Singapore Budget 2021 Commentary

Rethink, reimagine and transform now

Budget 2021 roundup

Beyond managing COVID-19 challenges, this year's Budget sets out the agenda for future growth through new ways of working, collaborating and connecting for inclusive growth across both enterprises and the Singapore workforce. Watch our video for a quick overview of our commentary in a minute.

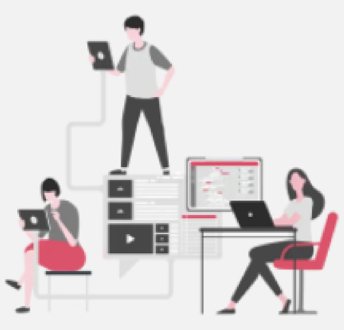
Budget to 'build back better'; a pathway to sustainability

COVID-19 has clearly rattled Singapore's economy. But Budget 2021 shows that the Government is determined to focus on the positive with a strong emphasis placed on sustainability. Read our commentary in The Business Times to learn more about where our leaders, Chris Woo, Abhijit Ghosh, and Eu-Lin Fang see opportunities.

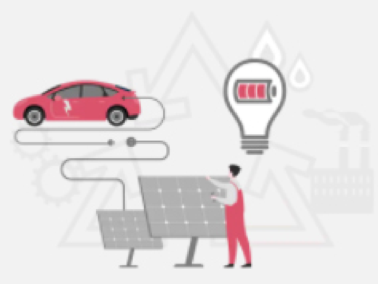
Read more

Key themes

Supporting the recovery



Transforming to seize opportunities



Forging ahead with sustainable growth

Other fiscal measures and initiatives

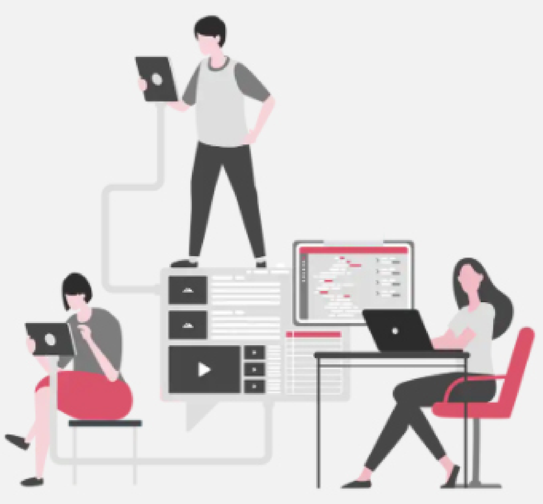
Supporting the recovery

A significant portion of this year's Budget was set aside to provide continued support to individuals and businesses in the worst hit sectors to tide them through the pandemic. Given the success of the measures in propping up the economy last year, the extension of these measures are welcomed by businesses and individuals.

- COVID-19 Resilience Package
- Extension of tax measures to ease cash flow of businesses

Transforming to seize opportunities

The Government is taking bold steps to encourage the adoption of digital technologies, create new sources of capital to spur growth of local enterprises, and enhance our tax system to best position Singapore for capturing new business opportunities in the post-COVID-19 world. All of this and more, while keeping an eye on the COVID-19 ball. As Prime Minister Mr Lee Hsien Loong said, *"When the sun shines again, we must be ready to seize the new opportunities."*

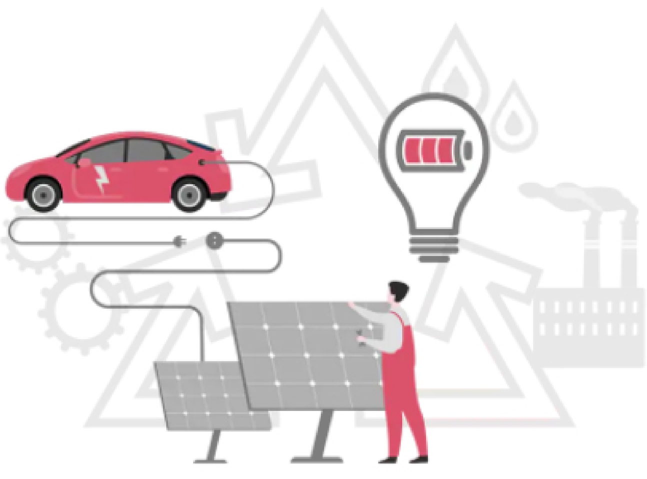


- Accelerating digital transformation
- A stronger push to become Asia's Silicon Valley
- Capital boost to catalyse growth
- Corporate Venture Launchpad
- Investment allowance for automation support
- Scope of double tax deductions for overseas expansion activities broadened
- Continued tightening of foreign workforce policies
- Strengthening tax measures for financial services sector

Forging ahead with sustainable growth

It is encouraging to see that the Government has the foresight to take action not only to mitigate risks but also create opportunities amid challenges led by climate change. Focus on national development in a sustainable manner is key to reaping significant rewards in the digital future.

- GST - changes to bolster recurrent revenue
- Adoption of green technologies



Other fiscal measures and initiatives

The Budget also provides measures to continue supporting philanthropy and volunteerism to ensure the vulnerable and needy groups in society are cared for, given they are hit much harder by the economic fallout from the pandemic. Non-tax measures to enhance enterprise capabilities and workforce development were also announced.

- Measures to boost corporate focus on social initiatives ›

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Speak to our tax professionals ›

Supporting the recovery

$11 billion COVID-19 Resilience Package to support Singapore workforce and the worst hit sectors

With sharper focus and more targeted support for the worst hit businesses and individuals, the Government's $11 billion COVID-19 Resilience Package aims to help them re-position and prime themselves for the eventual upturn, through strategic future investments in technology and training.

The package, although quite modest when compared with almost $100 billion committed in the five budgets in 2020, is calibrated and factors in the signs of positive, yet uncertain, economic growth being predicted for Singapore for this year.

The extension of wage subsidies under the Jobs Support Scheme (JSS) for businesses in the Tier 1 and 2 sectors, but not to the Tier 3A sector, underlines the uneven impact of COVID-19 on people and businesses.

This is the fourth JSS extension since it was announced in Budget 2020 and will cost an additional $700 million on top of the $25 billion committed so far. Support for Tier 1 businesses (aviation, aerospace and tourism) will be extended by another six months at 30% for wages paid from April to June 2021, and at 10% for July to September 2021. Tier 2 businesses will get 10% support for three months up to June 2021. For Tier 3A businesses, which are generally recovering, there will be no further extension of the JSS beyond March 2021.

According to **An Interim Assessment of the Impact of Key COVID-19 Budget Measures published by the Ministry of Finance**, a total of $22.6 billion of JSS payouts were disbursed from April to December 2020 with Tier 3 businesses forming the largest segment of recipients. Giving its effectiveness in saving jobs last year, it is unsurprising that the focus for this year is to emulate the success in a more targeted manner for sectors where the projected recovery remains uncertain.

In 2020, it was clarified that businesses would not be taxed on these JSS payouts. But those received under the Jobs Growth Incentive would be taxable.

From a personal tax perspective, we would expect the COVID-19 Recovery Grant, which is also funded by the Resilience Package, to be non-taxable, as it is similar to the COVID-19 Support Grant, which was intended to support workers who lost their jobs or experienced significant income loss.

Extension of tax measures to ease cash flow for businesses

This year's Budget also announced the extension of the following tax measures first introduced in Budget 2020 to provide support to affected businesses:

- Enhanced carry-back relief scheme allowing unabsorbed capital allowance (CA) and trade losses (collectively referred to as "qualifying deductions") in Year of Assessment (YA) 2021 to be carried back for up to three immediate preceding YAs, capped at $100,000 of qualifying deductions.
- An option to claim CAs for plant and machinery acquired in the basis period for YA 2022 over two years instead of three years under section 19A of the Income Tax Act or scheduled rates under section 19 of the Income Tax Act. The two-year claim will involve a 75% write-off of the cost of the plant or machinery in the first year and 25% in the second.
- An option to claim deduction on renovation and refurbishment (R&R) expenditure incurred in the basis period for YA 2022 over one year instead of three years. The cap on the amount of claim (an aggregate of $300,000 over three years) remains unchanged.

Businesses that remain profitable can take advantage of the acceleration of the CA and R&R expenditure claims which provide immediate cash tax savings. Loss-making businesses can gain in the form of cash refunds by utilising qualifying deductions for YA 2021 against the prior three YAs' assessable income.

The extension of the above schemes will be welcomed from a cash flow perspective by both profitable as well as loss-making companies. Given the limits under the enhanced carry-back relief and accelerated R&R deduction schemes, the main beneficiaries are expected to be small businesses.

Transforming to seize opportunities

Key Budget 2021 measures to accelerate digital transformation

Driving digitalisation and responsible adoption of technologies like 5G, artificial intelligence (AI) and data trust for mature enterprises is a valuable investment to enhance productivity and support new business models. The timely roll-out of 5G will also provide the much needed capacity for the rapid expansion of digital adoption.

1. Emerging Technology Programme co-funding trials and adoption of technology such as AI, 5G, trust technology

This initiative is a forward-looking one preparing Singapore for the future development and adoption of new and enhanced technologies. COVID-19 has permanently changed the face of remote working. The success in using collaboration and remote working technologies is already encouraging greater investment by companies in cloud-based infrastructure, 5G and AI applications to enhance productivity and support new business models. This will also increase the importance of developing more comprehensive regulations and standards for safe use of new technologies and, in particular, the ethical use of AI.

The timely rollout of 5G networks is providing the much-needed capacity for the rapid expansion of digital adoption, although more needs to be done to develop the business-use cases to maximise the benefits of these fast speed networks.

Enhanced use of data and analytics, new cloud-based technology and driving greater productivity through automation are already essential for many organisations to compete effectively. Further development of AI, 5G and trust technology will position leading organisations in Singapore for the next phase of technology evolution.

2. CTO-as-a-Service initiative providing access to IT consultancies

This opens up new doors to professional consultancies, and provides a fresh perspective for SMEs to identify and adopt enhanced digital solutions for their businesses. The focus on helping SMEs evolve and embrace leading practices and tap on deeper digital capabilities will enable key industry sectors to transform more effectively for the future. It will also enable the management teams of SMEs to embrace new business models and in many cases, elevate the potential of their organisation. The big challenge for many SMEs in going digital is in knowing where to start and this initiative provides easier and direct access to the knowledge, insights and capabilities they need through a central coordination point.

3. New Digital Leaders Programme supporting businesses in hiring digital teams and implementing future roadmaps

This is a great initiative by the Government to help high potential businesses to accelerate their digital transformation journey through supporting them in hiring key members of their core digital team and providing access to or support from leading edge consultancies. This initiative is targeted at companies that are already progressing well with their digital programmes but need that extra boost to accelerate their plans as they aspire towards new horizons. This helps to build the new digital leaders of the future and is very timely for many organisations looking to take bolder steps to transform and grow their businesses.

4. Extension of enhanced support levels for: Scale-up SG programme, Productivity Solutions Grant, Market Readiness Assistance, Enterprise Development Grant

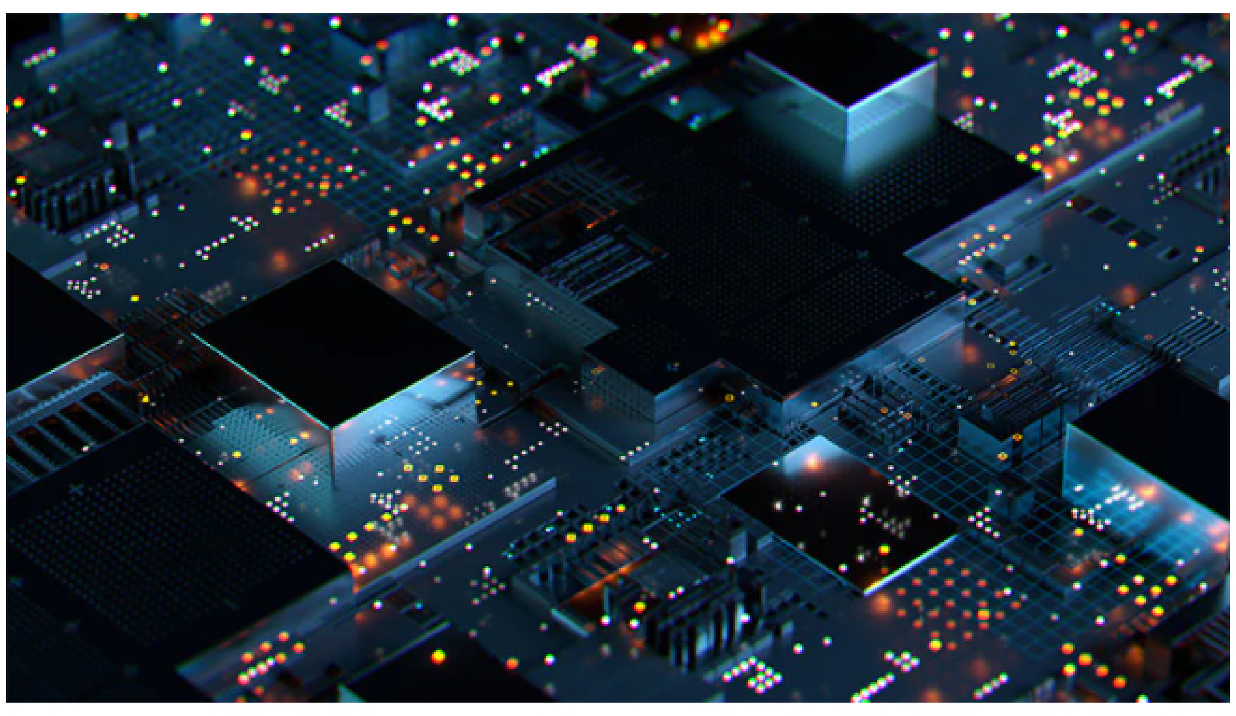
The extension of these valuable Government support schemes to March 2022 will be very well received and give many organisations the boost they need to continue to emerge stronger from the challenges of the pandemic. The Scale-up SG programme is especially relevant in today's landscape - while most SMEs are driven to digitalise, many have had to address competing investment priorities due to the impact of COVID-19 and this provides valuable support through the current economic uncertainties faced by many SMEs.

5. Raising of the Government's co-funding ratio for the Productivity Solutions Grant – Job Redesign

This scheme can support business transformation, help make jobs more productive and attractive for workers, and benefit enterprises by allowing them to hire and retain good workers to support the business. As more organisations look to redesign their workforce for the future and upskill their teams, increasing the level of support from 70% to 80% will encourage organisations to take the necessary bold steps for the future.

A stronger push to become Asia's Silicon Valley

To increase the scale and speed of digital innovation in Singapore and further drive global collaboration on digital innovations, both the Open Innovation Platform (OIP) and Global Innovation Alliance (GIA) will be enhanced with new features.



The OIP will be enhanced to include:

- A Discovery Engine to facilitate search and matching of technology solutions through automated recommendations, and
- A Digital Bench to provide a virtual cloud-based Proof-of-Concept (POC) sandbox and testing environment.

The GIA will be enhanced to:

- Expand from 15 to 25 cities over the next five years, and
- Support up to 70% of qualifying costs for cross-border innovation and partnership projects under the Co-Innovation Programme.

The enhancements to the OIP and GIA will further accelerate 'made-in-Singapore' and 'made-with-Singapore' digital innovations and lead to greater degree of intellectual property (IP) creation in Singapore.

GIA's enhanced funding support and expansion beyond the original four Southeast Asian cities (Bangkok, Ho Chi Minh City, Jakarta and Manila) should generate more collaboration opportunities for Singapore start-ups and SMEs, as they partner global enterprises to extend the reach of digital innovations from Singapore.

Over the years, Singapore has achieved success through its Government policies in attracting tech titans into the country. The Government's focus on cultivating a thriving start-up ecosystem and the rise of Singapore-based technology unicorns in recent years also demonstrate that Singapore can compete for the title of Asia's Silicon Valley, serving as a springboard for digital innovations into Asia and the global marketplace.

As innovations ramp up, IP creations take place. Protecting, valuing and commercialising IP follow, plugging in nicely with Singapore's IP Hub Master Plan. We look forward to further Government support and initiatives in these areas such as the Singapore Intellectual Property Strategy 2030 which aims to equip businesses with tools to value IP and intangible assets, and training skilled professionals in these fields.

Capital boost to catalyse growth

The Finance Minister announced measures to assist businesses at different stages of growth, by stepping up risk-sharing arrangements with capital providers and opening access to the expertise of fund managers in growing the enterprises. Of particular interest are:

- **Venture debt for high-growth enterprises:** As part of the Enterprise Financing Scheme - Venture Debt programme, the Government aims to share up to 70% of the risk on eligible loans with Participating Financial Institutions. The Finance Minister announced an increase in the cap on loan quantum for the programme from $5 million to $8 million. This should make it more attractive for investors like private equity and venture funds to consider taking a stake in the growth of budding entrepreneurs and venture funds in Singapore.
- **Equity investments in Large Local Enterprises (LLEs):** The Finance Minister acknowledged that LLEs (companies with annual revenue of more than $100 million) have lacked attention from the private equity players. Moreover, in the current economic landscape, it is harder for LLEs to raise capital despite strong fundamentals. The Government will set aside $500 million to be co-invested with Temasek Holdings in a Local Enterprises Funding Platform. Temasek Holdings will also match the funding on a one-for-one basis, bringing the total funding to $1 billion. The fund will invest in non-control equity and mezzanine debt. Further details will be announced by the Ministry of Trade and Industry.

Corporate Venture Launchpad piloted to drive new innovative ventures

The Government will pilot the Corporate Venture Launchpad this year to encourage Singapore companies, and large businesses in particular, to go for innovative and collaborative ventures on a global scale.

It aims to spur local businesses to work through pre-qualified venture studios and foster a start-up mindset. The intention is also to incubate innovative ideas that eventually create successful new ventures.

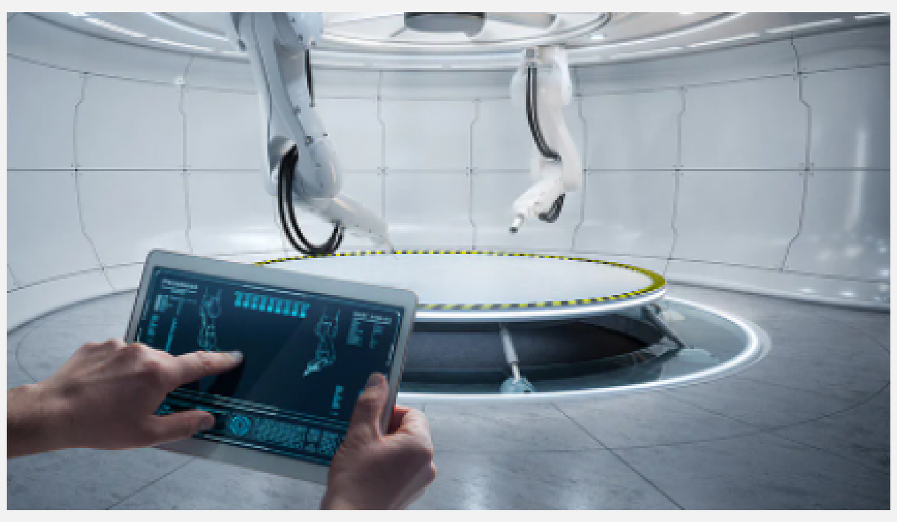
The Government will co-fund companies that are able to build businesses by working with these venture studios that bring on to the table a broad range of skills and expertise. This will in turn enhance the entire corporate venture ecosystem in Singapore.

We expect the Economic Development Board and/or Enterprise Singapore to administer the Corporate Venture Launchpad, given these agencies are the driving forces behind Singapore companies, enabling them to accelerate growth and stay relevant and competitive.

The Government has yet to announce details on the extent of the co-funding and whether the co-funding is dependent on certain outcomes such as having a successful venture.

Investment allowance for automation support

The Automation Support Package (ASP) was first introduced in 2016 to encourage companies to implement large-scale automation projects as part of Singapore's drive towards building a Smart Nation. The ASP offers the following grants, loans and tax support:

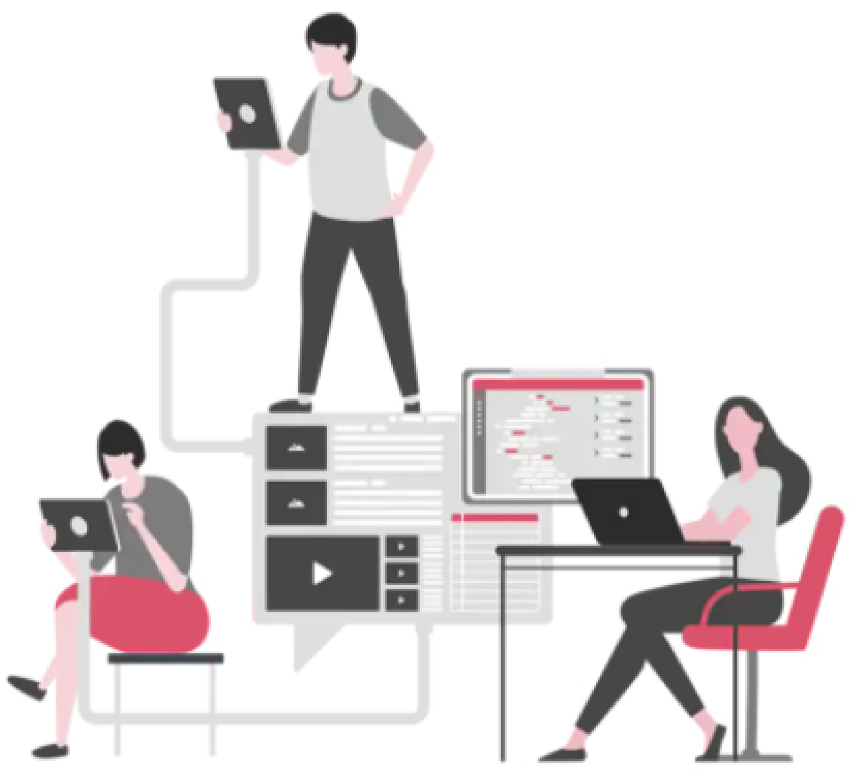


1. Grant support through the Enterprise Development Grant scheme for up to 50% of qualifying automation project costs, capped at $1 million.
2. Loan financing of up to $15 million for the automation equipment.
3. 100% Investment allowance (IA) for approved capital expenditure of automation equipment (net of grants), capped at $10 million per project.

The ASP will not be renewed after it expires on 31 March 2021. In its place, the 100% IA scheme will be extended for two years for automation projects approved by Enterprise Singapore from 1 April 2021 to 31 March 2023.

Other benefits of the ASP can be applied for under existing schemes such as Enterprise Development Grant and the Enterprise Financing scheme so this change should be seen as a rationalisation of the incentives.

Scope of double tax deductions for overseas expansion activities broadened



The Double Tax Deduction for Internationalisation (DTDi) allows companies expanding abroad to claim a 200% tax deduction for eligible market development expenses. Budget 2021 includes a number of enhancements to this incentive to boost the overseas expansion plans of Singapore companies.

DTDi deductions are generally subject to approval by Enterprise Singapore or the Singapore Tourism Board. However, under the current rules, no prior approval is required on the first $150,000 of eligible expenses in each year of assessment for specific activities. These pre-approved activities currently include participation in overseas market development trips/missions, overseas investment study trips/missions and trade fairs (overseas and local).

Budget 2021 expands the list of qualifying activities not requiring prior approval to include approved product/service certification, overseas advertising and promotional campaigns, packaging design for overseas markets, advertising in approved local trade publications, and participation in approved virtual trade fairs.

The list of qualifying expenses for overseas investment study trips will also be expanded to include logistics costs to transport materials or samples used during these trips.

The scope of deductible expenses qualifying for enhanced deduction is also broadened to include certain expenses incurred while participating in approved virtual trade fairs, such as fees charged by events organisers, costs for digital collateral and promotion materials, and logistics costs to send materials or samples to overseas clients after the fairs.

It is an acknowledgement of the new ways of working in the post-pandemic world, and that local businesses can sell their products and services into foreign markets even in light of current global travel restrictions. The idea is to encourage Singapore businesses to continue seeking new market opportunities even as they cannot physically travel to make business deals.

Continued tightening of foreign workforce policies

The Government is focused on striking a balance between growing local employment and bringing in foreign expertise where necessary. To this end, there will be a reduction in S Pass Sub-Dependency Ratio Ceiling (DRC) for the manufacturing sector, from the current 20% to 18% from 1 January 2022, and to 15% from 1 January 2023. This phased reduction is intended to give the affected firms adequate time to make the adjustments. The Foreign Worker Levy rates will however remain unchanged for all sectors.

Last month, the Ministry of Trade and Industry announced a 10-year plan to grow the manufacturing sector by 50% to create more jobs and training opportunities for Singaporeans. The reduction in sub-DRC reflects continued Government policy focus on encouraging local workers to participate in this industry and ensure that they have access to highly-skilled jobs.

To mitigate the impact of the sub-DRC reduction, employers can leverage on existing Government initiatives, resources and platforms to seek qualified Singaporeans to fulfill these roles. Firms in the manufacturing sector will need to focus on workforce planning to ensure they can meet their manpower needs when the quota reductions take effect.

The tightening of reliance on foreign technical expertise has been underway for a number of years now. Businesses need to adjust their workforce strategy in such a way that local and foreign manpower serve as complementary resources.

At the same time, the Government also recognises that in new growth areas, where there is a shortage of skills, expatriates with the right expertise should be welcomed to complement the Singaporean core and build up skills transfer. One of the programmes to facilitate this endeavour is the extension of the Capability Transfer Programme up to end-September 2024.

Double tax deduction for qualifying expenses incurred on retail bonds issuance

Budget 2021 proposes to extend the sunset clause for claiming a double tax deduction (DTD) for qualifying upfront expenditure on issue of retail bonds under the Singapore Exchange's Seasoning Framework and Exempt Bond Issuer Framework, from 18 May 2021 to 31 December 2026.

Further, it is proposed that extension of the DTD will only apply to rated retail bonds (not all retail bonds) issued during the period 19 May 2021 to 31 December 2026.

In order for the issuer to be eligible for the DTD on qualifying issue expenses, the bonds issued would need to be rated by a credit rating agency. All other eligibility conditions under the tax concession for DTD remain the same.

The Monetary Authority of Singapore (MAS) will provide further details on the proposed changes by 31 May 2021.

The proposed amendment to provide a DTD on qualifying issuance costs for rated retail bonds seeks to encourage issuers to tap retail investors for funds. It also provides investors with greater transparency with regard to the credit worthiness of the issuers supported by an independent assessment from a credit rating agency.

Together with other measures such as the Temporary Bridging Loan Programme and the enhanced Enterprise Financing Scheme, we welcome the extension of the DTD scheme as many businesses and companies will continue to need credit access and such measures will further deepen the Singapore debt capital market. The restriction of the DTD scheme to rated retail bonds is also a prudent move as fixed income securities have gained popularity among retail investors.

The DTD scheme was first introduced in May 2016 alongside the MAS's announcement of the prospectus exemptions for bonds offered under the Seasoning Framework or the Exempt Bond Issuer Framework. The retail bonds under the existing Seasoning Framework and Exempt Bond Issuer Framework could be issued without a credit rating if the other alternative conditions within the framework are satisfied.

Withholding tax exemptions for the financial services sector

To ensure the competitiveness of Singapore as a finance hub, there is a range of withholding tax (WHT) exemptions available. Some of these WHT exemptions which were scheduled to lapse on 31 March 2021 have been extended to 31 December 2026. A summary of the changes is set out in the table below.

Exemption	Scope and period of exemption
Payments made by banks, finance companies and certain approved entities	Banks, finance companies and certain approved entities do not need to withhold tax on all section 12(6) payments[1] made to all non-resident persons, where payments are made for its trade or business. For payments made to all non-resident persons, excluding permanent establishments in Singapore, the extended exemption will apply to payments: ▪ liable to be made to them during the period from 1 April 2011 to 31 December 2026 (both dates inclusive) under contracts that took effect before 1 April 2011. ▪ liable to be made under contracts which take effect during the period from 1 April 2011 to 31 December 2026 (both dates inclusive)[2]. For payments made to permanent establishments in Singapore, the WHT exemption will apply to payments: ▪ liable to be made to them during the period from 17 February 2012 to 31 December 2026 (both dates inclusive) under contracts that took effect before 17 February 2012. ▪ liable to be made under contracts which take effect during the period from 17 February 2012 to 31 December 2026 (both dates inclusive)[2]. Of course, permanent establishments in Singapore will continue to be assessed to tax on such payments unless such payments are specifically tax exempt.
Payments made for structured products	The WHT exemption for payments made to a non-individual, non-resident person (excluding any permanent establishment in Singapore) in respect of structured products offered by a financial institution in Singapore will be extended to cover payments made under a contract that takes effect during the period from 1 January 2007 to 31 December 2026 (both dates inclusive). All other conditions of the WHT exemption remain the same.
Payments for over-the-counter (OTC) financial derivatives	The WHT exemption for payments made to any non-resident person (excluding any permanent establishment in Singapore) in respect of OTC financial derivatives by a financial institution in Singapore will be extended to cover payments: ▪ made during the period from 20 May 2007 to 31 December 2026 (both dates inclusive) under contracts that took effect before 15 February 2007. ▪ made under contracts which take effect during the period from 15 February 2007 to 31 December 2026 (both dates inclusive)[2]. All other conditions of the WHT exemption remain the same.

1 Section 12(6) of the Income Tax Act deems interest, commission, fee and any other payment made in connection with or relating to any loan or indebtedness, or income derived from loans as income derived from Singapore under prescribed circumstances as provided in that section. Payments falling within section 12(6) of the Income Tax Act made to persons not known to the payer to be a tax resident of Singapore are subject to WHT in Singapore.

2 The exemption will apply to the entire duration of the contract, including payments that are made beyond 31 December 2026.

In addition to the above, it was also announced that the longstanding WHT remission for section 12(6) payments made by banks in Singapore on interbank and inter-branch transactions will be legislated as a WHT exemption. Section 12(6) payments made by banks in Singapore for the purpose of their trade or business to their branches or head offices outside Singapore or another bank outside Singapore will be exempt from tax.

The exemption will apply to:

- Payments that are made from 1 April 2021 to 31 December 2031 (both dates inclusive) for contracts that take effect before 1 April 2021.
- Payments that are made under a contract that takes effect from 1 April 2021 to 31 December 2031 (both dates inclusive). The exemption will apply to the entire duration of the contract, including payments that are made after 31 December 2031.

The MAS will release further details of the above updates by 31 May 2021.

The extensions of these WHT exemptions are pivotal in maintaining Singapore as a financial services hub, in a competitive global climate where lending margins are thin and narrowing. The legislation of the WHT remission with a review date of 31 December 2031 in particular, is a positive move, signaling the Government's long term focus on making Singapore an attractive location for financial institutions.

That said, there are other existing WHT exemptions for the banking and capital markets that still have different qualifying periods and review dates, with exemptions granted for interest payments made to different categories of non-residents which are tied to specific transactions and conditions.

To further enhance Singapore's position as a leading global financial centre in Asia, the Government could consider consolidating these various other WHT exemptions to simplify tax compliance, or better yet, move towards removing withholding tax on section 12(6) payments for Singapore's financial services industry.

Insurance Business Development - Specialised Insurance scheme to lapse

The Insurance Business Development - Specialised Insurance (IBD-SI) scheme, which is due to expire on 31 August 2021, has been allowed to lapse. The specialised insurers will now be incentivised under the IBD scheme, with concessionary tax rate of 10%.

The move was well anticipated and is in line with the MAS' intention to streamline and simplify the IBD incentives announced in 2020.

The IBD-SI scheme was first introduced in 2006 to support the development of expertise and capacity in specialised business lines, covering risks related to areas such as terrorism, politics, natural catastrophes, agriculture, energy, aviation and aerospace.

Asset and wealth management industry

The asset and wealth management (AWM) sector is one of the key pillars of growth for Singapore. Singapore's assets under management grew at 16% in 2019, up from $3.4 trillion in 2018 to $4 trillion. The industry is expected to continue thriving as Asia leads the way to a global recovery in 2021. As part of its drive to be a wealth management hub for the Asia Pacific, Singapore has been successful in attracting close to 300 global and regional private equity and venture capital managers as at end 2019.

Whilst Budget 2021 did not have any specific tax measures for the AWM industry, there were some announcements - particularly the Venture Debt for High-growth Enterprises and Equity Investments in Large Local Enterprises initiatives - that looked to be of potential interest. The AWM industry had high hopes that changes would be announced to improve the attractiveness of the tax incentives. In our view, there were some long pending suggestions from the industry which remain unaddressed. These include a revamp of the list of designated investments into a "negative list", expansion of the offshore fund scheme (13CA scheme) to cover more legal forms and relaxing the 30/50 rule under the 13CA scheme and Singapore domiciled fund scheme (13R scheme) for the entire fund life of retail unit trusts and variable capital companies.

Nevertheless, the AWM sector has been a significant beneficiary of Government policies over the years and has grown to the significant size it is today. We remain optimistic that the Government will consider the feedback from the industry and in time to come address them.

Forging ahead with sustainable growth

GST changes to bolster recurrent revenue

Goods and services tax rate increase - Not now but sooner rather than later

Amid economic headwinds, the Government decided that the goods and services tax (GST) increase will not take place in 2021. Although no announcement was made on the specific date for the GST rate increase, the Government's move is much in line with expectations.

The Finance Minister however emphasised that the GST rate will need to be raised sooner than later, within the timeframe of 2022 to 2025, given the pressing need to bolster Government revenue to fund rising recurrent healthcare expenditure. In Budget 2018, the Government had announced its intention to increase the GST rate from 7% to 9% sometime between 2021 and 2025.

Given the lead time needed by GST-registered businesses to prepare for a GST rate increase, it would appear unlikely that this will take place in 2022. A more likely timeframe would appear to be 2023 or 2024, depending on the economic outlook at that point in time.

To cushion the impact of the GST rate increase on the less advantaged, the Government has set aside a $6 billion Assurance Package. The Permanent GST Voucher Scheme will also be enhanced when the GST rate increase takes place. The Government will continue to absorb the GST on publicly-subsidised education and healthcare.

In preparation for the GST rate change,

1. GST registered businesses should:
   - Review the changes required to be made to their systems and processes in the event of a GST rate increase.
   - Review their contracts with customers and suppliers to determine which party should bear the increase in the GST rate, e.g. for goods-in-transit at the time the increase takes effect.
   - Consider GST cashflow relief schemes for imports such as the Major Exporter Scheme, Approved Contract Manufacturer and Trader Scheme and Import GST Deferment Scheme
2. Non-GST registered businesses should:
   - Consider the pros and cons of a GST registration and the appropriate timing to apply for a GST registration.

Extending GST rules to tax the digital economy and non-digital imported services

With effect from 1 January 2023, the Government will extend GST to:

- Low-value goods imported via air or post that are valued up to and including $400 (the current GST import relief threshold). The scope of GST charge will be extended to imported non-digital services and online sales of low-value goods by overseas suppliers/marketplaces to Singapore consumers if the goods are to be imported into Singapore. This is intended to level the playing field between local and overseas vendors.
- Business-to-consumer imported non-digital services. Overseas businesses supplying services and low-value goods to Singapore consumers will soon have additional GST compliance obligations in Singapore if a wide definition is applied to "non-digital" services beyond e-commerce businesses.

For the consumers, this would mean an end to GST-free online shopping.

As for local businesses, they should be mostly unaffected by the rule changes unless they are businesses in sectors such as financial services and real estate, and non-profit organisations, which typically are not able to fully recover their input GST. In addition to applying reverse charge (i.e. self-accounting of GST) on imported services, such businesses would also need to account for reverse charge on low-value goods.

It is not surprising that the scope of GST has been expanded only one year after the implementation of the digital services rule, given that e-commerce volumes continue to grow. The move is in line with the international trends, where major jurisdictions such as Australia, Switzerland, and the United Kingdom have also introduced indirect tax on the importation of low-value goods subsequent to digital services tax.

Implementation details are to be announced by the IRAS. Given the potential wide reach of the new rules, overseas businesses providing goods and services to Singapore consumers should consider if they would be affected by the new rules. Affected businesses should get ready early and allow ample lead time for the systems and process changes required to fulfill their registration and compliance obligations.

Change to zero-rating rules for media sales

With effect from 1 January 2022, a supply of media sales will be zero-rated if the contractual customer belongs to a foreign country and the direct beneficiary of the services is either from outside Singapore or is GST-registered in Singapore.

Currently, zero-rating applies to a media sale when the place of circulation of the advertisement is substantially outside Singapore. For online advertisements, the IRAS will regard an advertisement as substantially circulated outside Singapore if there is no restricted access to the website or if there is restricted access, the website is accessible by viewers from Singapore and overseas.

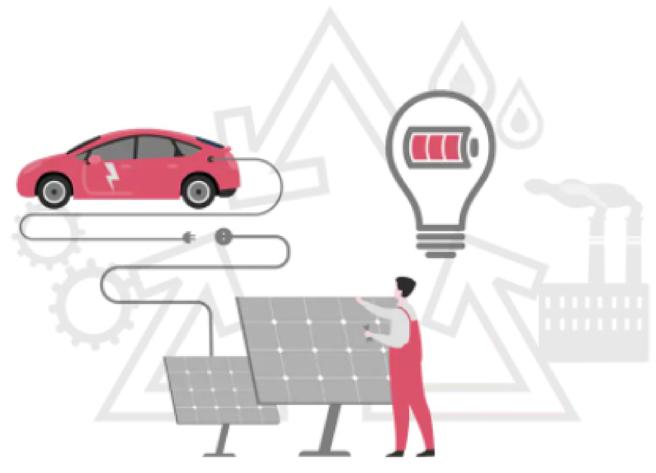
Given that online advertising has grown significantly over the years, the manner in which an advertisement is delivered to the targeted audience has also changed. The place of circulation rules may no longer apply well to current business models for online advertisements. The current GST rules also posed challenges for suppliers of online advertisements to determine the place of circulation, and hence, to correctly apply the zero-rating rule when raising an invoice to the customer.

A number of other jurisdictions e.g. Australia, New Zealand and the United Kingdom are relying on the customers' belonging status to determine the GST treatment for a supply of media sales.

We hope the Inland Revenue Authority of Singapore will provide greater clarity on this issue when it revises its e-Tax Guide for the advertising industry. In the meantime, affected businesses should start reviewing the changes required to be made to their systems and processes to prepare for the change in rules.

Adoption of green technologies

Investment Allowance - Energy Efficiency scheme extended and enhanced to ensure sustainable growth



The Investment Allowance - Energy Efficiency (IA-EE) scheme will now be known as the Investment Allowance for Emissions Reduction (IAER) scheme.

The current IA-EE scheme provides investment allowance for EE improvement projects (including Green Data Centres which are subject to additional qualifying conditions) approved by the Economic Development Board (EDB). Budget 2021 ushers in the following changes:

- The scope will be expanded to include projects involving a reduction of greenhouse gas emissions.
- The scheme will be streamlined with updated qualifying conditions. These will apply to all projects (i.e. there is no longer a distinction between data centres and non-data centres).

The above will apply to projects approved by the EDB from 1 April 2021 to 31 December 2026 (both dates inclusive).

The expansion in scope covering projects or equipment to reduce greenhouse gas emissions gels well with Singapore's aim to halve its 2030 peak greenhouse gas emissions by 2050 and its longer term net-zero emissions target.

As more companies commit to long-term net-zero or decarbonisation ambitions, they would be looking to invest in solutions which can reduce their emissions. In recent times, such projects are much sought after as they can potentially enhance a company's financial value (e.g., increased investment returns by acquiring more sustainable plant and machinery), as well as reputational value. However, these might require heavy upfront investments.

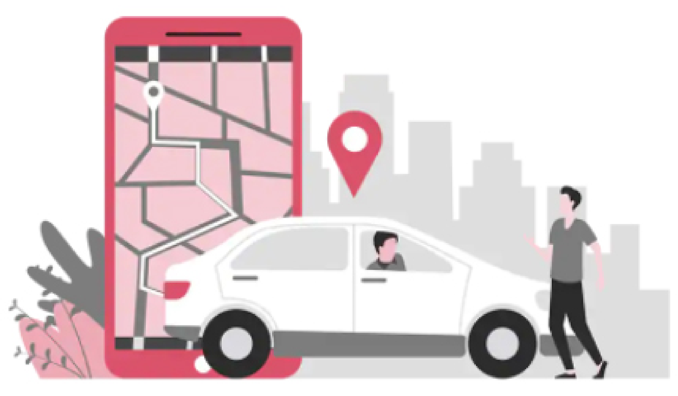
The extension and expansion of the above scheme is timely as the additional allowance can ease the investment burden of companies embarking on such projects.

Accelerated Depreciation Allowances for Highly Efficient Pollution Control Equipment

The Accelerated Depreciation Allowances for Highly Efficient Pollution Control Equipment (ADA-PCE) scheme will be withdrawn from 17 February 2021. It was introduced in 1996 to encourage businesses to purchase and install clean technologies to improve air quality in Singapore. Since its inception, regulatory standards controlling emissions have increased significantly and the scheme is no longer needed to incentivise businesses to adopt such clean technologies.

Tax changes for vehicles

Singapore aims to phase out internal combustion engine vehicles by 2040. In line with this ambition, the rebates structure for the purchase of electric vehicles has been enhanced whilst petrol duty rates have been raised.



Enhancement of Electric Vehicle Early Adoption Incentive

Buyers of electric cars and taxis get a 45% rebate off the Additional Registration Fee (ARF) from January 2021 to December 2023 at a cap of $20,000, with an ARF floor of $5,000. It was announced that the ARF floor will now be $0.

Petrol duty rates revised

Petrol duty rates for premium grade petrol and intermediate grade petrol will increase by 15 cents and 10 cents per litre respectively, with effect from 16 February 2021.

To ease the burden of the increase in petrol duty, road tax rebates will be provided for petrol and petrol-hybrid vehicles for one year from 1 August 2021 to 31 July 2022. In addition, taxi, private hire car drivers and individual motorcycle owners will receive petrol duty rebates, LTA will release further details in April 2021.

Carbon tax

Carbon tax was introduced in 2019 and set at a rate of $5 per tonne of greenhouse gas (GHG) emissions. Then, the Finance Minister had forewarned taxpayers that the rate would be reviewed by 2023 with a view to increasing it to between $10 and $15 per tonne of GHG emissions by 2030.

With climate change becoming an increasingly urgent risk, the need to deal with the consequent challenges meant that the trajectory and level of carbon tax will have to be reviewed in an accelerated time frame than initially announced. This will be done in consultation with industry and expert groups.

The announcement that the Government will maintain the carbon tax at a rate of $5 per tonne of emissions till 2023 provides affected businesses with the much needed certainty in the current difficult economic environment. However, it is likely that the rate increase will come sooner rather than later so businesses should assess the potential impact, plan for investments and changes needed to achieve long term reduction of GHG emissions.

Other fiscal measures and initiatives

Measures to boost corporate focus on social initiatives

The Budget also provides measures to continue supporting philanthropy and volunteerism to ensure the vulnerable and needy groups in society are cared for, given they are hit much harder by the economic fallout from the pandemic. Non-tax measures to enhance enterprise capabilities and workforce development were also announced.

Extension of Not-for-Profit Organisation tax incentive

The Not-for-Profit Organisation (NPO) tax incentive scheme, scheduled to expire on 31 March 2022, has been extended to 31 December 2027. It provides an attractive proposition for foreign NPOs to set up their operations here, with a comparable tax position as in their home jurisdictions, given these NPOs are likely tax exempt entities. The measure should position Singapore well as a hub for philanthropic activities in the region.

The scheme was introduced in Budget 2007 to attract NPOs which are potential multipliers for further economic value to Singapore. Under the scheme, qualifying NPOs are granted tax exemption on their income for an initial period of up to 10 years. The incentive is renewable subject to approval.

Extension of enhanced 250% tax relief for qualifying donations

Singapore taxpayers who make qualifying donations to Institutions of a Public Character (IPCs) and other qualifying recipients from 1 January 2016 to 31 December 2021 are currently eligible for a 250% tax deduction. This enhanced tax deduction has now been extended to 31 December 2023.

The COVID-19 pandemic has increased the needs of the vulnerable and deserving causes in Singapore. The extension of this popular tax relief scheme should encourage sustained donations by both corporate and individual taxpayers. While the extension of the tax relief is certainly welcomed, one would hope that this can be made a permanent feature of our tax system since this is an important policy tool to encourage philanthropy.

Extension of the Business and IPC Partnership Scheme

The Business and IPC Partnership Scheme (BIPS) was due to expire on 31 December 2021, but it has now been extended to 31 December 2023, with all other conditions remaining the same. This extension is welcome as the scheme provides greater flexibility for businesses to choose to support IPCs in the manner that best meets their needs, be it in cash or via in-kind services.

Under BIPS, businesses sending employees to volunteer or provide services to IPCs, including through secondments, can enjoy a 250% tax deduction on qualifying expenditure.

The qualifying expenditure, including basic wages and other related expenses, is capped at:

- $250,000 per business per Year of Assessment (YA); and
- $50,000 per IPC per calendar year.

The Budget also contains various other measures that seek to strengthen our community, workers and businesses. Some of these include:

- Extending the additional support for Tote Board's Enhanced Fund-Raising Programme by one year.
- Extending ComChest's SHARE as One matching period to 2023.
- Introducing the Change for Charity Grant to promote spontaneous giving.
- Matching three dollars for every dollar raised for the CDCs' Care and Innovation Fund to support innovative initiatives which address community needs.
- Introducing the Growth and Transformation Scheme for the Built Environment sector as part of the industry transformation map.
- Introducing the Innovation & Enterprise Fellowship Programme to groom leaders in areas such as cybersecurity, artificial intelligence and health technology.
- Introducing the Agri-Food Cluster Transformation Fund to support technology adoption in the agri-food sector.