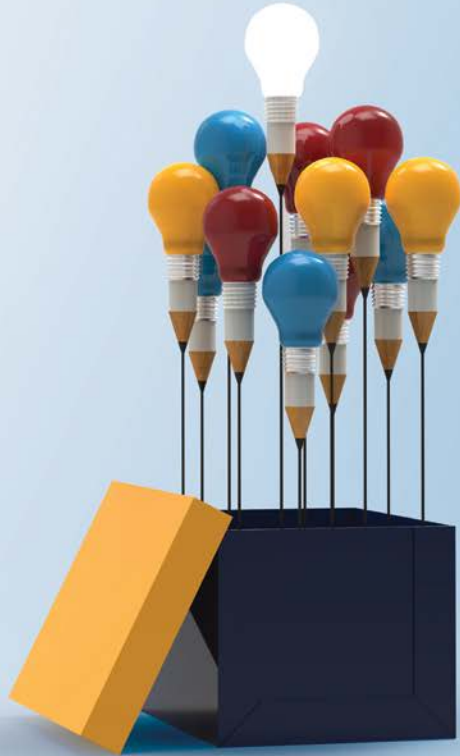
KPMG

# Let's get straight to the point on Singapore Budget 2019.



Insights from the Inside

Foreword

# A COMPETITIVE SMART NATION THROUGH A STRONG AND UNITED SINGAPORE

Budget 2019 offers a commendably strategic vision to build "a strong, united Singapore", consistent with Singapore's goal to be a competitive Smart Nation. At the same time, the Budget's positioning of Singapore as a "Global-Asia node of technology, innovation and enterprise" also reflects the right emphasis on advancing a "strong Singapore" economically.

However, it is our opinion that Budget 2019 could have provided a bit more of a push to help spark the next growth surge in the overall economy. This is especially so in industry sectors such as Financial Services and Technology – sectors that are actively gearing up for the next inflection point of growth.

Aspects addressed in the Budget that we have decided to look into include measures to help companies build capabilities, innovate, grow, deepen workers' capabilities, and gain easier access to funding.

For example, to gain access to funding, the real estate sector can look forward to extensions of S-REITs and REITs ETF income tax concessions.

For asset managers, there is the refinement and extension of fund management incentive schemes.

From the perspective of promoting a Smart Nation, we are of the view that Budget 2019 could have gone further on measures to deliver more fully on outcomes for society in two main areas: digitalisation and quality of life.

On digitalisation, more specific efforts are needed to build corporate awareness for cyber security in the first instance. This will encourage corporations to accord cyber security the right priority, as well as build up and sustain long-term cyber resilience.

Digital adoption could have also been boosted by extending financial incentives to cover deployment and implementation costs of new technology in areas such as digital payments, blockchain, cloud, and Data and Analytics.

On quality of life, Budget 2019 acknowledges broader sustainability concerns, including what Singapore is doing to tackle climate change.

To foster a "united Singapore", the highlight of the Budget's offerings is the Merdeka Generation Package, with benefits including more outpatient subsidies and MediSave top-ups.

But what seems to have eluded wider attention, including among industry players, is the key component of a sustainable environment. For example, the concrete reality of what the real estate sector could do to reduce the country's carbon footprint, by adopting green technology such as optimising green design and enhancing a building's sustainability.

What the Government could do more of, is to drive uptake for a greener real estate sector, through policy initiatives to help boost supply and demand for green properties such as tax incentives for making buildings greener.

With the catalyst of Budget 2019's new measures, the next stage of Singapore's development is poised for take-off. SMEs are not surprisingly being identified as the focus for growth for Budget 2019. At the same time, taking the whole of Singapore's Smart Nation to the next level will need more sustained policy attention and industry investment.

**Ong Pang Thye**
Managing Partner
KPMG in Singapore

# CONTENTS

# Enterprise

Keeping our firms and workforce competitive

# Access to Funding

## What's the change?

### Creating sources of funding for SMEs

With Budget 2019, eight existing SME financing schemes will be streamlined into a single Enterprise Financing Scheme (EFS).

The SME Working Capital Loan scheme, introduced in Budget 2016, will be extended for another two years till 31 March 2021 and also subsumed under the EFS with the Government taking in up to 70% of the risk for bank loans compared to the current 50%.

The Government will also set aside an additional $100 million for the SME Co-Investment Fund III to continue its support for firms in their efforts to scale up and internationalise.

## Why the change?

### Making funds readily available

Start-ups can only strive when they scale up. However, SMEs generally have more difficulty obtaining bank financing or securing investment to scale.

The initiatives aim to release the funding pressure points:

- The EFS offers SMEs easier access to financing for different stages of their growth, and is spread over six financing areas: working capital, fixed assets, trade, venture debt, mergers and acquisitions, and project financing. The Government has also enhanced the support given to younger SMEs that generally have more difficulty obtaining bank financing due to the lack of track record.
- The SME Co-Investment Fund III is an additional investment to further catalyse active and patient growth capital for Singapore-based SMEs that are ready to scale up and internationalise.

## What's the opportunity?

## Gaining access to more funds

The extension of the SME Working Capital Loan scheme will help address SMEs' near term cash flow concerns and growth financing needs. At the same time, the enhanced Government support of taking on up to 70% of the credit risks on bank loans to companies less than five years old will also help catalyse start-ups with innovative ideas which may need a longer gestation period.

With the additional investment commitment made by the Government under SME Co-Investment Fund III, more Singapore-based SMEs can gain access to private capital as their businesses grow and position themselves to venture abroad.

## Here's our point of view...

**Getting money might be easier**
With the streamlining of the various financing schemes, SMEs should expect simpler application processes and easier access to loans.

**Some fine tuning might be needed**
While the extension of the SME Working Capital Loan scheme should also be welcomed by the SMEs, the two-year extension may not be sufficient as cash flow tends to be an ongoing concern for SMEs.  Younger companies should identify their funding needs early in order to benefit from the scheme, considering that the scheme is subject to review by 31 March 2021.

**Limiting private capital investments**
The additional commitment by the Government will certainly help more SMEs gain access to both Government and private funding in their growth expansion. However, as the investment in Fund III is smaller than investments in previous Funds I and II, this would limit opportunities for the existing SMEs to benefit from such a programme. Local SMEs should review their business plans and funding needs to see how they can capitalise on this third co-investment fund.

# Building Workers' Capabilities

## What's the change?

### Lesser reliance on foreign workers

The Dependency Ratio Ceiling (DRC) for the services sector will be reduced from 40% to 38% from 1 January 2020 and to 35% from 1 January 2021, while S-Pass Sub-DRC will be reduced from 15% to 13% from 1 January 2020 and to 10% from 1 January 2021.

## Why the change?

### Employing a more balanced approach

The services sector remains labour intensive, with the number of foreign workers employed on an uptrend. These changes signal a drive to reduce reliance on foreign workers. Businesses now have to upgrade their capabilities and the skills of local workers in order to complement the skillsets of foreign workers.

## What's the opportunity?

# A call to transform our workforce

The reduction of the foreign worker quota, together with the enhanced support for businesses to improve business and workers' capabilities, provides a clear and strong incentive for businesses to upgrade their operations, train their local workers and reduce their reliance on lower skilled foreign workers.

## Here's our point of view...

**Plan now to avoid a resource crunch later**

The tightening of regulations surrounding foreign manpower in the services sector is perhaps timed to address the economic uncertainties in the near future. It is therefore critical for businesses to take advantage of the one year headstart to proactively look into their existing resources and plan ahead.

**Put in the work to rework business processes**

Amid a shrinking local workforce and labour crunch, it is imperative for the services sector, especially the food and beverage and retail businesses, to accelerate integration of technologies and re-engineering of their business processes within this short window of time. The measures to reduce reliance on foreign workers include the adoption of digital technologies and skills training programmes to build enterprise capabilities.

**Services sector may be just the beginning**

While the foreign worker quota is currently limited to the services sector, there is a possibility that similar restrictions may be extended to other sectors. Businesses should start putting measures in place to cope with any reduction in foreign manpower.

# OTHER RELATED HIGHLIGHTS

To further support firms in the upgrading of workers' capabilities, the Productivity Solutions Grant (PSG) support level of up to 70% for sector-specific solutions has been extended to 31 March 2023, and enhanced to include out-of-pocket training expenses capped at $10,000 per firm.

# Building Enterprise Capabilities

## What's the change?

### Helping more SMEs adopt digital technology

Industry Digital Plans will be developed for more sectors under the SMEs Go Digital programme. Pre-approved solutions for funding support will also be extended to include more advanced Artificial Intelligence-infused and cyber security solutions.

At the same time, enhanced Enterprise Development Grant (EDG) support of up to 70% of eligible expenses will be extended to 31 March 2023, while the Automation Support Package (ASP) to support impactful and large scale automation technologies will be extended to 31 March 2021.

## Why the change?

### Building stronger digital capabilities

SMEs are challenged by rising costs and lack of familiarity with digital technology, with the current take-up rate for the SMEs Go Digital programme only at 4,000 SMEs and the ASP having helped just over 300 companies. The extension and/or expansion of the schemes are necessary to help these SMEs in their digital transformation efforts.

## What's the opportunity?

### Tap into available support; explore emerging tech

Local enterprises planning to invest in digital solutions (e.g. Data and Analytics, Artificial Intelligence and cyber security capabilities), automation (e.g. robotics and automated systems), and capability development to improve financial and operational efficiencies (e.g. engaging consultants to review corporate governance, provide tax planning advice, and redesign jobs or work processes) should consider tapping on the financial support extended under Productivity Solutions Grant (PSG), ASP or EDG. SMEs can also take advantage of the enhanced support level under these schemes.

## Here's our point of view...

**More enterprises need to come onboard**
Statistics show that the take-up rate for these schemes is low. The relevant government agencies and the ecosystem should step up efforts in promoting and raising awareness of these schemes to encourage SMEs to invest in productivity initiatives.

**Show enterprises what's in it for them**
Success cases of enterprises in various industry sectors could be showcased to encourage business owners to embrace productivity solutions.

Productivity savings from projects supported by EDG should also transform to positive outcomes such as increased wages for existing workers. Ensuring that productivity savings result in benefits to employees is a potential area which the Government may need to monitor and possibly enforce.

# Taking High-growth SMEs Further

## What's the change?

### Tailored to fit with the business

With the new launch of the Scale-up SG programme and Innovation Agents programme, ESG aims to reach out to aspiring, high growth SMEs to develop tailored customised solutions to help them undertake product development, digitalise their processes and grow market share, including expanding into international markets and tapping on experienced industry experts for advice.

## Why the change?

### Accelerating growth

In the current fast-paced business environment, time is of the essence when it comes to commercialising from a good idea, scaling and expanding international market share. SMEs are already operating on limited resources; the aim of these two programmes is to accelerate their growth journey. These programmes can give them the opportunity to directly tap into industrial expertise and experiences that are relevant to them.

What's the opportunity?

## A myriad of solutions

Through the Scale-up SG programme, aspiring, high-growth companies can work with partners from private and public sectors to identify solutions (e.g. financing options, technology adoption or digitalisation) to overcome challenges unique to them, and opportunities for growth.

Through the Innovation Agents programme, companies can obtain advice on innovation opportunities from experienced industry professionals who have both technology expertise and business experience.

Companies are given the opportunity to access knowledge and solutions that are actually relevant and useful to them.



Here's our point of view...

**Innovation - the lifeblood of success**
The introduction of these two initiatives is timely as we are moving into the next phase of our economic transformation journey—building deep enterprise capabilities. These are exciting initiatives and we look forward to more specific details in the year ahead.

Our view is that without good business acumen, even a groundbreaking innovation could fail to translate into commercial success.

Many companies already understand that innovation is the key driver to achieving business growth in today's business landscape. However, they encounter a unique combination of roadblocks in areas such as commercialisation, production scale-up or expanding overseas due to a lack of experience or knowledge.

**Tapping on experience**
Experienced industry individuals or bodies should also provide tailored mentorship, identify potential blind spots and develop customised road maps. This would help SMEs free up resources that are spent overcoming these roadblocks on their own. A more efficient navigation through these hurdles can accelerate the SME growth journey.

Let's get straight to the point on the Budget

"The expansion of the SMEs Go Digital Programme and the extension of the Automation Support Package by another two years will further entrench digital capabilities in our enterprises. This is provided that there are increased levels of awareness, including helping SMEs to road-map their digital journey."

**Jonathan Ho**
Head of Enterprise Market
KPMG in Singapore

# HEALTHCARE
## Merdeka Generation Package

Caring for those who helped build Singapore in tumultuous times

## What's the change?

### Say hello to the new Merdeka Generation Package (MGP)

The new $6.1 billion MGP offers enhanced care for those aged between 60-69 as follows:

- One-off $100 PAssion Silver card top-up
- MediSave top-ups of $200 annually from 2019 to 2023
- Subsidies for outpatient care (i.e. special subsidies at Community Health Assist Scheme (CHAS) general practitioner and dental clinics, and additional 25% off subsidised bills at polyclinics and public Specialist Outpatient Clinics)
- Additional MediShield Life premium subsidies (from 5% to 10%)
- CareShield Life participation incentive of up to $4,000

## Why the change?

### Care for the ones who helped build Singapore

The MGP aims to provide greater assurance to the healthcare needs of the seniors among us by making it more affordable and accessible, as life expectancy of Singaporeans stands at 84.8 years and is expected to increase.

This package is much more than a demonstration of the nation's gratitude for these seniors' contributions to the nation. It is a way to show care for them in their silver years, and will provide them with more peace of mind over future healthcare costs, help them to stay active, and support healthy and purposeful ageing.

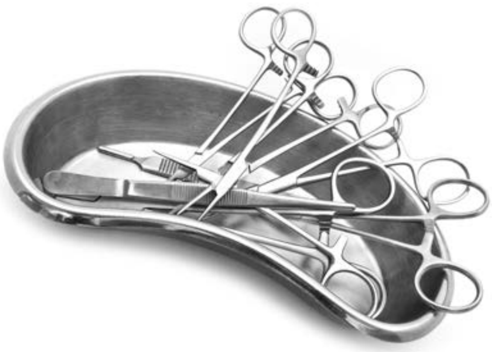
## What's the opportunity?

# Laying the path

With the ageing population, there will be increasing demand for health services. Healthcare providers will need to review their offerings to meet this changing demand.

Given the Merdeka Generation who are in their 60s now, and with life expectancy being 84.8 years, there is a 20-year runway to cater for their healthcare needs. There will be an increase in demand, given the rate of ageing of the population.

Healthcare providers, hence, must leverage on their offerings to meet the increased demand, commensurate with an ageing society.



## Here's our point of view...

**Proof of continued care**
The MGP demonstrates that our Government is thoughtful and responsible in caring for the community and ensuring Singaporeans are able to enjoy quality living by providing greater assurance for their healthcare. As promised in last year's Budget, the Government has already embarked on strengthening its primary care foundation with more than 300 general practitioner clinics offering holistic team-based care for chronic diseases. The Ministry of Health will also enhance the healthcare infrastructure by opening 12 more polyclinics and four hospitals by 2030.

**Encouraging all to take ownership of their health**
The MGP is part of the Government's second social strategy to provide greater healthcare assurance to Singaporeans. It will also be appropriate to allow tax deductions for premiums paid on medical-related health insurance policies by individuals (for themselves or their families). Such tax deductions will encourage individuals to be self-insured and responsible for their own healthcare needs.

It is crucial that every Singaporean plays his or her part in the healthcare ecosystem to nurture a healthy lifestyle and reduce dependence on our healthcare services.

Let's get straight to the point on the Budget

The Merdeka Generation Package comes in timely for this resilient and independent group of Singaporeans. It will help them defray healthcare costs, and give them a sense of comfort and protection.

**Karen Lee**
Head of Healthcare
KPMG in Singapore

# TECHNOLOGY

The rise of Singapore as a Global-Asia node of Technology, Innovation and Enterprise

## What's the change?

### Three key thrusts to drive technology, innovation and enterprise

The Government reaffirmed its commitment to building Singapore as a Global-Asia node of Technology, Innovation and Enterprise, positioning itself as "Asia 101" for MNCs expanding into Asia, and "Global 101" for Asian companies set to go global. This will be achieved through:

- continued investment in R&D;
- introduction of the Global Ready Talent Programme (GRTP); and
- enhancing global partnerships.

There will also be continued adoption of new technologies such as Internet of Things (IoT) across key industries including waste management and household energy.

## Why the change?

### Forging a culture of innovation

The commitment to R&D investment will foster a culture of innovation and broaden areas of expertise. At the same time, the GRTP will give Singaporeans opportunities to gain overseas work experience and prepare them to make full use of the Global-Asia node, while providing companies with greater access to talent in the technology space.

Enhancing global partnerships will bring the global innovation community together and provide entrepreneurs and companies the opportunity to forge new areas of collaboration with innovation centres worldwide.

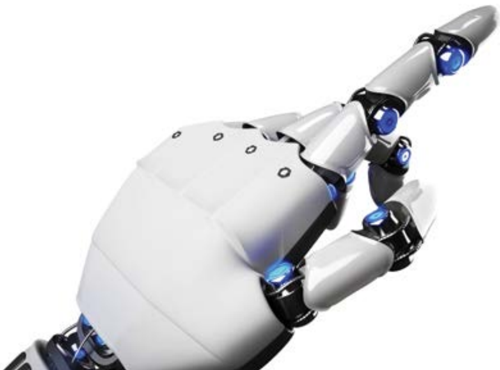
What's the opportunity?

## New technology, new businesses, new jobs

By being a hub for technology, innovation and enterprise, the Government believes new business and employment opportunities will open up for firms and people in Singapore riding on the wave of the fourth industrial revolution.

There is also significant opportunities to drive the adoption of new technology (e.g. IoT) by attracting firms and people to bring their cutting-edge ideas to Singapore, drawn by enhanced innovation and commercialisation experiences.

There will be further opportunities for firms and people to harness data by adopting new technology to give a significant boost to our Smart Nation.





Here's our point of view...

**A missed opportunity to become a truly Smart Nation**
The Government's main focus was to reaffirm its commitment to previous initiatives related to the establishment of a Global-Asia node and the adoption of smart technologies in key industries. While these commitments are key in securing Singapore's competitive edge, it feels like Budget 2019 was a missed opportunity for Singapore to truly establish itself as a Smart Nation.

Adoption of IoT has generally been slow due to high implementation costs, cyber security threats, complexity of integration and lack of skills. Little has been done to address these concerns in Budget 2019. We would have liked to see the introduction of:

- co-funding of R&D related costs incurred under Public-Private Partnerships;
- tax related measures, such as enhanced tax deductions for IoT expenditure and extension of other tax incentives to cover Smart Nation activities; and
- a regulatory sandbox environment for IoT related innovations.

Without these measures, Singapore is at risk of losing its competitive edge globally because of an inability to harness the valuable data derived from IoT, which can be used to enrich the nation's insights.

## Let's get straight to the point on the Budget

"Singapore has to provide an enhanced and differentiated experience to attract enterprises and technology players to Singapore. The Global Asia Node programme is truly a programme that differentiates us – we build up the capabilities of Singapore companies, and then our people will be able to export this talent globally."

**Juvanus Tjandra**
Head of Technology,
Media & Telecommunications
KPMG in Singapore

# REAL ESTATE

Laying the foundation for more attractive S-REITs and REITs ETFs

## What's the change?

### Building S-REITs and REITs ETFs as attractive investments

- Existing income tax concessions for Singapore-listed Real Estate Investment Trusts (S-REITs) and REITs Exchange Traded Funds (ETFs), as well as GST remission for S-REITs, will be extended to 31 December 2025.
- The sunset clause for income tax exemptions on S-REITs and REITs ETFs distributions received by individuals will be removed.
- Certain qualifying non-resident funds will also enjoy the 10% concessionary tax rate (applicable to qualifying non-resident non-individuals) for S-REITs and REITs ETFs' distributions made between 1 July 2019 and 31 December 2025.

## Why the change?

### Making S-REITs and REITs ETFs more attractive and opening up investments

The above changes make S-REITs and REITs ETFs a more attractive investment to a wider investor pool, and are instrumental in the continual promotion of Singapore as a preferred destination in Asia for the listing of S-REITs and REITs ETFs.

## What's the opportunity?

# Allow for a more accurate projection

While it is worth noting that the existing concessions were due to expire only on 31 March 2020, this early announcement gives the S-REIT and REIT ETF industry more certainty and peace of mind in structuring their investments. It also allows the industry to have a more accurate projection of cash flows and distributions for the next few years. Further details will be provided by the MAS by May 2019.

## Here's our point of view...

**Singapore as the preferred hub**

The extension of the existing concessions will continue the push to promote Singapore as a preferred jurisdiction for REIT and REIT ETF listings, and continue to provide parity in tax treatments between investing in individual S-REITs and via REITs ETFs.

**Attracting more investors**

Many individual investors in Singapore invest in REITs as a source of recurring passive income. As such, the removal of the sunset clause is undoubtedly a welcome move, particularly for retirees.

"Buildings are one of the major contributors to carbon emission in the country. Green buildings are highly relevant to Singapore's sustainability initiatives as it aims to have 80% of its buildings to be green by 2030. It is a bit of a let-down that the Budget does not provide any impetus to directly stimulate the demand and supply for green buildings. It is only when we are able to establish a direct correlation between building sustainability and its occupancy, rental and valuation that greening of buildings can be driven by market forces rather than a top-down approach by the government."

**Tay Hong Beng**
Head of Real Estate
KPMG in Singapore

# ASSET MANAGEMENT

New measures to take our asset management sector ahead

What's the change?

## Extensions and enhancements

Existing tax incentive schemes for funds under Sections 13CA, 13R and 13X of the ITA, including the GST remission, have been extended till 31 December 2024.

Key enhancements are:

(a) Removal of the "not 100%-owned by Singapore persons" condition.

(b) Enhancements to the list of "designated investments" and "specified income".

(c) Section 13X scheme enhanced to:
- (i) Include co-investments of Special Purpose Vehicles (SPVs) of all legal forms and extension to beyond two-tier SPVs;
- (ii) Include managed accounts; and
- (iii) Extend the committed capital concession to debt and credit funds.

Why the change?

## Taking fund management to the next level

Tax incentives for funds have been instrumental to growing Singapore's asset under management over the years to $3.3 trillion in 2017. The Government recognises this, coupled with the competition in the region especially from Hong Kong, and hence the extensions and enhancements of existing tax incentives for funds managed by Singapore based fund managers. These changes also reflect a further liberalisation of the sector which allows fund managers to more efficiently access Singapore private clients, and encourages lending to Singapore businesses.

## What's the opportunity?

### Enhanced flexibility, more global recognition

With the extensions and enhancements of the incentive schemes for funds and GST remission, Singapore asset managers can now manage funds and raise capital with greater flexibility. This is particularly so for credit and debt funds, as well as managed accounts (currently of significant interest to investors). These changes also complement the recent introduction of the Variable Capital Companies regime and inward re-domicilation of offshore funds, and will help drive Singapore's vision to be an internationally recognised centre for asset management.

## Here's our point of view...

**The Government has exceeded expectations**
We welcome these enhancements and extensions. In our view, they support the continuing development of the asset management sector in Singapore. In fact, we believe that the enhancements in the 2019 Budget generally exceed the industry's expectations and are timely. The enhancements benefitting debt and credit funds, as well as managed accounts, are indicative of the Government being aligned to market developments.

**An exclusion list to help Singapore stay ahead**
In view of the fast evolving financial landscape, it may not always be practical and feasible for the designated investment list to be expanded to keep up with latest financial innovations or global business developments. Any time lag may potentially cause tax uncertainty and unnecessary tax burdens for taxpayers. A more sustainable approach could be to modify the list into an "exclusion list" instead. This would help to achieve a "faster to market' approach and help Singapore stay ahead of its key competitors in the asset management sector.

## Let's get straight to the point on the Budget

"These changes go beyond supporting the continuing development of Singapore's asset management sector. They sharpen our edge amidst rising competition from the region, and set us well on our way to becoming an internationally recognised centre for asset management."

**Tay Hong Beng**
Head of Tax
KPMG in Singapore

# INFRASTRUCTURE

A sustainable and smart Singapore

## What's the change?

# Building sustainable infrastructure for the long run

Budget 2019 focuses on the criticality of long-term infrastructure for Singapore's growth and the need to develop in a sustainable manner from both environmental and financing perspectives. Pending the upcoming Urban Redevelopment Authority (URA) Master Plan 2019 which will guide our urban development over the next 10 to 15 years, and the Ministry of National Development's sharing of more details in the Committee of Supply, some of the key themes covered in Budget 2019 include:

- Use of debt instead of direct funding by the Government for infrastructure projects; and
- Use of capital markets to fund infrastructure projects as in the case of Changi Airport Terminal 5, with bonds guaranteed by the Government.

## Why the change?

# Shared costs, enhanced accountability

Given the long-term nature of infrastructure projects, it is fair that costs be shared across generations. This is achieved by issuance of long-term debt to fund infrastructure projects.

The use of Government debt is also important in driving greater accountability by respective project owners.

## What's the opportunity?

# Furthering public trust, catalysing debt capital markets

As more statutory boards raise funds to finance projects, these boards will need to strengthen systems and processes such as risk management, reporting and treasury.

Bond issuances by statutory boards is a welcome move as it will catalyse the debt capital markets and offer more avenues for infrastructure and institutional funds to participate in Singapore's infrastructure growth. This would further enhance public trust through increased accountability and transparency.



## Here's our point of view...

**We'll have to keep building**
Given the importance of the Belt and Road Initiative and Singapore's potential role as a key regional hub, Budget 2019 has fallen short of coming up with a financing programme – the creation of a project development fund, for instance, to further strengthen the Infrastructure Office (Infrastructure Asia) created in last year's Budget.

More could also have been done to incentivise the issuance of green bonds and attract alternate sources of capital into Singapore and the region.

In addition, the private sector's role in Singapore's infrastructure delivery could be further prioritised.

The Budget also highlighted the need to incorporate environmental factors such as air quality, climate change and waste management into the longer term Singapore urban development plan. Such factors will contribute to the eventual evolution of Singapore's taxation system, changes in tax base and design of tax incentives. The immediate visible effect of this is the carbon tax system which is aimed at mitigating the impact of climate change and achieving better air quality. To better promote the greening of infrastructure, measures could have also included granting of tax exemption on income derived from qualifying lending, and double tax deduction of financing expenses incurred on qualifying projects.

Let's get straight to the point on the Budget

"For major projects like Changi East Airport, Government will provide guarantees to Changi Airport Group for debt issuance, thereby bringing down borrowing costs. This is an important step to ensure accountability, while benefiting the project with sovereign support."

**Sharad Somani**
Head of Infrastructure
KPMG in Singapore


# FINANCIAL SERVICES

Taking our financial services sector forward

## What's the change?

### Streamlined enterprise financing; extended working capital loan scheme

Budget 2019 proposes to increase the Government's risk-sharing with the Enterprise Financing Scheme (EFS) for enterprises less than five years old from 50% to 70%. The EFS streamlines the various existing financing schemes into a single scheme.

The Government will also extend the existing SME Working Capital Loan scheme for two more years till 31 March 2021.

## Why the change?

### Help ease the tensions for enterprises

The EFS will better meet the financing needs of enterprises, including local fintech startups, across different stages of maturity. These include growth financing needs and short-term liquidity needs.

## What's the opportunity?

### Risk is not so risky

Singapore has developed a vibrant fintech ecosystem, building on the vision of a Smart Nation. The MAS' innovative approach in introducing a "regulatory sandbox" regime to allow experimentation of new technology in a controlled environment to address the sector's most pressing challenges have helped drive this vibrancy. These fintech companies, along with other enterprises, will greatly benefit from the revamped EFS through increased access to finance, as the greater risk is undertaken by the Government.

## Here's our point of view...

**Extending the EFS to non-local fintechs**

The fintech ecosystem is necessarily global. Many of the fintech companies are not Singapore owned, but are attracted to Singapore because of our position in ASEAN and the incentives provided by the MAS. These fintech companies may not be able to avail themselves to the EFS as they do not meet the local ownership condition. The Government could consider waiving the local shareholding requirement for the EFS applicant while retaining the other conditions, including being registered and operating in Singapore.

**Growing human capital**

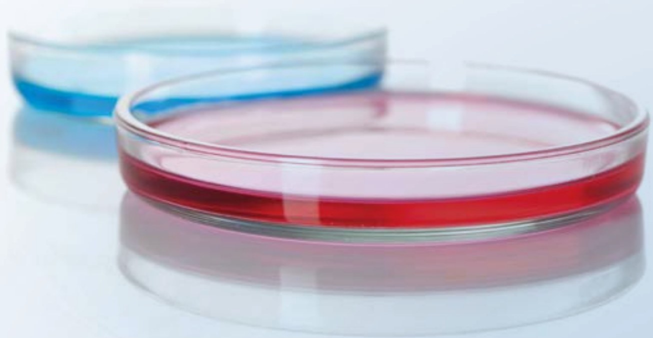
Additionally, Singapore's progress towards a Smart Nation cannot be achieved without access to skilled human capital. Fintechs at the leading edge of emerging technologies – the likes of Artificial Intelligence, blockchain and cloud computing – will need to attract the best global talents into Singapore. The Government could allow for a more open foreign employment policy for skilled resources in areas of new technologies, while promoting skills transfer to the local workforce.

Peer to peer lending platforms have been emerging as a new class of lending; it is unfortunate that loans made by them to SMEs will not be covered by the Enterprise Financing Scheme. It is thus anticipated that these P2P fintechs would need to form partnerships with banks in order to avail themselves to this scheme.

**Leong Kok Keong**
Head of Financial Services
KPMG in Singapore

# LIFE SCIENCES

Keeping the momentum



## A quiet year for Life Sciences

There was no significant change announced in Budget 2019 for Life Sciences. However, innovation and R&D continue to be a key focus for Singapore and in the Life Sciences context, continue to be a very important part of the value chain.

## Investments in Health and Biomedical Science

Of the $19 billion investment in R&D announced under the Research, Innovation and Enterprise 2020 plan introduced in 2016, it is noted that $4 billion (the largest single amount allocated to the four key areas) was set aside for Health and Biomedical Sciences.

## What's the opportunity?

### Building capabilities through collaboration

It is an opportune time for Life Sciences MNCs to collaborate with local SMEs and institutes on R&D. It provides opportunities to develop innovative drugs for the local population that can treat patients faster and more effectively, thereby reducing costs. Companies can also export these drugs to other regions, providing additional revenues.

Further areas that the sector can leverage Budget 2019 changes would be:

i) Applying automation concepts to R&D to lower costs;
ii) Building capabilities in areas such as data science;
iii) Extending the focus on healthy food and smart therapies; and
iv) Using the increased focus on cyber security to secure healthcare data: a necessary first step to drive R&D in the sector.

## Here's our point of view...

**A missed opportunity to breathe new life to Life Sciences**

While it is encouraging that this Budget has provided support for healthcare costs, it is debatable if this can be a sustainable model for future generations especially with our increasing life expectancy. A key opportunity to reduce costs lies in developing more preventive and personalised medicines tapping on data relating to genetic profiles, patient outcome data sitting with hospitals, clinical data and consumer generated data from wearables. Budget 2019 has missed an opportunity in its lack of measures directed specifically at this.

Some Life Sciences R&D investments have already been driven out of Singapore. This could have been partially addressed through tax measures such as an enhanced tax deduction for clinical trials and related development activities undertaken outside Singapore that are linked to research activities performed in Singapore.

## Let's get straight to the point on the Budget

While it's encouraging that Budget 2019 provides much support to the needy, the question is whether this is sustainable with our ever-increasing life expectancy. Perhaps it's time we consider a healthcare model that is more preventative, personalised and can reduce Singaporeans' healthcare expenditure.

**Ajay Sanganeria**
Head of Life Sciences
KPMG in Singapore

# CYBER SECURITY

Security by design to build a cyber resilient nation

## What's the change?

### A safe and secure home for all

- The Ministry of Home Affairs (MHA) will set up a Home Team Science & Technology Agency by end 2019 to develop science and technology capabilities to support operational needs. The MHA will also help the private security industry be an effective partner to the Home Team.
- The SMEs Go Digital programme will push SMEs to adopt digital solutions for cyber security and Artificial Intelligence, with funding support available under the Productivity Solutions Grant (PSG).

## Why the change?

### A new definition of 'threats'

As Singapore journeys towards becoming a Smart Nation through digitalisation, it's worth noting that going digital widens the surface area for cyber attacks. Budget 2019 has acknowledged that beyond physical threats, malicious cyber activities can disrupt and divide society through cyber attacks, the spreading of falsehoods (fake news) and other means.

What's the opportunity?

## More holistic cyber defence

A large aspect of being a Smart Nation is resilience to cyber attacks. Yet, managing cyber risks is an afterthought for many. In fact, there is global shortage of cyber professionals. This is most keenly felt by SMEs, as the cost of employing cyber staff continues to grow unabated.

A Budget that focuses attention and resources to developing the 3 pillars of cyber security - people, processes and tools - will help Singapore develop not just as a Smart Nation, but also as a Safe Nation.

Here's our point of view...

**Stronger cyber security needed**
MHA should harness technology like Artificial Intelligence and Data and Analytics for cyber security to automate the detection, containment and response to cyber attacks. This will enhance the speed and accuracy of monitoring online forums and social media feeds to detect threats. The Government should provide tiered tax incentives and grants to encourage adoption of strategies such as setting up "three lines of defence", engaging cyber specialists, and conducting cyber crisis simulations. SMEs should receive grants for staff training to increase knowledge of cyber threats and risks. Initiatives such as Cyber Security Associates & Technologists (CSAT), TechSkills Accelerator, and SkillsFuture should be extended for at least another three years to help improve supply and build a highly-skilled local cyber workforce.

> The measures to support digitalisation of business is welcomed, but the freedom and convenience provided by digital transformation comes at a price – the widening of the digital surface increases the likelihood of cyber attacks. The measures to transform the private security industry will help, but government support could also have been extended to help businesses address cyber threats through tax incentives or grants to adopt stronger cyber security practices.

**Daryl Pereira**
Head of Cyber Security,
Management Consulting
KPMG in Singapore

# GENERAL TAX CHANGES

## Diesel Taxes

### EXCISE DUTY

Increase in excise duty on diesel fuel with effect from 18 February 2019

S$0.10/litre → S$0.20/litre

### ANNUAL SPECIAL TAX ON DIESEL CARS AND TAXIS

Permanent reduction of annual special tax with effect from 18 February 2019

For taxis

LESS $850

For diesel cars

LESS $100

# Commercial Diesel Vehicles

## ROAD TAX REBATES

Rebates over three years:

**100%** 1 August 2019 to 31 July 2020

**75%** 1 August 2020 to 31 July 2021

**50%** 1 August 2021 to 31 July 2022

**+**

## DIESEL SCHOOL BUSES

Cash grants over three years:

**$1,600** 1 August 2019 to 31 July 2020

**$800** 1 August 2020 to 31 July 2021

**$400** 1 August 2021 to 31 July 2022

**OR**

## ELIGIBLE DIESEL PRIVATE HIRE AND EXCURSION BUSES THAT FERRY STUDENTS*

Cash grants over three years:

**$1,800** 1 August 2019 to 31 July 2020

**$900** 1 August 2020 to 31 July 2021

**$500** 1 August 2021 to 31 July 2022

*For continuous period of at least 6 months

# GST Import Relief and Duty Free Allowance

## TIGHTENING OF GST IMPORT RELIEF FOR TRAVELLERS

On new goods purchased overseas and brought into Singapore.

| Time spent outside Singapore | Value of goods granted GST import relief |
| --- | --- |
| 48 hours or more | $500 (down from $600) |
| Less than 48 hours | $100 (down from $150) |

Travellers to pay GST on value of goods in excess of GST import relief.

Effective for travellers arriving in Singapore from 12am on 19 February 2019.

## TIGHTENING OF DUTY-FREE ALLOWANCE FOR LIQUOR PRODUCTS

Total duty-free allowance for travellers reduced from

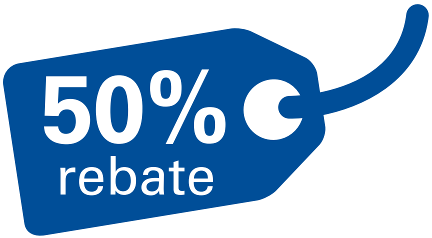
three litres → two litres

Effective from 1 April 2019.

# Personal Tax Changes

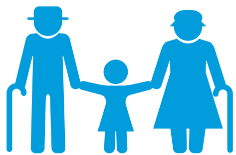
## PERSONAL INCOME TAX REBATE FOR YA 2019

Resident individuals will receive




on tax payable, capped at $200.

## GRANDPARENT CAREGIVER RELIEF WITH EFFECT FROM YA 2020



Working mother taxpayers may claim relief for any handicapped and unmarried dependent child who is looked after by the working mother's parent, grandparent, parent-in-law or grandparent-in-law. The current condition whereby the child must be 12 years old or below during the year preceding the YA of claim will be removed.

# EXTENSION AND WITHDRAWAL OF SCHEMES


## Extension

| Schemes | Effective date of extension |
| --- | --- |
| Writing Down Allowance for acquisition of qualifying Intellectual Property Rights (IPRs) under Section 19B of the ITA | Extended to cover capital expenditure incurred in respect of qualifying IPRs acquired on or before the last day of the basis period for YA 2025. |
| GST remission for Singapore-listed Registered Business Trusts (RBTs) in the infrastructure business, ship leasing and aircraft leasing sectors | Extended until 31 December 2025 to facilitate listing of RBTs in the infrastructure business, ship leasing and aircraft leasing sectors. All conditions for the GST remission remain the same. |

## Withdrawal

| Schemes | Effective date of withdrawal |
| --- | --- |
| Designated Unit Trust (DUT) Scheme | **From 1 April 2019**<br>Existing DUTs will continue to enjoy the tax deferral benefits under the DUT scheme, on or after 1 April 2019 if they continue to meet the stipulated conditions. |
| Approved Unit Trust (AUT) Scheme | **From 19 February 2019**<br>Existing AUTs will continue to enjoy the tax concession under the AUT scheme for a period of five years from YA 2020 to YA 2024. |
| Property Tax (Tourist Projects) Order | **From 19 February 2019** |
| Not Ordinarily Resident (NOR) Scheme | **After YA 2020**<br>The final NOR status will be granted for YA 2020 and expire in YA 2024, where relevant conditions are satisfied. Individuals who have been accorded NOR status will continue to be granted NOR tax concessions until expiry of their NOR status. |

# ADDITIONAL BUDGET MATTERS

## EXTENSION OF SPECIAL EMPLOYMENT CREDIT (SEC) AND ADDITIONAL SEC SCHEMES

Extended for

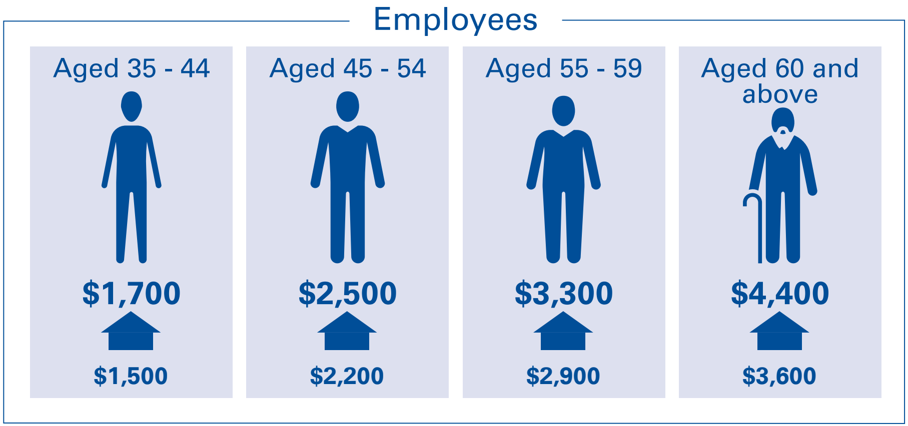
**another year**

until

**31**
December 2020

## Workfare Income Supplement Scheme

Qualifying income cap for Workfare Income Supplement Scheme raised from $2,000 to $2,300 per month with effect from 1 January 2020, with Workfare Income Supplement Scheme payouts to be raised as follows:





Other qualifying conditions will continue to apply.

# GLOSSARY

**ESG** – Enterprise Singapore

**GST** – Goods and Services Tax

**IRAS** – Inland Revenue Authority of Singapore

**ITA** – Income Tax Act

**MAS** – Monetary Authority of Singapore

**MNC** – Multinational Corporation

**R&D** – Research and Development

**SME** – Small and Medium Enterprise

**YA** – Year of Assessment

Insights from the Inside

## CONTACT US


**Tay Hong Beng**
Head of Tax
**T:** +65 6213 2565 **E:** hongbengtay@kpmg.com.sg

**KPMG**
16 Raffles Quay, #22-00 Hong Leong Building
Singapore 048581
**T:** +65 6213 3388 **E:** tax@kpmg.com.sg

**kpmg.com.sg**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