



# Setting the Scene for a Future Singapore

KPMG Pre-Budget 2016 Report



# Foreword

**“Setting the Scene for a Future Singapore”** represents the need for measures to remake Singapore while transforming our economy and society for a brighter future.

With this theme in-mind, our pre-Budget research this year investigates the concerns that Singapore-based businesses may have in the context of a volatile global macroeconomic environment, even as ongoing productivity initiatives in the domestic economy gather pace.

Between November and December 2015, KPMG conducted a series of focus groups with business leaders. This was supplemented by a poll of 106 companies, comprising small and medium enterprises (SMEs), large Singapore companies and foreign multinational companies (MNCs).

We hope that the insights gleaned from our research can play a part in the formulation of more targeted and focused policies in line with the aims articulated by the Committee for the Future Economy.

**Tay Hong Beng**

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# OUR OBSERVATIONS BUSINESS CONCERNS

## **State of the economy**

The current state of the economy is a key concern among businesses. Poll respondents were primarily concerned about the weak global economic outlook and rising labour and rental costs.

## **Growing challenges faced by local enterprises**

Singapore's SMEs find themselves competing not only with larger companies, but government-linked and foreign MNCs as well. Among the 30 SMEs polled, competing for talent was a major challenge.

## **Concern with the increasing burden of regulation**

Businesses were concerned about increasing regulations and the burden of heavier compliance. Among poll respondents, increasing business regulation is an especially worrying trend.



# OUR OBSERVATIONS

# FUTURE OF THE ECONOMY

## New growth engines

Singapore needs to find new growth opportunities to keep our economy vibrant. Focus group participants suggested several areas where Singapore can be industry leaders, such as in healthcare, FinTech and renewable energy.

## Promote “Made in Singapore”

Home-grown brands are important in building the next generation of Singaporean businesses. Many hope that the Singapore Government would extend more support by promoting locally produced goods and services so as to keep local brands in Singapore and nurture greater indigenous capabilities in the domestic economy.

## Need to innovate

To create more value and remain competitive in the future economy, Singapore should encourage businesses to develop new capabilities, increase the use of technology as well as implement new business models.



## KEY FINDINGS FROM POLL HIGHLIGHTS

**Businesses are very concerned about rising rental and labour costs and global economic volatility.**

50% | 

of all respondents were not optimistic about their 2016 business prospects. In contrast, just 20 percent of respondents were optimistic.

31% | 

of all respondents cited rising rental and labour costs as their top operational concern for the next 12 months.

42% | 

of all respondents see the weak global economic outlook as the key structural issue over the next 12 months.



## Local enterprises need more Government support

The poll suggests that many enterprises believe that more Government support for Singapore-owned businesses is crucial to our future economy.



of respondents ranked the focus on introducing more Government schemes to promote Singaporean-owned businesses as one of the top two priorities to strengthen the economy.

## Singaporean businesses envision becoming more innovative



of poll respondents stated there was insufficient recognition and support for value creation activities, with 85 percent of local SME respondents agreeing with this.



of all respondents viewed investing in innovation and productivity improvements as one of the top three strategies to grow their businesses.

# OUR PROPOSALS AT A GLANCE



## DEVELOP A STRONG CORE OF LOCAL ENTERPRISES

- Enhance support for overseas ventures
- Make Singapore central to ASEAN expansion plans



## SHIFT FROM PRODUCTIVITY TO GREATER VALUE CREATION

- Innovation for SMEs
- Tax recognition for value creation
- Introduction of targeted tax incentives



## MAKE EXISTING SCHEMES MORE NIMBLE AND ADAPTABLE

- “Tiered” PIC scheme
- Renewal of incentives/schemes

# DEVELOP A STRONG CORE OF LOCAL ENTERPRISES

**The economy now needs a strong core of Singaporean businesses which are anchored in the country while expanding overseas for growth.**

**Businesses said that the Government should make it a priority to provide more support to Singaporean-owned businesses.**

43% | 

of respondents ranked the focus on introducing more Government schemes to promote Singaporean-owned businesses as one of the top two priorities to strengthen the economy.

## Respondent's comment

**"Focus on measures to develop the domestic economy given the restrictions on foreign labour."**



## Enhance support for overseas ventures

- More effective tax relief for overseas income:
  - Unilateral tax relief should be simplified and made less restrictive by allowing it to apply to any foreign taxes levied on overseas income, regardless of whether there is a tax treaty in place.
- Larger grants for overseas market study and internationalisation efforts:
  - Grants from Market Readiness Assistance scheme should be at least doubled given that overseas regulatory and tax regimes are often significantly more complicated than Singapore.



## Make Singapore central to ASEAN expansion plans

- Remove current 2017 sunset clause for gains on disposal in overseas subsidiaries to provide companies expanding overseas with greater tax certainty.
- Liberalise Not Ordinarily Resident scheme as follows:
  - Maximum 5-year concession period should be removed.
  - Resident taxpayers who commence or cease employment in a calendar year should be able to prorate the 90-day minimum on a pro-rata basis.
- Extension of Finance & Treasury Centre (FTC) incentive:
  - The sunset clause of 31 March 2016 for the FTC incentive should be extended beyond 2016 for at least another 10 years to encourage the promotion of Singapore as a treasury hub.

- Enhanced International Growth Scheme (IGS):
  - The IGS should be enhanced and made more attractive by allowing the tax incentive to apply to all qualifying income, and not just incremental income. This is to encourage Singapore companies with high growth potential to expand overseas. Currently, the IGS provides a 10 percent concessionary tax rate on incremental qualifying income in excess of a base income. This base income and non-qualifying income will be taxed at the prevailing corporate tax rate.



# SHIFT FROM PRODUCTIVITY TO GREATER VALUE CREATION

**Businesses recognise the need for a greater focus on value creation and innovation to develop recognisable Singaporean brands, products and services.**

87% | 

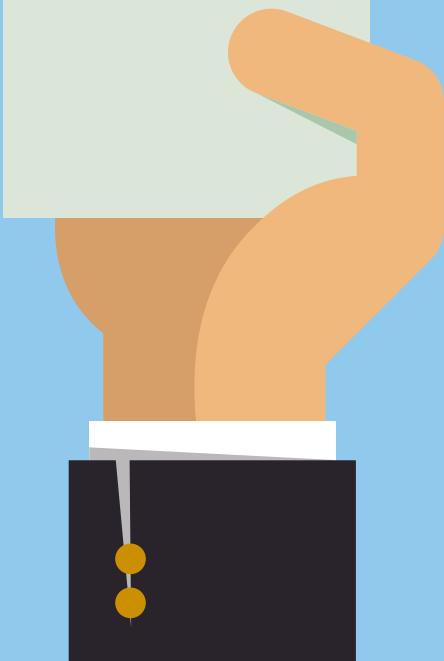
of poll respondents ranked innovation and value creation within the top three areas of importance over the next 5 years.

81% | 

of poll respondents stated there was insufficient recognition on value creation and innovation activities.

## Respondent's comment

**"Every company has a story to tell. But there are no schemes to support telling stories and branding."**



## Innovation for SMEs

- Create a sub-category of innovation under the PIC scheme that caters to the innovative efforts of SMEs. The current thresholds of the R&D tax incentive are too high for many SMEs.

## Tax recognition for value creation

- Allow tax amortisation (i.e. writing-down allowances) for local brands developed in-house, based on independent valuation of those brands.
- Provide enhanced writing-down allowances (e.g. 150 percent writing-down allowances or increased cash pay-out caps) to Singapore buyers of Singapore brands, in addition to benefits under the PIC scheme.

## Introduction of targeted tax incentives

- Green Tax incentive to encourage innovations in renewable energy.
- Silver Industry incentive to spur solutions for ageing.
- FinTech Tax incentive administered by the Monetary Authority of Singapore to promote financial innovations.

## Respondent's comment

**"Identify schemes that provide targeted assistance to mid-sized enterprises, which are usually the sandwiched companies with heavy investments in some legacy technologies but unable to move forward with transformation changes due to lesser Government funding allocated to them."**

# MAKE EXISTING SCHEMES MORE NIMBLE AND ADAPTABLE

**The poll suggests that further calibration and tweaks of the PIC scheme are required to boost the efficacy of the Government's productivity thrust.**

60% | 

of SME respondents stated that the Government's focus on improving productivity has benefited their businesses. However, many SMEs also preferred more flexibility and incentives to spur greater productivity gains.

51% | 

of firms polled said that current schemes like PIC are not sufficiently effective and should be re-calibrated to address the differing needs companies have at different stages of development in their business lifecycle and to focus more on value creation activities.

70% | 

of respondents indicated that both broad-based and targeted schemes are required to help businesses innovate. While targeted schemes are highly effective in encouraging identified activities that Singapore can excel in, broad-based schemes encourage pervasive innovation activities across all sectors and can be more effective as it does not limit the types of innovation that should qualify.

## **“Tiered” PIC scheme**

- Tier the PIC scheme to provide more support in the initial years towards productivity adoption (e.g. first 3 years when a business commences on productivity drive) and then focus on value creation through innovation and internationalisation during the growth years (e.g. additional 5 years when the business opts to embark on innovation and internationalisation journey).

The PIC should be tailored as follows:

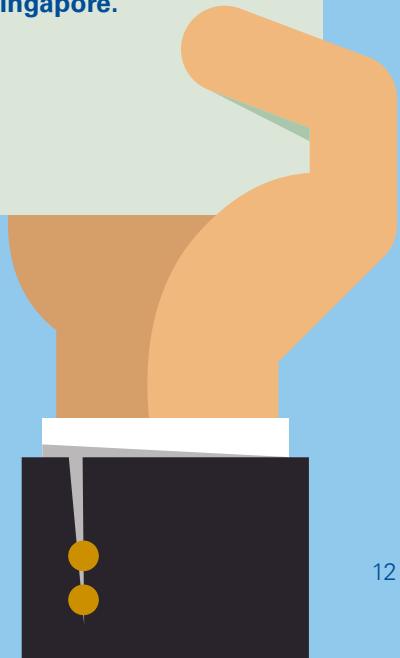
- Higher cash pay-out limits for initial years, with flexibility on the three-local-employee condition for start-ups.
- Flexibility to combine PIC caps across innovation driven activities (i.e. R&D, design, intellectual property registration and acquisition).
- Include internationalisation activities as an additional PIC activity. Activities can include market feasibility studies, brand development, overseas setting up costs, employee secondment and relocation costs, and consultant fees for new and expansion efforts.

## **Renewal of incentives/schemes**

- Incentives/schemes should be reviewed on a timelier basis, and any renewals should be announced 2 years before the expiry of the incentives/schemes.

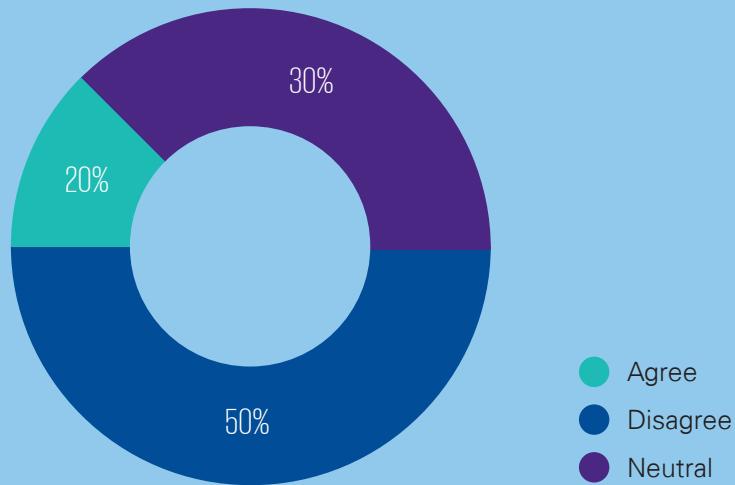
## **Respondent's comment**

**“Assist us on the manpower front, especially for companies which consistently innovate, become more productive and are trying to expand beyond the shores of Singapore.”**



## DETAILED POLL FINDINGS

### 1. I am optimistic about business prospects in the coming year.



#### Comments:

Dark clouds hanging over the near-term outlook as global economic uncertainty has dampened the economic optimism among respondents.

## 2. I am concerned about the following: [List top three in order of importance]



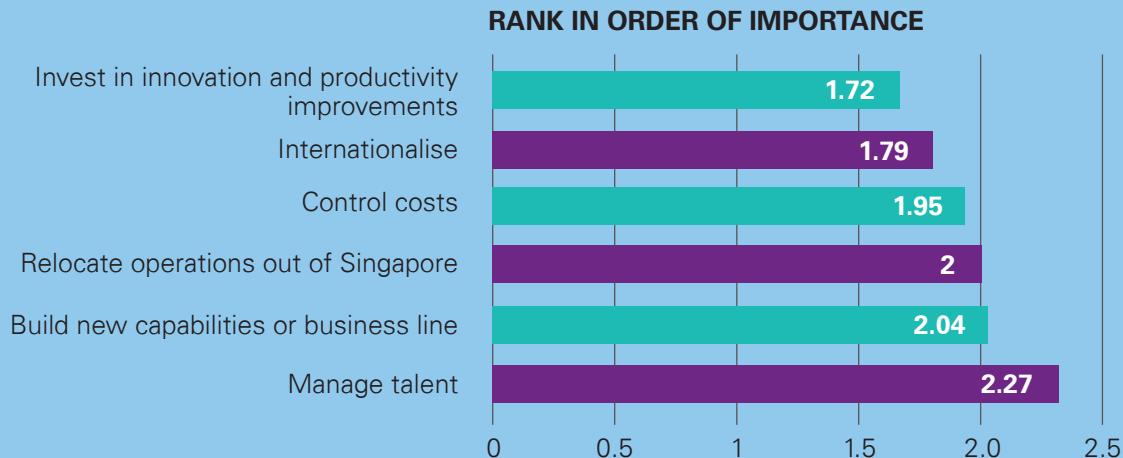
Average score is computed based on the top three choices in order of importance, with 1 being most important followed by 2 and 3.



### Comments:

The top two concerns cited by companies were (1) weak global economic outlook; and (2) rising labour and rental costs, unchanged from the KPMG poll done in late 2014. This is in line with the deceleration seen in the domestic economy, pointing to a less conducive and possibly more pessimistic business climate in Singapore.

**3. What would be your key strategies to grow your business?**  
[List top three in order of importance]



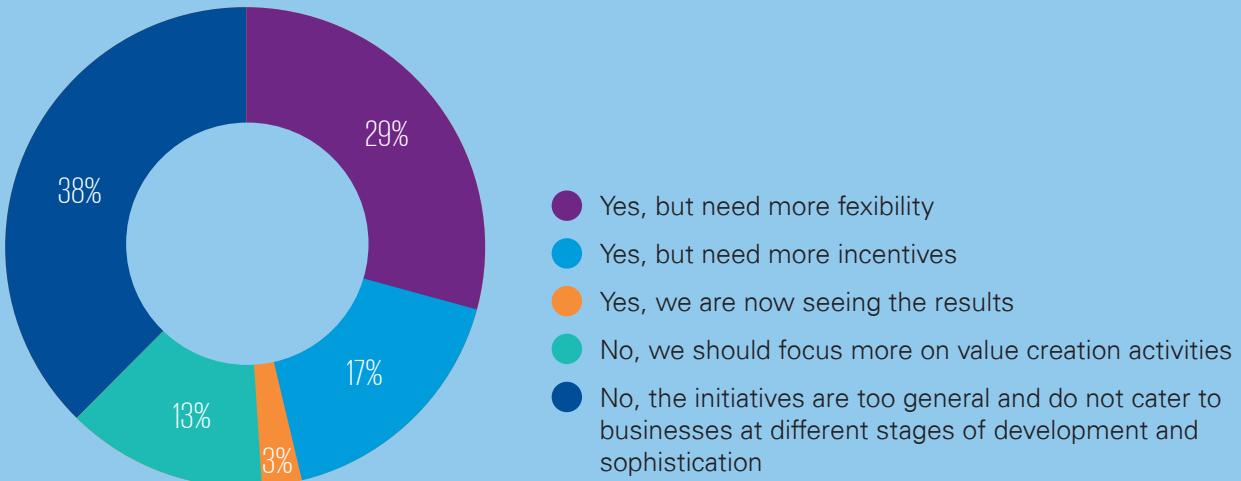
Average score is computed based on the top three choices in order of importance, with 1 being most important followed by 2 and 3.



**Comments:**

Investments in innovation and productivity, and internationalisation are key growth strategies. Promoting greater value-creation in the local economy could lead to exponential gains for Singapore, especially if this value can be successfully exported abroad.

#### 4. Has the Government's focus on improving productivity benefited your business?



##### Comments:

A majority of respondents believe that the incentives were too general in nature. Local firms in particular strongly believed that these incentives should cater towards businesses at different stages of development and that the emphasis should be on value creation. At the same time, there should be a combination of broad-based and targeted incentives (see Question 6 and 9).

**5. The Government has introduced many schemes to support local businesses.  
Which of these do you think the Government should focus on in the next 5 years?  
[List top three in order of importance]**

More schemes to promote Singapore-owned businesses to strengthen the economy

Innovation and value creation

Entrepreneurship

Internationalisation

Training (i.e. SkillsFuture)

**RANK IN ORDER OF IMPORTANCE**



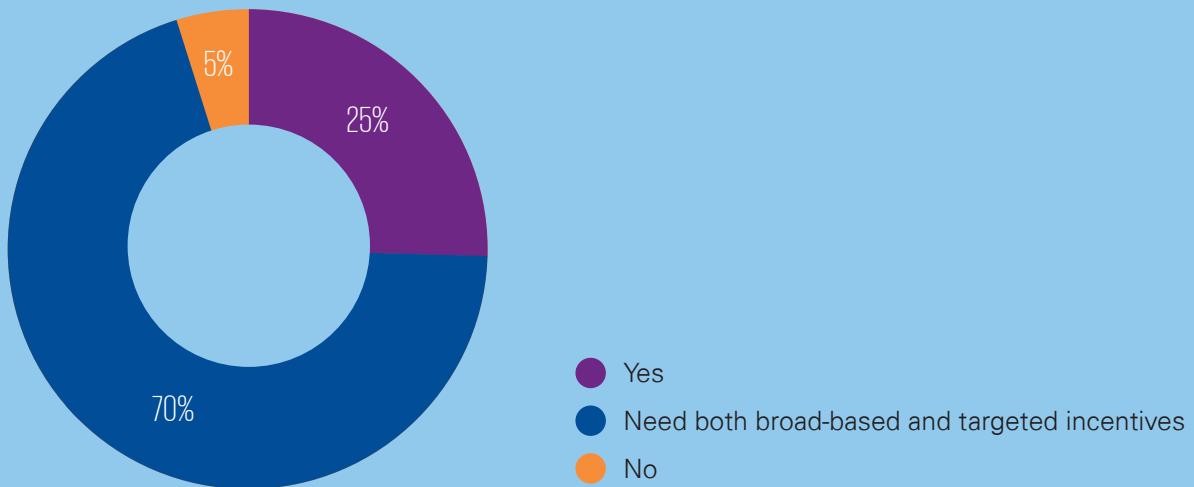
Average score is computed based on the top three choices in order of importance, with 1 being most important followed by 2 and 3.



**Comments:**

The majority of respondents believed that more Government schemes to promote Singaporean-owned businesses were required to strengthen the economy.

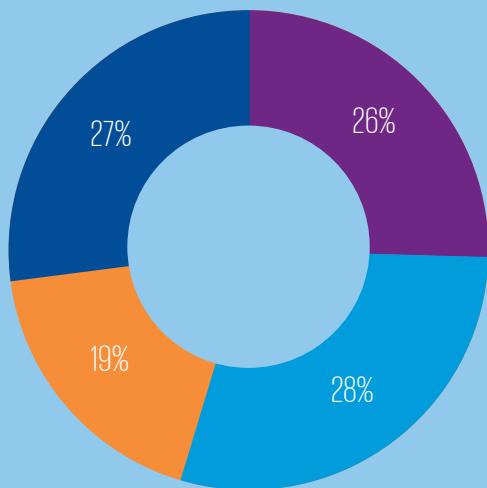
**6. Do you agree incentives to help businesses innovate should be less broad-based (e.g. PIC scheme) and more targeted (e.g. Capability Development Grant and Research Incentive Scheme for Companies)?**



**Comments:**

A high proportion of the respondents were in favour of having both broad-based and targeted incentives. SMEs in particular supported this.

7. What is your view of broad-based vs targeted incentives for encouraging businesses to innovate? (Choose two most relevant options)



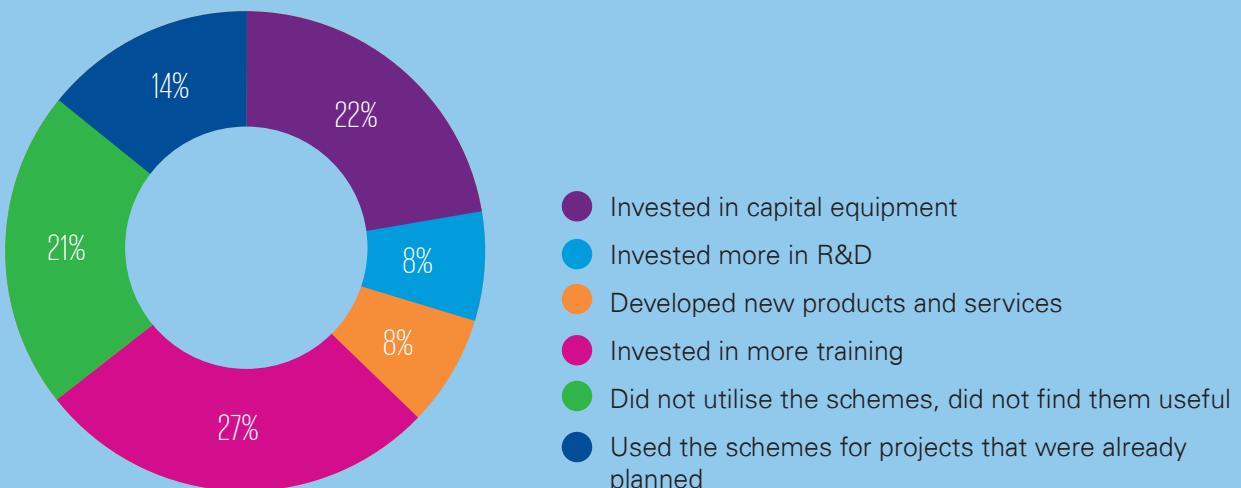
- We should not 'pick winners' as it might stifle innovation
- Targeted incentives require too much effort to apply and comply
- Threshold for broad-based incentives is too high
- Targeted incentives are more effective



**Comments:**

There was no clear consensus amongst the poll respondents. From poll findings in Question 6, both broad-based and targeted incentives are required to provide effective support and encourage innovation activities.

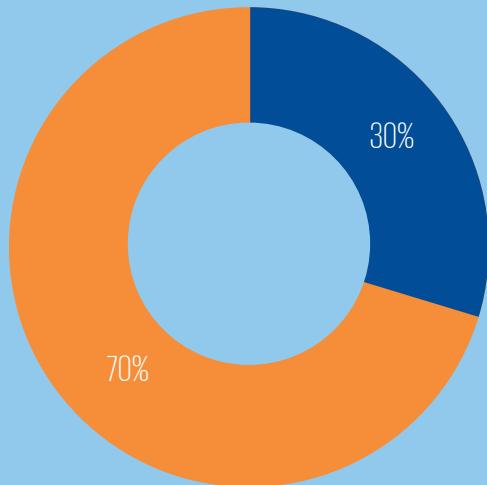
**8. How have you benefited from the PIC scheme and other incentives to promote innovation and productivity? (Choose two most relevant options)**



**Comments:**

Businesses reflected that they mainly used the PIC scheme to fund training for staff and investments in capital equipment, which would not have been done without the schemes.

## 9. Is the current broad-based PIC scheme effective?



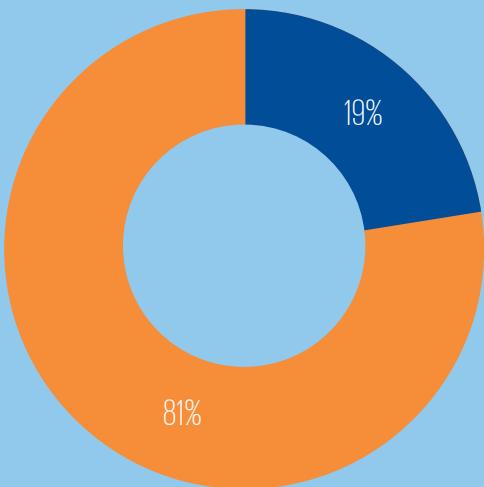
- Yes, it has helped businesses embrace productivity and innovation
- No, it should be calibrated to target businesses at different stages of development and operations



### Comments:

A common theme was that further calibration and tweaks to the Government's productivity schemes are required to boost the efficacy of the productivity thrust.

## 10. Is there sufficient recognition and support for value creation activities?



- Yes, there are many brand recognition awards and governmental support
- No, there should be tax recognition for value creation (e.g. tax allowances for value of internally-generated brands)



### Comments:

8 out of 10 companies covered in the poll stated that there is insufficient recognition and support for value creation activities.

## ABOUT THE REPORT

This report is based on feedback gathered from a poll of businesses in Singapore and complemented by focus groups with selected business leaders.

Conducted between November and December 2015, the objective of the research was to bring a representation of insights and burning issues faced by businesses to the attention of the Government.

In all, the 106 companies polled represented the views of:

- 30 SMEs
- 41 large Singaporean companies and
- 35 MNCs

**The three-fold objective of the research was to understand:**

- What are Singaporean businesses' concerns in the context of a challenging global economic environment?
- How can Budget 2016 help businesses address these concerns?
- What else does the Government need to focus on?



## NOTES

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