KPMG

Surging ahead to the world-class stage

SINGAPORE BUDGET 2021

Emerging stronger in a post-COVID-19 world

NAVIGATING OUR WAY TO A POST-COVID-19 WORLD

2020 was a year where Singapore's strength and resilience were truly tested and proven.

The battle against COVID-19 is far from over and the recovery in global economic activity will be both protracted and unequal across sectors and economies. As a small, open economy, Singapore's continuing economic recovery will require us to be nimble and adaptable.

We are heartened to see that Budget 2021 provides immediate support with the S$11 billion COVID-19 Resilience Package along with the S$24 billion package to build a vibrant business community, provide financial capital and develop Singapore's workforce. Together, these measures will guide Singapore in navigating through challenges and opportunities on a journey of new possibilities.

At KPMG in Singapore, our proposed 3 R framework is a congruent reflection of this journey ahead: to *Re-imagine* how the economy and enterprises will need to transform for the future, *Re-plan* our businesses and workforce to adapt to a rapidly changing reality and *Re-create* Singapore as a leader in working towards a sustainable future and a Global-Asia node.

It is Singapore's time to surge forward and emerge stronger in a post-COVID-19 world.

Ong Pang Thye
Managing Partner
KPMG in Singapore

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STAYING THE COURSE WITH THE COVID-19 RESILIENCE PACKAGE

Singapore has navigated the challenges of the COVID-19 pandemic with great success. But now is not the time to relent on what has worked so well for us. The COVID-19 Resilience Package sets forth a three-pronged approach to safeguard our nation, our people and our economy by protecting public health and ensuring we re-open safely, supporting our workers and businesses where necessary and finally, providing targeted support to sectors that are still under stress.

COVID-19 SUPPORT MEASURES

A three-pronged approach to continue support for businesses and workers

The S$11 billion COVID-19 Resilience Package will go towards:

1. Public health and safe re-opening

To safeguard the health of Singaporeans through vaccination, keep up precautionary measures and a multi-layered defence system of contact tracing, testing and safe distancing.

2. Support for workers and businesses

a. To support targeted sectors which are hard-hit by COVID-19, the Job Support Scheme (JSS) will be extended for targeted sectors:

<table>
<tr><th>Based on wages paid in</th><th>To receive payout in</th><th>Tier 1*</th><th>Tier 2*</th><th>Tier 3A*</th><th>Tier 3B*</th></tr>
<tr><td>Sep to Dec 2020</td><td>Mar 2021</td><td rowspan="2">50%</td><td rowspan="2">30%</td><td colspan="2">10%</td></tr>
<tr><td>Jan to Mar 2021</td><td>Jun 2021</td><td>10%</td><td>0%</td></tr>
<tr><td>Apr to Jun 2021 (new)</td><td>Sep 2021</td><td>30%</td><td>10%</td><td rowspan="2" colspan="2">0%</td></tr>
<tr><td>Jul to Sep 2021 (new)</td><td>Dec 2021</td><td>10%</td><td>0%</td></tr>
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Tier 1: Aviation and Aerospace, Tourism, Hospitality, Conventions and Exhibitions

Tier 2: Built Environment, Food Services, Retail, Arts and Entertainment, Land Transport, Marine and Offshore

Tier 3A: Others

Tier 3B: Biomedical Sciences, Precision Engineering, Electronics, Financial Services, Information and Communications Technology and Media, Retail (Supermarkets and Convenience Stores / Online Retail)

b. To facilitate workers moving to jobs in growth areas, certain schemes under the SGUnited Jobs and Skills Package, including the Jobs Growth Incentive, will be extended.

c. The COVID-19 Resilience Package also funds the following measures which were previously announced:

— Temporary Bridging Loan Programme and Enterprise Financing Scheme – Trade Loan which had been enhanced and extended till 30 September 2021

— The COVID-19 Recovery Grant to support workers who lost their jobs or experienced significant income loss

3. Support for specific sectors

More targeted support will be provided for the worst-hit sectors as follows:

- The aviation sector will receive targeted support and cost relief
- Arts & Culture Resilience Package and Sports Resilience Package will be extended and enhanced
- Taxi and private car drivers will continue to benefit from the COVID-19 Driver Relief Fund
- The SingapoRediscovers vouchers issued to boost the tourism sector will continue to be funded in 2021

OUR VIEW

Tap into measures to emerge stronger

The COVID-19 Resilience Package is welcomed by Singaporeans, workers and businesses and it is necessary and timely to weather the COVID-19 economic impact.

As the COVID-19 pandemic has impacted the various sectors differently, the COVID-19 Resilience Package has introduced measures to help specific sectors such as aviation, tourism, land transport and arts, culture and sports that continue to be severely impacted.

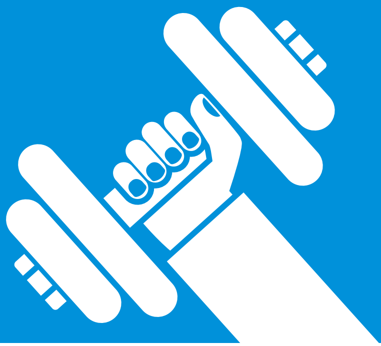
The road to recovery is still filled with uncertainty. While it is still too early to tell if the COVID-19 Resilience Package can sufficiently offset the impact on the worst-hit sectors, it strikes the right balance between protecting businesses and jobs in the short term while signalling the need for restructuring in the medium to long term.

Key consideration areas for businesses:

1. Prepare for new realities.
Businesses should take advantage of these measures to sustain and upgrade their capabilities and transform themselves.

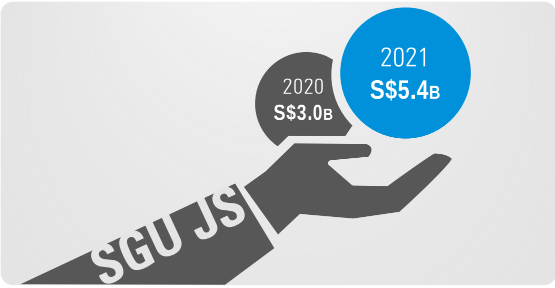
2. Some jobs may not return after COVID-19.
Businesses need to transform to a new way of working in the new reality. The earlier businesses transform digitally, the better position they will be in to recover from the economic impact of COVID-19.

3. COVID-19 is going to be a long-term challenge.
Hence, businesses must continue to look for long-term solutions in the area of digital transformation, re-skilling and re-training of employees and constant innovation to protect and preserve jobs so as to emerge stronger.



COVID-19 SUPPORT MEASURES

Second tranche of SGUnited Jobs and Skills (SGU JS) Package



The SGU JS Package was launched in May 2020 to support workers affected by COVID-19. Targeted at creating job opportunities, providing traineeships for job seekers, providing support for skills upgrading and providing hiring incentives for employers, S$3 billion was allocated last year.

The second tranche will be allocated under the SGU JS Package and distributed to the following components of the SGU JS Package:

1. Jobs Growth Incentive (JGI)

- Under Phase 2 of the JGI, the Government will extend the co-paying of salaries of all new local hires between March 2021 to September 2021 (inclusive) as follows:
  - Aged under 40: up to 25% of the first S$5,000 of gross monthly salary for up to 12 months; and
  - Aged 40 and above, persons with disabilities or ex-offenders: up to 50% of first S$6,000 of gross monthly salary for up to 18 months.
- Employers must have an overall increase of local workforce size and increase in locals earning more than S$1,400 a month, as compared to their February 2021 local workforce.

2. SGUnited Traineeships (SGUT)

- The Government will extend the SGUT scheme for one year until 31 March 2022. Adjustments are as follows:
  - ITE positions – Stipend will be increased from S$1,100 - S$1,500 to S$1,600 - S$1,800
  - Diploma SGUT positions – Stipend will be increased from S$1,300 - S$1,800 to S$1,700 - S$2,100
  - University SGUT positions – No change to Stipend
  - Maximum duration of each traineeship will be reduced from nine to six months from 1 April 2021 onwards

3. SGUnited Mid-Career Pathways Programme Company Attachment (SGUP-CA)

- The Government will extend the SGUP-CA scheme for one year until 31 March 2022. Adjustments are as follows:
  - Maximum training allowance will be increased to up to S$3,800 per month
  - Minimum training allowance for non-mature trainees will be increased to S$1,600 per month
  - Government co-funding for mature trainees will be increased to 90% from 80%
  - Maximum training duration for each attachment will be reduced to six months from 1 April 2021 onwards

COVID-19 SUPPORT MEASURES

Second tranche of SGUnited Jobs and Skills (SGU JS) Package (cont'd)

4. **SGUnited Mid-Career Pathways Programme – Company Training (SGUP-CT)**
   - The Government will extend the SGUP-CT scheme for one year until 31 March 2022 Adjustments are as follows:
     - — The capacity of in-demand courses and courses with good hiring opportunities will be expanded
     - — SGUP-CT courses will be made more compact from 1 April 2021 onwards, with a duration of up to six months in general

5. **SGUnited Skills (SGUS)**
   - The Government will extend the SGUS scheme for one year until 31 March 2022. Adjustments are as follows:
     - — The capacity of in-demand courses and courses with good hiring opportunities will be expanded
     - — SGUS courses will be made more compact from 1 April 2021 onwards, with a duration of up to six months in general

OUR VIEW

Continued support for job growth and opportunities

As mentioned by DPM and Minister for Finance, Mr. Heng Swee Kiat, in his Ministerial Statements on 17 August and 5 October 2020, the Government will look into extending selected support schemes in order to support workers impacted by the COVID-19 pandemic. The SGU JS Package helped to place nearly 76,000 individuals into jobs, traineeships, attachments, and skills training as of end of year 2020. The extension of the SGU JS Package, with recalibrated parameters, is a welcome initiative and this should provide opportunities for the workforce until the situation improves.

Longer term, as companies and industries transform, and new growth areas emerge, having the right skillsets and agility are paramount. The second tranche of the SGU JS Package, on top of the S$3 billion allocated last year, will help move local workers into new growth areas.

A 3 R FRAMEWORK TO POSITION SINGAPORE ON THE WORLD-CLASS STAGE

As Singapore enters the post-COVID-19 reality, we face a new world of possibilities and challenges. As a result of the Government's leadership in controlling the pandemic, together with the collective effort of all our communities, Singapore is one of the few economies ready to step up and claim a place on the world-class stage. In securing our future, it is an opportune time for economic and enterprise transformation, to meet the changing demands arising from structural changes.

At KPMG in Singapore, our 3 R Framework *Re-imagines* what our nation, our business community and our workforce will need to do to transform for the future. It *Re-plans* for the medium term so that we can adapt to a world of constant change. And it sets out a longer-term vision to *Re-create* Singapore as a leader at a global level.

1

RE-IMAGINE
Setting sail on a journey to transform Singapore as we enter and explore a new reality for the nation and the world.

2

RE-PLAN
Mapping out a course of action so that we will have the resources we need to adapt and thrive now and in the future.

3

RE-CREATE
Looking ahead to the opportunities of a post-COVID-19 world and providing a vision for how Singapore can evolve sustainably and grow.

RE-IMAGINE FOR WHEN THE TIDE TURNS

With the global roll out of COVID-19 vaccines, hope is on the horizon for nations and economies across the world. However, the route to recovery will be uneven and uncertain across sectors and geographies. We must move fast and Re-imagine what our businesses and enterprises will need so that they can fully seize the opportunities that lie ahead.

Plugging the digital talent gap

> Access to talent and skills has always been a hurdle for local businesses on their digital transformation journeys. The Budget's Emerging Technology Programme, especially CTO-as-a-Service and Digital Leaders Programme, will help address this gap to drive greater digital transformation in local businesses.

Ajay Kumar Sanganeria
Partner
Head of Tax
KPMG in Singapore

BUSINESS SUPPORT MEASURES

Creating platforms for nurturing creative ideas

To support businesses to innovate, the Government will invest in three key platforms:

1. New Corporate Venture Launchpad

- Provides co-funding for corporates to build new ventures through pre-qualified venture studios

2. Enhanced Open Innovation Platform

- Facilitates the matching of companies and public agencies with solution providers according to challenges faced, as well as co-funding prototyping and deployment
- Accelerates digital innovation through the inclusion of two new technology offerings:
    1. Discovery Engine that facilitates the search and matching of technology solutions to challenges
    2. Digital Bench that aids quicker Proof-of-Concept testing

3. Enhanced Global Innovation Alliance

- Expands cross-border collaboration between Singapore and other major innovation hubs globally, from 15 to more than 25 cities
- Includes the Co-Innovation Programme which supports up to 70% qualifying project costs

OUR VIEW

Innovate and collaborate to open up possibilities

The **Corporate Venture Launchpad** will be useful for larger businesses looking inward to generate innovative and creative ideas within their organisations.

The use of the new Discovery Engine and the Digital Bench under the **Open Innovation Platform** will enable better matching, which will in turn allow businesses to fasten development of prototypes and shorten time to market.

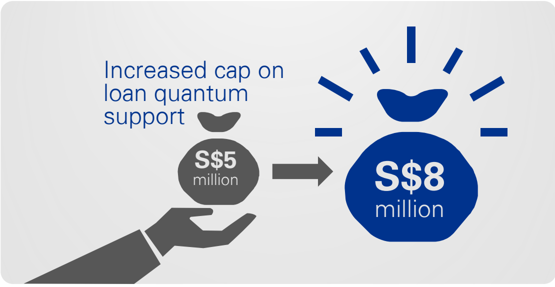
With the expansion of the coverage of the **Global Innovation Alliance** to more than 25 cities, businesses will be able to expand their outreach into more markets through partnerships in global hubs, tapping into expertise and insights of different markets.

The 3 key platforms will allow businesses to collaborate on a global scale and tap into a larger pool of resources and networks, to innovate, remain competitive and support vital areas of growth. **Businesses should capitalise on these opportunities to embark on their next phase of innovation and growth.**

BUSINESS SUPPORT MEASURES

Enhanced venture debt for high growth enterprises, including startups

The Venture Debt Programme under ESG's Enterprise Financing Scheme (EFS) has been enhanced.



The Venture Debt Programme was introduced to:

- Help finance the growth of innovative enterprises using venture debt
- Provide up to 70% risk sharing by the Government on eligible loans with participating financial institutions; and
- Had raised annualised growth rate of 44% in the amount of early-stage funds for promising enterprises from 2016 to 2019

OUR VIEW

It's time to innovate and scale up

The Venture Debt Programme, with the Government taking on a significant risk share of up to 70%, will provide funding for local companies to innovate, transform and fund new business initiatives, through venture debt.

Increase in cap on loan quantum
With the increase in the cap on loan quantum support from S$5 million to S$8 million, companies will be able to access additional financial capital for business expansion without any additional requirements.

Take advantage to scale up
Companies which are high growth startups can now consider additional avenues of growth and should definitely take advantage of this Programme to scale up their businesses.

BUSINESS SUPPORT MEASURES

Supporting the transformation of mature enterprises

Emerging Technology Programme

- New programme to support commercialisation of innovations and diffusion of technology
- Co-fund the costs of trials and adoption of frontier technologies like 5G, artificial intelligence, and trust technologies

Chief-Technology-Officer-as-a-Service (CTOaaS)

- New programme to assist SMEs to uncover their digitalisation needs to transform their business
- Provide SMEs with access to professional IT consultancies

Digital Leaders Programme

- New programme to enable high potential local companies to become digital leaders through:
  - Building technology leadership and expertise in the firm, including hiring of digital talent
  - Supporting the development and implementation of Digital Transformation Roadmaps

Extending enhanced existing schemes

- Enhanced support levels of up to 80% for enterprise schemes, such as Scale-up SG, Productivity Solutions Grant, Market Readiness Assistance, and Enterprise Development Grant will be extended from end September 2021, to end March 2022

OUR VIEW

Surging ahead with transformation

Mature enterprises, which are essentially non-start-ups - from SMEs to Large Local Enterprises (LLEs) - recognise that digital transformation is critical to ensure that they not only survive but emerge stronger from the crisis caused by COVID-19.

However, the most significant challenges they face are finding the guidance, capabilities and funding they need to successfully complete their transformation journeys.

This comprehensive approach plays a critical role not only in giving these enterprises the knowledge and expertise they need, but also providing funding support as they expand their business into new areas, and grow regionally and globally.

In particular, CTOaaS is a superb initiative that pools together experienced technology leaders to plug the knowledge gap for many SMEs as they chart their digital transformation roadmap and drive change.

With not one, but three new programmes to leverage, SMEs and LLEs have all the tools they need engage and compete internationally, which also results in elevating Singapore’s profile in the global value chain.

BUSINESS SUPPORT MEASURES

Providing growth capital for LLEs

S$500 million
will be set aside by the Government, and matched by Temasek on a one-for-one basis

Provides a total of
S$1 billion
for investments in LLEs to be managed commercially

- The Local Enterprises Funding Platform, co-invested by the Government and Temasek, provides LLEs with access to growth capital, so that they can transform and expand overseas
- The platform will invest in non-control equity and mezzanine debt of selected LLEs that are willing to work with fund managers to pursue further growth opportunities

OUR VIEW

Much-anticipated support for LLEs

LLEs have faced significant challenges in obtaining private funding as investors are more cautious and selective in investments in today's uncertain and volatile climate. This is in addition to financial institutions being more risk-averse in providing credit to investors.

This funding platform is timely to help LLEs obtain financing, especially those that are hard-hit by the pandemic and yet in need of funding support to transform their business models, such as those in the aviation and aerospace sectors. LLEs supported under this platform will be able to have a head start and gain competitive advantage when the economy recovers.

The platform could perhaps be tweaked to require selected LLEs to bring along SMEs in complementary sectors in their expansion plans and thus help in the development of the entire ecosystem.

Enabling digital connectivity

"Digital connectivity will be the key to helping businesses emerge stronger in a post-COVID-19 environment.

The three enabling platforms (Corporate Venture Launchpad, Open Innovation Platform and Global Innovation Alliance) will encourage both growing and mature companies to invest in digital solutions and refresh their workforce to raise productivity."

Lyon Poh
Partner
Head of Digital & Technology
KPMG in Singapore

RE-PLAN OUR VOYAGE

A key lesson we can draw from the challenges of the COVID-19 pandemic is that we as a nation and an economy must be agile and quick to adapt to rapidly changing and unforeseen circumstances. Now is the time to Re-plan and rebuild our workforce and community so that Singapore as a whole can emerge stronger, fully prepared to face and overcome any challenges with confidence as we surge ahead to strengthen our place on the world-class stage.

WORKFORCE REBUILDING MEASURES

Building skilled human capital and talent

To step up industry innovation and transformation, a balance must be found to enhance the complementarity of local and foreign manpower, especially in new growth areas. The following schemes have therefore been extended:

1-year extension of Wage Credit Scheme (WCS) to 2021

Capability Transfer Programme (CTP) extended to 30 Sep **2024**

The WCS supports companies to retain or attract local talent. The co-funding level of 15% and the qualifying gross wage ceiling at S$5,000 remains unchanged.

The CTP supports companies that employ foreign specialists with the right expertise not found in Singapore. They can contribute to building local capabilities through training our local workforce.

OUR VIEW

By transferring capabilities, we can reduce our dependency on foreign specialists

The WCS was introduced to support businesses in their transformation efforts and encourage sharing of productivity gains with Singaporean workers with the Government co-funding the wage increases. In view of the continued pressing need to rely less on foreign workers, the scheme which was scheduled to be phased out, is now extended by one year.

To support the foreign-to-local skills transfer, funding support for the CTP includes the following:

- Attachment-related costs and salary support for foreign and local specialists and Singaporean trainees on overseas attachments to acquire new capabilities
- Equipment cost and venue cost for certain industry-wide projects

Companies that meet the CTP criteria will be reimbursed for qualifying expenses incurred.

WORKFORCE REBUILDING MEASURES

Reducing the Sub-Dependency Ratio Ceiling (sub-DRC) for S Pass holders in Manufacturing

Manufacturing S Pass sub-DRC	
Current	20%
From 1 January 2022	18%
From 1 January 2023	15%

The sub-DRC refers to the quota of S Pass holders (mid-level skilled staff) to local workers.

The change puts the manufacturing sector more in line with the tightening implemented in other sectors, namely: services, construction, marine shipyard and process.

Currently, the S Pass sub-DRC for the services sector is at 10% while construction, marine shipyard and process are at 18% (to decrease to 15% from 1 January 2023).

OUR VIEW

Supporting growth, reducing dependency on foreign workers in manufacturing

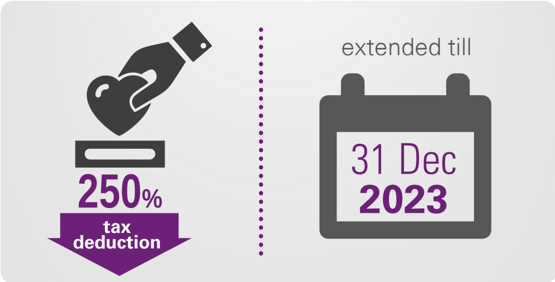
The change is in line with the Government's direction of continuing to review the S Pass framework to achieve a calibrated balance between local and foreign employees. As indicated in the Budget speech, S Pass qualifying salaries and worker levies will also continue to be reviewed to achieve this desired balance.

The announcement comes shortly after the Government has announced plans to grow the manufacturing sector by 50% over the next ten years transforming Singapore into an advanced manufacturing hub.

An advanced manufacturing hub needs to consider the use of robotics and other advanced technologies that will rely less on human labour, which can then support lower reliance on foreign workers. Employers in the manufacturing sector are encouraged to strengthen and upskill their local core workforce and moderate reliance on S Pass holders within the two-year implementation period.

COMMUNITY STRENGTHENING MEASURES

Extension of 250% tax deduction for qualifying donations



The 250% tax deduction on qualifying donations made to Institutions of a Public Character (IPCs), was originally scheduled to lapse on 31 December 2021. This is now extended to 31 December 2023.

All other conditions for the tax deduction remain the same.

OUR VIEW

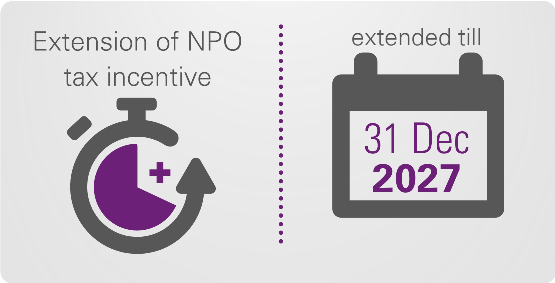
Businesses can do more to help the community

Many charities have experienced a dip in their income streams as a result of COVID-19 and need to utilise their reserves to keep operations going. This has in turn impacted those in our community that need help.

The extension demonstrates the Government's acknowledgement of the importance of our social fabric and commitment to encourage charitable giving and support the IPCs' work despite the current economic climate.

COMMUNITY STRENGTHENING MEASURES

Extension of Not-for-Profit Organisation (NPO) tax incentive



The NPO tax incentive, which is scheduled to lapse on 31 March 2022, has been extended till 31 December 2027.

OUR VIEW

Enhancing Singapore’s status as a philanthropic hub

The extension of the NPO tax incentive, which provides upfront certainty on non-taxation, **will be a welcome move by NPOs.**

The extension signifies the Government's commitment to promote Singapore as a philanthropic hub and to attract NPOs to Singapore.

COMMUNITY STRENGTHENING MEASURES

Extension of the Business and IPC Partnership Scheme (BIPS)

Under BIPS, qualifying persons are eligible for a **250% tax deduction** on qualifying expenditure, such as wages incurred in respect of services provided by qualifying employees to an IPC or the secondment of qualifying employees to an IPC, subject to conditions being met.

BIPS was originally due to lapse on 31 December 2021.

OUR VIEW

Donations are not the only way to give back

BIPS is a scheme that encourages corporate volunteerism to give back to the community with skill sets and talents, and not just philanthropy through donations.

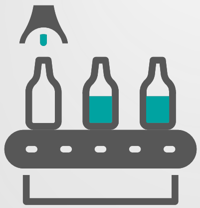
The extension of BIPS will help support the community's diverse needs and strengthen the social compact so that we can emerge stronger as a community.

RE-CREATE WITH THE WINDS OF CHANGE

Facing and overcoming the challenges of COVID-19 has brought Singapore closer together as a nation and strengthened our determination and resolve. It has also presented us with an opportunity to Re-create our economy, our businesses, our people and our national vision to become a Global-Asia node for sustainability and green industries.

SUSTAINABILITY MEASURES

Agri-Food Cluster Transformation Fund



S$60M

30-by-30 food security plan

The disruption to food supplies caused by COVID-19 has urged many countries including Singapore to take prompt action to secure present and future food supplies.

The new S$60 million Agri-Food Cluster Transformation Fund will contribute to achieving Singapore's ambitious 30-by-30 food security plan by promoting and harnessing technology in local food production.

The new fund will replace the existing Agriculture Productivity Fund set up in 2014 to help farmers boost yields and increase production capabilities.

OUR VIEW

Food for thought about boosting urban farming

Food is the interface between people and nature. Climate change and the pandemic are certainly reminding us about the severe impacts we face and dependencies we have when this interface is disrupted.

The fund will not only invest in technologies and solutions addressing the food security aspect but also the nutrition aspect in terms of sustainable food for healthy living.

Whereas aquaculture is an area Singapore has already developed proven technologies and improved its resilience, farming represents an interesting business challenge. It is an opportunity to secure Singapore's nutritional needs which takes into account the country's limitation by promoting urban farming and stimulating more people to move into farming.

It would have been helpful if the Government had enhanced the Land Intensification Allowance to allow the cost of buildings incurred for urban farming to qualify for tax allowances, which would significantly lower the startup costs of urban farmers.

SUSTAINABILITY MEASURES

Encouraging the switch to cleaner-energy electric vehicles (EVs)

45%	**rebate off ARF for electric cars and taxis** from January 2022 to December 2023 at a cap of S$20,000, with an ARF floor of S$0.
S$30m	**over the next five years** set aside for EV-related initiatives, such as improving charging provision at private premises.
Road tax bands	**to be adjusted** Mass-market electric cars will have comparable road tax to an internal combustion engine (ICE) car equivalent.

In tandem, the following measures were introduced to discourage the use of ICE vehicles:

- **Raise petrol duty rates:** 15 cents per litre for premium petrol, 10 cents per litre for intermediate petrol
- **Transitional offset measures for vehicles using petrol**
  - — A one-year tax rebate of 60% for all motorcycles using petrol
  - — S$50 – S$80 in cash for individual owners of smaller motorcycles up to 400cc
  - — Petrol Duty Rebate of S$360 for active taxi and Private Hire Car drivers using petrol and petrol-hybrid vehicles, given out over four months. This is in addition to a one-year road tax rebate of 15% to all taxis and passenger cars using petrol.
  - — A one-year tax rebate of 100% for goods vehicles and buses using petrol
  - — A one-year road tax rebate of 15% for cars using petrol

OUR VIEW

Driving towards mass transition to EVs

These concrete steps form part of a well thought-out green roadmap to enable the achievement of large-scale emissions reduction in road transport vehicles.

The Budget makes the categorical choice in promoting EVs as the environmentally friendly option for Singapore drivers to switch to, while continuing to pursue a car-lite vision. The ambitious goal of 60,000 chargers by 2030 can only be achieved if the right investments are made in building up charging and supporting infrastructure. This will require careful monitoring and possibly further Government support and investment if the necessary private capital is not forthcoming.

The phased approach within a clearly defined Singapore 2030 Green Plan ensures we keep on track to achieve desired outcomes, while allowing time for infrastructure development and the mass transition to EVs. More importantly, it fosters a more environmentally conscious culture that is fundamental to sustainable development.

SUSTAINABILITY MEASURES

Issuing bonds for infrastructure projects

Significant Infrastructure Government Loan Act (SINGA)

Under the proposed "Significant Infrastructure Government Loan Act" (SINGA), the Government intends to raise up to S$90 billion via issuance of new bonds.

The proceeds will be used to finance long-term infrastructure (including new MRT lines and coastal protection project), which will benefit current and future generations. The amount of borrowing is based on the expected pipeline of major, long-term infrastructure projects over the next 15 years.

The current low interest rate environment will facilitate the efficient issuance of these new bonds.

Necessary safeguards will be put in place in the legislation, which will be open to Parliamentary and public scrutiny.

More details will be provided when the Bill is presented in Parliament later this year.

Green bonds for selected infrastructure projects

The Government will take the lead by issuing green bonds on select public infrastructure projects.

The issuance of green bonds by the Government will build on these efforts by deepening market liquidity for green bonds, attracting green issuers, capital, and investors, and anchoring Singapore as a green finance hub.

The Government has identified up to S$19 billion of public sector green projects as a start, including Tuas Nexus.

OUR VIEW

Strengthening Singapore's position as a regional debt market hub

The proposal to issue bonds should strengthen Singapore's position as a regional debt market hub and enhance the vibrancy of our capital markets. The issuances will provide yield curves for different tenure and projects thereby attracting more players to tap on this source of capital.

The bond markets offer an alternate source of long-term financing at attractive terms. By spreading the infrastructure costs over the economic life of the project, the Government is being prudent in balancing short-term needs while ensuring long-term financial sustainability.

Given the regional infrastructure investment needs and the need to recycle bank debt from existing projects, a vibrant capital market in Singapore will provide a cost-effective option for regional projects debt issuances as well.

The income tax impact on these bonds would depend on the tax profile of the bondholders. However, to promote Singapore as a regional debt market hub and to make these bonds attractive to the bondholders, Singapore should consider giving tax incentives such as granting tax exemption to the bondholders on the related interest income and enhanced tax deduction for the issuers.

Investing for the future

> Budget 2021 reaffirmed Singapore's strong commitment to combat climate change through a series of high-impact actionable steps, including financing selected infrastructure projects with green instruments. The plan is both outcome-focused and inclusive, bringing with it extensive engagement and partnership with the community and private sector.

Cherine Fok
Director
Sustainability Services
KPMG in Singapore

TAX CHANGES

4

CORPORATE TAX MEASURES

Extending Budget 2020 temporary tax measures to support businesses

To continue providing support to businesses to deal with short-term challenges arising from COVID-19, the following temporary tax measures introduced in Budget 2020 have been extended in Budget 2021 for another year, with the same parameters:

Enhanced carry-back relief scheme capped at S$100,000
Taxpayers may carry back current year unabsorbed capital allowances (CA) and trade losses, capped at S$100,000, for deduction against assessable income of up to three (as opposed to one) immediate preceding Year of Assessments (YAs), subject to conditions.

Option to accelerate CA claims
Taxpayers who incurred capital expenditure on plant and machinery have an option to claim accelerated CA over two years (i.e. 75% in YA 2021 and 25% in YA 2022), with no deferment of claims.

Option to accelerate renovation & refurbishment (R&R) deduction
Taxpayers who incurred qualifying R&R expenditure have an option to claim R&R deduction over one YA (instead of three YAs). The cap of S$300,000 for every relevant three-year period continues to apply.

OUR VIEW

Temporary measures are welcomed but can more be done?

- **Potential benefits likely to be limited due to the quantum cap set**
  While the extension for another YA may go some way to help ease the cash flow for some, any potential benefits are however likely to be limited due to the quantum cap set for the respective temporary tax measures.
- **Extension is of little support or help for businesses that are loss-making**
  With the exception of the enhanced carry-back relief scheme (which may help certain loss-making companies claim back some refund for any prior years' tax paid), the extension of the other temporary tax measures is not likely to be of any support or help for businesses that are loss-making due to the COVID-19 situation.
- **Businesses should carry out a cost-benefit analysis**
  In considering whether to opt for the respective temporary measures, businesses should carry out a cost-benefit analysis, taking into account partial tax exemption, foreign tax credit, group relief considerations etc., where applicable, before opting for these measures.

CORPORATE TAX MEASURES

100% Investment Allowance (IA) on approved automation projects allowed until 31 March 2023

The Automation Support Package (ASP) was introduced to support businesses to automate and scale up.

The scheme is administered by ESG.

The ASP will be allowed to lapse after 31 March 2021. However, the 100% IA on approved automation projects will still be allowed until 31 March 2023.

OUR VIEW

There's still time to get support to automate

The main implication of the lapse of the ASP scheme is that approved projects will no longer enjoy both the cash grant support as well as the IA scheme on the same approved automation project.

Notwithstanding the lapse of ASP, there are other schemes such as the Enterprise Development Grant (EDG) that provide cash grants for automation projects.

Companies should continue to take advantage of the 100% IA support on approved automation projects until 31 March 2023.

Companies would have to assess whether the IA or EDG would be more beneficial – larger projects may benefit more from the IA scheme as the IA scheme will cover up to S$10 million of capital expenditure, whereas the EDG is usually capped at a much smaller amount.

Companies which have plans to embark on automation projects should tap on the available schemes as soon as possible for their automation transformation journey.

CORPORATE TAX MEASURES

Extending and enhancing the Investment Allowance (Energy Efficiency) (IA-EE) scheme

Under the current IA-EE scheme, investment allowance is granted on capital expenditure incurred for energy-efficient or green data centre projects which result in more efficient energy utilisation, subject to meeting certain conditions.

Additional conditions apply to data centre projects as follows:

- Compliance with the Singapore Standard for Green Data Centres
- Have a minimum capacity of 400m^2 (floor space)

This scheme, which is scheduled to lapse after 31 March 2021, will now be extended to 31 December 2026 and will be renamed as "Investment Allowance for Emissions Reduction". However, the following changes are proposed for projects approved by the Economic Development Board (EDB) from 1 April 2021:

- Expansion of scope of qualifying projects to include projects involving a reduction of greenhouse gas emissions
- Streamlined and updated eligibility conditions will apply to all projects (i.e. no distinction between data centres and non-data centres projects)

EDB will provide further details by end June 2021.

OUR VIEW

It's time to go green

The extension and enhancement of this scheme is aligned with the Government's continuous efforts to encourage businesses to focus on energy efficiency initiatives.

The changes are welcome and timely as a wider range of projects can now find support under this scheme as long as they involve reduction of greenhouse emissions and meet the relevant conditions of the scheme. Companies that are planning to embark on green or sustainability initiatives to increase energy efficiency or reduce energy consumption should be able to benefit from this enhanced scheme.

CORPORATE TAX MEASURES

Enhancements to Double Tax Deduction for Internationalisation (DTDi) scheme

The scope of DTDi is enhanced to include:

- Specified expenses incurred to participate in approved virtual trade fairs such as:
  - package fees charged by organisers
  - third party costs for digital collaterals and promotion materials
  - logistics costs to send materials / samples overseas to potential clients
- Logistics costs to transport materials/samples used during overseas investment study trips
- Additional activities that do not require prior approval from ESG or Singapore Tourism Board for tax deduction up to a cap of S$150,000

The above enhancements will take effect on or after 17 February 2021. ESG will provide further details by 28 February 2021.

OUR VIEW

International growth amidst a new business environment

The enhancements to include costs incurred to participate in approved virtual fairs is necessary in view of travel restrictions due to the COVID-19 pandemic. It is also in line with a structural shift from "physical" to "virtual" in the new reality.

The expanded list of qualifying activities that do not require prior approval from the relevant agencies will help alleviate administrative burden on businesses. However, we hope there is simplicity in the approval process of virtual trade fairs.

Businesses seeking to internationalise in the midst of COVID-19 should tap on the enhanced DTDi scheme to defray business costs.

The enhancement to the DTDi scheme, however, benefits companies in a tax-paying position in terms of cash flows while leaving tax loss companies with an equal compelling need to venture overseas with no additional cash flow benefit.

CORPORATE TAX MEASURES

Extension and refinement of tax deduction for costs attributable to retail bonds

200% tax deduction for qualifying upfront costs

Double tax deduction (DTD) on qualifying upfront costs attributable to retail bonds issued under MAS' Seasoning Framework and Exempt Bond Issuer Framework has been extended to 31 December 2026.

From 19 May 2021, the DTD on such costs will apply only to rated retail bonds issued during the period from 19 May 2021 to 31 December 2026.

All other conditions of the DTD scheme remain the same.

MAS will provide further details of the changes by 31 May 2021.

OUR VIEW

Cushioning the cost of bond issuance

Against the backdrop of the disruption caused by COVID-19, the extension is beneficial for businesses to continue raising funds via retail bonds to tide over this difficult time and partially alleviate business costs.

Businesses should take advantage of the additional deduction to cushion the cost of the bond issuance. Additionally, the refinement of the DTD scheme to cover rated retail bonds (instead of all retail bonds) seeks to improve transparency in the bond market allowing investors to make independent assessments of the creditworthiness of the bond issuers.

CORPORATE TAX MEASURES

Extension and rationalisation of WHT exemptions for the financial sector

1. Interest and other payments falling within section 12(6) of the ITA made pursuant to interbank / interbranch transactions by banks in Singapore for the purpose of their trade or business are exempt from tax under section 92(2) remission. The existing WHT remission for interbank / interbranch transactions will be legislated as a WHT exemption with effect from 1 April 2021, along with a review date of 31 December 2031.

2. Interest related payments made by banks, finance companies and certain approved entities i.e. Specified Entities to non-resident person (excluding any permanent establishment (PE) in Singapore) for the purpose of Specified Entities' trade or business are exempt from tax. The WHT exemption which was previously scheduled to lapse after 31 March 2021 will now be extended till 31 December 2026.

3. Specified Entities are not required to withhold tax on all section 12(6) payments made to PE in Singapore. The WHT exemption which was scheduled to lapse after 31 March 2021 will now be extended till 31 December 2026. The PE in Singapore are required to declare the section 12(6) payments that they receive in their annual income tax returns and are assessed on such payments (unless the payments are specifically exempt from tax).

All other conditions of the WHT exemption remain the same. MAS will release further details of all the changes by 31 May 2021.

OUR VIEW

Underlining Singapore's commitment to a more streamlined WHT regime

The extension and rationalisation of WHT exemption signifies that Singapore is committed to streamlining the WHT regime for the financial sector. This provides financial institutions in Singapore access to a wide range of funding sources and strengthen Singapore as a global financial centre.

There was no sunset clause previously indicated for the interbank / interbranch WHT remission. With the proposed legislation, there is a review date of 31 December 2031 which banks will need to take note going forward.

The continued WHT exemption for interest related payments can help to deepen market liquidity for financial products including green bonds and help to anchor Singapore as a green finance hub.

CORPORATE TAX MEASURES

Extension of WHT exemption on payments made for structured products

WHT exemption is allowed on payments made to a non-individual, non-resident person (excluding any PE in Singapore) from structured products offered by a financial institution in Singapore. The WHT exemption was previously scheduled to lapse after 31 March 2021.

To support Singapore's value proposition and competitiveness of the financial sector, WHT exemption will be extended for another five years and will 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.

MAS will release further details of the changes by 31 May 2021.

OUR VIEW

Playing to win as a regional and global financial centre

The financial sector operates in a very competitive landscape. Any WHT levied on gross payments where the financial institution (i.e. payor) has to bear the WHT will reduce the income margin earned by the financial institutions based in Singapore. The continued liberalisation of WHT exemptions on payments made to the non-resident person from structured products will allow Singapore to be competitive as a regional and global financial centre.

CORPORATE TAX MEASURES

Extension of WHT exemption on payments for over-the-counter (OTC) financial derivatives

WHT exemption has been extended by five years till 31 December 2026 to support Singapore's value proposition and competitiveness of our financial sector.

WHT exemption is granted on payments made to any non-resident person (excluding any PE in Singapore) from OTC financial derivatives made by a financial institution in Singapore. The WHT exemption was previously scheduled to lapse after 31 March 2021.

The exemption will cover all payments on OTC financial derivatives made by a financial institution in Singapore to any non-resident person (excluding any PE in Singapore) where such payments are made:

- During the period from 20 May 2007 to 31 December 2026 (both dates inclusive) under a contract that took effect before 15 February 2007; or
- Under a contract that takes effect during the period from 15 February 2007 to 31 December 2026 (both dates inclusive).

All other conditions of the WHT exemption remain the same.

MAS will release further details of the changes by 31 May 2021.

OUR VIEW

Strengthening Singapore's reputation as a trading centre

The COVID-19 pandemic has impacted global supply chains. Derivatives are risk management products which are important and attractive in times of volatility in the financial and commodity markets. The extension of WHT exemption will help to promote the derivative markets and strengthen Singapore as a regional and global trading centre.

CORPORATE TAX MEASURES

Lapse of Insurance Business Development – Specialised Insurance (IBD-SI) scheme

The IBD-SI scheme will lapse after **31 August 2021**

Insurers / reinsurers engaged in specialised insurance / reinsurance may apply for other incentives under the IBD umbrella scheme.

OUR VIEW

Minimal impact on companies insuring specialised risks

Given the minimal disparity in the concessionary rate under the IBD-SI scheme (8% for new award) and the IBD-Standard Tier scheme (10%), it is not surprising that the take-up rate for the IBD-SI scheme amongst qualifying insurance market players has traditionally not been strong.

The lapsing of the IBD-SI scheme should not have a material adverse tax impact on companies insuring specialised risks, as such qualifying income should be subsumed under the IBD-Standard Tier scheme.

CORPORATE TAX MEASURES

Accelerated depreciation allowances for highly efficient pollution control equipment (ADA-PCE) scheme to be withdrawn

The ADA-PCE scheme was introduced in Budget 1996 to encourage businesses to employ clean technologies to improve air quality in Singapore.

Under the scheme, taxpayers who incurred capital expenditure to install qualifying highly efficient PCE may choose to accelerate the CA claim on the acquisition cost over one year.

OUR VIEW

Time to shift our focus to other green initiatives

Regulatory measures for improving air quality to continue

Notwithstanding the lapse of the ADA-PCE scheme, regulatory measures will continue to be in place to ensure that the pollution is managed and air quality in Singapore remains of a high quality.

To ensure their effectiveness, the regulatory measures will be regularly reviewed by Ministry of Sustainability and the Environment and the National Environment Agency.

Green initiatives continue to be a focus area

Whilst the Government has withdrawn this scheme, go-green initiatives continue to be a focus area for the nation, as demonstrated by the extension and enhancement of the IA-EE scheme in this Budget.

GST MEASURES

GST to be collected on imported low-value goods and non-digital services

With effect from 1 January 2023, GST will be collected on the import of low-value goods (S$400 and below) by air and post, and on the import of non-digital services.

Overseas suppliers are to register and charge GST on sales of low-value goods and non-digital services to non GST-registered Singapore buyers.

GST-registered buyers will self-account the GST on such purchases under the existing reverse charge mechanism.

OUR VIEW

GST on cross-border goods and services

With these changes, GST is extended to all cross-border goods and services.

Examples of non-digital services are live interaction with overseas suppliers of educational learning and counselling.

As overseas suppliers are to register and charge GST, retail buyers do not have to self-register for GST. The GST will be an additional cost for retail buyers. There will no longer be an advantage to buy from overseas sellers. This achieves a level playing field for Singapore sellers.

GST-registered buyers will account for GST under reverse charge, but only if they are unable to claim the GST in full. Businesses that can claim in full will not be affected.

Clarity is required in determining the GST registration threshold for overseas sellers and online marketplaces.

GST MEASURES

Change in basis of zero-rating media sales

Currently, media sales for advertising are zero-rated based on the country of circulation. If the advertisement is substantially circulated outside Singapore, it is zero-rated.

From 1 January 2022, zero-rating will be based on the country of the contracting party and the direct beneficiary.

To the extent that the contracting party belongs outside Singapore and the direct beneficiary also belongs outside Singapore or is GST-registered in Singapore, zero-rating applies.

OUR VIEW

Convergence in zero-rating rule

The revised basis of relying on the country of the contracting party and the direct beneficiary brings into closer alignment the zero-rating rule for advertising with those of other exported services.

Developments in digital technologies have changed the way media sales are supplied, making it difficult to apply the circulation based zero-rating rule. The revised basis should therefore make for easier determination of whether a media sale can be zero-rated.

Clarity in applying the revised basis from IRAS, in particular in identifying the direct beneficiary, would be important for implementation.

GLOSSARY OF COMMONLY USED TERMS

COVID-19	Corona Virus Disease 2019
ESG	Enterprise Singapore
GST	Goods and Services Tax
IRAS	Inland Revenue Authority of Singapore
ITA	Income Tax Act
LLEs	Large Local Enterprises
MAS	Monetary Authority of Singapore
R&D	Research and Development
SMEs	Small and Medium-sized Enterprises
WHT	Withholding Tax
YA	Year of Assessment

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