leading asset and wealth management centres. Further building such investment platforms also enhance this alternative source of capital for new ventures and existing enterprises alike.

The Government has clearly signalled its commitment to continue to build a caring and inclusive Singapore. For the Merdeka Generation (MG) between ages 60 and 69 today, $6.1 billion has been set aside in a MG Fund to cover healthcare subsidies for life. For parents with school-going children, there are Edusave top-ups. For lower income Singaporeans, there are GST cash vouchers and Workfare Bicentennial Bonuses announced. And for income earners, a 50% personal income tax rebate capped at $200 will be available for the year of assessment 2019. CPF contributions of up to $1,000 is also available for about 300,000 qualifying Singaporeans aged 50 to 64 approaching retirement with anxiety about sufficient retirement funds. This widens the net to those younger than the MG.

While there are these various targeted transfers, there are also tightening of some aspects of the tax system. The total duty-free allowance for liquor products for travellers will be reduced. The goods and services tax (GST) import relief thresholds for travellers will also be lowered. This came after the introduction of GST on imported services in last year's Budget, reflecting the international trend of placing greater reliance on indirect taxes as a source of revenue. The Not Ordinarily Resident scheme will also be phased out to create a level playing field between local and foreign talent. While this could to some extent reduce the attractiveness for foreigners who travel extensively to relocate here from a tax perspective, the fact that the Minister has decided to phase out the tax concession goes to show that there are many other qualities which Singapore possesses, such as housing, education and healthcare, that continues to make us a conducive place for local and foreign talents to work and live. Further, the NOR time apportionment concession historically did not really benefit individuals who are taxed on a worldwide basis, such as US citizens, since they will be paying home country taxes on their total income and claiming a credit for foreign taxes. If they pay less foreign tax, they will end up paying more home country tax. By granting the concession, Singapore is basically giving away its tax base without seeing the benefit accruing to the individual taxpayers.

On a green note, the restructuring of the diesel tax regime, together with the carbon tax announced in last year's Budget, focuses on ensuring we have a sustainable environment, with the view of counteracting the adverse impact of diesel exhaust on health and addressing the urgency in tackling climate change.

A national budget is a strategic plan to allocate resources across competing needs – be it defence, economic, human, social or environmental. Some of these needs are current. Others involve investing for and securing the future. Minister Heng has struck a fine balance in addressing these varying demands, with an eye on maintaining fiscal prudence. Budget 2019 seeks to shape the country's competitiveness and continuing relevance in the world stage in times of increasing uncertainty. Nonetheless, whether Singapore can collectively succeed will depend on whether we are able to capitalise on these measures as well as the opportunities to come.

Yours sincerely,

Yeoh Oon Jin
Executive Chairman
PwC Singapore

Chris Woo
Tax Leader
PwC Singapore

Reactions to the Budget

"The Finance Minister sees an external environment with continuing geopolitical uncertainty, a continuation of the digital revolution and slowing global growth. The Budget response is a focus on security, particularly cyber security, and a targeted approach to expediting digital skills, and re-skilling the workforce with less reliance on foreign manpower.

Peter Le Huray, Global Tax Markets Leader, PwC

"The Government's push for the small and medium-sized enterprises (SMEs) to adopt digital technologies and expand into e-commerce has a two-pronged benefit in terms of helping local businesses expand into new areas, and having the knock-on effect of growing the digital economy which can contribute to the GST collections from imported services from 1 January 2020.

Koh Soo How, Asia Pacific Indirect Taxes Network Leader, PwC Singapore

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"The Enterprise Financing Scheme will enable SMEs to overcome the financial hurdles and expand rapidly and encourage budding entrepreneurs to embark on innovative ventures.

Abhijit Ghosh, Tax Markets Leader, Healthcare Leader, PwC Singapore

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"The Government's mention of attracting patient capital should be music to the ears of the fund management community, especially venture capital and private equity managers. The Government has set aside an additional $100 million for investment in SMEs as co-investment with private sector investment. Big or small, all this shows the Government's positive intent and direction. Such investments have a direct co-relation to investments and employment in Singapore.

Anuj Kagalwala, Asset & Wealth Management Tax Leader, PwC Singapore

"The Singapore Government is willing to make a longer term investment to further compel businesses to improve productivity. The reduction to the Dependency Ratio Ceiling is the necessary medicine in the medium term. It will force enterprises to further invest in new technology, re-skill their existing workforce, and reduce the reliance on cheaper foreign labour.

Chris Woo, Tax Leader, PwC Singapore

"The expansionary budgetary needs in Budget 2019 and increased funding required for the Bicentennial Bonus and Merdeka Generation Package could see the GST rate hike implemented earlier than later in the period 2021 to 2025, although the higher spending costs would be mitigated by the overall budget surplus of $2.1 billion for FY 2018 . However, we should note that the rate hike is only expected to bring in an additional $3.2 billion in tax revenues which just covers the additional $3.1 billion funding for the Long-Term Care Support Fund. The Finance Minister's assertion that our GST is not high by international standards even after the planned increase to 9 per cent gives room for future increases.

Koh Soo How, Asia Pacific Indirect Taxes Network Leader, PwC Singapore

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"APAC assets under management is set to grow faster than any other region globally. PwC expects it to rise from USD 15.1 trillion in 2017 to USD 29.6 trillion in 2025. The proposed extension of the Funds Tax Exemption Schemes (13CA/13R/13X) in Budget 2019 to 31 December 2024 and the various refinements to the tax schemes will position Singapore strongly to have a big bite of this growth. These tax changes for the asset management sectors are the results of a trusted and strong partnership between the MAS and industry players.

Lim Maan Huey, Real Estate & Hospitality Tax Leader, PwC Singapore

Asset and Wealth Management

Singapore's total assets under management (AUM) grew at 19% in 2017, outpacing the average AUM growth rate over the past five years of 15%. The country is strategically located for fund managers focusing on Asia Pacific to capture the growth opportunities in this market.

From a fund domicile perspective, the upcoming implementation of the Variable Capital Company (VCC) framework in 2019 should also lead to a significant growth in the number of Singapore-domiciled funds being set up.

Five years ago, Budget 2014 proposed changes to the asset and wealth management sector with three "R"s concept, being "Renew", "Rationalise" and "Refine". The Budget measures for the sector this year appear to be a continuation of this theme, with a number of positive announcements.

Renew

Incentives extended to 31 December 2024

The Minister has proposed that the 13CA, 13R, and 13X schemes, which were due to expire on 31 March 2019, be extended to 31 December 2024. Along with this renewal, the withholding tax exemption for interest-related payments made by funds under these schemes and the Goods and Services Tax (GST) remission scheme for these funds will also be extended to 31 December 2024.

Refine

13CA and 13R schemes

Removal of the "not 100% owned by Singapore persons" condition

Currently, funds seeking to enjoy the 13CA or the 13R schemes must not be 100% owned by Singapore persons. This Budget announces the removal of this condition with effect from the year of assessment (YA) 2020. In other words, in the future, funds can be 100% owned by Singapore persons and still enjoy the 13CA or 13R schemes subject to satisfaction of the other conditions.

Financial penalty for non-qualifying investors

Although not mentioned, the rule that non-qualifying investors in 13CA and 13R funds are liable to pay a financial penalty is expected to continue to apply. Broadly, a non-qualifying investor refers to a Singapore non-individual investor owning more than 30% (50%, in some cases) in the fund.

Currently, the fund manager has to issue annual statements to all investors in the 13CA or 13R fund. The statement provides information which allows investors to determine whether it is a non-qualifying investor and thus liable to the financial penalty.

Going forward, it has been clarified that the fund manager need only issue annual statements to non-qualifying investors and the fund manager must publish the relevant information on its website to enable investors to assess whether they are "non-qualifying investors".

The 13R scheme

Condition to not have income before application filed has been modified

The 13R scheme currently imposes a condition that the 13R fund must not be a person that was previously carrying on a business in Singapore, where that business in Singapore generated income that would not have been tax-exempt. No exception was allowed to this condition.

Going forward, it has been clarified that the above condition will be modified. Funds will be allowed to file a 13R application even if they have derived income before the filing as long as it is incidental income from:

- warehousing of investments;
- placement of monies in deposits or money market instruments on a temporary basis; or
- setting up bank accounts in anticipation of commencing operations.

This change removes pressure of timing the application for the 13R scheme. It is a welcomed move.

The 13X scheme

This Budget announces the following enhancements to the 13X scheme which will apply with effect from 19 February 2019:

Umbrella 13X structures enhanced to include co-investments

Currently, one of the conditions for a Master-Feeder-Special Purpose Vehicle (SPV) structure or Master-SPV structure to be approved as an “umbrella 13X structure” is that the SPV must be wholly-owned by the master fund. This condition impedes co-investments at the SPV level, since the fund manager is not able to offer investments in the SPV to other willing investors.

It is proposed that under an umbrella 13X structure, co-investments will be allowed (i.e. the SPV need not be 100% owned by the master fund) as long as the co-investor is an incentivised fund (i.e. 13CA, 13X or 13R fund) or a foreign investor.

Umbrella 13X structure to allow use of SPVs in any legal form

Currently, only SPVs which are companies can be covered under the umbrella 13X structure. The Budget has announced that SPVs in any legal form can be covered under the umbrella 13X structure.

Umbrella 13X structure to allow use of more than two tiers of SPVs

Currently, only two tiers of SPVs are permitted under the umbrella 13X structure. It has been announced that this restriction will be removed.

Debt and credit funds can rely on “committed capital” concession

At present, only private equity, real estate and infrastructure funds are able to rely on the “committed capital” concession in meeting the minimum fund size condition under the 13X scheme. It has been announced that debt and credit funds will also be eligible for this concession. Further, it has been clarified that a private equity fund of funds will also be eligible for this concession.

13X scheme applicable to managed accounts

A managed account is defined as a dedicated investment account where an investor places funds directly with a fund manager without using a separate fund vehicle.

This approach of appointing an investment manager may generally be preferred (over investment in third party funds) by organisations that require tailored investment portfolios given their investment objectives and risk appetites. However, where offshore managed accounts are discretionarily managed by fund managers in Singapore, the income or gains of the managed accounts may be subject to Singapore tax. Protection under the 13CA or 13X schemes may be sought to mitigate such Singapore tax exposure. That said, the application of current 13CA or 13X rules to manage accounts pose some challenges. For instance, the 13CA scheme is provided to a prescribed person which is defined only in the context of an individual, a company or a trust and hence, the 13CA scheme may not be applicable to offshore entities in other legal forms. Further, the 13X scheme requires the applicant fund to be an investment vehicle that does not carry out any active business operations other than investment business (this condition is typically not met in the context of managed accounts). The inclusion of managed accounts for the 13X scheme should therefore result in an increase in the assets under management in Singapore.

Designated investments

The 13CA, 13R and 13X schemes provide for exemption of specified income derived from designated investments. The definition of specified income was changed to take the form of an exclusion list a number of years ago. All income from designated investments is exempt unless specifically excluded. However, designated investments remains an inclusion list, such that only investments specifically mentioned on this list will come within the scope of exemption. While this Budget has not transformed the designated investments list to an exclusion list (which would have been preferred), the announcement that currency and counterparty restrictions will be removed is much welcomed, and is expected to apply to the following items from the current list:

Current designated investment limbs	Changes
Securities – (i) denominated in foreign currency issued by foreign governments; (ii) listed on any exchange; (iii) issued by supranational bodies; or (iv) issued by any company (but excluding those in the business of trading or holding Singapore immovable properties (other than the business of property development) and not listed on a stock exchange)	Currency and counterparty restriction removed
Deposits held in Singapore with any approved bank as defined in section 13(16) of the Income Tax Act	Counterparty restriction removed
Foreign currency deposits held outside Singapore with financial institutions outside Singapore	Currency and counterparty restriction removed
Interest rate or currency contracts on a forward basis, interest rate or currency options, interest rate or currency swaps, and any financial derivative relating to any designated investment or financial index, with certain counterparties	Counterparty restriction removed
Loans granted to certain counterparties	Counterparty restriction removed

More details will be available in May 2019.

The designated investment list has been periodically reviewed and updated to include the latest financial products invested/traded by funds. This Budget has announced the inclusion of investments such as Islamic financial products that are commercial equivalents of designated investments and credit facilities and advances. It is expected that accounts receivable, letters and letters of credit and emission allowances will also be included in the list of designated investments.

The condition that units in a unit trust qualify as designated investments only if the unit trust wholly invests in designated investments has been removed. This is a welcome relief since it was an all or nothing test, with even an immaterial investment by the unit trust in a non-designated investment tainting the unit entirely.

The above changes apply to income derived from 19 February 2019.

Specified income will include Singapore sourced interest income

Funds under the 13CA, 13R and 13X schemes enjoy tax exemption on specified income derived from designated investments. Specified income currently does not include payments that fall within the ambit of section 12(6) of the Income Tax Act (in essence, Singapore-sourced interest), subject to certain exceptions. The wide coverage of that provision can cause unintended tax consequences for the funds. This affects bond funds, multi-asset funds and credit funds the most since they generally hold a large portfolio of debt instruments.

In one of the most welcomed announcements, this Budget proposed an enhancement to the definition of specified income. With effect from 19 February 2019, specified income will not exclude income falling within the ambit of section 12(6).

This will alleviate the tax compliance burden of taxpayers and simplify the tax administration for the Inland Revenue Authority of Singapore (IRAS). This in turn increases the attractiveness of setting up and managing credit funds in Singapore, leading to more capital inflows to Singapore.

Investment in S-REITs and REIT ETFs qualify for 10% concessionary rate

Non-resident funds under section 13CA and 13X schemes can now enjoy the 10% concessionary tax rate applicable to qualifying non-resident non-individuals when investing in Singapore-listed Real Estate Investment Trusts (S-REITs) and REIT Exchange-Traded Funds (REIT ETFs). This enhancement will apply to S-REIT and REIT ETF distributions made from 1 July 2019 to 31 December 2025.

Rationalise

Designated Unit Trust scheme to be subsumed under other schemes

The Designated Unit Trust (DUT) scheme will be allowed to lapse although funds in the form of unit trusts may apply for other tax exemption schemes for funds such as the 13CA or 13X schemes after 31 March 2019. Existing DUT funds will continue to receive the tax deferral benefits under the DUT scheme from 1 April 2019, if they continue to meet all the requisite conditions.

For new funds seeking to rely on the protection offered by the 13CA scheme, there will be a need to monitor the investors for the qualifying investor test. We hope that in time to come, retail unit trusts (meant to be marketed to individuals) can be deemed to have met the qualifying investor test under 13CA scheme.

Approved Unit Trust scheme to lapse

The Approved Unit Trust (AUT) scheme will be allowed to lapse after 18 February 2019. The AUT scheme seems not commonly relied upon by taxpayers given the wide array of tax incentives discussed above. However, as a transitional measure, existing AUTs will continue to be able to enjoy the tax concession under the AUT scheme for a period of five years from YA 2020 to YA 2024.

Details of these changes are expected to be released in May 2019. In the meantime, we applaud the Government for taking on board feedback from the industry. We are optimistic that with the above changes and the implementation of the VCC framework later this year, Singapore will continue to be one of the leading asset and wealth management centres of the world.

Real Estate

Reflecting on 2018

The following key tax changes were made for the real estate sector in 2018:

- The top marginal Buyer's Stamp Duty (BSD) rate for acquiring residential properties was raised from 3% to 4%, applicable to the part of the value of residential properties that exceed $1 million; and
- On 5 July 2018, Additional Buyer's Stamp Duty (ABSD) was raised by 5% for citizens and permanent residents (PRs) buying second and subsequent residential properties, and by 5% and 10% for foreigners and entities (such as companies) acquiring residential properties respectively. These changes had a corresponding effect on the Additional Conveyancing Duties for Buyers (ACDB). These ABSD and ACDB changes were announced in addition to tweaks in loan-to-valuation ratios.

These measures were introduced by the Government to stabilise the residential property market given the increasing trend in private home prices in 2018. The Government was concerned that the sharp increase in Singapore private property prices could run ahead of economic fundamentals and raise the risk of a destabilising correction later, especially with trends of rising interest rates and a strong pipeline of Singapore housing supply.

As expected, the Government is still monitoring the impact of the 2018 tightening measures and no stamp duty changes were announced in Budget 2019. It is hoped that the cooling measures may be reviewed should there be any change in economic conditions.

Real estate funds

Singapore continues to serve as a Global-Asia gateway for asset managers and investors. In 2017, 78% of AUM were sourced from outside Singapore. 67% of AUM were invested in Asia Pacific, with investments into ASEAN countries accounting for 39% of AUM. The AUM of REITs and real estate funds managed from Singapore continued to register growth of about 13% in 2017.

From a tax perspective, the various tax exemption and concession schemes for funds and REITs in Singapore which have been refined over the last 20 years have no doubt supported the growth. In this year's Budget, we are pleased to see that the various tax exemption schemes and concessions for funds and REITs have been extended to 31 December 2025 and several simplifications have been made. The extension of the schemes and changes will provide tax certainty for the industry and reduce tax costs of managing funds from Singapore which will help Singapore achieve its ambition of being an Asian Hub for Fund Management and Fund Domiciliation as announced in the Monetary Authority of Singapore (MAS) Industry Transformation Map (ITM) in October 2017.

S-REITs

S-REITs currently enjoy the following tax concessions with an expiry date of 31 March 2020:

- Tax exemption of distributions received by individual investors (who do not derive the distributions through a partnership in Singapore or from the carrying on of a trade, business or profession);
- Concessionary tax rate of 10% for distributions received by non-resident non-individual investors; and
- Tax exemption of qualifying foreign-sourced income received by S-REITs and their wholly-owned Singapore resident subsidiaries, which is paid out of certain income or gains in respect of overseas property acquired on or before 31 March 2020 by the trustees of S-REITs or their wholly-owned Singapore resident subsidiaries.

It is proposed that the tax concessions for S-REITs will be extended to 31 December 2025.

In addition, the sunset clause for tax exemption on S-REIT distributions received by individuals will be removed.

REIT ETFs

Singapore-listed REIT ETFs currently enjoy the following tax concessions up to 31 March 2020:

- Tax transparency treatment for distributions received by REIT ETFs from S-REITs, which are made out of the S-REIT's specified income (REIT ETF Distributions);
- Tax exemption on REIT ETF Distributions received by individuals (who do not derive the distributions through a partnership in Singapore or from the carrying on of a trade, business or profession); and
- Concessionary tax rate of 10% on REIT ETF Distributions received by qualifying non-resident non-individuals.

Aligned with the proposed tax changes for S-REITs, these tax concessions for REIT ETFs will be extended to 31 December 2025. Similarly, the sunset clause for tax exemption on REIT ETF Distributions received by individuals will be removed.

Singapore is home to the largest number of REITs in Asia, outside of Japan. The proposed tax enhancements should be well received given Singapore's interest in promoting itself as a global REIT hub. Additionally, given the strong retail investor base in S-REITs and REIT ETFs, the proposed removal of the sunset clause for tax exemption on S-REIT distributions and REIT ETF Distributions received by individuals will help provide certainty to these investors which will in turn help promote greater liquidity for such funds.

Goods and Services Tax

After the excitement of the GST rate increase and the GST on imported services in Budget 2018, we were not expecting major announcements on GST this year.

The GST changes in Budget 2019 can be broadly summarised as follows:

Reminder – GST rate hike

While the GST rate hike from 7% to 9% was already announced last year, the Finance Minister took the chance to remind Singaporeans of the impending rate hike and the fact that the standard rate of 9% is not high by international standards. With an increase in recurring spending needs in areas such as healthcare, pre-school education and security, we may see the GST rate hike implemented earlier rather than later in the years 2021 to 2025.

Revision – Tightening of GST import relief for travellers and duty-free allowance limits

What was unexpected were the tweaks made to the GST import relief for travellers.

Travellers who spend less than 48 hours outside Singapore will enjoy GST import relief for up to $100 (instead of $150 currently) of the value of goods bought overseas. For travellers who spend 48 hours or more outside Singapore, the quantum of GST relief will be reduced to $500 (from $600). This takes effect from 19 February 2019.

The duty-free allowance enjoyed by travellers on liquor products will also be reduced from three litres to two litres with effect from 1 April 2019.

The above measures could be:

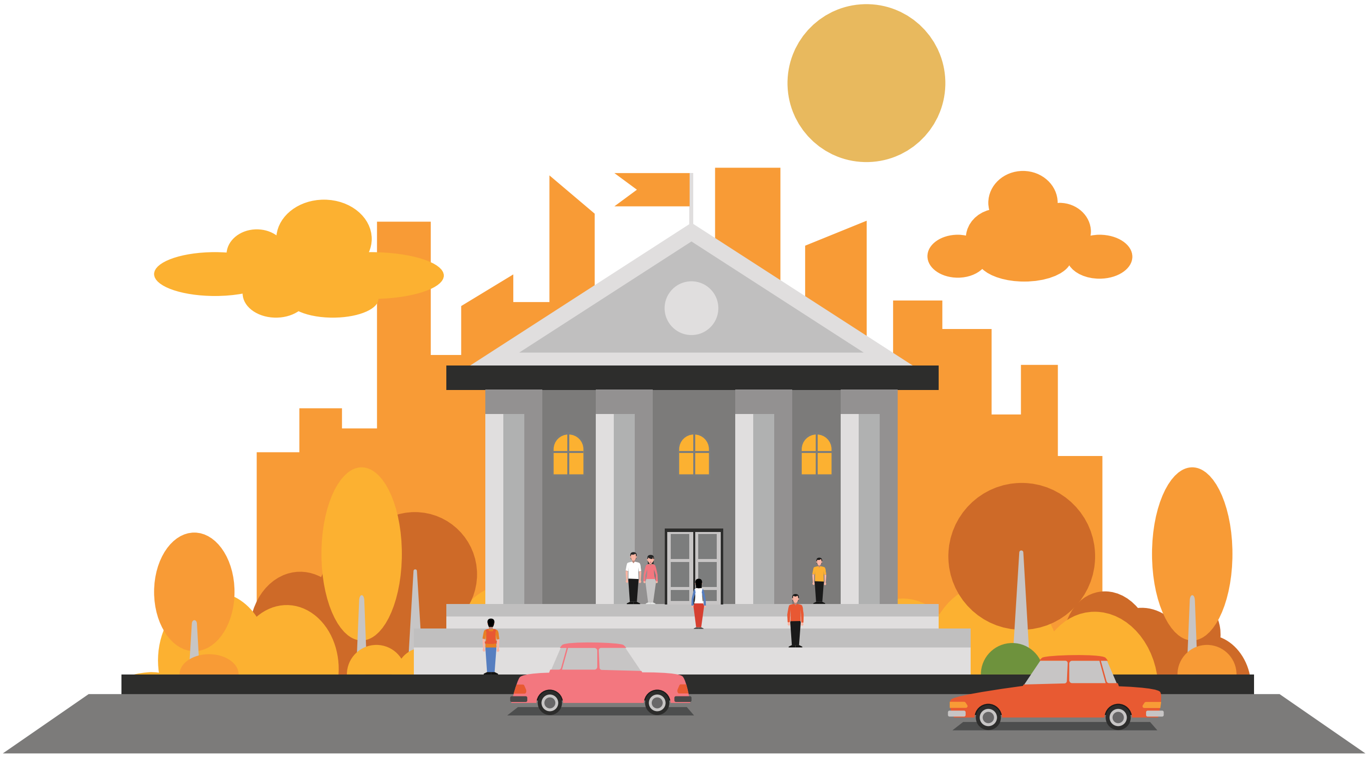
- A reminder to travellers to pay import GST if they bring into Singapore goods purchased overseas that exceed the import relief quantum. It remains to be seen if we will see an increase in the enforcement efforts by Singapore Customs on travellers' purchases.
- A precursor to the taxation of low value imports. Currently, goods imported by air or by post of up to $400 are not subject to GST.

Extend GST remission for S-REITs and Singapore-listed Registered Business Trusts

The current GST remission granted to S-REITs and Singapore-listed Registered Business Trusts (RBTs) in the infrastructure business, ship leasing and aircraft leasing sectors will be extended from 31 March 2020 to 31 December 2025. The GST remission was introduced to encourage listing of these S-REITs and RBTs in Singapore.

This is a welcomed move especially in view of the introduction of reverse charge on their imported services from 1 January 2020 and the impending GST rate increase which will take place sometime between 2021 to 2025.

Writing-down Allowances for Intellectual Property Rights



Initially introduced in the 1990s to allow businesses to claim writing down allowance (WDA) on approved know-how or patent rights, section 19B of the Income Tax Act has since been enhanced substantially and its qualifying period extended over the years to develop Singapore's attractiveness as an international holding location for intellectual property rights (IPRs).

Qualifying IPRs are defined as patents, trademarks, registered designs, copyrights, geographical indications, lay-out designs of integrated circuits, trade secrets or information that has commercial value and grant of protection of plant varieties.

The WDA is currently available for capital expenditure incurred on qualifying IPRs acquired on or before the last day of the basis period for YA 2020. In recognition that IPRs are important creators of value in a knowledge-based economy, the WDA under section 19B will be extended to cover capital expenditure incurred on qualifying IPRs acquired on or before the last day of the basis period for YA 2025. All other conditions for claiming of the WDA remain unchanged.

The extension of the WDA is necessary as Singapore moves into the next phase of positioning itself as the Global-Asia node for IPR creation, location and management even as other competing economies are stepping up to boost their attractiveness as IPR hubs – for example, Hong Kong had in 2018 expanded its tax deduction regime to cover additional types of IPRs.

Restructure Diesel Taxes Regime

With effect from 18 February 2019, the excise duty on diesel fuel will be increased to $0.20 per litre from $0.10 per litre. At the same time, the annual Special Tax on diesel taxis will be permanently reduced by $850, and that for diesel cars by $100.

To help cushion the cost impact on businesses, road tax rebates for commercial diesel vehicles will be provided for three years as follows:

1 August 2019 to 31 July 2020	100% road tax rebate (this supersedes the 25% road tax rebate announced at Budget 2017)
1 August 2020 to 31 July 2021	75% road tax rebate
1 August 2021 to 31 July 2022	50% road tax rebate

Cash grants for the three years will be disbursed by the Land Transport Authority every six months for diesel buses ferrying school children. The yearly amounts are as follows:

1 August 2019 to 31 July 2020	$1,600 (this supersedes the cash grant of $350 announced at Budget 2017)
1 August 2020 to 31 July 2021	$800
1 August 2021 to 31 July 2022	$400

Eligible diesel private hire and excursion buses that ferry students will also be given the cash grants to ease the impact of the increased diesel duty on school bus fees. To be eligible, diesel private hire and excursion buses must have ferried students continuously for at least six months. The cash grants are as follows:

1 August 2019 to 31 July 2020	up to $1,800 (this supersedes the cash grant of up to $450 announced at Budget 2017)
1 August 2020 to 31 July 2021	up to $900
1 August 2021 to 31 July 2022	up to $500

Allow the Property Tax (Tourist Projects) Order to Lapse

The Property Tax (Tourist Projects) Order (the Order) was introduced in 1987 to promote tourism. Under the Order, approved tourist projects could have their annual value computed at 6% of the preceding year's gross receipts, for the first five years from the completion of the buildings. This concession lapsed on 18 February 2019.

Building Deep Enterprise Capabilities

Start-ups and high growth local companies face different challenges as they scale up and internationalise

Recognising that business challenges are unique for different firms, the Finance Minister announced that he would set aside up to $1 billion in a combination of existing and new schemes and programmes in the following three key areas of assistance to local companies.

Supporting innovation and enabling firms to scale

Local companies can seek support from Enterprise Singapore for customised assistance in identifying and overcoming business challenges under two new initiatives – the Scale-up SG programme and Innovation Agents programme.

- Scale-up SG will help aspiring, high-growth local companies identify and develop new capabilities, to innovate, grow and internationalise; and
- The Innovation Agents programme is a two-year pilot for companies to obtain advice on opportunities from experienced industry professionals who possess both technology and business expertise. Enterprise Singapore will match companies to Innovation Agents. The Innovation Agents will mentor aspiring companies to help identify opportunities and facilitate connections to valuable technology and business partners.

Details of the two new programmes, including the level of funding support, will be provided by Enterprise Singapore later this year. The new programmes should be welcomed by local companies as they can now seek support in tackling business challenges unique to themselves, and co-develop solutions tailored for their growth journey with industry experts.

Enhance access to patient capital and financing

Government co-investment scheme

To date, the Government has provided $400 million of capital under different funds since 2010 to catalyse patient growth capital (i.e. long-term financing) through its co-investments with the private sector.

In this year's Budget, the Government will set aside an additional $100 million to set up the SME Co-Investment Fund III to be managed by Heliconia Capital Management Pte Ltd. The Fund will help local companies scale up. To access this Fund, qualifying investee companies must have their key management functions and headquarter activities based in Singapore and revenues of up to $500 million.

Loan financing scheme

In October 2019, the Government will streamline eight existing financing schemes into a single Enterprise Financing Scheme (EFS) to be launched by Enterprise Singapore, the objective being to simplify and enhance the accessibility of loan funding to local companies at different stages of growth. The EFS will cover the whole spectrum of financing needs from trade, working capital, fixed assets, venture debt, mergers and acquisitions to project financing.

The EFS will provide a higher level of support of up to 70% (currently 50% under most loan schemes) of the risk for bank loans that will be extended to companies (i.e. those incorporated for less than five years).

In addition, the SME Working Capital Loan Scheme of up to $300,000 will also be extended till 31 March 2021 and will be subsumed by the EFS which will launch in October 2019. It is expected that the extension of the SME Working Capital Loan Scheme itself will catalyse a further $1.8 billion of working capital support to viable local companies.

The above schemes will help deepen the pool of capital so as to create a more vibrant start-up ecosystem and enable viable local companies to scale up and venture into new growth markets.

Support firms to go digital

Digital transformation for businesses large and small is touted as the new industrial revolution, a transition driven by technologies such as artificial intelligence (AI), robotics, Internet of Things solutions and other Industry 4.0 technologies.

It is encouraging to see the strong focus and commitment provided in this Budget for businesses, both big and small, which are embracing digitalisation under the following initiatives.

Expanding the SMEs Go Digital Programme

The SMEs Go Digital Programme introduced in Budget 2017 has supported some 4,000 SMEs in their adoption of pre-approved digital solutions.

In this year's Budget, the Infocomm and Media Development Authority (IMDA) will further expand the SMEs Go Digital programme by developing Industry Digital Plans (IDPs) for the Accountancy, Sea Transport and Construction sectors, and expanding the suite of pre-approved digital solutions to include AI-infused and cybersecurity solutions. As of 2018, IDPs have been developed for seven sectors: Environmental Services, Retail, Food Services, Wholesale Trade, Logistics, Security, and Media.

The expansion signifies a sustained push to encourage more SMEs to embark on the digitalisation journey.

Enhanced Productivity Solutions Grant

Introduced in Budget 2018, the Productivity Solutions Grant (PSG) provides up to 70% funding support for adoption of pre-scoped, off-the-shelf technologies. The support for pre-approved solutions under the SMEs Go Digital Programme will be streamlined into the PSG.

The 70% level of funding support is now extended to 31 March 2023 with support levels to be subject to review thereafter. PSG is also expanded to support 70% of out-of-pocket training expenses (net of other subsidies), capped at $10,000. Enterprises are required to submit a training plan after the approval of the PSG application.

While the move to include training cost to upskill employees impacted by new technology solutions is welcomed, the ease of the application process will be a key question to be addressed as details are provided later.

Further, the PSG is only available to SMEs registered and operating in Singapore with at least 30% local shareholding who use the digital solutions/ equipment in Singapore. It may yield better results if the local use condition can be relaxed to enable deployment of digital solutions/equipment for the SMEs' overseas related entities.

Enhanced Enterprise Development Grant

The extension of the enhanced support under the Enterprise Development Grant (EDG) of up to 70% for three years up to 31 March 2023 is a welcomed move. It encourages large and small enterprises to undertake digital transformation projects to strengthen business capabilities, improves operational efficiencies and reduces reliance on labour. Currently, SMEs enjoy funding support of up to 70% of qualifying project costs (e.g. third party consultancy fees, incremental internal manpower cost) and up to 50% for software and equipment costs, while non-SMEs can avail themselves of funding support of up to 50% of qualifying costs.

With effect from 1 April 2020, enterprises would be required to commit to outcomes for workers, such as wage increases as an added qualifying condition for the grant. Pending details of the timeframe for such commitments and the minimum quantum involved, this may be a challenging requirement for enterprises given the uncertain economic outlook. Further, any improvements to the current application process of eight to ten weeks would also be welcomed.

Digital Services Lab

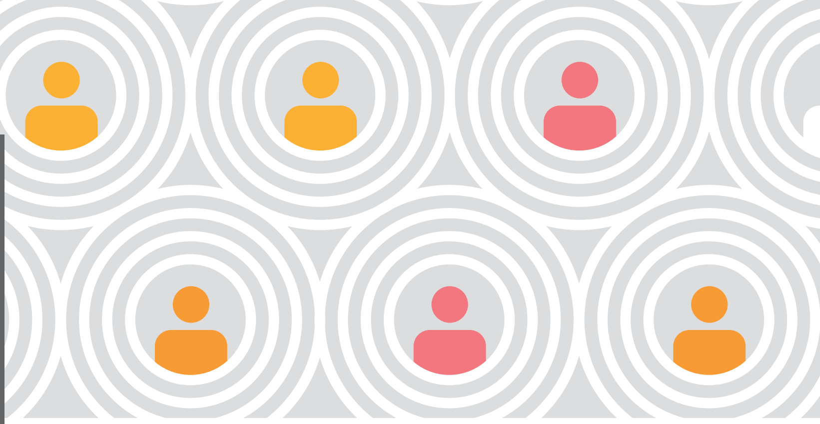
Driving the digital transformation at an industry level, IMDA is leading a three-year pilot programme to develop new technology solutions for the services sectors (e.g. in logistics, retail and media). This is in partnership with Research Institutes, Institutes of Higher Learning, technology providers, and end-user companies. Funding support of up to 70% of qualifying costs for companies participating as demand users and technology solutions providers are also available.

With the impending tightening of the foreign worker ratios in the services sector, industry-wide solutions and funding support such as the Digital Services Lab (DSL), EDG and PSG should be welcomed by companies in the services sector which need to increasingly leverage on technology going forward.

Extension of Automation Support Package

The Automation Support Package (ASP) was introduced in Budget 2016 to encourage companies to embark on large-scale automation projects for increased productivity. The ASP is now extended for two years up to 31 March 2021. The ASP has grants, tax and loan support as follows:

Grant	Tax	Loan
Provided through EDG supporting up to 50% of qualifying costs for automation projects, capped at $1 million.	100% investment allowance on Enterprise Singapore approved capital expenditure (net of grants), capped at $10 million per project.	Provided through SME financing schemes such as the SME Equipment and Factory Loan of up to $15 million to purchase equipment, machinery/ selected factory properties, which will be subsumed under EFS from October 2019. Risk sharing by Enterprise Singapore with participating financial institutions of up to 70% for SMEs and 50% for non-SMEs in the event of loan default.



Increase Workforce Capability

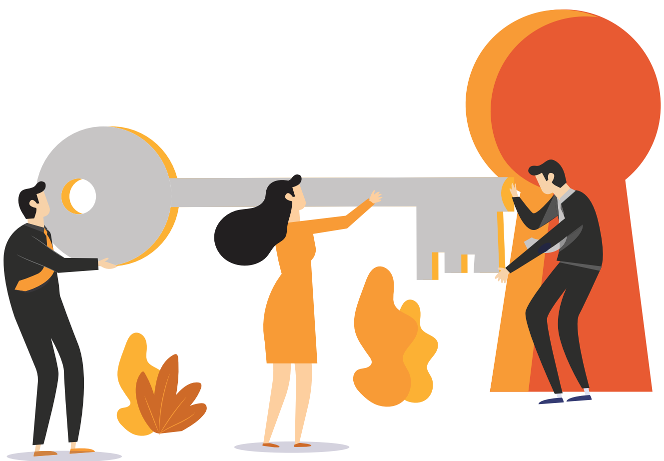
Adjustment to the foreign workforce quota for the services sector

To enhance the complementarities of local and foreign workers in the services sector, the maximum permitted ratio of foreign workers to the total workforce (the Dependency Ratio Ceiling (DRC)) and S Pass sub-DRC will be reduced in two phases as shown in the table below.

	Current	1 January 2020	1 January 2021
DRC	40%	38%	35%
S Pass sub-DRC	15%	13%	10%

Foreign Worker Levy rates

Foreign Worker Levy rates will remain unchanged for all sectors. The previously announced increases for the Marine Shipyard and Process sectors will be deferred for another year.



The deferral of the worker levy increases will be a relief to the Marine Shipyard and Process sectors which are showing nascent signs of a recovery from the years of depressed oil prices. However, the tightening of the DRC may prove a challenge for enterprises in the services sector unless they can quickly implement automation, redesign jobs, reskill employees or employ older Singapore workers.

Global Ready Talent Programme

The Global Ready Talent Programme (GRTP) consolidates existing young talent programmes, namely the SME Talent Programme, Young Talent Programme and Go Southeast Asia Award, into a single programme. The GRTP aims to give young Singaporeans an international work/internship experience, and support Singapore SMEs looking to internationalise. Support will be given in the form of subsidies for the costs of deploying interns (Singaporeans or permanent residents) and employees during the first three years of their careers within Singapore or overseas, subject to qualifying conditions.

The Ministry of Trade and Industry will provide more details later in the year.

This is welcomed, however thought must be put into how the overseas postings will be managed to deliver a meaningful experience for the individuals and a positive return on investment for participating firms.

Aside from financial support, employers may still need to deal with complex immigration, payroll, social security, employment law and tax considerations which participating firms may be unfamiliar with.

The success of this programme will be greatly enhanced if strong partnerships are forged at inter-governmental levels to address some of the complexities mentioned above.

Singapore enterprises will eagerly await further details on the GRTP qualifying conditions and benefits.

Social Measures

The Finance Minister took pains to emphasise that the central objective of the Budget measures is to improve the lives of current and future generations of Singaporeans.

Focusing on the key long-term goal of building a caring and inclusive society, Budget 2019 contained a slew of social measures for Singaporeans of all demographics, with the Merdeka Generation (MG) Package and the Bicentennial initiatives taking centre stage.

These measures are driven by the three main strategies of:

- Uplifting Singaporeans to maximise their potential and providing access to opportunities through different stages of life;
- Providing greater assurance of healthcare; and
- Fostering a community of care and contribution through strong partnerships.

We discuss each of the key measures below.

Uplifting every Singaporean

For children from disadvantaged backgrounds, the Government intends to continue strengthening proactive and targeted assistance initiatives such as the $800 monetary award under UPLIFT, and enhance after-school care and support. More details will be announced by the Minister for Education.

As for lower wage Singaporean workers, the Workfare Income Supplement (WIS) will be further enhanced to:

- Revise the qualifying income cap to $2,300 per month (previously $2,000); and
- Increase maximum annual payouts by up to $400, with older workers receiving more.

To support employers in hiring the older Singaporean workers, the Special Employment Credit (SEC) and Additional SEC (ASEC) schemes will be extended for another year, until 31 December 2020 through a $366 million top-up.

Meanwhile, a Tripartite Workgroup has been established to look into issues such as retirement/re-employment policies and matters related to the Central Provident Fund for older workers.

Collectively, these measures seek to provide targeted assistance or improve existing safety nets for vulnerable groups of Singaporeans at pivotal stages of their lives.

Healthcare assurance

Healthcare costs remain an area of concern of many Singaporeans.

In ensuring healthcare is affordable and accessible, the Community Health Assist Scheme (CHAS) will be further enhanced:

- Universal coverage for chronic conditions, regardless of income;
- CHAS orange cardholders who are currently receiving subsidies for chronic conditions will also receive subsidies for common illnesses; and
- Increased subsidies for complex chronic conditions.

Financial protection for long term care

For the severely disabled, the Government has committed a total of $5.1 billion in a Long-term Care Support Fund to fund the Careshield Life insurance premium subsidies and other long-term care support measures, such as ElderFund. The CareShield Life insurance premium subsidy will be introduced from 2020 to provide lifetime coverage for those who become severely disabled. The ElderFund, which will also be introduced next year, will provide financial support to those who may not be able to join CareShield Life or have low MediSave balances.

Merdeka Generation Package

The MG Package is a gesture of the nation's gratitude for the MG seniors' contributions and a way to support them in their silver years. The MG Package provides for Singaporeans who obtained their citizenship by 1996 and who are between 60 and 69 years old in 2019. It will also include citizens born in 1949 or earlier who missed out on the Pioneer Generation (PG) Package if they obtained their citizenship by 1996.

The MG Package has five key benefits:

- A one-time $100 top-up to their PAssion Silver Card to encourage an active lifestyle;
- Yearly $200 MediSave top-up until 2023 to help them save more for the healthcare needs;
- Additional CHAS subsidies for common illnesses, chronic conditions and dental procedures and 25% discount on qualifying medical bills;
- Life-long subsidy on their MediShield Life premiums starting from 5% and increasing to 10% after the age of 75; and
- Additional $1,500 participation incentive for MG seniors who join CareShield Life when it becomes available.

The above benefits are on-top of current available benefits such as the GST Voucher – MediSave and MediShield Life subsidies for lower to middle income Singaporeans. It is estimated that about 500,000 Singaporeans will benefit from the MG Package.

Healthcare

For the next five years, a yearly MediSave top-up of $100 will be given to Singaporeans aged 50 and above in 2019, who do not receive benefits from the PG Package or MG Package.

Bicentennial initiatives

Major bicentennial celebrations have been planned in 2019 to commemorate 200 years since Sir Stamford Raffles landed in Singapore. As we celebrate our heritage and remember our forefathers, Singaporeans are encouraged to actively give back to build a caring and inclusive society. The Bicentennial Community Fund (BCF) and Bicentennial Bonus were announced in support of this.

The BCF will provide dollar-for-dollar matching for donations garnered by Institutions of a Public Character (IPCs) in financial year 2019, up to a certain cap for each IPC. The existing 250% further tax deduction continues to be available to taxpayers.

The $1.1 billion Bicentennial Bonus has the following components:

- Lower-income Singaporeans will receive up to $300 through a GST Voucher-Cash (Bicentennial Payment);
- Lower-income workers under the WIS scheme will receive a Workfare Bicentennial Bonus of additional 10% of their WIS payment for work done in 2018, with a minimum payment of $100 in cash;
- Income earners will enjoy a personal income tax rebate for YA 2019 (further details below);
- Parents with school-going children can look forward to a $150 top-up to their children's Edusave accounts. Singaporeans aged 17 to 20 will receive up to $500 in their Post-Secondary Education Accounts; and
- Eligible older Singaporeans aged 50 to 64 years old in 2019, who have less than $60,000 of retirement savings in their CPF accounts, will enjoy a CPF top-up of up to $1,000 into the Special Account or Retirement Account, depending on age.

These measures are aimed at easing the financial burden of Singaporeans with specific needs while commemorating this special moment in Singapore's history.

ComCare Long-Term Assistance and Singapore Allowance

Other social schemes that will be enhanced in 2019 include:

- ComCare Long-Term Assistance scheme which will see an increase in the cash assistance rates; and
- Increase in Singapore Allowance and monthly pension ceilings.

Details will be released later this year.

Personal Tax

Continued focus on ensuring a fairer individual tax regime

One of the recurring themes of the last few Budgets has been the focus on enhancing the progressivity of the personal tax system. Continuing this effort, Budget 2019 proposes the following:

Removal of the Not Ordinarily Resident scheme

The Not Ordinarily Resident (NOR) scheme, which allows high-income employees with significant business travels outside Singapore to reduce their effective tax rate to as low as 10%, will lapse after 31 December 2019.

This scheme is popular with globally mobile employees and played its part in bringing high income earning foreign talent to our shores. The NOR scheme has helped to negate some of the high tax costs arising from the recent increase in marginal tax rates to 22%. This has helped to maintain Singapore's tax competitiveness when compared to neighbouring countries, especially Hong Kong where the effective tax rate is typically 15%. However, the qualifying criteria generally means that Singaporean employees do not enjoy the benefits of the NOR scheme. The announcement that the scheme will be allowed to lapse, though surprising, appears to be aimed at enhancing tax fairness and ensuring a level playing field for all taxpayers.

Economic competitiveness is not measured purely by tax costs. Factors like ease of doing business, a clean and family-friendly environment, world-class healthcare, and infrastructure facilities all play a part. By its removal, the Government signifies its confidence that the NOR scheme has achieved its objectives and that Singapore possesses many qualities (other than tax) as a conducive place for both local and foreign talents to live and work.

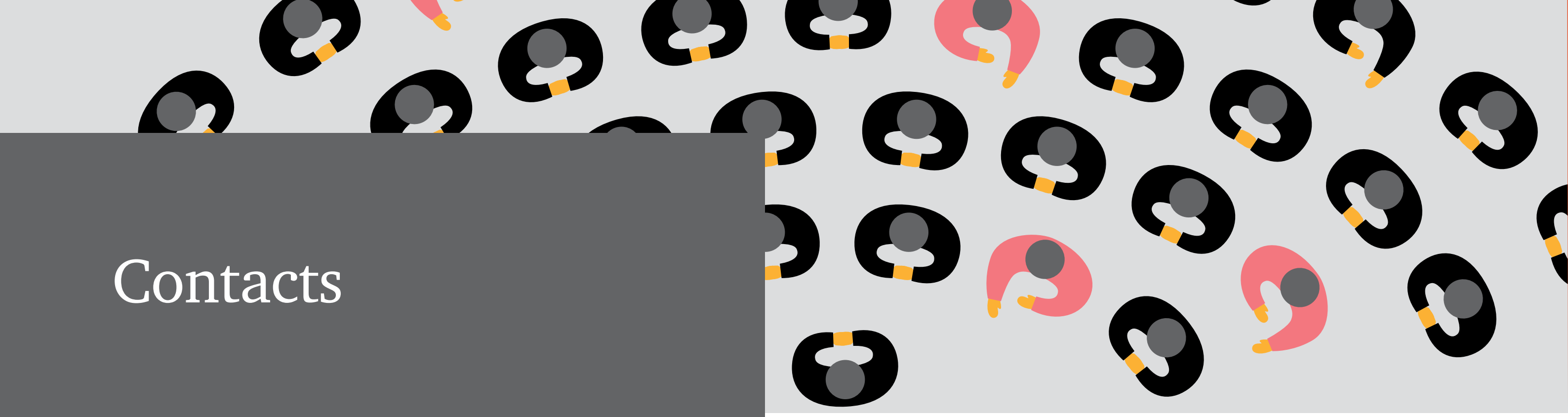
Personal income tax rebate

As part of the Bicentennial Bonus, a personal income tax rebate of 50% of tax payable will be granted to all tax resident individuals for YA 2019 (i.e. for income earned in 2018). The rebate will be capped at $200 per taxpayer. Evidently, this measure benefits the lower to middle income earners and reflects the increasing progressivity of our personal tax system.

Enhancement of Grandparent Caregiver Relief

Currently, working mothers who engage the help of their parents, grandparents, parents-in-law or grandparents-in-law to care for their Singapore citizen children who are 12 years old or younger are eligible to claim the Grandparent Caregiver Relief of $3,000.

With effect from YA 2020 (i.e. income earned in 2019), the age limit will be removed for unmarried handicapped children.



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Key Tax Highlights

Goods and services tax

- With effect from 19 February 2019, the GST import relief for value of goods bought overseas is reduced to the following:
  - $100 (from $150), for travellers who spend less than 48 hours outside Singapore; or
  - $500 (from $600), for travellers who spend 48 hours or more outside Singapore.
- Extend the concession for partial recovery of input GST for qualifying funds to 31 December 2024.
- Extend the GST remission for S-REITs and Singapore-listed RBTs in the infrastructure business, ship leasing and aircraft leasing sectors to 31 December 2025.

Corporate income tax

- Extend writing down allowance for capital expenditure incurred on acquiring qualifying intellectual property rights to YA 2025.
- Extend the 100% IA to include projects approved from 1 April 2019 to 31 March 2021.
- Extend the concessions for S-REITs and REITs ETFs to 31 December 2025 and remove sunset clause for the tax exemption on distributions received by individuals.
- Extend and refine the tax incentive schemes for qualifying funds (under Sections 13CA, 13R and 13X) managed by Singapore-based fund managers to 31 December 2024.
- AUT scheme to lapse after 18 February 2019 and DUT after 31 March 2019.

Personal income tax

- Personal income tax rebate of 50% of tax payable by tax resident individuals for YA 2019, subject to a cap of $200.
- Grandparent Caregiver Relief for tax resident working mothers with handicapped and unmarried dependent children regardless of the child's age with effect from YA 2020.
- NOR scheme will lapse after YA 2020.

Other changes

- Restructure diesel tax regime with effect from 18 February 2019, including:
  - Increase in the excise duty on diesel fuel to $0.20 per litre;
  - Permanently reduce the annual special tax for diesel cars and taxis by $100 and $850 respectively; and
  - Road tax rebates for commercial diesel vehicles and additional cash grants for diesel buses ferrying students.
- Reduce duty-free allowance for liquor products to two litres (from three litres) with effect from 1 April 2019.
- The concessionary tax treatment under the Property Tax (Tourist Projects) Order will lapse after 18 February 2019.

Proposals to enhance Singapore's economy

Budget Commentary 2019

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