Annex

KPMG Budget Wishlist 2017:

Building Enterprises of the Future

The following information can be attributed to Chiu Wu Hong, Head of Tax, KPMG in Singapore.

I: Supporting firms in the downturn

"While there is much trepidation among Singapore companies worrying about forecasts of gloom in 2017, we are heartened to see many thinking about the long term. They are preparing for the next upturn, and ready to heed the Government's call for the next phase of economic growth to be led by Singapore enterprises and brands. We believe that the Government can play a part in supporting this desire at Budget 2017." – Chiu Wu Hong.

1.1 Addressing Manpower challenges

- ***Defer increases in worker levies***

  Budget 2016 deferred foreign worker levy increases for the marine and process sector. The deferment should be extended for another year. Similarly, increases in levies for the construction sector should be deferred in light of the challenging economic situation.

- ***Extending the wage credit scheme***

  Businesses are hoping that the Wage Credit Scheme (which is scheduled to expire by 2017) will be extended by another year due to the economic slowdown. If not, a similar programme to alleviate the rising manpower costs would be welcomed.

- ***Provide rental rebates***

  To help companies struggling with falling demand, we would also like to propose a 15% rental rebates for properties managed by SLA, JTC and HDB for one year.

1.2 Cost Mitigation measures

- ***Enhance the loss carry-back scheme***

  The cap on losses that can be claimed against taxable income should be raised from $100,000 to $200,000 for two years till 2018. This will help aid the cash flow of local SMEs.

- ***Freeze government fees and charges***

  Last implemented in 2009 at the height of the financial crisis, freezing any further rises in government fees and charges for two years till 2018 will give some stability to companies facing intense cost pressures.

1.3 Boosting investments

- ***Enhance training subsidies***

  Currently, absentee payroll funding is capped $7.50 per hour for SMEs. These should be enhanced to $10 per hour, giving further incentive for companies to upgrade their staff.

- ***Extending the Productivity and Innovation (PIC) scheme***

  Extend the PIC scheme (which is scheduled to expire in YA 2018) by another year. This is to encourage productivity and innovation during this period of downturn.

  If PIC is discontinued, there should be alternative schemes to encourage companies to continue investing in productive assets in the downturn.

II: Assist firms to embrace digital disruption and technology

Digital disruption can serve as either an opportunity or a challenge to businesses. New technologies are lowering barriers to entry while providing opportunities for entrepreneurship to blossom. It is important to sustain the momentum and help firms ride this technological wave. Businesses need to evolve in order to transit to a new economy powered by robots and computers.

The following proposals are possible ways to assist firms to embrace digital disruption and technology:

2.1 Promote innovation

- ***Extend the scope of activities under the R&D tax incentive*** to include:
  - Transformational projects to create innovative culture and promote disruptive innovation (such as new business models);
  - Non-science and technology areas to cover new R&D areas (such as social media and “smart city” solutions).
  - Deem companies as having commenced business upon the start of their R&D activities (to the extent that the current legislation does not provide for an earlier date). This would allow companies to claim R&D tax deduction from an earlier date.

2.2 Tweak R&D incentives

- ***Include overseas R&D activities as qualifying expenditure***

  Costs relating to R&D activities conducted overseas currently enjoy enhanced deductions only under the PIC Scheme. In reality, businesses undertake R&D activities overseas for many reasons. These include the relevant skills and experience not being available locally. Overseas R&D activities should be included as qualifying expenditure under the R&D tax incentive after the expiry of the PIC scheme.

- ***Expand the type of activities qualifying for R&D tax incentive***

  Allow for more types of R&D activities to be included under the R&D tax incentive. It is currently limited to manpower costs, consumables and outsourced R&D payments.

- ***Introduce new incentives to spur value creation***
  Singapore's R&D tax incentive scheme is at risk of becoming one of the least competitive after the expiry of the PIC. This is when compared to other countries with R&D tax incentive schemes such as the UK, Ireland, Canada, Australia, China and Thailand.

  The existing R&D tax incentive should therefore be replaced with the following to incentivise innovation:
  - 30% Innovation Tax Credit (General Scheme);
  - 45% Innovation Tax Credit for SMEs
  - Tax credits are offset against tax payable. The current system of tax deductions inadvertently discriminates against companies with concessionary tax rates
  - Tax credits can only be encashed by SMEs, up to a maximum of $1million per company over 3 years
  - Allow a higher rate of Innovation Tax Credit for expenditure incurred by companies which collaborate with publicly funded research organisations, such as universities.

2.3 Attract IP to Singapore

- *Introduce a patent box type regime* similar to those in many other countries.

- *Allow tax amortisation for internally developed IP* to encourage local companies to create IP for competitive advantage.

- I*ncrease writing down allowances for other IP categories* such as customer lists, business model innovation, on a case-by-case basis, taking into account current business trends.

- Remove the requirement for legal ownership for automatic writing down allowances for IP, to enhance Singapore's status as an IP Hub.

- Introduce an enhanced tax amortisation (e.g. 150% writing-down allowances) to Singapore buyers of Singapore brands.

2.4 Support Digitisation of Business and Labour

The digitisation of businesses typically involves significant upfront capital investment and existing staff will have to be retrained if not redeployed. Proposals to accelerate digitisation by addressing this are:

- *Enhanced capital allowances* help businesses invest in new capital assets (including software development) for the purposes of developing a digital business, or digitising part or whole of an existing business.

- *Double tax deductions for training of employees* for the purpose of adapting these employees to roles supporting the digital business

- As it takes time to retrain and reskill manpower, as an interim measure, *provide more flexibility to employ foreign manpower with IT skills* to address current shortage

III: Boost internationalisation and entrepreneurship

Our economy needs a strong core of Singapore businesses which are anchored in the country even as they expand overseas to ride on the region's dynamic growth prospects. The following proposal are possible ways to boost internationalisation and entrepreneurship:

3.1 Support Made-in-Singapore brands overseas

- Local companies should be provided with tax incentives to grow and build their brand. Singapore brands are after all, important in growing the next generation of Singaporean businesses.

3.2 Enhancement of Angel Investors Tax Deduction Scheme

- *Extending the Angel Investors Tax Deduction (AITD) scheme* will allow approved corporate investors (instead of only individual investors) to also get tax deductions for investing in qualifying start-ups.

3.3 Enhance support for overseas expansion

- *Larger grants for overseas market studies and internationalisation efforts* should be made available as regulatory and tax regimes overseas can be significantly more complex. For example, the Quantum of Market Readiness Assistance grant should be doubled from existing amounts.

- *More support should also be provided to help SMEs internationalise.*

    a) Introduce an *International Expansion Acceleration Programme* to fund multipliers (e.g. consulting firms, trade associations) to bring SMEs overseas and/or help SMEs set up overseas with a view to expand their overseas footprint.

    b) Introduce a list of consultants located in each country overseas that can assist SMEs with various business needs e.g. incorporation, legal, accounting and tax advice.

- *Provide a platform for companies embarking on overseas expansion to "hunt in a pack" (e.g. via a consortium, joint venture, etc.)*

    a) Larger local companies spearhead forays and develop projects that smaller local SMES can latch on to. This is similar to the Platform Scheme that IE Singapore pioneered with big local corporations for projects in China.

b) Introduce a specific grant to give support to SMEs for FTAs purpose i.e. learning how to apply FTAs or how to enjoy FTAs benefits, especially as many SMEs are still largely unaware of how to access Singapore's FTA.

3.4 Simplify regulations, especially in the area of indirect taxes

Over the years, indirect taxation has also become an ever increasing source of government operating revenue. We believe that simplifying the indirect tax regime in many areas could lead to better compliance, and potentially a larger collection of tax.

The following proposals are some suggestions.

- **Insurance companies should be allowed to claim deemed input tax on repair costs invoiced by non GST-registered workshops.**

  Currently, where a GST-registered motor repair workshop issues an invoice to the company for the repair works for the insured's motor car, the insurance company is able to claim input tax on the repair costs provided the prescribed conditions are satisfied. However, if the repair workshop is not a GST-registered entity, the insurance company is not able to claim deemed input tax on the costs of the repair paid to the workshop. This appears to be an anomaly. To level the playing field, insurance companies should be allowed to claim deemed input tax on repair costs invoiced by non GST-registered workshops.

- **Claiming Of Input Tax Incurred On RD Plated Cars**

  Allow companies to claim input tax incurred on purchase/ rental / running expenses of RD plated cars (e.g. vehicles used in R&D projects, such as electric and fuel cell cars) as these expenses are incurred in the course of the business. RD plated cars (which are under stricter control) are akin to an equipment, except that it is in the form of a car.

- **Zero-GST Warehousing Regime For Liquefied Natural Gas (LNG)**

  Grant a zero-GST warehousing status to Jurong Island which is specifically designated for LNG. This would simplify GST obligations for suppliers/customers undertaking LNG trades stored on the Jurong Island facilities as well as easing GST cash flow.

- **Extend GST Concession On Recovery Of Overseas Brokerage Charges To Derivative Transactions.**

  A concession whereby GST is not charged on the recovery of overseas brokerage charges and other costs relating to shares traded through overseas exchanges currently exists. This should be extended to the recovery of overseas brokerage charges and other costs relating to derivative transactions. This would help encourage Singapore customers to continue using local service providers to execute such financial transactions in overseas exchanges.