




PwC's proposals for Budget 2024

Supporting businesses, the environment and workers



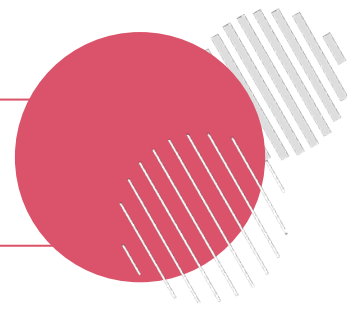


To further enhance Singapore's competitiveness, we have proposed certain measures to be considered for Budget 2024 with the view to bolstering foreign direct investments and fortifying our business environment.

Our proposals include implementation of a refundable tax credit framework to level the playing field for multinational enterprises subject to global minimum tax, introduction of a participation exemption for gains on the disposal of foreign assets and measures related to sustainability and workforce. This is so that a holistic approach is adopted in promoting economic development.

Taxation has never higher on the agenda of both the private and public sector - besides raising much needed revenues for government spending, it can play a role in promoting sustainability and correcting externalities, so as to facilitate investing for our future.

Supporting Businesses



Refundable credits framework

We propose a framework for granting refundable credits for multinational enterprises (MNEs) with Singapore operations. This framework should be designed to minimise the impact of the global minimum tax for MNEs (e.g. in line with the [GloBE rules](#) so as to minimise impact of any top-up tax) and yet encourage businesses to align their investments with the overall economic policy.

As indicated in the Economic Survey of Singapore for Second Quarter 2023¹, the growth outlook for the manufacturing sector in Singapore remains weak for the rest of the year. To promote key industry players to set up manufacturing facilities in Singapore, the government can consider granting a credit (calculated using a certain percentage of qualified investment cost or pegged against some measurable target e.g. ESG or productivity criteria) as a payment against tax.

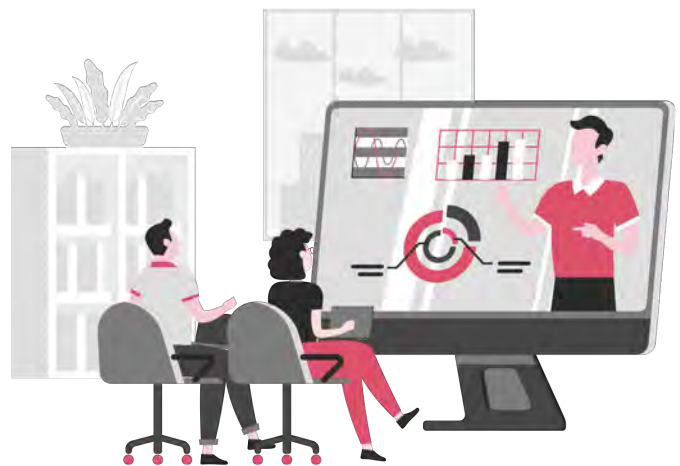
As an example, to encourage the relocation of semiconductor production to the US, a new temporary “advanced manufacturing investment credit” has been introduced. The credit is calculated using 25% of qualified investment related to an advanced manufacturing facility and eligible taxpayers can make an irrevocable election to treat the credit as a payment against tax. Where there is insufficient tax liability to be set off against, the taxpayers can receive a tax refund.

In another example, to encourage and reward greater innovation in the UK, Research and Development Expenditure Credit (RDEC) regime has been introduced to allow loss-making companies to claim cash back from HM Revenue & Customs (HMRC). Specifically, RDEC is payable regardless of the tax position, subject to certain restrictions and this is unlike the previous super-deduction scheme which only had a cash value if the company was paying corporation tax in the UK.

Participation exemption

With the introduction of [section 10L of the Income Tax Act 1947](#), gains on the disposal of foreign assets by an entity belonging to a relevant group may be subject to tax when received in Singapore, unless an applicable exclusion applies.

It is acknowledged that section 10L is intended to apply to groups that do not have the necessary economic substance in Singapore. That said, the new provision also curtails the operation of section 13W, which has provided much needed certainty of tax treatment to many businesses. Hence, it will be useful to consider introducing a participation exemption scheme to exempt certain share disposal gains from tax, so as to maintain Singapore’s attractiveness to MNEs to use Singapore as a platform jurisdiction to invest overseas. This is in line with the treatment adopted in many overseas jurisdictions, including Netherlands, Germany, France, where a participation exemption scheme applies to gains on sale of foreign shares.



¹ Ministry of Trade and Industry, https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2023/Economic-Survey-of-Singapore-Second-Quarter-2023/PR_2Q2023.pdf, accessed on 14 September 2023

Goods and services tax rules pertaining to traders of Digital Payment Tokens

Under the current goods and services tax (GST) legislation, traders of digital payment tokens (DPTs) are subject to input tax restriction unless their exempt supplies fall within the de minimis threshold.

While the Inland Revenue Authority of Singapore (IRAS) has clarified that “traders of DPTs” are those whose core business involves the supply of DPTs in exchange for fiat currency or other DPTs, and/or the provision of loan, advance or credit of DPT, it would be helpful if a quantitative threshold can be prescribed to facilitate businesses in determining if they are regarded as “traders of DPTs” for GST purposes. This is because what constitutes “core business” involve subjectivity and this increases uncertainty on the GST position for entities which have multiple core businesses.

In addition, the input tax recovery rules for “traders of DPTs” are more restrictive than businesses which are trading in other types of investments (e.g., shares, bonds). This is because “traders of DPTs” are included in the list of “tainted businesses” set out in regulation 34 of the Goods and Services Tax (General) Regulations (“GST (General) Regulations”) whereas traders of other financial instruments are not. This means that such businesses can only avail themselves of an input tax recovery formula which results in increased irrecoverable GST costs as compared to businesses trading in other types of investments.

We suggest removing “traders of DPTs” from the list of businesses prescribed in regulation 34 of the GST (General) Regulations as businesses should not be subject to additional input tax restriction if they choose to trade in DPT as compared to other types of financial instruments. There are also no additional input tax restrictions on businesses trading in DPTs in other jurisdictions such as Australia, New Zealand and the United Kingdom beyond the normal input tax recovery rules in these jurisdictions.

Exempt supplies under regulation 33 of the GST legislation

Currently, GST-registered businesses (excluding those who are in the list of “tainted” businesses set out in regulation 34 of the GST (General Regulations) which make certain prescribed categories of exempt

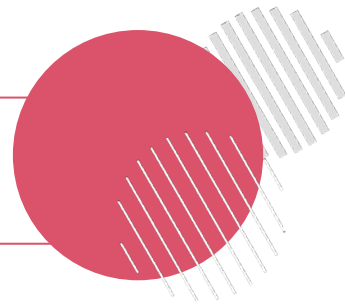
supplies in conjunction with taxable supplies are entitled to recover the GST incurred on their business expenses in full, subject to certain conditions. Such categories of exempt supplies are prescribed under regulation 33 of the GST (General) Regulations and this is in acknowledgement that such exempt supplies are incidental or integral to the making of taxable supplies.

Cash pooling arrangement is one of the ways adopted by multi-national companies to manage liquidity and financing costs. Essentially, cash pooling allows group companies to enjoy higher interest rates on their deposits with the banks and incurs lower financing costs charged by the banks if any of the group members needs to draw on the overdraft facility. Currently, the IRAS treats interest income received by a GST registered company from a cash pooling facility offered by a bank as an exempt supply which is not covered under regulation 33 if the header account of the cash pooling facility is a Singapore company. As a consequence, the GST registrant may suffer input tax restriction unless certain exceptions apply.

It is also common for businesses to designate one of the related companies to centrally contract with a landlord for the lease of accommodation to be provided to the employees within the group so as to obtain preferential rates and for administrative expediency. For example, a construction company may contract for a dormitory for the foreign workers employed by itself and its local related entities. When the construction company recovers such accommodation expenses from the employees or related entities, a portion of the recovery relating to the bare rental of the residential property (e.g. dormitory) constitutes an exempt supply which does not fall within the ambit of regulation 33. As a consequence, the company may suffer input tax restriction unless certain exceptions apply.

To avoid doubt, we suggest clarifying / expanding the scope of regulation 33 of the GST (General) Regulations to include the interest income derived from cash pooling arrangement and the recovery of expenses relating to residential accommodation. This is so that businesses would not be subject to input tax restriction if they make such exempt supplies which are essentially incidental or integral to their business of making taxable supplies.

Supporting Sustainability



Sustainability Support Scheme

Today, businesses are under increasing pressure to operate sustainably and commit to a net zero goal. The pursuit towards sustainability entails a broad range of activities that undoubtedly increases business costs in the following areas:

- Consultancy costs to engage professionals to perform impact assessments, set net zero targets, and develop strategy to meet net zero goals as well as identify areas for optimising energy consumption.
- Costs to acquire and implement software that enable businesses to track their carbon footprint.
- Verification and assurance services to enable businesses to fulfil their sustainability reporting obligations (regulatory and voluntary).
- Hiring of a chief sustainability officer and talents to drive sustainability efforts.

- Engage training service providers to upskill workforce on sustainability.
- Investments in energy efficient equipment, installation of energy consumption monitoring systems, etc.

Given the push towards operating sustainably, we propose that a comprehensive Sustainability Support Scheme (SSS) be introduced and administered by one government agency that seeks to encourage and support businesses' activities throughout the sustainability lifecycle. This SSS could comprise grants and tax incentives in the form of super deductions, refundable tax credits, investment allowances, concessionary tax rates, withholding tax exemptions, depending on the nature of activities to be supported and attributes of the applicant.



Key considerations for the Sustainability Support Scheme (SSS)

No.	Issue	Comments	Proposed amendments / enhancements for consideration
1.	Demand for carbon services	<p>In the current business environment, there is an increasing stakeholder expectation for businesses to be responsible from environmental and social perspectives. To embark on the sustainability journey, businesses will have to assess and reduce its unfavourable environmental and social impacts. This often entails engaging third party service providers to support the process.</p> <p>For example, companies could hire consultancy firms to identify high emission activities within its supply chain, engage software solution providers to implement software to track its carbon footprints or seek verification and assurance services to report environmental claims and data confidently. Companies could also engage training institutions to upskill its workforce to lead the process.</p>	To encourage companies to increase sustainability efforts and to keep up with business requirements, we recommend providing grants or double deductions (subject to cap) for the engagement of qualified consultants.
2.	Consolidated ESG related incentive / grants	The government has introduced various grants / incentives targeted at supporting environmental developments (e.g. improving energy efficiency and waste reduction). However, these grants / incentives are currently administered by different government agencies and there is no consolidated “one-stop” platform for businesses seeking financial assistance for their environmental efforts.	To ease the administration burden, the government could consider introducing a platform consolidating all the details of environmental related grants / incentives, and the relevant government agencies overseeing them.
3.	Flexibility in ESG related grants and incentive	<p>With the incoming BEPS Pillar 2 and global minimum tax, Singapore will be introducing a domestic top-up tax (DTT) to an effective tax rate of 15%.</p> <p>Under DTT, the benefits of tax incentives and deductions enjoyed by MNEs may be negated. This includes tax schemes such as investment allowances and Development and Expansion Incentive, which MNEs may be relying on to further their sustainability journey. On the other hand, this should not have any impact on small and medium-sized enterprises (SMEs) if they are not caught within the purview of DTT.</p>	<p>For ESG related tax schemes, we propose an option for refundable credits framework to minimise the impact of the DTT.</p> <p>However, flexibility should be retained for SMEs preferring concessionary rate of tax and enhanced tax deductions.</p>
4.	Expand scope of ESG incentive / grants	<p>To reduce carbon footprints, many businesses are looking towards optimising energy consumption. This includes investment in energy efficient equipment, installation of energy consumption monitoring system, etc.</p> <p>There are some grants, such as Resource Efficiency Grant and Energy Efficiency Fund, available to support such energy efficiency improvements, but they are mostly targeted at energy intensive facilities such as manufacturing, data centres or buildings.</p>	Given that business sectors outside of manufacturing, data centres and real estate are also making efforts to go green, expanding the scope of these grants could benefit them and encourage more of such green initiatives.



Reporting on greenhouse gas emissions

From 1 October 2023, EU importers of products covered by Carbon Border Adjustment Mechanism (CBAM) will be required to provide quarterly reporting on greenhouse gas emissions embedded into imported products. Although CBAM reporting obligation is with the EU party, the compliance burden on the exporter / producer will be significant due to the necessity to prepare the data on greenhouse gas emissions. As Singapore exporters of CBAM covered products will be affected and the scope of products is only likely to increase over time, we encourage the government to consider:

- Implementing / providing specific guidance on how Singapore exporters can best manage and fulfil CBAM requirements. This can be achieved through the setting of national standards, policies or guidelines, etc.
- Increasing transparency to defray additional costs and resources required by Singapore exporters to fulfil their responsibilities to their EU importers. Examples of initiatives worth exploring could be digitalisation of data capturing for imported/export CBAM-affected products linked to Singapore's National Single Window, or cross-border data exchange for affected goods with EU customs administrations to ease reporting obligations for EU importers and on Singapore exporters.

Trading of emission allowances by Singapore companies enjoying Maritime Sector Incentive

From 1 January 2024, the EU Emissions Trading System will include maritime emissions. This means that shipping companies which operate vessels that sail to or from or within European Union (EU) and European Economic Area (EEA) ports regardless of where the vessels are registered, will be required to acquire and submit allowances for their carbon emissions. It is expected that ship owners / operators, including Singapore-based companies enjoying Maritime Sector Incentive (MSI), will be buying and selling such emission allowances for use in relation to voyages in and through EU/EEA. It will be helpful for MPA to provide guidance on how the gains or losses arising from the trading of such emission allowances that are ancillary to shipping activities should be treated for MSI purposes. In addition, the government may consider granting tax exemption on such trading activities. While benefits of the tax incentives enjoyed by MNEs may be negated under DTT, this should not have impact on smaller MSI companies which are not caught within the purview of DTT.



Agriculture and food security

To safeguard against food supply disruptions, Singapore has set the target to produce locally 30% of our nutritional needs by 2030. This is one of the three key planks of government to ensure the food security of Singapore. To achieve this, the agriculture and food industry will need to adopt new solutions to raise productivity and utilise innovative farming systems.

One of the key challenges to any viable and sustainable farming activity in Singapore is the high cost of production compared to neighbouring countries, from which much of our food comes. The government could consider granting a concession for farming income and (with the aim to attract capital) allowing eligible investors a tax deduction for losses incurred by a company which is in the business of producing food locally, similar to the Enterprise Investment Scheme which lapsed in September 2009.

Currently, the tax rules do not allow deduction for capital costs on the construction of buildings used for food farming purposes (this form of farming is likely to become more prevalent with vertical farming being promoted on land farms) as well as land lease premiums paid in a lump sum upfront for such buildings on land approved for food farming. The deduction for the cost of approved buildings used exclusively / almost exclusively for food farming could take the form of the Industrial Building Allowance (IBA) before it no longer applied to expenditure incurred on or after 23 February 2010 (IBA has been replaced by the Land Intensification Allowance which has quite a different policy objective). Deduction for upfront land premium could be on the same footing as the current section 14J of the Income Tax Act 1947. These tax deductions could be administered by the Singapore Food Agency, with the necessary qualifying conditions legislated in the Income Tax Act 1947 to provide certainty.

To further support this initiative and encourage land productivity, the government could consider extending the Land Intensification Allowance (LIA) to such sectors where certain buildings or structures need to be converted for this use. An example could be to include the industries under the Group 011 (Growing of crops, market gardening and horticulture) and Group 032 Operation of fish hatcheries and fish farms Sub-class 03201 (Food fish farms) of the Singapore Standard Industrial Classification 2020 as qualifying industries with the condition to adopt sustainable and vertical farming

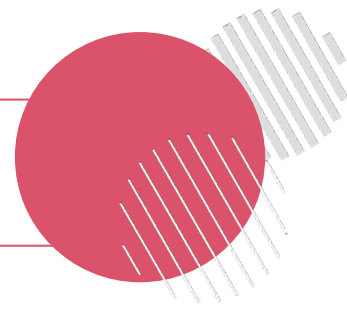
practices. To attract investors, the government could consider allowing companies that are in such business to carry forward any unutilised LIA without having to apply for a waiver of the shareholding test under section 23(5) of the Income Tax Act 1947. Companies that manufacture urban farming equipment to facilitate these practices could also be considered.

The overall cost for this sector may be lowered further with subsidised land leases and GST suspension on the importation of specialised equipment and raw materials (e.g. fertilisers).

Should the government decide to grant the proposed tax measures in support of the “30 by 30” initiative, it is necessary to highlight that those enterprises / persons which heeded the recent call of government to submit tenders for food farming land and were awarded such land since 2018 with the necessary land use conditions to greatly enhance food production should be included for the purposes of the deductions, if the expenditures are qualifying expenditures.



Supporting Workforce



Recalibration of earned income relief and one-off tax rebate

The amount of earned income relief is based on the age and taxable earned income (less any allowable expenses) in the previous year of the taxpayer. For a taxpayer below the age of 55, the maximum amount claimable is currently set at \$1,000 (\$4,000 for handicapped persons).

With inflation staying higher than what we were used to and the concern about rising cost of living, we propose to increase the maximum amount of relief claimable for taxpayers in this working age group who have contributed towards nation building and to also provide one-off tax rebate (similar to the one for the Year of Assessment 2019).

Streamline of Working Mother's Child Relief

The recent change to a fixed dollar amount for Working Mother's Child Relief (WMCR) is currently limited to working mothers with Singaporean child born or adopted on or after 1 January 2024. To make this even more streamlined and avoid administrative challenge of tracking the child born before vs on or after 1 January 2024, we propose for this fixed dollar be made available as the minimum relief to eligible working mothers with Singaporean child born or adopted before 1 January 2024. This would also help to provide much needed support, amongst other initiatives, to alleviate the rising cost of living for existing eligible mothers in the lower-to middle-income group.



Making Family / Parent Care Leave mandatory

Currently employees in Singapore are entitled to maternity and paternity leave, childcare leave as well as extended childcare leave, subject to meeting various criteria.

However, as of to-date, there are no mandatory leave benefits for taking care of elderly parents. As Singapore's population is aging, there is an increased pressure on employees who are also caregivers for their parents. By having in place a mandatory family / parent care leave, the same will help to provide a more work-family balance for the employee (hence reducing pressure and anxiety) and decrease elder neglect in Singapore. In turn, this will make our society a more caring one which is in line with the government's effort to build and maintain a caring Singapore.

Flexi-work Post Maternity Leave Policy

Post covid-19 pandemic, many employers are mandating for employees to return back to office, either on a full-time or part-time basis.

Currently, eligible working mothers are entitled to government-paid maternity leave of up to 16 weeks subject to meeting criteria. We are proposing for an additional 8 weeks of maternity leave in the form of flexible working arrangement / working from home arrangement.

Under the existing leave scheme, we observe that some mothers may choose to continue their leave for another 8 weeks on an unpaid leave basis as they may have difficulty getting an infant care vacancy or alternative support to look after their newborn.

With the proposed flexi-work scheme, working mothers will now get the flexibility to resume their work from home postpartum, without the need to take unpaid leave or in the worst case resign from the job, while being able to be near their newborn at home. This will provide more time for mothers to recuperate after labor, as well as serve as a transition period for them to adapt back into the workforce after a 4-months break.

The proposed scheme will also be a good addition to the government's promotion of flexible work arrangement for employees.

Government-subsidised Mental Health Scheme

In 2022, there were reported 476 cases of suicide, up 25.9% from the preceding year, and also the highest number in more than 20 years.

As the government is promoting mental wellness, the government may consider taking an additional step to provide grants to encourage employers providing more mental health benefits to their employees.

This will further boost the mental health awareness among employers and at the same time promote a more caring workplace and reduced burnout among employees.

Chronic Illness Leave

We are proposing for 30 days additional sick leaves for employees with chronic illness, with government subsidy to employers.

Chronic illness such as cancer, auto-immune diseases, kidney-related issues, major depressive disorder, etc. is on the rise in Singapore.

This additional 30 days of sick leave can be used by the employee to go for medical appointments, check-ups, or taking a day off to rest whenever their condition causes them to feel unfit for work.

This additional leave would bring about a more inclusive workplace and provide support for the employees who are diagnosed with chronic illness but do not have the financial ability to resign.

Wage support for caregivers re-entering workforce

2021 revealed an estimated 210,000 caregivers have compromised their careers, finances and even their own health to look after their ill or disabled family members. This is further worsened by the Covid-19 pandemic which has caused the stress levels of caregivers to climb even further.

Majority of caregivers are women, who tend to have to take a pay-cut if they are employed as they work fewer hours to care for their family members.

Apart from making family care leave mandatory to support these caregivers, we are proposing for the government to subsidise companies to re-employ these caregivers at the normal salary for the position.

Caregivers have to juggle between work and family responsibility full-time, and can be seen as the most resilient in the workforce, as they bring about a working culture of determination. Hence they should be given the support and opportunity to be financially well together with caring for their family members in need.





Extension of Senior Employment Credit

The employment rate of senior workers (aged 55 to 64) rose up to 70.6% in 2022.

As 25% of the workforce is expected to turn 65 and above by 2030², we are proposing for a further extension of the Senior Employment Credit (SEC).

This will better support the older workforce who are reemployed post-retirement age as well as the employers transiting into employing older workers.

Additional SkillsFuture Credits for senior workers aged 65 and over

In line with the expected rapid aging of the Singapore workforce (i.e. 25% of the workforce will turn 65 and above by 2030) and to encourage continuous learning regardless of age, we propose for an additional one-off top-up to the existing SkillsFuture Credits, especially for those in the age group of 40 to 60, as they will be in the group turning 65 and above by 2030.

It is important for this group to receive continuous training so that they can stay relevant and remain a productive workforce in our multigenerational workforce. This will also lighten the worries of employers when employing senior workers.

² Asian Development Bank, <https://www.adb.org/sites/default/files/publication/637416/singapore-care-system-population-aging.pdf> accessed on 14 September 2023

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