Media Release

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Singapore businesses want more support to grow in the digital economy

More than half, or 55 percent of businesses polled in Singapore believe that investing in technology, driving greater business innovation and creating new products and services should be the top key business strategy over the next three years. In fact, 65 percent hope for more Government support to continuously innovate, internationalise and transform their business models.

In KPMG's annual pre-Budget 2018 report launched today, 49 percent of the 126 respondents remain vigilant and adopt new technologies as soon as possible. This included smaller local businesses. This is in contrast to last year's poll, which suggested that many were struggling to adopt new technologies and primarily focused on dealing with short-term business pressures.

Some poll respondents have also called for business regulations to be less complex, and streamlined. More support in the form of government incentives to retrain workers for the digital economy is also called for.

Mr **Chiu Wu Hong**, Head of Tax at KPMG in Singapore said: "Singapore companies are beginning to embrace disruption and digitalisation, taking advantage of technology and making meaningful transformations in their business models. But there is increasing urgency for this transformation, and boosting the number of government incentives and tax changes can accelerate this."

KPMG's Budget proposals this year calls for more support to help businesses invest in new capital assets (such as software development) to adopt digital technologies. More Government support for companies to invest in training and professional help to go digital is also suggested.

Continuous innovation is key

Global economic volatility continues to be a top business concern among respondents, at 41 percent, down from the previous year's findings of 60 percent.

About 40 percent in the pre-Budget poll are engaged in continuous, as opposed to one-off, innovation to address disruption in their industry. In all, 58 percent of respondents would like to see more government support in investments for continuous innovation and R&D, and more schemes to strengthen Singapore businesses.

While the Productivity & Innovation Credit (PIC) scheme is set to expire, Singapore's R&D tax incentive will continue but with significantly reduced benefits and scope. Many companies that we spoke to hope that the scheme will be extended to help businesses digitise.

"Singapore companies need to innovate to compete with the best in the world. The expiry of the PIC scheme threatens to make Singapore's R&D tax incentive one of the least attractive globally, even as other countries enhance their R&D schemes. While R&D activities do not always seem to have an immediate pay-off, they are crucial in building a sustainable competitive advantage for Singapore," added Mr Chiu.

KPMG's proposals include **introducing a new Innovation Tax Credit** to support promising new businesses undertaking innovative R&D and other value creation activities. Such an innovation tax credit could be set at 50 percent of eligible expenditure (such as salaries of staff involved), which could be paid out in cash.

There is merit to specifically encouraging businesses to drive innovation utilising in-house capabilities rather than outsourcing, as this would create long-term capabilities within the businesses themselves.

Other ideas offered by poll respondents to support the development of innovation capabilities include:

- Providing additional tax support similar to the PIC scheme to defray the costs in implementing new cutting edge technology and innovation development
- Subsidising or providing grants to businesses for training employees to operate new technologies
- Simplifying the process of obtaining grants and tax incentives

Strengthening Singapore's competitiveness

While acknowledging Singapore's growing spending needs, some respondents said that there should be no urgent need to increase taxes. Instead, policymakers should continue monitoring international developments before making any decisions.

Mr Chiu commented: "We propose that the Government look into specific aspects of our tax system which may have an impact on the overall competitiveness of Singapore. For example, our HQ incentives should be tailored to Asian MNCs that may be already have sizeable operations elsewhere in Asia.

In addition, many global businesses setup their HQ in Singapore but find difficulty in getting the right talent. Our manpower framework can be more flexible to help these businesses get the right talent across the broader spectrum of digital skills such as cyber-security, artifical intelligence and creative design."

Beyond policy, it is also necessary to create a conducive environment for Singapore businesses to take root and flourish. Feedback from respondents suggest that such an environment can be nurtured through Government support in the forms of skilled labour, financing mechanisms and regulatory frameworks.

In fact, a large 83 percent of our respondents indicated more incentives to retrain and up-skill their employees to adapt and cope in the digital economy as one of the top three areas to encourage more inclusive growth.

44 percent also agreed that tax incentives should be enhanced for headquarters (HQ) companies as the most important way for Singapore to stay competitive as a HQ location for Singapore businesses and MNCs.

"The upcoming Budget presents an opportunity for Singapore to push the digitisation strategy agenda. Not only will we then produce the next 'unicorn', but also the next generation of business leaders in each industry," concluded Mr Chiu.

KPMG pre-Budget wishlist is annexed.

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Note to editors

About KPMG Pre-Budget 2018 poll report

Towards the end of 2017, we surveyed 126 companies based in Singapore, including multinationals, listed and privately owned companies, and SMEs, to hear what challenges they face and how they plan to move forward.

We also revisited our 2017 CEO Outlook report, which gathered the views of 1261 CEOs from around the world on challenges and opportunities that they face.

What we have heard indicates that disruption and continuous innovation are increasingly a source of both competitive advantage and competition, while digitalisation and the adoption of technology remain of high importance. Companies seek to thrive in the digital economy by transforming themselves, and hope to seek support for their efforts.

This report examines what companies are doing in the midst of this challenging environment and what can be done to help them develop to keep pace with the digital economy.

About KPMG in Singapore

KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. With 200,000 people in the network working together to deliver value in 154 countries and territories, we offer a globally-consistent standard of service based on professional capabilities, industry insight and local knowledge.

In the ASEAN region, KPMG member firms operate across all 10 countries. Our industry focus helps KPMG firms' professionals develop a rich understanding of clients' businesses and the insight, skills and resources required to address industry-specific issues and opportunities.

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