Key Budget Changes for Businesses

15 February 2023

Deputy Prime Minister and Finance Minister, Mr Lawrence Wong delivered the 2023 Budget Statement in Parliament on 14 February 2023. The Budget is largely focused on building capabilities and seizing new opportunities in a new era of global development, with support for young families and continued assistance for the more vulnerable groups to cope with rising cost of living. Here are our perspectives on some of the key measures announced and their potential impact on businesses. More details will be available on our website.

1. Global Anti-Base Erosion Rules

Tax incentives have historically been an integral part of Singapore's fiscal toolkit in attracting foreign direct investments (FDI). There has been much interest in how Singapore's tax system (and specifically its incentive regime) will be affected ever since the OECD Inclusive Framework published its two-pillar solution to address the tax challenges arising from the digitalisation of the economy. This is because Pillar Two of the Global Anti-Base Erosion (GloBE) model rules 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 earned in the jurisdictions in which they operate. Such a global minimum tax would therefore negate the benefits of concessionary tax rates which large MNEs enjoy in Singapore.

As Pillar Two implementation gained momentum globally in December 2022 with the EU agreeing to adopt the draft Pillar Two Directive, Japan including the regime in its 2023 Tax Reform proposals and South Korea approving draft legislation for such a tax, the attention has turned to Singapore. This is particularly so since Singapore has indicated that it will adjust its tax system in response to international tax developments, including exploring the introduction of a domestic minimum top-up tax (DTT).

With the announcement that Singapore plans to implement the GloBE rules and DTT for in-scope businesses from financial year beginning on or after 1 January 2025, the Finance Minister has provided much needed certainty to the business community. It is also reassuring that the Finance Minister reiterated the intent to continue to engage businesses and provide them with sufficient advance notice before the rules become effective.

In deciding on a 2025 start date, some MNEs with operations in Singapore could be subject to a top-up tax in their ultimate parent entity's (UPE) location if that location implements GloBE rules in 2024. Without a corresponding DTT, the tax not collected in Singapore, say because of a tax incentive, could be picked up and paid at the UPE location. In other words, the tax incentive offered to the business in Singapore will not benefit the MNE as a group because it will have to pay a top-up tax elsewhere.

That said, not all of Singapore's key trading partners have adopted the GloBE rules, the most notable of which is the US. The 2025 start date could mean some MNEs may continue to enjoy the benefits of their tax concessions – this would preserve Singapore's competitiveness in attracting FDI in the meantime. Singapore-headquartered MNEs may also benefit during this time if their effective tax rate (computed under these rules) is less than 15% in any jurisdiction in which they operate. However, with potentially different effective dates between jurisdictions and given the broad ambit of the GloBE rules, MNEs should review their holding structures and where each of their entities is located to assess if any part of their operations is caught by the global minimum tax regime introduced in another jurisdiction.

It should also be noted that in-scope MNEs should start preparing for the new regime early notwithstanding the 2025 start date and the recently announced transitional safe harbour provisions. The GloBE rules are extremely complex, and not identical to current tax laws nor do they follow accounting standards in all respects. The compliance with these rules requires a vast amount of data, not all of which are readily available in current financial systems. MNEs should take full advantage of the two-year lead time to prepare for this new tax regime.

2. Enterprise Innovation Scheme

The Government has introduced a new Enterprise Innovation Scheme (EIS) to provide enhanced tax deductions for businesses working on qualifying activities to boost innovation. From Year of Assessment (YA) 2024, businesses that engage in research and development (R&D), innovation and capability development activities will now be able to claim up to 400% tax deduction for five categories of qualifying activities, as well as a cash conversion option. The categories are:

i. Staff costs and consumables incurred on qualifying R&D projects conducted in Singapore

Under this category, the eligibility criteria for the 400% enhanced tax deduction will align with the existing criteria and conditions for the additional 150% tax deduction for staff costs and consumables incurred on qualifying R&D projects conducted in Singapore (i.e. the deduction rules under section 14D of the Income Tax Act 1947 (the Act)). A qualifying R&D project refers to one that is of advanced, leading-edge technology which goes beyond the existing technical knowledge of a scientific or technological field. This excludes routine modifications, quality control and routine testing. The 400% tax deduction on the first $400,000 of qualifying expenditure, i.e. increased from the existing 250% tax deduction, would be attractive to businesses. Businesses should note the requirement to submit robust documentation to support their claim may not be easily met.

ii. Qualifying costs for intellectual property registration

This category is more straightforward compared to the first. The tax deduction allowed for the first $400,000 of qualifying costs incurred on intellectual property (IP) registration will be increased to 400%. It is noteworthy that the enhancement is on two counts as the deduction is for 400% on the first $400,000 of qualifying expenditure compared with the existing deduction of 200% on the first $100,000 of expenditure.

iii. Acquisition and licensing of IP Rights

The existing rules allow a writing-down allowance claim on the full cost of acquisition of qualifying IP rights and a 200% enhanced deduction for the first $100,000 on the cost of licensing qualifying IP rights. This enhancement allows for a 400% allowance or tax deduction on the first $400,000 of qualifying IP acquisition and licensing costs. This incentive is only available to businesses with less than $500 million in revenue in that YA. It is apparent from this condition that the incentive is targeted at enterprises in that bracket to move up the value chain, and not meant for larger businesses whose revenue exceeds the threshold.

iv. Qualifying training expenditure

In addition to the existing tax deduction for training expenditure, courses that are approved by SkillsFuture Singapore and aligned with the Skills Framework will qualify for 400% tax deduction up to the first $400,000 of qualifying training expenditure per year.

With the enhanced tax deduction, the Government encourages businesses to invest in the upskilling and reskilling of their workforce to improve their competitiveness.

v. Innovation projects carried out with Polytechnics, the Institute of Technical Education or other qualified partners

This initiative encourages collaboration between businesses and local institutions which benefits both the businesses and society as a whole. Amid the intense global talent shortage, the collaboration prepares young talents for the workforce and offers a stage to get exposure on real business cases. Businesses can claim a 400% tax deduction on up to $50,000 of qualifying expenditure incurred per year on qualifying innovation projects carried out with partner institutions.

While it may seem similar at first glance to the erstwhile Production and Innovation Credit Scheme which was available from YA 2011 to YA 2018, the EIS is a more targeted programme.

With the EIS, the amount of tax deduction or allowance is increased to 400% of the qualifying expenditure up to the relevant threshold depending on the type of activity. This is more generous than the 100% to 250% deductions currently available.

Businesses that are not profitable, or not having sufficient profits to benefit from the tax deductions can opt for cash conversion and receive, in lieu of the tax deduction, a non-taxable cash payout of 20% of total qualifying expenditure across all qualifying activities, up to a maximum of $100,000. Therefore, the maximum cash payout is $20,000 per year.

All benefits under the EIS are applicable from YA 2024 to YA 2028 so businesses can enjoy enhanced deductions for investments in innovation and productivity which they may have already made for YA 2024.

3. Transformation, upskilling and reskilling of the workforce

Like many other nations, Singapore faces a talent and skills crunch across sectors and industries. As a key workforce strategy, the new Jobs-Skills Integrators pilot reflects the Government’s commitment to prioritise reskilling and upskilling as it aims to help employers enhance training and place workers in suitable roles. To consciously retrain workers with a new role in mind, it is important to critically look at the skill gaps and identify the right training programmes to bridge these gaps. Business leaders need to encourage their executives to rethink and redesign tasks and responsibilities to better align roles with the changing environment.

While many local enterprises will welcome this type of support with workforce and skills planning, we anticipate that small and medium-sized enterprises (SMEs), in particular, will greatly benefit from the expertise that these Jobs-Skills Integrators bring. Moreover, to facilitate and enhance the job matching process, the identification of skills gaps and the right training will not only alleviate enterprises’ talent crunch pressures but will further enhance the effectiveness of matching demand and supply of key skills for the future.

On a related note, the Finance Minister announced a $4 billion top-up to the National Productivity Fund (NPF), which was established in 2010 to improve business productivity, continuing education and training of workers. In addition to this substantial investment, the NPF’s mandate will be expanded to attract quality investments by supporting businesses in building new capabilities, add greater value to the domestic economy and upskill the workers. Interestingly, this expansion of investment promotion as a supportable activity of the NPF comes at a time when Singapore expects lesser scope in the use of tax incentives to attract new investments as a result of the global move toward a minimum effective tax rate for large MNEs.

We look forward to more details of how the expanded NPF resources will be deployed to create opportunities for ecosystem players to collaborate with the Government in this journey.

4. Buyer’s Stamp Duty and Additional Conveyance Duty for Buyers

As part of the Government’s continued efforts to ensure progressivity in the tax system, the Finance Minister has announced higher marginal Buyer’s Stamp Duty (BSD) rates targeting properties with higher values.

The current and new rates are set out in the Appendix. The Additional Conveyance Duties for Buyers (ACDB) rates, which apply to qualifying acquisitions of property holding entities (PHE)[1], will also be adjusted accordingly, from a maximum of 44% to a maximum of 46%. There are transitional provisions whereby the former BSD rates will apply to property transactions where an option to purchase has been granted on or before 14 February 2023, among other conditions.

It remains to be seen how the increases in stamp duty rates and the current rising interest rate environment will affect the real property market in Singapore in the short to medium term, though it should be noted that Singapore has consistently emerged as one of the top two investment destinations in Asia for the last five years in the Emerging Trends in Real Estate survey (a joint undertaking between PwC and the Urban Land Institute).

5. Stronger support for families

Budget 2023 continues to focus on strengthening the social compact while giving assurances to families and building collective resilience. A specific group - young families - will be provided with targeted support this year. In addition, to cushion the impact of rising cost of living for the lower and middle-income groups amidst the uncertain economic outlook, various initiatives received additional funding to enhance their effectiveness.

Enhanced well-being measures for young families

Budget 2023 provides more support measures to young families to cope with the cost of raising children. To increase the financial support in the child's early years, and to encourage more parental involvement to care for young children, the following measures were announced:

- Increase the Baby Bonus Cash Gift by $3,000 for all newborns.
- Extend the $3,000 Baby Support Grant to eligible children born between 1 October 2022 and 13 February 2023.
- Enhance the Child Development Account by increasing the First Step Grant from $3,000 to $5,000 and raising the co-matching cap for the first and second child by $1,000 each.
- Extend the Unpaid Infant Care Leave by six days per parent per year for those with children aged under two.
- Double the Government-paid paternity leave from two weeks to four weeks. This move encourages more paternal involvement by giving fathers more time to be involved in their child's early development. To ensure a smooth transition for businesses, the initial two extra weeks of paternity leave has been kept voluntary for employers with the Government reimbursing the employers who grant the extra leave.

Support for working mothers

In another move to make the personal tax system more progressive, working mothers will now be given a fixed amount of Working Mother's Child Relief (WMCR) according to the number of children, instead of a stated percentage of their earned income.

With effect from YA 2025, working mothers will be able to claim relief of $8,000 for the first child, $10,000 for the second child and $12,000 for the third and subsequent child born or adopted on or after 1 January 2024. It is expected that working mothers in the lower to middle income groups, i.e. those with annual earned income of approximately $53,000 and below, who have their first child born or adopted on or after 1 January 2024, may benefit to a greater extent from the fixed amounts of WMCR rather than relief based on a percentage of their earned income.

Concurrently, the Government will pare off the tax relief for Foreign Domestic Worker Levy with effect from YA 2025 while relaxing the conditions for the Grandparent Caregiver Relief (GCR) from YA 2024. To give caregivers the flexibility to work, working mothers may claim GCR where the caregivers' total income from a trade, business, profession, vocation and/or employment does not exceed $4,000, subject to conditions.

[1] A PHE is an entity that has at least 50% (i.e. asset ratio) of its total tangible assets comprising prescribed immovable properties in Singapore

Ensuring retirement adequacy

Amid Singapore's decreasing birth rate and rapidly ageing population, there is a need for further measures to address concerns over retirement adequacy. Budget 2023 contains the following:

- An increase to the CPF contribution rates for senior workers (aged above 55 to 70) from 1 January 2024. This would help in building up their retirement nest eggs. In order to alleviate the burden on businesses, the Government will provide employers with a one-year CPF Transition Offset equivalent to half of the additional employer CPF contributions payable in 2024.
- An increase in the Minimum CPF Monthly Payouts for Seniors (aged 65 and above) under the Retirement Sum Scheme from the current $250 to $350 from 1 June 2023.
- Raise the CPF monthly salary ceiling in stages from $6,000 to $8,000 by 2026 given generally rising salaries.

Special attention was also given to gig economy workers with a proposal to align the CPF contribution rates for these workers with those for employers and employees generally, to be phased in over five years. The Platform Worker CPF Transition Support scheme will be introduced to help alleviate the impact on lower-income platform workers.

Although these CPF changes should go some way in helping the employees better provide for their retirement needs, the attendant increase to business costs will likely be of a concern to businesses.

Continued support for lower-wage workers to upskill

There is continued support for lower income households with a $2.4 billion top-up of the Progressive Wage Credit Scheme through which the Government jointly funds (with employers) wage increases for lower income workers. This scheme, introduced last year, is seen as successful in providing workers with specific training requirements and a clear career pathway with wages that are commensurate with their skills and productivity. This year the Government will continue to co-fund up to 75% of increases for workers earning less than $2,500 a month. The co-funding percentage will taper down over the years to 15% in 2026. There will be a lower Government co-funding of wage increases for workers earning more than $2,500 and up to $3,000.

6. Incentive scheme for qualifying donors with family offices in Singapore

Assets under management in Singapore's fund management industry grew by 16% year-on-year to reach $5.4 trillion in 2021. As at 31 December 2021, there were 1,108 registered and licensed fund management companies (up from 787 in 2018), as well as more than 700 single family offices operating in Singapore. Approximately 28% of the 660 variable capital companies established in Singapore as at 14 October 2022 are managed by external asset managers or multi-family offices in Singapore.

The asset and wealth management (AWM) sector continues to be one of the key pillars of growth for Singapore. This is evident in the Financial Services Industry Transformation Map (ITM) 2025 launched on 15 September 2022, which lays out the growth strategies to deepen capabilities in AWM.

Based on the UBS Billionaire Survey 2022,[2] billionaires are using multiple means to drive change. Just over a third are doing so through investing and almost four in ten are taking action through philanthropy. 85% of family offices in Asia Pacific make philanthropic donations, with average donation per family of US$1.8 million over a 12 months' period.[3] As part of the ITM 2025 strategy, Singapore targets becoming Asia's centre for philanthropy.

While as a policy, Singapore incentivises donors making donations to approved Institutions of a Public Character and other eligible institutions only where the causes benefit the local community, Singapore

[2] The Billionaire Ambitions Report 2022 published by UBS
[3] The Asia-Pacific Family Office Report 2022, published by Campden Wealth

recognises that family offices come to Singapore to access investment and philanthropic opportunities in the broader Asian region.[4]

In Budget 2023, the Finance Minister has proposed a new tax incentive scheme for qualifying donors with family offices operating in Singapore. Qualifying donors can claim 100% tax deduction for overseas donations made through qualifying local intermediaries, capped at 40% of the donor's statutory income. To qualify, donors must have an incentivised fund vehicle under the section 13O or section 13U schemes and meet the eligibility conditions such as incremental business spending of $200,000. Further details will be provided by 30 June 2023.

We look forward to the details clarifying, in particular, the definition of "qualifying donors" for the above tax incentive. In order to make this new tax incentive meaningful, it is important to define "donors" widely. If "donors" are limited to individuals who are the ultimate beneficial owners, the above scheme will only benefit individuals who are paying income tax in Singapore at the individual level (such as on their employment income). Overseas family members would likely have no statutory income chargeable to tax in Singapore and hence the proposed tax deduction may not be useful. Whilst there could be many ways to address this, one suggestion would be to define "donor" to include both the ultimate beneficial owners and companies directly or indirectly owned by such owners in Singapore, thereby making the family office owned by them, i.e. the fund management company managing the section 13O and section 13U vehicles, a qualifying donor. Such family offices are taxable at 17% on the fee income they derive from managing the section 13O and section 13U vehicles. Such an approach will simplify the scope and operation of the new tax incentive scheme by providing a direct link to the incentivised fund vehicle and at the same time providing a meaningful tax saving for the family office in question.

Important note:

The above is a discussion of the measures announced in Budget 2023 and our view as to how the measures could affect businesses. These are subject to final legislation the enactment of which may lead to a different outcome or result from what we stated.

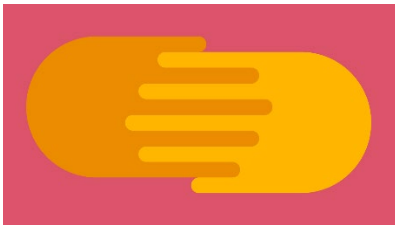
[4] Reply to Parliamentary Question on working with family offices to deepen investment in local companies per Parliament Sitting on 5 October 2022, which is retrieved from https://www.mas.gov.sg/news/parliamentary-replies/2022/reply-to-parliamentary-question-on-working-with-family-offices-to-deepen-investments-in-local-companies

Appendix

Buyer Stamp Duty (BSD) rates

<table>
<tr><th rowspan="2">Higher of purchase price or market value of the property</th><th colspan="2">Residential properties</th></tr>
<tr><th>Existing Marginal BSD rates (on or before 14 February 2023)</th><th>New Marginal BSD rates (on or after 15 February 2023)</th></tr>
<tr><td>First $180,000</td><td>1%</td><td>1%</td></tr>
<tr><td>Next $180,000</td><td>2%</td><td>2%</td></tr>
<tr><td>Next $640,000</td><td>3%</td><td>3%</td></tr>
<tr><td>Amount exceeding $1 million up to $1.5 million</td><td rowspan="3">4%</td><td>4%</td></tr>
<tr><td>Amount exceeding $1.5 million up to $3 million</td><td>5% (New)</td></tr>
<tr><td>Amount exceeding $3 million</td><td>6% (New)</td></tr>
</table>

<table>
<tr><th rowspan="2">Higher of purchase price or market value of the property</th><th colspan="2">Non-residential properties</th></tr>
<tr><th>Existing Marginal BSD rates (on or before 14 February 2023)</th><th>New Marginal BSD rates (on or after 15 February 2023)</th></tr>
<tr><td>First $180,000</td><td>1%</td><td>1%</td></tr>
<tr><td>Next $180,000</td><td>2%</td><td>2%</td></tr>
<tr><td>Next $640,000</td><td rowspan="3">3%</td><td>3%</td></tr>
<tr><td>Amount exceeding $1 million up to $1.5 million</td><td>4% (New)</td></tr>
<tr><td>Amount exceeding $1.5 million</td><td>5% (New)</td></tr>
</table>



Contact us

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.

Chris Woo

Tax Leader
+65 9118 0811
chris.woo@pwc.com

Paul Lau

Partner, Financial Services Tax
+65 8869 8718
paul.st.lau@pwc.com

Tan Tay Lek

Partner, Corporate Tax
+65 9179 2725
tay.lek.tan@pwc.com

Lennon Lee

Partner and Financial Services Tax Leader
+65 8182 5220
lennon.kl.lee@pwc.com

Tan Ching Ne

Partner and Corporate Tax Leader
+65 9622 9826
ching.ne.tan@pwc.com

For further details on our industry specialists, please click here.