



PwC's proposals for Budget 2023

Let change be Singapore's friend



January 2023

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PwC Singapore Budget 2023 Proposals

Businesses and individuals will look with keen interest to the measures in Budget 2023 to help manage challenges posed by global economic slowdown, strong inflationary pressure and geopolitical tensions, as well as the economic cost of climate change.

More help extended through fiscal measures would in turn require re-evaluating our overall fiscal position, and how spending can be financed in a sustainable manner. The tax system will need to be tweaked in this regard, with a view to maintaining Singapore's competitiveness. As a fiscal tool to meet social and economic needs, introducing a new tax will pose additional burden on many businesses that are still recovering from the aftermath of the pandemic. And yet the need for tax revenues is substantial. There are therefore competing objectives: from having to alleviate business cost in the current economic climate, investing in resident workforce and technologies to seize new opportunities, to funding increasing social needs for the country and pursuing sustainability goals for inter-generational equity. More than ever, it behoves on all stakeholders to contribute to build an inclusive community.

With this as the backdrop, we provide our proposals for the government's consideration.



Resilient tax system

Certainty for non-taxation of carried interest

To enhance Singapore's competitiveness as an international asset and wealth management centre and to make Singapore an attractive location for fund managers, the government can consider providing certainty for non-taxation of carried interest if certain developmental criteria are met. As an example, Hong Kong has introduced certain tax concession for carried interest distributed by qualifying funds, subject to their meeting specified conditions. Similar measures will be welcomed by the asset management community.

Foreign tax credits scheme

To continue encouraging Singapore enterprises to expand overseas, we propose further liberalising the foreign tax credit scheme to allow excess foreign tax credits to be available for carry forward and carry back.

In certain prescribed scenarios, such as where an operating company is held by an intermediate holding company in another country, foreign dividends received in Singapore may be exempt under section 13(12) of the Income Tax Act 1947 if they were paid out of income that had been subject to tax at the operating company level, notwithstanding

that no further tax is paid by the intermediate holding company. For parity of treatment and to encourage the repatriation of foreign income, foreign tax credits should similarly be allowed for tax at lower (operating company) levels where dividends flow to Singapore via a chain of companies.

Refundable credits framework

We propose a framework for granting refundable credits for multinational companies with Singapore operations. This framework should be designed to minimise the impact of the global minimum tax top-up for multinational companies and yet encourage businesses to align their investments with the overall economic policy.

As indicated in the Economic Survey of Singapore for Second Quarter 2022,¹ the manufacturing sector grew by 5.7% and continues to be one of the key drivers for growth. To continue promoting 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) as a payment against tax.

¹ Ministry of Trade and Industry, https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2022/Economic-Survey-of-Singapore-Second-Quarter-2022/PR_2Q22.pdf, accessed on 13 September 2022



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.

The framework may also be linked to other business expenditure or tied to agreed Environmental, Social and Governance (ESG) milestones achieved by the Singapore companies where these credits could be awarded to support businesses that create new jobs that relate directly to the transition to net zero or businesses that minimise environmental impact by developing sustainable low carbon products or services.



Review of incentive and grant schemes

As tax incentives may no longer be effective for the multinational enterprises (MNEs) falling within the Pillar Two regime, we suggest considering the expansion of the scope of grants to support MNEs in building substance in Singapore and reconsidering the eligibility criteria and grant quantum for some of the existing grant schemes. This can be in areas including hiring of professional headcount, and capital investments (which can be for an initial period of set up of new operations or for expansion in product offerings by an existing company), digital acceleration (which is currently only available to smaller businesses) and research and development (R&D) activities, subject to criteria being met. Market Readiness Assistance grant for Free Trade Agreement use as elaborated below is an example.

The benefits of tax incentives continue for MNEs falling outside the Pillar Two regime. To encourage these MNEs to invest in Singapore, tax incentive conditions should be focused on a direct measure of productivity instead of looking at business spending. Conditions to qualify for incentive schemes can be tied to incremental investments in digital technology or incremental revenue and profit margin growth for the year (or an average number of years). An incentive holder should also be given the option to choose between co-funding and enhanced allowances / deductions. This will in turn encourage companies to be more innovative in operations and spur them to look for more efficient ways to allocate resources.



Market Readiness Assistance grant for Free Trade Agreement use

Singapore companies can currently claim support under the Market Readiness Assistance (MRA) scheme of up to 70% of the professional service fees of nominated Free Trade Agreement (FTA) consultants to help them evaluate the benefits of using Singapore's network of FTAs. This support is included in a broader set of grants for eligible international expansion (for example trade fairs, business matching, etc). The grant scheme is due to expire in March 2023.

Many would-be Singapore exporters would continue to need support in their internationalisation journey, in 2023 and beyond. In our experience, not many companies have managed to benefit from the grants specifically for better use of the FTAs. Many companies are simply not entitled to the grants because they cannot meet the stringent criteria. Usually this is because their business reality does not match the situations envisaged under the grant scheme, making it difficult for such companies to qualify for the grant. For example, a

company may not be exporting products itself, but is selling to another Singapore-based manufacturer that is planning to export and would be able to benefit from FTAs; or a company does already have a little bit of experience with FTA use but is doing so sub-optimally; or a company needs support in a range of internationalisation activities, of which FTA use is only one.

All such companies typically do not qualify for the MRA FTA grant, yet would likely benefit significantly and be able to increase the competitiveness of Singapore exporters.

It is therefore recommended that the Singapore government extends and finetunes this grant scheme to better support Singapore companies. This could be achieved through the following:



Make the FTA grant a grant in its own right, independent of other MRA grants; the level of support available may need to be tailored because of this.



Remove any conditions on current FTA use;



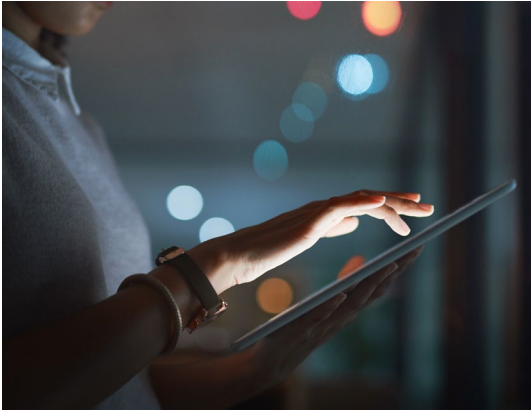
Remove any conditions on exporting products;



Provide clear measurable KPIs on FTA benefits on which the grant is conditional;



Remove uncertainty on a posteriori availability of the grant.



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” involves 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 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 Goods and Services Tax (General) Regulations as businesses should not be subject to additional input tax restriction if they choose to trade in DPTs 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.

Carbon Border Adjustment Mechanism

Much has been written about the possible introduction of a Carbon Border Adjustment Mechanism (CBAM) in the EU since the Council of the EU has agreed to the introduction in March 2022. Although much of the detail is still being worked out and the implementation timeline is currently envisaged to run over more than a decade, the possible implications for Singapore exporters cannot be underestimated. The Singapore government can start outlining its own ideas as to how Singapore’s exporters should be protected from the impact of CBAMs to be introduced in Europe or potentially in other countries which may follow the EU’s footsteps.



The principle of a CBAM is fairly straightforward. It is to levy an import tax on products where the production was not subject to the same environmental standards as those in the country of import. In essence this means that any product shipped from Singapore to countries which have a CBAM in place may be subject to additional import taxes if the production of such product cannot be proven to have undertaken the required environmental standards of the destination countries. To avoid such additional import taxes, Singapore exporters would need to demonstrate the following:

- Their production processes in Singapore meet the required environmental standards; and
- Any imported materials incorporated into their products can either meet the required environmental standards or have already been subjected to a CBAM upon their entry into Singapore.



Clearly, CBAM standards, as they emerge, may vary across countries. Nevertheless, the closer Singapore can align with the majority of those standards or “typical” standards, the more likely it is that products exported from Singapore would not be subject to overseas CBAMs and therefore would be more competitive in such markets.

To start preparing for a world in which CBAMs are common, the Singapore government ought to consider:

- Setting its own production standards based on environmental objectives and targets;
- CBAM for products imported into Singapore that do not meet such standards.

While the legal validity of a CBAM under World Trade Organisation commitments is still being debated, it is not too early for the Singapore government to outline the underlying principles and the implementation options and timelines.



Caring community

Tax deduction on qualifying international donations

To support Singapore's growth as a philanthropic hub and better mirror the regional / international ambitions of family offices, we suggest allowing deductions for donations by Singapore-based donors to qualifying foreign philanthropic set-ups or approved causes of family offices anchored in Singapore. Taking reference from overseas schemes, for example, the Australian Overseas Aid Gift Deduction Scheme, qualifying activities must be to support causes overseas that are endorsed by the government. To retain differentiation from donations to qualifying IPCs, the proposed deduction should be set at a lower threshold (e.g., 100%).

In addition to complementing the global efforts on ESG and social impact investing, such tax liberalisation initiatives would encourage Singapore-based charitable giving and lead to multiplier effects in the sector, as well as build a more caring Singapore for the world. To build this further, the government should also consider developing the Singapore talent pool in philanthropic advisory / operations through certified training programmes and platforms.



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

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

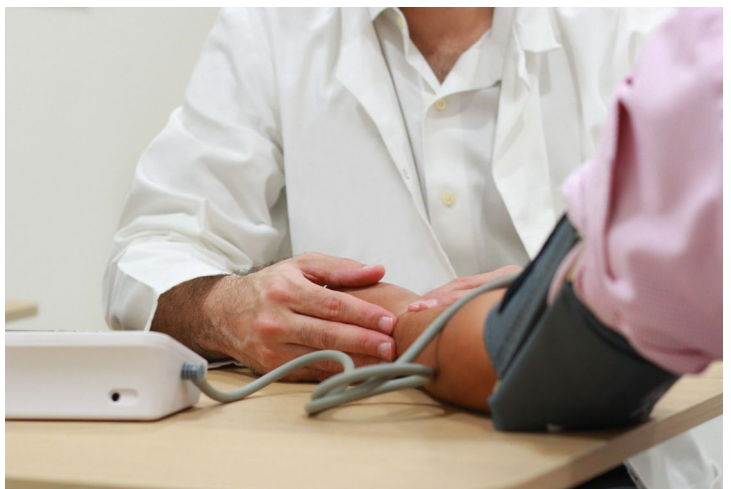
Enabling a tax write-off for health insurance premiums will not only encourage more taxpayers to take up health insurance policies for themselves and their families, but also offer them greater access to healthcare. The tax deduction could be subject to a cap which could be scaled according to age.

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

Medical benefits

To ease businesses' compliance cost, the computation of the deduction cap for medical benefits should be simplified, e.g., by capping deduction to a certain percentage (to be determined) of total employee income / earnings as reported by the companies through Form IR8A. This will avoid the need to separately compute a different remuneration sum for corporate tax deduction purposes only.

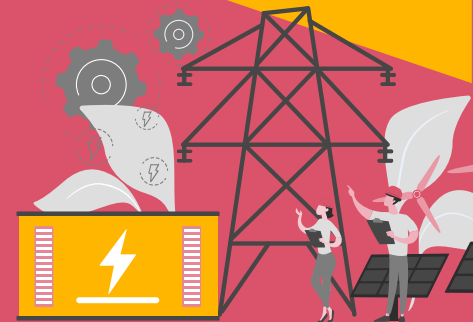
Alternatively, the cap on employer's tax deductions for medical benefits should be removed altogether as it is complex, and a disproportionately large administrative burden given the revenue it collects. Similarly, GST input tax on medical expenses should be claimable (without restrictions). This is to reflect the rising costs for healthcare globally, encourage employers to provide for their employees' healthcare needs and alleviate the cost of hiring older workers (given Singapore's ageing demographics) who are more likely to have greater medical needs.



Strengthening Singapore's global relevance - ESG, Digital, Workforce

Climate tech-enabled energy transition

Climate tech solutions are critical to enabling just energy transition. Meanwhile, PwC's State of Climate Tech report found that there is not enough funding especially for early-stage investments globally, particularly in higher emission reduction type of solutions such as carbon capture, utilisation and storage, green hydrogen, and food waste technology. Further incentives for earlier stage investments or funding for such solutions can create value and impact where it matters most. Encouraging climate tech breakthroughs will not only facilitate Singapore's green ambition, it will also position Singapore as a sustainability innovation hub.



Catalysing sustainable and green finance

The schemes to catalyse green and sustainable finance in Singapore have been successful. To further expand this capability, making refinements to capital risk charge with respect to green and sustainable finance, or risk sharing schemes can be of consideration as this will serve useful for both banks and borrowers, including SMEs.



Carbon market dispute resolution

As more businesses progress in their decarbonisation journey, a rising demand for carbon trading disputes arbitration is anticipated. In view of this, Singapore has the potential to position itself as an ESG arbitration centre to resolve emerging environmental disputes.



Digital risks

With digital platforms becoming increasingly essential for carrying out day-to-day and business activities, the rise of cyber risks and crimes is also anticipated. While some businesses are more robust than others in their risk modelling and readiness, encouraging joint investments by industry clusters to help companies “protect and defend” at scale is welcomed.



Upskilling in people-centred leadership

Amid ongoing demand for technical and digital skills, there is a growing need for interpersonal and non-technical skills - such as problem solving, creative thinking, innovation and emotional intelligence - to navigate increasing complexities. Coupled with the lack of confidence workers can have towards their organisations, as reflected in the recent Great Resignation and Quiet Quitting phenomena, there is a clear need for sophisticated people-centred leader capabilities across the boards to bridge the trust gap between employees and employers. Investing in upskilling programmes targeted at developing and further enhancing this capability can help organisations work better with employees to match talent supply and demand as well as improve employee engagement.



Alleviating talent crunch through effective workforce transformation

To address the talent and critical skills building challenges that many SMEs face, businesses need to be encouraged to rethink their workforce strategy as well as redesigning or rearranging tasks and responsibilities to better align roles with the changing environment inside and outside their organisations. For instance, by leveraging technologies, companies can create and re-allocate capacity to do more and deliver greater value with their existing workforce. Workforce Singapore and Enterprise Singapore could play an enabling and supporting role specifically for SMEs to help them with this type of organisation and role redesign, along with other grants and incentives to fund the support needed for this.



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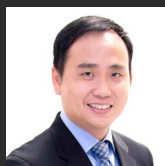
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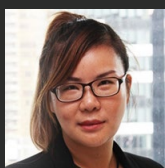
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