Caring and Sustained Growth

Securing our Future

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In an era of increasing uncertainty, changing trade winds and ageing demographic profile in the developed world, both challenges and opportunities await. Budget 2019 is a chance for Singapore to strengthen its foundation as it makes strides to position itself favourably in a new world order.

Existing initiatives for Small and Medium Enterprises (SMEs), which form the backbone of Singapore's economy, could be further strengthened to boost 'Go-Digital'; new bold programmes, for both enterprise and talent could be put in place to tap the burgeoning Southeast Asia start-up eco-system; refinements of the current tax regime can continue the momentum for internationalisation of our SME businesses.

We recognise the need to balance revenue collection pressure vis-a-vis targeted use of tax measures. By focusing on key themes, the Government could leverage the opportunity presented in Budget 2019 to further inspire confidence in Singapore's future while demonstrating empathy for the people's every day challenges. Only so can Singapore develop a more resilient and future-ready nation.

We present our suggestions for Budget 2019 accordingly below:

1 Strengthen deep capabilities in innovation and enterprise

Strengthen deep capabilities in innovation and enterprise

Over the years, there has been increased attention and resources devoted to developing the SME sector. Support for the technological upgrading of SMEs has taken many forms, including skills training, productivity and innovation programmes.

As part of the Smart Nation initiative, we have seen an increase in efforts to promote the digitalisation of businesses. However, the costs and risks involved are hefty, especially for small local start-ups.

1.1 Tax concessions to help businesses 'go digital' that are tied to growth

Local start-up enterprises will have to incur expenditure that spans from hardware infrastructure costs to labour costs of digitising data, information migration and staff training. In this regard, targeted reliefs and funding would help businesses alleviate the investment cost of going digital, and encourage them to digitise their data and modernise their processes, e.g. relief for expenditure such as the gathering, analysis and utilisation of big data would encourage the adoption and use of data analytics.

To safeguard revenue and reward investments in productivity, the scheme can be tied to incremental revenue and margin of the claimant; for example, companies which have invested in digital technology and are able to demonstrate incremental revenue and profit margin growth for the year could opt for a co-funding scheme or be given enhanced allowances / deductions. This will prevent an erosion of taxes on existing income and be growth focused.

1.2 Broader sponsorship for Proof-of-Concepts with technology start-ups

One of the biggest challenges faced by technology start-ups is getting established businesses to run Proof-of-Concepts (POCs), i.e. trials of the start-up's offerings so that if successful will likely lead to a sale. Established businesses rarely purchase major systems from start-ups without first running a POC. Therefore, to start earning revenue, the start-ups must undergo a long and tedious process to reach the point where the prospects will run POCs. Furthermore, the process to develop the POC is time intensive as many established businesses have multi-step processes that are required before bringing untested code into their data centres. As a result, technology start-ups often spend significant amount of time and money in marketing before obtaining an initial POC.

Similar to the Co-Innovation and Development POC Funding Scheme for cybersecurity solutions, the Government could broaden sponsorship for POCs to qualifying Singapore grounded projects beyond cybersecurity solutions. This will help to support the technology start-ups at the initial stage, lessen the uncertainty and defray the hefty costs involved in the marketing of POCs. A requirement for the technology start-ups to work with established business partners (or to adhere to industry benchmarks) can provide a certain level of risk assurance to both the established businesses and the Government.

1.3 Adoption of cybersecurity solutions

Integrated digital systems can enable and empower businesses and society, but only if it is safe and trustworthy. With the increasingly frequent and sophisticated cyber-attacks locally and globally, Singapore needs to secure our digitally-enabled economy and society.

In line with the strategies of the Cyber Security Agency of Singapore (CSA) to build a resilient infrastructure and develop a vibrant cybersecurity ecosystem, we propose the introduction of digital tax incentives / tax credits to be offered to encourage local SMEs to invest in new digital cybersecurity products and services and better manage costs. The tax incentives may be in the form of enhanced tax deduction (additional deduction subject to a cap) or refundable tax credit against corporate tax. Specific tax breaks could also be introduced for research and development (R&D) targeted at cybersecurity solutions that are approved or otherwise certified by the CSA.

1.4 Start-up funding

1.4.1 Angel Investors Tax Deduction Scheme

To boost the growth of start-ups particularly in the technology industry, the Government should consider liberalising the Angel Investors Tax Deduction (AITD) scheme to make it easier for individual investors to qualify. A suggestion could be to waive the eligibility conditions and approval requirements for an angel investor under the AITD scheme for certain classes of wealthy individuals e.g. Accredited Investors as defined in the Securities and Futures Act. In addition, the scheme should be extended to companies and venture capital funds that provide financing to help the qualifying start-ups in such industries and help them to commercialise their products or services. This will also help in the marketing of Singapore as a key venture hub on the international stage.

1.4.2 Early stage venture capital investments into technology start-ups

Access to capital funds is crucial to technology start-ups. Many of these start-ups are able to obtain seed financing e.g. through the various schemes promoted by the Government. However, they will require multiple rounds of funding as they seek to commercialise innovation i.e. series B and C capital. The current section 13X incentive requires a minimum fund size of $50 million, which is too high for most venture capital (VC) funds to qualify. The Government should introduce a new tax exemption scheme for early stage VC investments with a lower Assets Under Management (AUM) threshold of say $10 million. This should help to entice more VCs to surface and to bring overseas funds to invest in Singapore technology start-ups. As a form of check and balance, the incentive should be confined to VC funds which are managed by fund managers that are approved by the Monetary Authority of Singapore.

1.5 Training

In addition to access to capital, start-ups need to have access to skilled and experienced people.

The Government should continue to encourage training in this area and introduce an enhanced tax deduction regime for training in digital, data analytics, artificial intelligence, robotics and cybersecurity. Such training should also extend to innovation programmes for top management on corporate strategy, legal implications and risk management on adopting digital solutions. Special incentives could be applied to encourage the migration of specific skills to Singapore.

1.6 Talent attraction by reintroducing incentives for employee share plans

Cash-strapped start-ups and smaller companies often resort to share option and stock award schemes to attract talent and reward entrepreneurship and ownership. The Government should consider re-introducing an incentive for share option and stock award schemes (similar to the employee equity-based remuneration incentive scheme that was previously available under sections 13J and 13M of the Income Tax Act). This could be restricted to employees of start-ups or SMEs. These schemes can also be enhanced to provide for deferral of taxation in specific cases to the time of share disposal e.g. in the case of start-ups where there may not be a ready market for their shares.

In addition, the value of equity-based remuneration schemes should be taken into consideration by the Ministry of Manpower when evaluating whether minimum salary requirements are met for the purpose of employment pass applications.

1.7 Open Innovation Platform

The Government should consider introducing a new tax relief for local entrepreneurs or companies that carry out R&D and innovation activities in Singapore to solve a problem using the Open Innovation Platform, which is an initiative by the Info-communications Media Development Authority of Singapore (IMDA). This will also create awareness for the Open Innovation Platform as well as spur more R&D activities in Singapore.

2 Strong partnerships in trade and investments

Strong partnerships in trade and investments

Singapore is consistently ranked by the World Trade Organisation and other global institutions as one of the easiest countries in the world in which to do business. The shifts in the global economy and the emergence of new technologies will allow Singapore to seize opportunities and establish strong partnerships in trade and investments both locally and abroad.

2.1 Internationalisation of local businesses

Local enterprises should be encouraged to expand overseas whilst continuing to anchor key strategic business activities and their headquarters in Singapore. Measures to liberalise tax deduction rules for new ventures as well as collaborative partnerships can help local enterprises to reinvent themselves for growth locally as well as expansion overseas.

2.1.1 Deduction rules for new ventures

Local enterprises should be allowed to deduct expenses incurred in respect of new business ventures against profits from their existing trade or business. This would encourage businesses to take the extra step to develop innovative capabilities and start new business ventures.

As a further incentive, new companies in industries with long gestation periods (e.g. technology, pharmaceuticals and healthcare) should be allowed to carry forward such expenses as trade losses beyond the period contemplated in section 14U of the Income Tax Act, notwithstanding that they may be pre-commencement expenses.

2.1.2 Broader deductions for borrowing costs

In today's uncertain economic climate, businesses may take up standby credit and similar facilities to better manage financial costs and cash flow in order to ensure they can sustain business operations. The upfront cost of securing these standby facilities could be viewed as capital in nature and hence not deductible. As such, the list of prescribed borrowing costs should be expanded to cover such borrowing costs regardless of whether the facilities are drawn down.

2.1.3 Liberalised carry forward of losses requirements

It is not uncommon for start-up companies to bring in new investors at different stages of their development. This may result in a change in shareholders and possible forfeiture

of the unutilised losses. Whilst it is possible to seek a waiver of the continuity of shareholders test from the Inland Revenue Authority of Singapore, losses preserved by such an avenue are subject to the same trade test. Although genuine investors typically should not be deterred by the potential inability (or otherwise) of the company to utilise past losses, these rules could deter companies from venturing into new fields and seeking new investors.

The same business test and continuity of shareholdings test were introduced as anti-abuse measures; however, they inhibit change and innovation and may be removed as we believe the general anti-avoidance rules are sufficient to clamp down the trading of loss-making companies.

2.2 Singapore Freezone

ASEAN would likely grow much faster if it was a common market for goods. That would require a common external customs tariff. Although a common tariff nomenclature (the AHTN) already exists, there is no harmonisation on duty rates. What's more, given that Singapore does not levy any customs duties (other than on a few products) and has no intention to start doing so, and other ASEAN countries will have no interest to remove customs duties, there is no platform for a common market.

Singapore could be well placed to benefit as a hub for goods into or out of any parts of ASEAN, building on its distribution hub status. We propose turning all of Singapore into a free trade zone, allowing unfettered import, storage, and processing for re-export. Not only will this allow easier establishment, growth and management of physical trading activities, it would also support any eventual ASEAN customs union. This proposal does not cover Goods and Services Tax which continues to apply to imported goods, subject to any import relief that may apply.

3 Caring for the people

Caring for the people

3.1 Healthcare and active ageing

Singaporeans are living longer. This puts complex pressures on the healthcare system – from an increase in chronic conditions, to growing demand for services that keep people healthier in their old age.

3.1.1 Healthcare and public infrastructure

To help manage public hospital attendance, the Government should consider cooperating with and incentivising the private sector to operate a means-tested Healthcare@home programme with mobile clinics, or regular but affordable home visits by practising nurses and doctors as well as subsidy for renting hospital beds and equipment for use at home. Visits should extend beyond the routine health screenings and post-operation checks, and include pain and symptom management, giving medication, wound care and help with daily activities. Another suggestion is to partner with the hospitals to train non-medical practising caregivers for these routine home visits.

To further enhance sanitation and hygiene, thereby reducing disease outbreaks (such as the hand, foot and mouth disease (HFMD)), proper sanitisers and disinfectants should be made more widely available in public areas. For example, in some parts of Europe, a disinfecting mist technology is installed at the entrance of hospitals. Such technology should be brought in and used widely in Singapore.

3.1.2 Tax relief for premiums paid on medical-related or health insurance policies

Currently, there is no standalone tax relief available to individuals for premiums paid on medical-related or health insurance policies. Allowing a tax deduction that is not tied to Central Provident Fund contributions, subject to a cap of, say, $5,000, for premiums paid for medical-related insurance by individuals for themselves or their family members (e.g., spouses, children, parents and parents-in-law) will encourage taxpayers to take ownership of the well-being of themselves and their families.

Enabling a tax write-off for health insurance premiums will not only encourage more taxpayers to take up health insurance policies for themselves and their families, but also offer them greater access to healthcare. The tax deduction could be subject to a cap which could be scaled according to age.

A tax relief for medical costs incurred by those over 50 years old for health screening every other year should also be considered, to encourage preventive healthcare. Perhaps a cap of $500 per year could be set, to be claimed every other year and on an incurred basis.

3.1.3 Incentives to promote a healthier lifestyle

Tax incentives focused on exercise such as a Fitness Tax Credit regime can be applied to participation in community wellness programmes to encourage community-based and routine forms of exercise. This could also be tied in with the ActiveSG app which allows users to explore facilities, activities and programmes throughout Singapore.

As people are now more willing to adopt healthcare technology as part of their healthcare management practices, technology and devices such as smart watches can be used as a means to track the level of activity. The Government should encourage a tie-up between claiming the tax credit or other incentives such as NTUC vouchers.

Smart devices can also be used to incentivise people to choose the healthier options for food in hawker centres and food courts by way of accumulation of points for discounts of subsequent purchase. Furthermore, the use of such devices as a physical log-in tracker can also be used to prevent the spread of illnesses such as dengue fever and HFMD by location / vicinity.

Singapore companies should also be incentivised in a similar tax credit regime to put in place an evidence-based workplace exercise programme for employees.

3.2 Encouragement to stay in the workforce

3.2.1 Support for new mothers to continue working

Many companies in Singapore are increasing their efforts to foster a pro-family workplace, and putting in place suitable facilities to encourage mothers to return to the workforce. However, many new mothers will have extended absence from work or leave the workforce altogether to tend to their babies for a variety of reasons. Funding or a new tax relief which will help new mothers to defray the cost of taking care of infants (whether in the form of post-natal care or purchase of feeding essentials) can encourage and support them to return to the workforce after maternity leave and at the same time alleviate the financial burden of working women with young children.

As for childcare arrangements, a tax relief regime should also be introduced for working mothers who enrol their children in centre-based care that is registered with the Ministry of Social and Family Development (MSF). This should include infant and childcare centres, kindergartens as well as after-school student care centres as many will need for primary school-going children.

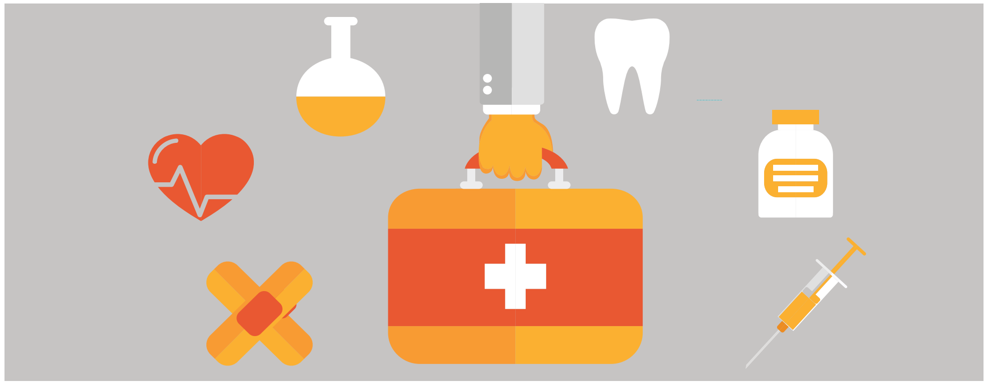
To further encourage mothers to stay in the workforce, the above-mentioned reliefs and the Working Mother's Child Relief should be excluded from the $80,000 cap on personal income tax reliefs.

3.2.2 Additional childcare leave for working parents with three or more children

Working parents with Singaporean children each get six days per year of Government-paid childcare leave until the year the child turns 7 years old, regardless of the number of children they have. If the youngest child is between 7 and 12 years old, only two days of extended childcare leave per year is available. Although the Government-paid Childcare leave and Government-paid Extended Childcare Leave were introduced to allow parents to spend more time with their children, this is often spent caring for the children when they are ill. For example, if one of the children contracts HFMD, he/she is to be quarantined for a minimum of ten days. This will therefore require the working parents to take an extended time off their work in order to tend to their children. Hence, the Government should consider giving additional childcare leave for large families with three or more young children.

3.2.3 Mentoring programme as a 'second career'

To encourage retiring professionals with a lifetime of experience and knowledge to act as mentors for start-ups, the Government should consider co-funding their compensation with the start-up to attract them to join as accelerator mentors in identified sectors upon their retirement.



3.2.4 Facilitate workplace support for caregivers

As the population ages, there is an increase in demand for support and assistance from family to look after the sick and the elderly.

Often, these family caregivers have to adjust their work schedules. For many, promotions are deferred, or extended leave of absence is required. This will result in an adverse effect on lifetime earnings that may eventually translate into reduced retirement benefits.

To help support these families, tax relief should not be confined to the hiring of foreign domestic workers but also to the hiring of professional care subject to certain limits.