Singapore Budget 2020

Investing in change for future generations

PwC's analysis of the 2020 Singapore Budget announcement

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Singapore Budget 2020 - At a glance

Overview of Fiscal Position

- Estimated FY 2020 overall budget deficit **$10.9 billion (2.1% of GDP)**.
- **$83.6 billion** expected expenditure, **7% higher than in FY 2019**.
- Two special packages - Stabilisation and Support Package and Care and Support package, totaling **$5.6 billion** to tide over current economic downturn.
- **$6 billion** set aside for the **Assurance Package in the GSTV Fund**.

Stabilisation and support package for COVID-19

- Broad-based measures
  - **Job support scheme** to help enterprises retain their local workers.
  - **Wage credit scheme** enhanced to support wage increases for Singaporean workers.
  - **Corporate income tax rebate of 25%** for YA 2020, capped at **$15,000**.
  - Changes to tax treatments under the corporate tax system to give immediate cash flow benefits to businesses.
  - Higher loan quantum and government risk-share for **SME Working Capital Loans** under **Enterprise Financing Scheme**.
  - **GST rate to remain at 7%** in 2021.
- **Sector-specific support**
  - Longer funding durations to support worker training in **Adapt and Grow Initiative** for sectors such as hotel, retail, food services, tourism and air transport.
  - **Up to 30% property tax rebate** for qualifying commercial properties.
  - **Temporary Bridging Loan Programme** for tourism sector enterprises.
  - **Rebates, landing credits and fee waivers for the Aviation sector.**
  - Further 50% Port dues concession to cruise ships and regional ferries.
  - **Rental waivers** for commercial tenants in government-owned / managed facilities such as hawker centres and JTC factories.

Measures to help the economy to grow, transform and create opportunities

- Enabling stronger partnerships with **Executive-In-Residence Programme, Heartland Enterprise Upgrading Programme and enhancing digital connectivity**.
- Deepening enterprise capabilities with more funding for **Startup SG Equity**, new digitalisation initiatives under the **Enterprise Grow Package** and scaled-up support in **Enterprise Transformation Package**.

Supporting of workers, senior employment and other social measures

- **SkillsFuture** initiatives including credit top-ups to encourage lifelong training.
- **Senior worker support package** with retirement age and re-employment age to be gradually raised, and **Senior Employment Credit, CPF transition Offset and various grants.**
- Support for Singaporeans include **cash payouts, workfare special payments, PAssion card top-up, grocery vouchers, GST Voucher - U-Save, service and conservancy charges rebate.**

Measures to fight climate changes

- Additional **EV Early Adoption Incentive** for cars and taxis.
- An upfront rebate scheme, the Commercial Vehicle Emissions Scheme, will be introduced to light goods vehicles.
- By 2030, up to 28,000 public chargers for EVs to be deployed.
- **Road tax methodology for cars to be revised** to better reflect the current trends in vehicle efficiency from January 2021.
- New incentives to encourage lower-income households to **purchase energy-efficient household appliances**.
- A new **HDB Green Towns Programme**.
- A new **Coastal and Flood Protection Fund** of $5 billion.

Others

- **$1 billion set aside to build up the Government's cyber and data security capabilities** over the next three years.
- **Foreign Workforce Policies** to reduce **S Pass sub-Dependency Ratio Ceiling** for services, construction, process and marine shipyard sectors.

Keeping calm and carrying on in times of distress

It is hard not to panic during times of distress. As coronavirus cases continually inch up, there is a palpable feeling of unease. That's why it was important that this year's budget was an assuring one. While the government is dealing head on with the immediate repercussions of this contagious virus with an $800 million package, what's actually more telling is that the COVID-19 package only played a supporting role. Ultimately Singapore's government is still keeping their focus on the city's long-term goals.

In short, the government is keeping calm and carrying on. So should we.

Crisis Into Opportunity

Everyone's day-to-day life has been upended since the spread of COVID-19. At work, many offices are encouraging their employees to work from home or have split their teams to limit exposure. Companies that rely on China for their business are at their wits end scrambling to think of alternative supply chains.

Even covering this year's budget at PwC was turned on its head. The yearly practice is for 50 or 60 of us to gather and watch the Budget Speech together in a room. This time, to minimise risk of contagion, we had to watch it all individually at our desks, or from home, while sharing our reactions on virtual meeting platforms. And it actually works.

While all these new measures can seem inconvenient, the fact of the matter is that since the epidemic, Singaporean businesses have been thinking creatively for solutions to carry on. And it is rousing to see how so many businesses are able to embrace this agility.

This innovative and resilient thinking ties in very neatly to the government's message of transforming the way we work in Budget 2020. What this crisis shows is that it can be done.

Deputy Prime Minister and Finance Minister Heng Swee Keat announced a $4 billion stabilisation package that will help workers stay in jobs.

The estimated range of time for the GST rate hike was pushed back by a year and will now take place from 2022 to 2025. In light of the uncertainties ahead, this makes sense.

Ultimately by 2030, a quarter of Singaporeans will be 65 and older and healthcare spending will rise, so it can't be delayed forever. There is also a case to be said for more indirect taxation than direct as it is more efficient for tax authorities to collect and to police. It also allows for a wider pool for tax collection, including visitors consuming locally, and thus growing the tax pie. Thankfully, a $6 billion package to cushion the impact of the GST increase was also promised.

Looking towards the future, the $8.3 billion package to support transformation and growth will help position Singapore as a Global-Asia Node of Technology, Innovation and Enterprise. Part of this package comprises the GoBusiness platform, expanding on the SME Go Digital Program and SkillsFuture top-ups for Singaporean workers.

In a way, this couldn't have come at a more opportune time. With businesses going into a downtime, this is the perfect chance for employees to upscale and gain new skills, especially in the digital sphere.

A Balancing Act

Ultimately the government has said that if more is needed, there is definitely still some dry powder left for any further contingencies. For 2020, the government is expecting an overall budget deficit of $10.9 billion or 2.1% of GDP. But with an estimated $17.9 billion of accumulated surplus, the city is in a sound financial position with strong fundamentals. Budget 2020 balances the short term needs and the long-term goals. It is a nod to the fact that there are definite headwinds in the immediate future. But more importantly, it shows that all of us are ready to deal with it head on and that we remain committed to the bigger prize in the future.

By: Chris Woo, Tax Leader, Paul Lau, Tax Partner, and Abhijit Ghosh, Tax Partner. All three are from PwC Singapore.

This piece was first published in The Business Times on 19 February 2020.

Reactions to the Budget

Chris Woo

Tax Leader
PwC Singapore

Just like in Goldilocks and the Three Bears, DPM is trying to find a 'not too hot not too cold' Budget that finds balance between short term needs and necessary longer term measures. It addresses the COVID-19 impact to preserve jobs and sustain businesses through cash relief, tax rebates and the like. The bulk of the measures announced are to prepare Singapore for longer term transformation: new skills, deepening capabilities across a broad spectrum of the Singapore workforce and helping local enterprises."

Abhijit Ghosh

Tax Markets Leader, Pharmaceutical Leader
PwC Singapore

It was clear that we need more support beyond masks and sanitizers to fight the current crisis. Finance Minister unveiled solid measures including corporate tax and property tax rebates, faster write down of plant and machinery, temporary bridging loans. All these will help our local businesses to weather the storm and stay stronger to enjoy better days in future."

Vishal Thapliyal

Partner (Corporate Finance, Strategic Solutions & Transformation)
PwC Singapore

Singapore's economy grew at 0.7% last year, the slowest since the financial crisis, and with full year growth projected at between -0.5% to 1.5% for next year, we can expect a number of companies to face short term headwinds especially in the hospitality sector. This is a time for companies to seek some stabilizing capital that will help them weather the storm and emerge stronger in the medium term. Some of the measures such as the Stabilisation and Support Package and the working capital bridging loan will definitely help and will hopefully also encourage private sector special situation funds to provide capital to promising companies with good long term potential that may be facing short term headwinds."

Frank Debets

Managing Partner, Customs & International Trade
PwC Worldtrade Management Services

Grants to help companies utilise FTAs better will be very welcome to SMEs. They lack the resources internally to plan for and implement efficient and effective FTA use. But at the same time, they often do not know where to look for support, and are concerned about the cost of such support, even though the potential benefits easily outweigh such costs."

Dr. Zubin Daruwalla

MBBCh (Hons), BAO, MRCSI, MCh (Orth), MMed (Orth), Health Industries Leader
PwC Singapore

The point on globalisation and technology (and its potential failure) was well articulated. In order to avoid the failure mentioned by Minister Heng, it will be imperative for all healthcare organisations to (1) identify new technologies through regular horizon scanning, (2) see the long term benefit of upskilling and/or re-skilling employees as opposed to short term measures such as retrenchment, and (3) work towards using the identified technologies to complement people and processes rather than replace them."

Fang Eu-Lin

PwC Singapore's Academy Leader/Sustainability Leader
PwC Singapore

There is something for everyone in relation to reskilling and upskilling in this year's Budget. By enhancing key established talent-development initiatives such as SkillsFuture and Adapt and Grow, the Singapore Government continues to encourage continuous learning across all age groups. These include young individuals (such as students through the Asia-Ready Exposure Programme), to the more mature individuals (through the Mid-Career support package) and companies (e.g. SkillsFuture Enterprise Credit).

Another area Singapore can play a part in is in sustainable finance, building on our strong foundation as a finance hub. Finance can be a lever to change corporate attitudes and decisions towards a low carbon economy. I look forward to seeing more developments on how Singapore can be a global sustainability finance hub in the future."

Mark Rathbone

Asia-Pacific Capital Projects Infrastructure Leader
PwC Singapore

Addressing climate change, security and fiscal sustainability to build a clean, green and liveable environment. Climate change is fundamental, Singapore needs to continue to support global efforts combating global problems. One way would be to update its commitment of the Paris Agreement for a low carbon sustainable future which is likely to affect how Singapore generates power in the future, while possibly affecting the long term economic sustainability of key Singapore industries that are dependent on the oil and gas market.

Near term measures to stabilise and support the Singapore economy

The $4 billion Stabilisation and Support Package includes broad-based measures for businesses such as tax rebates, temporary enhancement of the Working Capital Loan scheme, Wage Credit Scheme and Job Support scheme.

Tax rebates will help businesses that are profitable, whereas the enhanced SME Working Capital Loan scheme should help businesses with their cash flow regardless of profitability. It is hoped that these measures will also encourage lenders to support companies facing a short term liquidity crunch but which otherwise expect to turn profitable in the medium to long-term.

First introduced in Budget 2009, the Jobs Credit Scheme helped tide businesses through the global financial crisis. The Job Support Scheme is similarly positioned to help businesses defray the costs of retaining their workforce through a cash grant of 8% of a qualifying employee's wages, subject to a monthly cap of $3,600, and for three months. Similar to the Jobs Credit Scheme, payouts will be tax exempt to employers.

The Wage Credit Scheme introduced in Budget 2013 is now enhanced, and is expected to go a long way in reassuring workers of their job security.

Sectors that are most affected by COVID-19 - namely aviation, food services, point to point transport, retail and tourism - were given extra assistance in the form of property tax rebates ranging from 10% to 30%, rental rebates and support to retain and reskill employees.

The Adapt and Grow initiative will also be enhanced for these sectors. As a start, funding support for reskilling will be extended from the current three months to six months. These measures, taken together, are meant to provide some immediate relief and yet position enterprises to capture the opportunities for growth upon recovery of the economy.

Aviation sector

Measures to help the aviation sector tide over the immediate challenges include:

- Rebates on aircraft landing and parking charges
- Rental rebates to ground handling agents
- Rental rebates for shops and cargo agents at Changi Airport
- 15% property tax rebate for Changi Airport Group

Tourism sector

Additional relief measures include:

Property tax rebates for commercial properties

As part of the Stabilisation and Support Package, property tax rebate of 10% to 30% will be granted to qualifying commercial properties in 2020 as summarised in the table below.

The rebates do not apply to any other premises (e.g. office, business parks or industrial buildings).

The tourism industry which currently contributes about 4% to Singapore's Gross Domestic Product (GDP), is one of the sectors most directly affected by the outbreak of COVID-19. The decline in visitor arrivals has caused hotel occupancy rates to fall, cancellation of major international events in Singapore and decline in sales at retail and food and beverage (F&B) outlets. The rebates proposed here are similar to the measures announced under the SARS Relief Package in April 2003 for the tourism industry to help businesses by reducing operating costs. The measures in this year's Budget appear to be more extensive than the SARS Relief Package as the property tax rebates are extended to retail and F&B in hotels, tourist attractions and transport hubs like the airport and ferry terminals. This was not available in the past. This could be because of the heavier economic impact expected this time. The Government has strongly urged landlords to pass on the savings to tenants.

Property tax rebate rate	Type of qualifying commercial properties
30%	• Accommodation and function room components of hotels and serviced apartments • Meetings, Incentives, Conferences and Exhibitions (MICE) space component of three prescribed MICE venues
15%	• Premises of an international airport • Premises of an international cruise or regional ferry terminal • Retail and F&B premises, including those within hotels, serviced apartments, and the three prescribed MICE venues • Premises of tourist attractions
10%	• Marina Bay Sands • Resorts World Sentosa

Temporary Bridging Loan Programme

The Government will also introduce a one-year Temporary Bridging Loan Programme (TBLP) with effect from March 2020 to alleviate the short-term cash flow difficulties for the tourism sector. Eligible enterprises will be able to borrow up to $1 million at an interest rate that is capped at 5% per annum. This represents a significant increase in the loan amount of up to $100,000 under the Bridging Loan Programme previously provided in the SARS Relief Package, which was only available to small and medium-sized enterprises (SMEs) in tourism-related sectors.

To encourage financial institutions to support the TBLP, the Government will take on 80% of the risk in these loans.

The above is provided on top of the Enterprise Financing Scheme's Working Capital Loan available to viable SMEs which has also been enhanced in this year's Budget.

International perspective

From an international supply chain perspective, the main impact of COVID-19 is one of uncertainty and unpredictability. Although there is little concern that shipment of goods themselves would spread the virus, there have still been instances of disruptions to import or export clearance. Reports of border crossings being closed, reopened, and then closed again between China and Vietnam, as well as China and Myanmar did not help the confidence of importers and exporters. In China itself, the customs authorities have been focusing on clearance of medical and other emergency supplies.

Meanwhile, many Singapore companies that manufacture or process goods in Singapore rely on materials from China. Disruption to China supplies may require them to source such materials elsewhere. This in turn may impact their ability to meet the rules of origin necessary for preferential access to other ASEAN markets under Singapore's Free Trade Agreements (FTAs). If such companies realise they no longer meet those rules, they will end up paying more import duties in their destination market. If they do not, they may inadvertently be claiming preferential tariff rates that they are not entitled to. This also may go undetected at the time of import, but emerge as an issue during a future customs audit. At that time, any back duties and potential penalties may come at an insurmountable cost to their business.

With increased trade flows and mobility of people, what happens domestically can very well carry cross-border implications, as the current episode clearly demonstrates. Businesses must ensure that they have in place robust business continuity plans that take into account trade and tax considerations.

Caring for our people

In addition to short term support for businesses and workers most directly affected by the economic downturn, Budget 2020 included a $1.6 billion Care and Support Package for households.

The Government has made significant moves to help Singaporeans cope with cost increases through structural subsidies for education, housing, and healthcare over the years. Nonetheless in light of the economic slow-down, the Finance Minister announced a suite of measures to provide additional support for Singaporeans.

These measures include:

- once-off cash grants of between $100 to $300 for qualifying Singaporean adults
- additional help for lower income Singaporeans through Workfare Special Payments, PAssion Card top-ups, Grocery Vouchers, additional GST Vouchers-U Save and rebates for service and conservancy charges
- grants to self-help groups and community development councils to support their outreach programmes to needy families

These social measures should provide support for needy Singaporeans who may be left behind during structural transformation of the economy and digitalisation.

In the longer term, Budget 2020 further seeks to boost the readiness of young Singaporeans to embrace Singapore's aspiration to be a Global-Asia node of technology, innovation and enterprise by setting a "70-70" target - Singapore will target to support 70% of local students to have overseas exposure, and out of this pool, 70% to have exposure in ASEAN, China and India.

For the broader workforce, a $500 SkillsFuture Credit top-up will provide a push for upskilling in the near term. Older workers will get additional top-ups while employers will get incentives to undertake workforce transformation for these older workers.

The quarterly payout amounts under the Silver Support Scheme will be raised by 20% to benefit about 100,000 seniors in 2021. With the planned raising of the retirement age to 70 by 2030, a Senior Worker Support Package will be introduced which comprises employment credits, Central Provident Fund (CPF) transition offsets and grants to encourage the employment of older workers.

To support ground-up efforts to meet the needs of the community, strengthen community spirit and contribute to nation building, the Government will commit to raise $350 million for the Community Capability Trust and top ups to Our Singapore Fund so that these can continue to fund meaningful projects or social service agencies.

We are hopeful that the Budget 2020 proposed social changes will help enhance the capability of our Singapore core, both young and old, to pursue more fulfilling careers and lives, while at the same time taking care of the less advantaged in our society.

Goods and Services Tax

Deferring but not forgetting the rate hike

In Budget 2018, the Government announced its intention to increase the Goods and Services Tax (GST) rate from 7% to 9% some time between 2021 and 2025. Given the current economic headwinds, the Finance Minister has decided that the GST rate hike will not take effect in 2021.

The Finance Minister has also emphasised that the GST rate increase cannot be put off indefinitely, adding that the COVID-19 outbreak has reinforced the importance of continued investment in our healthcare system. Given the expenditure needs, the GST rate hike is set to take place by 2025. The Government will provide sufficient lead time for Singaporeans and businesses to prepare for it.

To cushion the impact of the future GST rate increase, the Finance Minister has announced the following measures:

- implement a $6 billion Assurance Package when the GST rate is raised
- continue to absorb GST on publicly subsidised healthcare and education
- enhance the permanent GST Voucher Scheme

While the $6 billion GST Assurance Package is generous, as a percentage of the expected additional GST revenue, it is lower than the offset package which was offered in 2007 when the GST rate was increased from 5% to 7%. However, the current environment is very different from that in 2007. The amount needed for social spending is significantly higher, and greater investment is required for long term national development initiatives such the Coastal and Flood Protection Fund to meet the challenges of climate change. This could possibly explain the lower percentage of the expected additional GST revenue that is set aside for the GST Assurance Package.

Enhancements to the corporate tax system

Several broad-based measures are introduced to help businesses deal with the uncertain economic conditions brought about by geopolitical tensions such as the China-US trade tension and now COVID-19. These are directed at reducing business costs and easing cash flows while at the same time encouraging investments in plant and machinery to position companies for the future.

Corporate income tax rebate

A corporate tax rebate will be given to companies to help them tide over the difficult economic environment. The rebate is 25% of the tax payable for Year of Assessment (YA) 2020 and capped at $15,000, with SMEs being the primary beneficiaries.

Extension for estimated chargeable income tax instalment payments

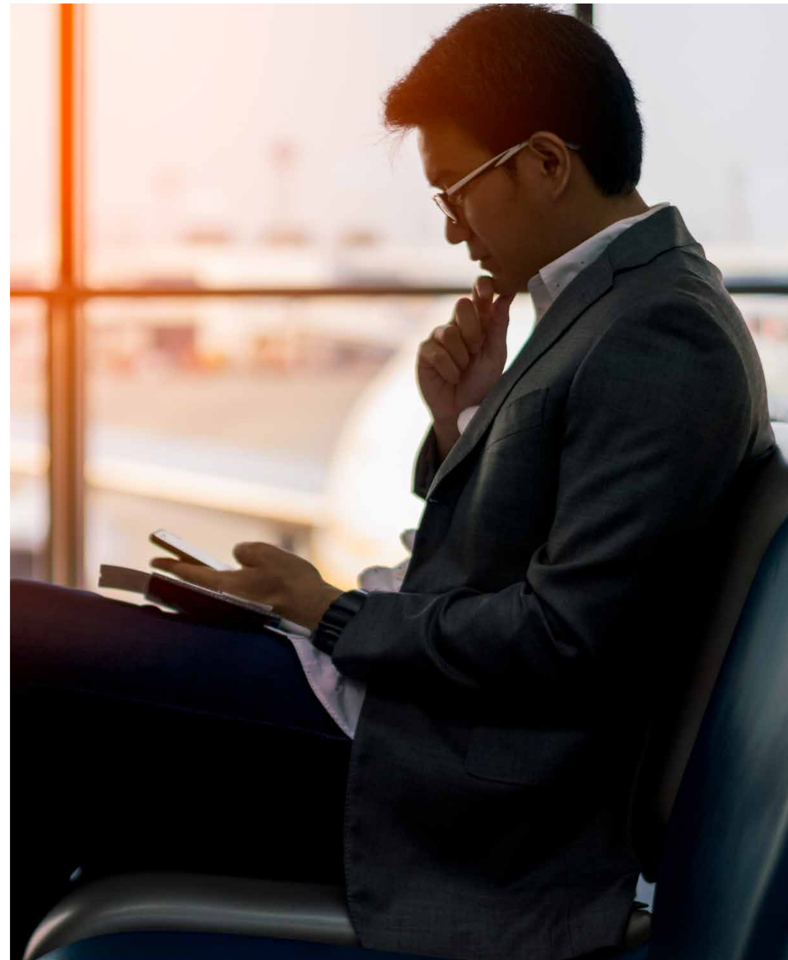
To help ease cash flow, companies that pay tax by GIRO and file an estimate of their chargeable income between 19 February 2020 and 31 December 2020 will be granted two additional months to pay their estimated tax liability, in addition to the current instalment payments over six to ten months. Companies that have filed their estimated chargeable income and have an ongoing instalment due in March 2020 will be given two additional months to pay this instalment.

Option to accelerate capital allowances claims and renovation and refurbishment expenditure claims

Companies that incur renovation and refurbishment expenditure in the basis period for YA 2021 (i.e. financial year (FY) 2020) will have the option to claim the expenditure over one year instead of having to spread it over three years. The cap on the amount of claim (an aggregate of $300,000 over three years) remains unchanged.

Adopting a similar measure that was last employed during the global financial crisis in 2008/2009, companies can opt to claim capital allowances for plant and machinery acquired in the basis period for YA 2021 over two years instead of the normal three-year claim under section 19A of the Income Tax Act or scheduled rates under section 19 of the Income Tax Act. The two year claim will involve a 75% write-off of the cost of the plant or machinery in the first year and 25% in the second.

The acceleration of the deductions can provide immediate cash tax savings to profitable businesses but where businesses are incurring losses, they will not benefit from this since no deferment of claims under this scheme is allowed.



Carry-back relief scheme

Under the current carry-back relief scheme, qualifying deductions for a YA may be carried back to offset the assessable income of a taxpayer for the immediate preceding YA. The amount of qualifying deduction available for carry-back is capped at $100,000.

In Budget 2020, the carry-back relief scheme is enhanced to allow qualifying deductions for YA 2020, to be carried back for up to three immediate preceding YAs, capped at $100,000 of qualifying deductions. Taxpayers may also elect for the carry-back relief before the actual filing of their YA 2020 tax returns.

Other than extending the number of years available for carry-back, there is no change to the other requirements (e.g. the shareholders continuity test for loss utilisation).

The changes to the carry-back relief scheme would allow a Singapore company that has qualifying deductions in YA 2020 to obtain a cash refund by utilising these deductions against the prior three YAs' assessable income.

As many Singapore businesses are adversely affected by the COVID-19 outbreak this year and with the increased volatility of business cycles, one would hope that next year's Budget would announce an increase in the capped amount, given that qualifying deductions are expected to be higher for many businesses.

Investing in change

In addition to the near-term measures, Singapore's long term fiscal needs for sustainable sources of revenue remain. Against the backdrop of increasing international tax competition and pressures arising from the OECD Base Erosion and Profit Shifting project, the tax system needs to remain competitive. With that in mind, the Finance Minister introduced the following tax changes.

Double Tax Deduction for Internationalisation scheme

Under the Double Tax Deduction for Internationalisation Scheme (DTDi), businesses are allowed a deduction for up to 200% of qualifying expenses incurred for certain market expansion and investment development activities. The DTDi scheme which is due to expire on 31 March 2020, has been extended to 31 December 2025.

In addition, the scope of the DTDi scheme will be enhanced to cover the following market expansion and investment development activities:-

- Third-party consultancy costs relating to new overseas business development to identify suitable talent and build up business network, and
- New categories of expenses incurred for overseas business missions (i.e. fees incurred on speaking spots to pitch products/services at overseas business and trade conferences, transporting materials/samples used during business missions, and third-party consultancy costs to arrange business networking events to promote products/services).

The increased coverage will take effect for expenses incurred on or after 1 April 2020. A major thrust of Singapore's transformation initiative is for local enterprises to expand internationally. In this regard, the broadening of the range of qualifying activities should be welcomed by businesses.

Expenditure funded by capital grants

Recipients of grants which are used to fund the acquisition of qualifying capital assets, such as a machine, currently can claim capital allowance on the full expenditure on the asset. In line with case law, the grant received may not be taxable to the recipient, being received in relation to a capital transaction.

It is proposed that the capital allowance provisions be amended to disqualify expenditure funded by grants from the Government or statutory boards from 1 January 2021 onwards (this disqualification was similarly provided for under the Productivity and Innovation Credit Scheme). While a broad spectrum of taxpayers may be impacted by this change of law, those engaged in research and development (R&D) activities which are drawing on grants from the Government will feel the effect more keenly.

Working life for capital allowances

To facilitate administration, the number of years for capital allowance claims under section 19 of the Income Tax Act will be streamlined to three categories depending on the current prescribed working life of the plant and machinery in the Sixth Schedule of the Income Tax Act. Businesses can make an irrevocable election to claim the capital allowances over six, 12 or 16 years for assets purchased from FYs ending in 2022 or where the claim for capital allowances have been previously deferred. This should allow more simplified tracking of book-to-tax timing differences as a result of the different prescribed working lives of the assets.

Certainty of non-taxation of gains on disposal of shares

The section 13Z tax exemption scheme introduced in Budget 2012 provides certainty of non-taxation of gains on disposal of ordinary shares by companies, if:

- The divesting company holds a minimum shareholding of 20% in the investee company, and
- The divesting company has maintained the minimum 20% shareholding for at least 24 months prior to the disposal.

The scheme does not apply to disposal of unlisted shares in an investee company that is in the business of trading or holding Singapore immovable properties (other than the business of property development) or a divesting company that is an insurance company. The scheme is due to lapse after 31 May 2022.

It has been proposed that this scheme will be extended to disposals made on or before 31 December 2027. The announcement of the extension of the scheme well before the original expiry date provides welcomed certainty. However, along with the extension, its scope will be narrowed. With effect from 1 June 2022, the scheme will not apply to disposals of unlisted shares in an investee company that is in the business of trading, holding or developing immovable properties, whether situated in Singapore or abroad.

All other conditions and exclusions of the scheme will remain. More details will be released by the Inland Revenue Authority of Singapore (IRAS) in June 2020.

Whilst it is understood that Singapore real properties are excluded from the scheme, it is not clear why non-Singapore immovable properties are also excluded. Additionally, real estate holding companies with foreign properties may already be subject to local exit taxes in the investee's jurisdiction. This exclusion thus introduces uncertainty when making divestment decisions involving overseas properties.

Insurance companies continue to be excluded although it has been held by the courts that they are capable of holding shares as capital assets. We had hoped that insurers could be brought into the scheme. Since that is not the case, taxpayers in this industry will have to continue to face uncertainty over the tax treatment of share disposals.

Mergers and acquisitions scheme

Under the current mergers and acquisitions (M&A) scheme (covering qualifying share purchases up to 31 March 2020), a qualifying Singapore company can enjoy the following tax benefits subject to conditions:

- M&A allowance on 25% of the qualifying share purchase consideration (capped at $40 million on the value of all qualifying acquisitions for a YA)
- Stamp duty relief for instruments executed for the sale of ordinary shares in a qualifying M&A (capped at $80,000 of stamp duty for each financial year)
- Double tax deduction for certain transaction costs (e.g. legal fees, valuation fees, etc.) incurred for qualifying share purchases, up to $100,000 per YA

From time to time, the Government has granted waivers of the condition that the ultimate holding company of the acquiring company must be a Singapore company (i.e. SG UHC condition).

It is proposed that the M&A scheme be extended to qualifying share purchases made on or before 31 December 2025, with the following changes:

- removal of stamp duty relief for instruments executed on or after 1 April 2020
- the acquiring company will no longer be able to seek a waiver of the SG UHC condition for qualifying M&A made on or after 1 April 2020

The extension of the M&A scheme echoes the Government's transformation and growth strategy to expand our economic space. The removal of the avenue to waive the SG UHC condition limits the scheme to local enterprises, which is consistent with the Government's intent and continued commitment to encourage and benefit local SMEs with their growth and expansion plans.

The removal of stamp duty relief should not impact SMEs and companies which are looking to grow via strategic acquisitions of overseas companies. This also resonates with the Government's move towards encouraging internationalisation of local SMEs.

Global Trader Programme

The Global Trader Programme (GTP) provides a concessionary tax rate of 5% or 10% on income from qualifying transactions. It was launched in 2001 to consolidate and replace the Approved Oil Trader (AOT) and the Approved International Trader (AIT) programmes. The AOT and AIT programmes were launched in 1989 and 1990 respectively to attract oil and non-oil commodity trading companies to Singapore. In 2010, a sub-award of GTP, GTP (Structured Commodity Finance) (GTP (SCF)) was introduced to encourage GTP participants to conduct structured commodity financing activities.

31 years from the launch of the AOT programme, the GTP remains very relevant for global trading companies. The incentive has been tweaked over the years, with input from the industry, so as to keep up with the evolving global trading environment.

Budget 2020 attests to the Government's continuing efforts to advance Singapore as a global trading hub. The table below provides a summary of the proposed GTP changes.

If SCF is subsumed under the GTP, the current scope of GTP qualifying income would have to be expanded to include interest and financing income, a very common income stream arising from SCF activities.

Given the importance of cost-competitive financing to global trading companies, the GTP could have been further enhanced to provide interest withholding tax exemption, which is available under other programmes such as the Finance and Treasury Centre (FTC) incentive and the Approved International Shipping Enterprise incentive. This would allow trading companies to access overseas financing without incurring additional withholding tax costs, where Singapore-based banks do not have the knowledge and risk appetite to provide support.

	Current	New
Sunset	31 March 2021	31 December 2026
Tax rate for income from liquefied natural gas (LNG) trading	5% tax rate applies to income from LNG trading activities, regardless of whether the GTP company was granted a 5% or 10% concessionary tax rate	After 31 March 2021, LNG trading income will be taxed at the 5% or 10% concessionary tax rate granted to the GTP company. Existing GTP companies may continue to enjoy the 5% tax rate on income from LNG trading activities till the expiry of their GTP awards.
Qualifying activities	• Physical trading • Derivative trading • Brokering	• Physical trading • Derivative trading • Brokering • SCF activities (such as factoring, prepayment, trade finance, risk management, etc.) with effect from 19 February 2020 GTP (SCF) will lapse after 31 March 2021. Existing GTP (SCF) companies may continue to enjoy the GTP (SCF) till the expiry of their awards.

Maritime Sector Incentive

The maritime industry has always been an important contributor to Singapore's economy, accounting for 7% of the GDP and more than 170,000 jobs. To continue Singapore's command as a strategic global maritime hub, the Maritime Port Authority of Singapore (MPA) constantly reviews the relevance and application of the Maritime Sector Incentive (MSI) scheme.

Budget 2020 introduces enhancements that make the incentive scheme more commercially relevant to operational structures common in the maritime industry. It also provides more clarity for operators of ships provisionally registered with the Singapore Registry of Ships (SRS).

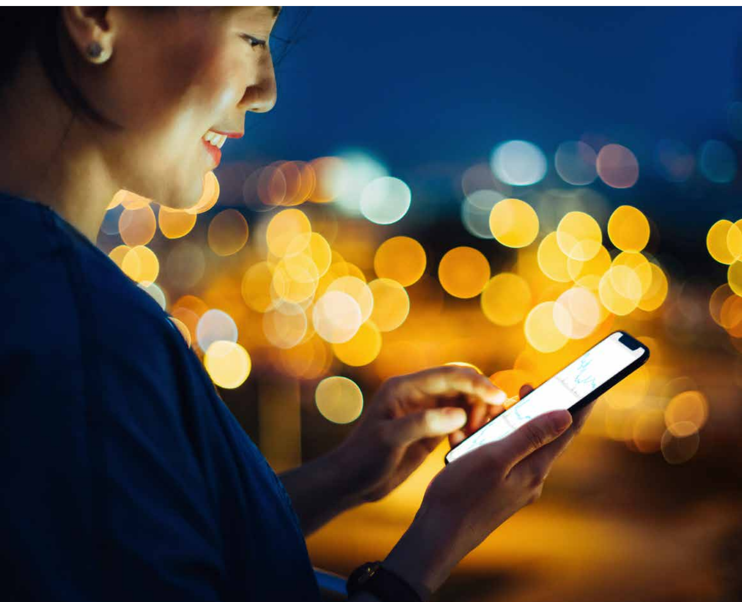
It is proposed that the MSI will be extended till 31 December 2026 with the following enhancements:

- MSI-Approved International Shipping Enterprise (MSI-AIS) sister company and MSI-AIS local subsidiary will enjoy tax exemption on qualifying ship management income. Previously, the exemption is only applicable to the MSI-AIS parent and managing company. This enhancement recognises that it is common that in-house ship management functions may be undertaken by group entities other than the MSI-AIS parent company.
- Qualifying shipping income from the operation of a provisionally registered Singapore ship will enjoy tax exemption. This is regardless of whether a permanent certificate is obtained from the SRS. The catch to it is the exemption will only be applicable up to one year from the issuance date of the provisional certificate if the permanent certificate is eventually not obtained. Previously, such exemption would not be available (i.e. there will be claw-back of taxes on income previously treated as exempt) if the permanent certificate is not successfully obtained.

These enhancements take effect from 19 February 2020.

In line with the above, withholding tax exemption will be extended for qualifying payments made by qualifying MSI recipients on qualifying financing arrangements entered into on or before 31 December 2026. However, stamp duty remission available under the MSI-Maritime Leasing (Ship/Container) schemes will be allowed to lapse on instruments for acquisition of special purpose vehicle (SPV) shares executed on or after 1 June 2021.

Further details will be released by the MPA by May 2020.



Venture capital funds and venture capital fund management companies

Singapore is one of the world's start-up hubs and the Government has introduced various initiatives to support and nurture the startup ecosystem. A key part of the ecosystem is the availability of venture capital.

These venture capital funds managed by fund managers in Singapore can avail themselves of tax exemption schemes subject to requisite approval and conditions being met. One such incentive is the tax exemption scheme for venture capital funds under section 13H of the Income Tax Act (the 13H Scheme).

The 13H Scheme was introduced with effect from YA 1994, with the objective of encouraging inflow of local and foreign venture capital funds into Singapore and enhancing financing options for startups and SMEs. Along with the 13H scheme, a fund management incentive (FMI) provides a concessionary tax rate of 5% on qualifying income derived from managing funds approved under the 13H Scheme (13H Funds). These schemes are administered by Enterprise Singapore (ESG).

Renewal

The Finance Minister has proposed that the 13H and FMI Schemes, which are due to expire on 31 March 2020, be extended to 31 December 2025.

Enhancements to the 13H Scheme

The Finance Minister has proposed a number of enhancements to the 13H Scheme. These changes will take effect from 1 April 2020.

Scope of qualifying income

Currently, 13H Funds enjoy tax exemption on dividends and gains from disposal of approved investments, as well as interest income in respect of approved convertible loan stock of foreign companies.

Compared to other fund tax incentives such as the 13CA, 13R and 13X schemes, the scope of qualifying income under section 13H that is tax exempt is narrower. The scope of qualifying income under the 13H Scheme will be expanded to include relevant items of the "specified income" derived from "designated investments" applicable for fund management incentives i.e. sections 13CA, 13R and 13X schemes.

The extent of the enhancement is to be further analysed once details of the relevant items mentioned above are released, for example, whether the 13H Scheme would cover income such as interest income from convertible loan stock of Singapore companies, since the objective of the 13H Scheme is to encourage funding to Singapore-based companies. To encourage a higher take up of the 13H Scheme, it is hoped that the scope of qualifying income can be made as wide as possible.

Qualifying entities

Only venture capital funds set up as companies incorporated in Singapore or partnerships are currently eligible to apply for the 13H Scheme. To give greater flexibility, it has been proposed that the 13H Scheme be extended to allow venture capital funds established as foreign-incorporated companies or Singapore Variable Capital Companies (VCC) to avail themselves of the 13H benefits.

VCC is a new legal framework for investment funds introduced in Singapore on 14 January 2020. Allowing 13H Funds to be set up as VCCs will provide the following benefits:

- Support Singapore's aim to be the fund domicile of choice
- Promote venture capital VCCs to provide funding to Singapore-based companies

Incentive period

The current 13H awards may be granted for an initial period of up to 10 years (first tranche), which may be extended for period(s) not exceeding five years for each period, subject to a maximum tenure of 15 years. In comparison, the 13R and 13X incentives are provided for the life of the approved funds. The typical duration of a venture capital fund is between five and 10 years, with possible extension. Some of the funds may have a term of 10 years plus one to three years of extension. Hence, the current limitation of awarding 13H status for up to 10 years and requiring a renewal of the 13H status if there is an extension to the fund life may be administratively burdensome.

It has been proposed that the time limit for the first tranche of the 13H award will be removed. The 13H Scheme may then be awarded for the fund life of the venture capital fund, up to a maximum tenure of 15 years. This enhancement aligns with how venture capital funds are organised and operated in practice and should alleviate administrative burden for the industry.

GST remission scheme

The 13H Funds will be allowed to claim GST input taxes on their expenses at a fixed recovery rate by way of remission. This approach is consistent with that adopted for sections 13CA, 13R and 13X funds, although it remains to be seen what input tax recovery rate will be prescribed and if it will be in line with those incentivised funds.

Rationalisation of FMI Scheme

Similar to the 13H Scheme at present, the FMI Scheme may be granted for an initial period of up to 10 years (first tranche), which may be extended for period(s) not exceeding five years for each period, subject to a maximum tenure of 15 years. The FMI award is also currently tied to a specific 13H Fund managed by the FMI award holder.

It has been proposed that the statutory limitation on the maximum tenure of 15 years for each venture capital fund management company be removed. Instead, each FMI award will be for up to five years, which can be renewed subject to conditions. With the removal of the maximum incentive period for FMI, it appears that the FMI award may no longer need to be tied to a specific 13H Fund (i.e. the fund management company can enjoy the 5% FMI provided it meets the condition for renewal for each five-year period, and that this concessionary tax treatment is not determined by the fund life).

Details of these changes are expected to be released by Enterprise Singapore in May 2020.

These changes are a step in the right direction in supporting venture capital funds and we await the details of the schemes. We hope the details will include a relaxation of the qualifying conditions of the 13H and FMI scheme. For example, the current requirements that 13H Funds invest a certain portion of their funds in Singapore-based portfolio companies or overseas portfolio companies with economic spin-offs to Singapore could be relaxed.

Overall, the enhancements to the 13H and FMI schemes are a positive move for the start-up ecosystem. We expect them to boost venture capital fund management activities in Singapore and increase funding to Singapore entrepreneurs and start-ups.

Finance & Treasury Centre

The FTC scheme is due to expire on 31 March 2021. Budget 2020 provides certainty by announcing the extension of the scheme to 31 December 2026, a year before it is due to expire, with the following enhancements from 19 February 2020:

- The list of qualifying sources of funds will be expanded to include funds raised via convertible debt issued on or after 19 February 2020.
- The list of qualifying FTC activities will be expanded to include transacting or investing into private equity or venture capital funds that are not structured as companies. Income derived on or after 19 February 2020 by approved FTCs from this activity will qualify for the concessionary tax rate of 8%.

With competition from Malaysia, Thailand and Hong Kong to attract finance and treasury activities to be based there, the extension of the FTC scheme has been anticipated so that Singapore remains competitive as the preferred location for multinational companies to set up their regional or global treasury and finance centres, supported by a strong financial services hub in Singapore.

With effect from 19 February 2020, an approved FTC can raise financing through the issuance of convertible debt that caters to investors that have different investment risk profiles. It is not yet known whether the convertible debt would be subject to the condition that it cannot be beneficially held or funded, directly or indirectly, at any time during the life of the issue by any related party of the approved FTC that is not an approved network company.

Singapore has established itself as a fund management hub in Asia where many private equity and venture capital funds are set up. Some of these funds also enjoy tax exemption on specified income from designated investments under fund management tax incentive schemes in Singapore. As transacting or investing in stocks and shares in any company is already a qualifying FTC activity, the enhancement seeks to extend the qualifying FTC activities to a private equity or venture capital fund that is not set up as a company, such as a trust.

Withholding tax exemption for interest on margin deposits

To reinforce Singapore's strong position on the foreign exchange and derivatives market globally, the Government has proposed the following enhancements to the withholding tax exemption on interest on margin deposits, so as to cater to market developments:

Covered entities	Covered products
Current scope	
a. Members of approved exchanges	a. Spot foreign exchange (other than those involving Singapore dollar) b. Financial futures c. Gold futures
Enhanced scope	
b. Members of approved clearing houses c. Approved exchanges d. Approved clearing houses	d. All other derivative contracts traded or cleared on approved exchanges and approved clearing houses

The above enhancements will apply to agreements entered into on or after 19 February 2020. The Monetary Authority of Singapore (MAS) will provide details of the changes by May 2020.

This exemption will be reviewed before 31 December 2022, along with the withholding tax exemptions in respect of the following payments:

- Payments made under cross-currency swap transactions by a Singapore swap counterparty to a non-resident issuer (excluding a permanent establishment in Singapore) of Singapore-dollar debt securities
- Payments made under an interest rate or currency swap transaction by financial institutions or the MAS
- Specified payments made under a securities lending or repurchase agreement by a specified institution

Not all financial derivatives payments to non-residents necessarily attract withholding tax. That being said, it remains vital to ensure that withholding tax exemptions for interest and related payments be available after 31 December 2022 in order for Singapore to remain competitive with other financial centres, e.g. Hong Kong or London, where there is no withholding tax on such payments. We believe the financial sector will also welcome a consolidation of the various withholding tax exemption schemes so that tax compliance can be further simplified.

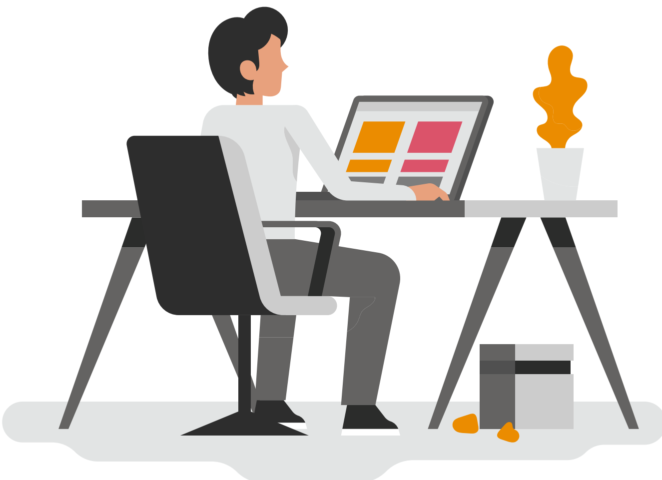
Insurance Business Development

The Insurance Business Development (IBD) umbrella scheme which consolidated the various insurance tax incentives was introduced in 2015. It is a scheme that accords concessionary tax rates on income from qualifying underwriting and investments. It is therefore timely that the Finance Minister announced the extension of the IBD and IBD-Captive Insurance schemes, which are due to expire on 31 March 2020, to 31 December 2025. The IBD for Marine Hull and Liability (IBD-MHL) insurance companies will lapse after 31 March 2020 and these insurers will be incentivised under the IBD scheme.

The extension of the incentive schemes is a welcomed move as it should help maintain Singapore's competitiveness as an insurance hub and attract new entrants to Singapore. However, there has been a lack of enhancement in the scope of qualifying income under the IBD scheme. The excluded lines of businesses (i.e. fire, motor, work injury compensation, personal accident and health) also continue to pose practical difficulty in tracking, identification and apportionment of income by insurers.

Key enabler to digital economy to preserve and protect data

The Finance Minister had announced that $1 billion will be set aside over the next three years to build and strengthen the Government's cyber resilience and data security capabilities. We resonate with the Government's approach to invest more in cyber capabilities in moving to, and especially within, a digital economy.



With increased use of digital channels and the large volume of customer data, insurers are attractive targets for cyber perpetrators. It is therefore not surprising that cyber risk is ranked as the top risk in Singapore among insurers. The increased sophistication of the perpetrators means insurers need to maintain a strong cyber defence and conduct regular reviews of existing cyber security frameworks to ensure that they remain robust. Going digital will increase the level of cyber risk. As the Government embraces and encourages a digital economy and production efficiency, relief in the form of enhanced deductions would be welcomed.

The increasing risks of cyber threats also reinforce opportunities within the Singapore insurance industry and the Finance Minister could consider extending the current IBD tax incentives to cover cyber risks as a specialised line of business for this purpose. This potentially would encourage an expansion of the cyber underwriting market for Singapore and would be in line with Singapore's commitment to strengthen cyber resilience, particularly within the financial services industry.

Angel Investors Tax Deduction Scheme

The Angel Investors Tax Deduction (AITD) Scheme, introduced in 2010 to encourage qualifying individuals to invest in start-up companies and help companies grow through their management expertise/ business networks, will lapse after 31 March 2020. Whilst angel investors can no longer obtain the "angel investors" tax status, existing angel investors can continue to enjoy tax deduction in respect of qualifying investments made during the period of the approved status, subject to existing conditions of the scheme.

Supporting start-ups remains a focus of our transformation journey. Instead of tweaking the AITD scheme to make it more accessible, the Government has chosen to focus on non-tax measures. Start-ups can continue to seek funding through the Startup SG Equity scheme which provides co-investment opportunities for investors. As part of the Startup SG Equity scheme, the Government will co-invest with independent, qualified third party investors into eligible startups. This scheme aims to stimulate private-sector investments into innovative, Singapore-based technology startups with intellectual property and global market potential.

Further, the Government will allocate $300 million to catalyse private investment into Singapore-based deep-tech start-ups in key emerging sectors (i.e. pharmbio and medtech, advanced manufacturing and agri-food tech).

Land Intensification Allowance

The Land Intensification Allowance (LIA) was introduced in 2010 when the Industrial Building Allowance was phased out, with the objective of encouraging intensification of land usage by certain industries.

With land scarcity in Singapore an ever present consideration in the minds of policy makers, the LIA regime is extended another five years to 31 December 2025.

Indefeasible right to use international submarine cable system

Section 19D of the Income Tax Act provides for writing-down allowances (WDA) on payments made to acquire an indefeasible right to use an international submarine cable system (IRU) over the life of the underlying contract, subject to conditions being met. The scheme was scheduled to lapse after 31 December 2020, but will be extended for another five years to 31 December 2025.

The proposed extension does not come as a surprise in view of the impending launch of 5G mobile services, which raises a number of infrastructure investment considerations for telecommunications carriers. The certainty that this extension provides is welcomed. This would continue to encourage telecommunication carriers to hub their networks in Singapore and provide assurance that their cost of ownership will not go up. We would however have preferred this WDA to be a permanent feature in the tax legislation given the strategic importance of the telecommunications sector.

Withholding tax exemption for arbitrators and mediators

Currently, as a concession, income derived by non-resident mediators and arbitrators from work carried out in Singapore is exempt from withholding tax, subject to conditions met. This exemption is scheduled to expire on 31 March 2020. This concession was introduced to promote the use of Singapore as an international centre for arbitrations.

The proposed extension of the withholding tax concession till 31 March 2022 supports Singapore's position as the leading centre for international commercial arbitration in Asia. With the liberalisation of the legal industry and increased number of foreign law firms in Singapore in recent years, it remains to be seen whether there would be further extensions of the withholding tax concession after 31 March 2022.

Further deduction for expenditure on R&D projects

Section 14E of the Income Tax Act allows a further tax deduction for expenditure incurred in undertaking large scale research and development (R&D) projects approved by the Economic Development Board (EDB). Together with deductions from other sections of the Income Tax Act, the amount of tax deduction allowed under section 14E is capped at 200% of the expenditure. The section 14E incentive will lapse after 31 March 2020. With this, tax deductions for R&D expenditure can be claimed under section 14D and 14DA of the Income Tax Act, subject to meeting prescribed conditions. Existing section 14E incentive recipients can continue to enjoy the further tax deduction until the expiry of their incentives.

This change consolidates the tax incentives for undertaking R&D activities under sections 14D and 14DA.

Existing section 14E incentive recipients should evaluate whether they are able to meet the prescribed conditions under sections 14D and 14DA in order for them to continue to enjoy R&D tax deductions when their section 14E incentive expires. Section 14E had provided a pre-approval regime which brings a degree of certainty to the tax deduction claims while those made under sections 14D and 14DA may be contested by the IRAS.

Concessionary tax rate for non-resident public entertainers

The longstanding concession of a reduced 10% withholding tax on income of non-resident public entertainers (e.g. actors, singers and sportspeople) was scheduled to expire on 31 March 2020. This will now be extended by another two years to 31 March 2022. In a pre-emptive move, the Government also announced that it has no intention to extend the concession after 2022 given that the entertainment scene in Singapore is well-established (e.g. F1 Grand Prix, International Champions Cup).

The Budget contains a plethora of measures that seek to enable stronger partnerships, deepen enterprise capabilities and develop our people. It also strives to build a caring and inclusive society. Some of these measures include:

- Deepening enterprise capabilities with funding
  - Productivity Solutions Grant for job redesign
  - New digitalisation initiatives for companies at different stages of growth
  - SME Grow Digital schemes
  - Introduce Enterprise Transform Package, with a focus on leadership
- Enhance the Market Readiness Assistance Grant to accelerate internationalisation efforts of SMEs, GlobalConnect@Singapore Business Federation
- Introduce Enterprise Transform Package with a focus on leadership
- Co-fund sector-wide challenges under the Open Innovation Platform to accelerate co-innovation
- Enhancements to the SkillsFuture scheme including credit top ups and a new SkillsFuture Enterprise Credit
- CPF Transition Offset of 50% of the increase in employer's contributions for older workers
- CPF Basic Retirement Sum to be increased by 3% in 2021 and 2022
- Matched Retirement Savings Scheme for lower- to middle-income Singaporeans
- Encourage the early adoption of Electric Vehicles

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Key Tax Highlights

Corporate income tax

- Corporate income tax rebate at a rate of 25% of tax payable for YA 2020, capped at $15,000.
- Automatic additional two months extension of interest-free instalments for payment of tax on ECI filed within specified period.
- The carry-back relief scheme is enhanced by increasing the carried back years to 3 immediate preceding YAs from the current 1 YA, for YA 2020. Taxpayers may also elect to carry back based on an estimated amount of qualifying deductions, subject to conditions.
- Changes to capital allowance (CA) claim.
  1. Option to accelerate to:
     - 2-year CA claim from the 3-year for qualifying assets acquired in the basis period for YA 2021. Once accelerated write-off is selected, no deferment of claims is allowed.
     - 1-year renovation and refurbishment claim from the 3-year (under section 14Q of the Income Tax Act) for qualifying expenditure incurred during the basis period for YA 2021.
  2. Option to simplify section 19 CA claims for qualifying plant and machinery acquired in or after FY 2022 or when acquired prior to the FY, CA claims were deferred.

Tax incentives

- Extend DTDi scheme to 31 December 2025 and the scope is expanded to include qualifying third-party consultancy costs and other qualifying overseas business missions costs for expenses incurred on or after 1 April 2020.
- Extended M&A scheme to cover qualifying acquisitions made on or before 31 December 2025. However, stamp duty relief will lapse for instruments executed on or after 1 April 2020 and no waiver for the condition that the acquiring company must be held by an ultimate holding company that is incorporated in and is a tax resident of Singapore.
- Extend the upfront certainty of non-taxation of companies' gains on disposal of ordinary shares to 31 December 2027.
- Extend the IBD and IBD-CI schemes to 31 December 2025. However, the IBD-MHL scheme will lapse after 31 March 2020.
- Extended venture capital funding for Singapore-based companies, the Section 13H scheme and Fund Management Incentive to 31 December 2025.
- Section 14E incentive will lapse after 31 March 2020.
- Extended withholding tax exemption for non-resident mediators and arbitrators, and the 10% concessionary withholding tax rate for NRPEs to 31 March 2022.
- Incentives extended to 31 December 2025 include LIA and section 19D WDA.
- Incentives extended to 31 December 2026 include MSI scheme, WHT exemption for qualifying payments made on qualifying financing arrangements, FTC and GTP.
- Lapsed of the Angel Investors Tax Deduction after 31 March 2020.

Goods and services tax

- GST rate to remain at 7% in 2021.
- GST will continue to be absorbed on publicly subsidised healthcare and education.
- Assurance Package will be provided when the GST rate is raised.

Other tax changes

- Property tax rebate ranging from 10% to 30% for the period 1 January 2020 to 31 December 2020, for qualifying commercial properties such as licensed hotels, serviced apartments, and prescribed Meetings, Incentive, Conferences and Events (MICE) venues.
- Changes to road tax for Electric Vehicles and Hybrid Cars.

PwC's Budget website

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