



PwC's Singapore Budget 2024

Supporting businesses, the environment and workers

Key Budget Changes for Businesses

17 February 2024

Deputy Prime Minister and Finance Minister, Mr Lawrence Wong delivered the 2024 Budget Statement in Parliament on 16 February 2024. The Budget proposes an array of initiatives spanning economic revitalisation, social support and environmental sustainability. Here are our perspectives on some of the key measures announced and their potential impact on businesses. More details will be available in the full Budget Commentary on our [website](#).

1. Pillar Two top-up taxes

Following the 2023 Budget when Singapore first stated its intention to introduce Pillar Two top-up taxes, the Finance Minister has announced that Singapore will proceed to implement two components of Pillar Two – the Income Inclusion Rule (IIR) and Domestic Top-up Tax (DTT) – for in-scope businesses from their financial years (FYs) starting on or after 1 January 2025. However, the last component, the undertaxed profits rule (UTPR), will be considered only at a later stage, as the present focus will be to ensure a smooth roll-out of IIR and DTT for affected businesses.

To recap, Pillar Two is part of an initiative of the OECD/G20 Inclusive Framework, comprising about 140 jurisdictions, to curb base erosion and profit shifting arrangements arising from a diverse international tax

landscape. It does so by calling for the introduction of a top-up tax that would ensure that large multinational enterprises (MNEs) – those with consolidated annual revenues of EUR 750 million or more – pay tax at an effective rate of at least 15% on profits (as defined) earned in the jurisdictions in which they operate.

The implementation of the Pillar Two top-up taxes around the world has already gathered pace. Countries such as Germany and the United Kingdom as well as Australia, Japan and Korea have implemented their respective versions of Pillar Two as of 1 January 2024. Similar to Singapore, other Asian countries such as Hong Kong and Malaysia have announced the implementation of the Pillar Two top-up taxes by 1 January 2025. As such, it is no surprise that Singapore will be proceeding with the IIR and the DTT as originally planned.

The IIR applies to Singapore-parented in-scope MNE groups in respect of the profits of their low-taxed constituent entities outside Singapore, whereas the DTT applies to foreign-headquartered in-scope MNE groups in respect of the profits of their low-taxed constituent entities in Singapore.

The UTPR, which serves as a backstop in the overall scheme, is intended to capture profits not otherwise taxed under the IIR. As countries would not wish to give up their taxing rights, they will likely seek to adopt IIR to avoid ceding tax rights to another country that implements UTPR, thus ensuring that in-scope MNEs

will pay tax on profits (as defined) at an effective rate of at least 15%. Whilst more than 20 countries have announced that they will be adopting UTPR, its implementation is still being developed. Hence, it is wise for Singapore to watch these developments and learn from those countries that have implemented UTPR. This will allow Singapore to take a more measured approach after considering what others will do.

What leaders of relevant MNEs must appreciate is that complying with the new tax regimes will not be a simple matter. The amount of data required to calculate the impact and report is significant and not all data required is or will be readily available in a company's accounting systems. Companies will need to consider whether their current tax compliance processes are adequate (and consistent in all foreign locations where a company has constituent entities) to capture the required data accurately. Based on the reviews so far by PwC with many affected MNEs, there will be a significant increase in efforts and resources needed to comply with these complex rules. This burden is magnified by the fact that the lead time given to MNEs to prepare to meet the requirements under the new tax legislation will be short given the impending implementation in 2025. What is paramount is to embrace digital solutions that will help to reduce the data gathering burden, model the impact and facilitate tax reporting. This has been the case of MNEs which have begun this journey early and appreciated the challenges of having the right and accurate data from different functions within the MNE group.

For more information on the latest updates on Pillar Two adoption globally, please refer to [PwC's Pillar 2 country tracker tool](#).

2. Refundable Investment Credit

With Pillar Two top-up taxes taking effect in home countries of MNEs, any benefit they may derive from tax incentives will be negated as taxes forgone in Singapore will be collected elsewhere.

To address the above, the Finance Minister has proposed enhancing Singapore's investment toolkit with a new Refundable Investment Credit (RIC) scheme to enhance the many other factors that encourage companies to anchor substantive and high value economic activities in Singapore. The RIC is a tax credit with a refundable cash feature which may be used to offset corporate tax payable or be refunded in cash within four years from when the company satisfies the conditions for receiving the credit. The RIC is awarded on a case-by-case approval basis by the Economic Development Board of Singapore (EDB) and Enterprise Singapore. The quantum of the RIC will be up to 50% of the expenditure incurred on a qualifying activity during a qualifying period. The rate will depend on the merits of the qualifying activity for which the application is made. The introduction of the RIC will offer another

avenue for Singapore to remain competitive and continue to attract quality investments.

Examples of activities qualifying for RIC include:

- i. Investing in new productive capacity (e.g., new manufacturing plant, production of low-carbon energy)
- ii. Expanding or establishing the scope of activities in digital services, professional services, and supply chain management
- iii. Expanding or establishing headquarter activities, or centres of excellence
- iv. Setting up or expansion of activities by commodity trading firms
- v. Carrying out research and development (R&D) and innovation activities
- vi. Implementing solutions with decarbonisation objectives.

Depending on project type, qualifying expenditure categories may include:

- i. Capital expenditure (e.g. building, civil and structural works, plant and machinery, software)
- ii. Manpower costs
- iii. Training costs
- iv. Professional fees
- v. Intangible asset costs
- vi. Fees for work outsourced in Singapore
- vii. Materials and consumables
- viii. Freight and logistics costs.



It is the current policy stance not to double-incentivise the same activity. Applying this principle, it is expected that the tax value of allowances or enhanced deductions will be adjusted accordingly to take the RIC into account. For example, if a portion of equipment cost is the subject of RIC, capital allowances are expected to be available only for the remainder of the equipment cost.

Evidently, the Government's intention is for the RIC to fall within the framework of the OECD Pillar Two Model Rules to be treated as a qualified refundable tax credit (QRTC), given Singapore will implement the Pillar Two top-up taxes next year. A key consideration under the Pillar Two framework is the tax consequences of a QRTC and a non-qualifying tax credit as they are treated differently. While both tax credits reduce a company's effective tax rate (ETR), QRTCs reduce the ETR to a lesser extent as it increases the claimant's income (the denominator of the ETR formula), while a non-qualifying tax credit reduces the covered taxes (the numerator). A simple example below illustrates the concept.

Example:



	Qualified Refundable Tax Credit	Non-qualifying Tax Credit
	(\$)	(\$)
Tax credit	500,000	500,000
Covered taxes [A]	1,500,000	1,000,000 (1,500,000 less 500,000)
GloBE Income [B]	10,500,000	10,000,000
ETR [D = A/B]	14.29%	10%
Top up % [E=15%-D]	0.71%	5%
Top up tax payable* [F=B*E]	74,550	500,000

* leaving aside substance-based income exclusion

Although the introduction of the RIC is a welcomed move in expanding Singapore's fiscal toolkit and aligning Singapore's tax incentive landscape with Pillar Two, taxpayers should consider their profile and business requirements in assessing the relative merits of RIC as against existing tax incentives and grants when deciding on the optimal scheme for their investment.

Such refundable tax credits have been adopted by countries such as Ireland and Belgium for R&D activities. These countries have now adapted their schemes to come within the framework of the QRTC under the OECD Model Rules. The introduction of RIC

is therefore timely as it puts Singapore on a level playing field and complements our existing grant schemes.

Finally, as RIC is a new concept to Singapore, care should be taken in its design to avoid it being inadvertently caught by the World Trade Organization Agreement on Subsidies and Countervailing Measures. PwC will work with our clients to help provide feedback on this and to navigate the potential undesirable customs consequences if any.

Further details will also be released by the EDB and Enterprise Singapore by the third quarter of 2024.

3. Alternative net tonnage basis of taxation for shipping enterprises

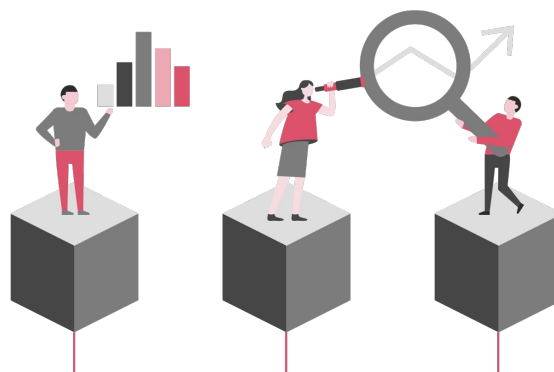
With effect from Year of Assessment (YA) 2024, an alternative basis of tax will be available under the Maritime Sector Incentive (MSI)-Shipping Enterprise (Singapore Registry of Ships), MSI-Approved International Shipping Enterprise, and MSI-Maritime Leasing (Ship) schemes (collectively referred to as the MSI schemes) where the qualifying income of qualifying shipping entities is taxed by reference to the net tonnage of their ships. The existing tax treatment under the MSI schemes will continue to apply to MSI entities that are not under this alternative taxation basis.

Although the details on the taxation basis are not available, we expect that the net tonnage basis of tax will emulate the tonnage tax regimes applied by many foreign jurisdictions which impose relatively lighter requirements on economic commitments such as headcount and local business spending. Existing MSI entities would otherwise have little reason to opt for this alternative basis over the tax exemption they currently enjoy. In any case, it is a relief that this net tonnage basis of tax does not replace the exemptions available under the MSI schemes and is an enhancement to ensure Singapore maintains a comprehensive incentive regime for its international shipping community and preserves its status as an international maritime hub.

Ship owners/operators will be keen to understand what this alternative net tonnage basis of tax would entail, for example, whether it would be modeled after the Dutch or Greek model, both of which are widely adopted by many maritime jurisdictions. The Dutch model seeks to calculate taxable profits using a deemed daily profit assigned to each tonnage size group, and applying the prevailing tax rate; whereas the Greek model applies a more complicated calculation to also take into account the age of the vessel.

It would also be interesting to see what the qualifying conditions and scope for this alternative net tonnage basis of tax would be, for example, whether there is local flagging requirement, whether it covers both owned and chartered-in vessels, if there are lock-in or lock-out periods, etc. Ship owners/operators are likely to expect that the qualifying conditions for the alternative net tonnage basis of tax should be less onerous than that of existing MSI schemes.

While this alternative net tonnage basis of tax is a form of enhancement of Singapore's maritime incentive regime, it could create more complexity, for example, how certain tax attributes will be treated when transitioning from the MSI schemes to this alternative net tonnage basis of taxation, or vice versa, and also its interaction with Singapore's adoption of a Pillar Two top-up tax regime.



From a timing standpoint, the relevant authorities will announce details by the third quarter of 2024. This may not provide ship owners/operators with sufficient lead time to consider and make a decision on whether to elect for the alternative basis of tax by the YA 2024 tax return filing due date of 30 November 2024.

4. Enhancement to tax concessions for asset and wealth management

Singapore continues to place emphasis on its financial services sector. In particular, the Finance Minister proposed a top up to the Financial Sector Development Fund by \$2 billion to give the Monetary Authority of Singapore (MAS) the ability to support its financial services sector and to enhance Singapore's competitiveness as a global financial services hub.

Singapore saw the number of registered and licensed fund management companies in Singapore rise by 12% based on the MAS' 2022 Asset Management Survey. This shows the continued interest in Singapore for asset managers to base themselves here to tap on the regional growth and opportunities.

In Budget 2024, the Finance Minister has proposed three key changes that will affect the asset and wealth management industry, with further details to be made available by the MAS by the third quarter of 2024.

Extension of the sections 13D, 13O and 13U Schemes to 31 December 2029

The Finance Minister has proposed that the sections 13D, 13O and 13U Schemes, which were due to lapse on 31 December 2024, be extended for another five years till 31 December 2029. Along with this extension, the withholding tax exemption for interest and qualifying payments and the Goods and Services Tax (GST) remission scheme for qualifying funds are also extended until 31 December 2029.

The Budget however was silent on whether the GST remission, which currently applies to section 13F designated unit trust (DUT) funds and unit trusts included under the CPF Investment Scheme (CPFIS), will similarly be extended. We hope that the authorities will extend the benefits of these remissions to 31 December 2029 as well.

Enhancement of the section 130 Scheme

From 20 February 2018, the section 13U Scheme was expanded to apply to all fund vehicles constituted in any legal form (instead of funds set up as companies, trusts and limited partnerships prior to 20 February 2018). However, the section 130 Scheme remains applicable only to funds set up in the form of Singapore companies (private limited companies or variable capital companies) to-date.

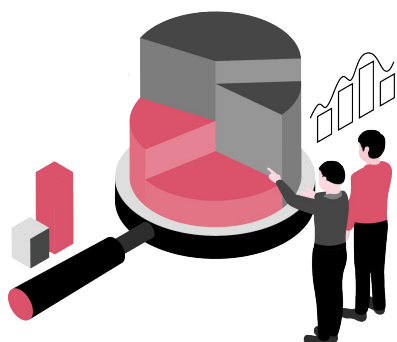
The Finance Minister has proposed that the section 130 Scheme be made available to funds established as limited partnerships registered in Singapore. The proposed change will take effect from 1 January 2025. We believe this enhancement will be welcomed by the industry as it provides flexibility for Singapore-based fund managers in choosing the suitable legal form for the investment funds they manage especially if the fund may not meet the section 13U qualifying conditions, such as the minimum fund size. For example, in closed-end fund structures such as private equity funds, venture capital funds, it is common for the funds to be established in the form of limited partnerships due to investors' familiarity and flexibility with partnership structures from a legal standpoint.

We also hope that the same enhancement can be mirrored in the section 13D Scheme to cater to fund structures established as limited partnerships outside Singapore. The current section 13D Scheme is limited to funds established as companies and trusts, which poses a practical limitation as there is a significant portion of the alternative fund industry globally which uses limited partnerships.

Economic conditions under the section 13D, 13O and 13U Schemes

Currently, the sections 13O and 13U Schemes impose economic conditions such as a minimum annual business expenditure and minimum fund size (in the case of section 13U Scheme) while there is no specified economic condition under the section 13D Scheme.

In Budget 2024, the Finance Minister proposed a revision to the economic conditions under the sections 13D, 13O and the 13U Schemes. The changes will take effect from 1 January 2025. The MAS will provide further details by the third quarter of 2024.



Our preliminary observations on the above budgetary changes are:

- The general expectation is that the economic conditions will be raised. Our recommendation would be that the revised conditions should apply only to new applications submitted on or after 1 January 2025. In other words, we expect the fund vehicles that have been approved or submitted the sections 13O or 13U applications, or is relying on the section 13D Scheme prior to 1 January 2025 should be grandfathered and can continue to apply the existing sections 13D, 13O or 13U Scheme conditions.
- The authorities have tightened the conditions for sections 13O and 13U Scheme for funds managed by single family offices in Singapore over the past two years. In our view, the same conditions for single family offices should not be replicated for the sections 13D, 13O and 13U funds managed by licensed fund management companies. Instead, the revised economic conditions for funds managed by licensed fund management companies should be designed to take into account commercial realities of such funds. Consider the following examples:
 - There are open-end funds where the fund management companies do not charge any management fee and charge a performance fee only if a certain investment performance threshold is met. Hence, these funds may face difficulties meeting annual business spending conditions if the business spending condition is set at a high threshold.
 - In the case of closed-end funds, commercially, the assets under management (AUM) of such a fund will be reduced over time as the fund exits its investments and the expenses incurred by the fund will correspondingly decrease over the life of the fund. For these funds, it would be helpful if the business spending condition can be assessed over the life of the fund instead of annually. This approach would be similar to that adopted for the section 13G Scheme.
- As mentioned above, the section 13D Scheme does not currently impose any economic conditions such as business spending or fund size. The business spending condition for section 13O Scheme can be met by way of local or overseas business spending; whereas the section 13U Scheme condition can only be met by way of local business spending. If the authorities were to impose business spending conditions for the section 13D Scheme, it would be helpful to understand whether the condition will be imposed based on local business spending or it would also

take into account overseas business spending; and the threshold being set. Any condition imposed should take into account that the costs may not be borne by the fund directly as fund managers are often remunerated by a related party due to sub-advisory/management arrangements between the parties.

Also, there is no minimum fund size under the section 13O Scheme and there is a minimum fund size of \$50 million for the section 13U Scheme. We hope that the section 13D Scheme will continue not to impose any minimum fund size requirement, similar to the section 13O Scheme, to provide flexibility to fund management companies.

- From a timing perspective, we note that details of the changes are only expected to be released by the authorities in the third quarter of 2024. However, any changes to the conditions of the above schemes will take effect from 1 January 2025. The short lead time may pose challenges for fund managers seeking to raise new funds given the uncertainty of how the revised conditions may apply. Investors may question whether the funds are able to meet the revised conditions under sections 13D, 13O or 13U and the lack of certainty may delay the fund launch process, in turn adding more uncertainty in a difficult fundraising environment. We hope that the authorities can release details of the changes earlier to allow more time for fund managers to raise funds and conduct their business activities.

Overall, Budget 2024 has proposed positive changes for the AWM sector with the extension of the sections 13D, 13O and 13U Schemes and the extension of the section 13O Scheme to cover limited partnership funds registered in Singapore. We are optimistic that the authorities will adopt a measured approach in designing the revised conditions and take into account the feedback from various industry players in the process.



5. Support for small and medium-sized enterprises

Enterprise Support Package

Comprising three main components, a new \$1.3 billion Enterprise Support Package aims to help Singapore businesses manage rising costs through:

- 1) A Corporate Income Tax (CIT) Rebate for YA 2024, with a CIT Rebate Cash Grant for eligible companies. Companies will receive a 50% corporate income tax rebate capped at \$40,000. Recognising that not all companies may be profitable, those which employ at least one local employee in FY 2023 will receive a cash payout of at least \$2,000, which will be automatically credited by the third quarter of 2024. The maximum total benefits of CIT Rebate and CIT Rebate Cash Grant that a company may receive is \$40,000.
- 2) Enhancements to the Enterprise Financing Scheme (EFS), where:
 - a) the maximum loan under the EFS-SME Working Capital Loan will be permanently raised from \$300,000 to \$500,000, providing greater support to small and medium-sized enterprises (SMEs) to manage their financing needs;
 - b) the enhanced maximum trade loan quantum under the EFS-Trade Loan of \$10 million will be extended until 31 March 2025, to support businesses' internationalisation efforts;
 - c) financing for domestic construction projects under the EFS-Project Loan Scheme will be extended until 31 March 2025, with a maximum loan quantum of \$15 million; and
- 3) An extension of the SkillsFuture Enterprise Credit (SFEC) to 30 June 2025, which gives employers an additional year to claim any unused credit on supported schemes.

The Enterprise Support Package will provide much welcomed and needed support to SMEs, be it to improve cash flows or see the company through a period of expansion. It will provide short term relief to SMEs that are struggling with rising interest costs, and reward companies that are committed to growth and sound business practices despite current headwinds. That said, the impact of the measures may be felt differently across different sectors.

Businesses that are working capital intensive like trading, logistics and construction are more likely to benefit in the short term; others whose profitability are adversely impacted by the current slow economic environment may not reap the full benefit of the one-off corporate tax rebate.

In all, the extension of the EFS and SFEC is testament to the Government's responsiveness to voices from the ground, as these have been on the minds of industry and business associations. Businesses that are committed to restructuring and transforming amid the challenging macroeconomic environment should make full use of the Enterprise Support Package.

Partnerships for Capability Transformation scheme

The current Partnerships for Capability Transformation (PACT) scheme will be enhanced to catalyse co-innovation and promote greater collaboration between MNEs and SMEs. The enhancements include supporting partnerships in additional areas such as capability training, internationalisation and corporate venturing.

While PACT is not a new scheme, encouraging corporate venturing can help to increase the alignment of interests, and generates "stickiness" in the value chain that can be critical to successful partnerships between the MNEs and SMEs. Furthermore, these SMEs will benefit from the exchange of world-class management practices and the upskilling of their workforce, which ultimately raises their profiles and credentials in the international arena.

Important note:

The above is a discussion of the measures announced in Budget 2024 and our view as to how these measures could affect businesses. These are subject to further details to be announced by the relevant economic agencies and enactment of legislation which may lead to a different outcome or result from what we have stated herein.



Contacts

If you would like to discuss any of the issues raised, please get in touch with your usual PwC contact or any of the individuals listed below.

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