SINGAPORE BUDGET 2022 PROPOSAL

Is an economic sunrise on the horizon?

Preparing for unprecedented growth in a post-pandemic world

FOREWORD

Building lasting companies and societies on a fragile planet

FOREWORD

As countries approach an economic sunrise and start living with Covid-19 endemically, they must prepare to forge lasting companies and societies that are enduring.

Recent developments on the climate front have pushed for more nations to step up their environmental commitments. This has set off greater urgencies globally and nationally for regulations and harmonised standards to be introduced - even as businesses grapple with incorporating environmental, social and governance (ESG) aspects across their value chains for greater resilience and responsible growth.

New global tax rules kicking in around 2023 with Base Erosion and Profit Shifting (BEPS) 2.0 have also set in motion governments devising new strategies to attract multinational corporations to their shores. This comes as enterprises respond to the new rules by re-evaluating their locations, business models and priorities for the year ahead.

Against this backdrop, greater agility and resilience in unpredictability will prove critical as businesses charge forth to lay the groundwork for growth in the times ahead.

About 9 in 10 Singapore CEOs remain bullish about the growth potential in Singapore and on their companies' earnings over the next three years, according to KPMG's 2021 CEO Outlook Survey. Among their priorities will be transforming value chains and business models. Increasingly seen as well is their appetite for mergers & acquisitions (reached a three-year high in 2021), as well as the forging of strategic alliances, on top of injecting capital investments and research & development (R&D) to grow organically.

Digitalisation continues to be key, aside from talent acquisition. Businesses will also have to keep prioritising the development of skills and knowledge to equip employees for emerging growth areas.

Looking ahead to Singapore's Budget 2022, we propose that policy measures cover three areas: (1) supporting the ambitions of businesses to transform and grow - particularly with ESG and global tax developments; (2) expanding Singapore's participation and capabilities in supply chain, as well as in trade, travel and tourism; and (3) strengthening support for enterprise expansion, while building up core strengths in wealth and asset management as well as in technology innovation.

2022 will be a pivotal year as many transform their business and engagement strategies to welcome the new horizon. KPMG in Singapore stands ready to partner governments and businesses for value creation in the new normal.

Ong Pang Thye
Managing Partner
KPMG in Singapore

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EXECUTIVE SUMMARY

A purpose-led growth framework

As the contours of the post-pandemic world start to emerge, Budget 2022 provides opportunities to spur growth and expansion beyond the new normal. To accelerate the transformation of Singapore as a resilient, purpose-driven and growth-oriented economy, we have proposed a 3C framework: **C**atching the Sun, **C**harting New Orbits and Strengthening Our **C**ore.

01 Catching the Sun

- Budget 2022 is an opportunity to take Singapore in bold directions by embracing agility and innovation, amid uncertainties in achieving sustainability goals and evolving global tax rules. While the Singapore Green Plan 2030 provides a comprehensive outline and statement of intent across key broad areas, more can be done to turn Singapore into Asia's ESG hub with a focus on investing and financing initiatives in green energy and carbon trading, among others.

  There is also substantial interest in the impact of new global tax rules. Businesses in Singapore are increasingly concerned about tax compliance, reporting and transparency demands and on being regarded as paying their fair share of tax. Policies responding to this will need to profile Singapore as an attractive destination for multinational corporations to set up and invest in.

02 Charting New Orbits

- Budget 2022 creates possibilities to reassess boundaries and plan for the revival of hard-hit sectors such as tourism, trade, travel and retail. As consumer preferences change in the wake of the pandemic, businesses will have to evolve to embed omni-channel strategies into their DNA. With the lines between industries blurring and growing global competition for talent, Singapore will also need to position itself to attract highly qualified, specialized professionals.

  The pandemic has exposed fault lines in global supply chains, such as frequent disruptions for delivery, material scarcity and difficulties in projecting demand. These shifts highlight opportunities to enhance Singapore's position as a crucial node in the global supply chain, while diversifying its supply sources for greater resilience.

03 Strengthening Our Core

- Singapore can position itself to seize opportunities to strengthen fundamentals, as enterprises gear up for the long path to recovery. The focus is set to turn towards how businesses can cope with the immediate challenges ahead, such as rising costs, cash flow concerns and manpower limitations. Beyond that, businesses across all sectors will also be concerned with how they can embark on their business expansion plans, seize new growth opportunities, and build economic resilience.

Amid an unpredictable post-pandemic world, we stand confident that this 3C framework provides a structured lens to guide purpose-led growth for the future.

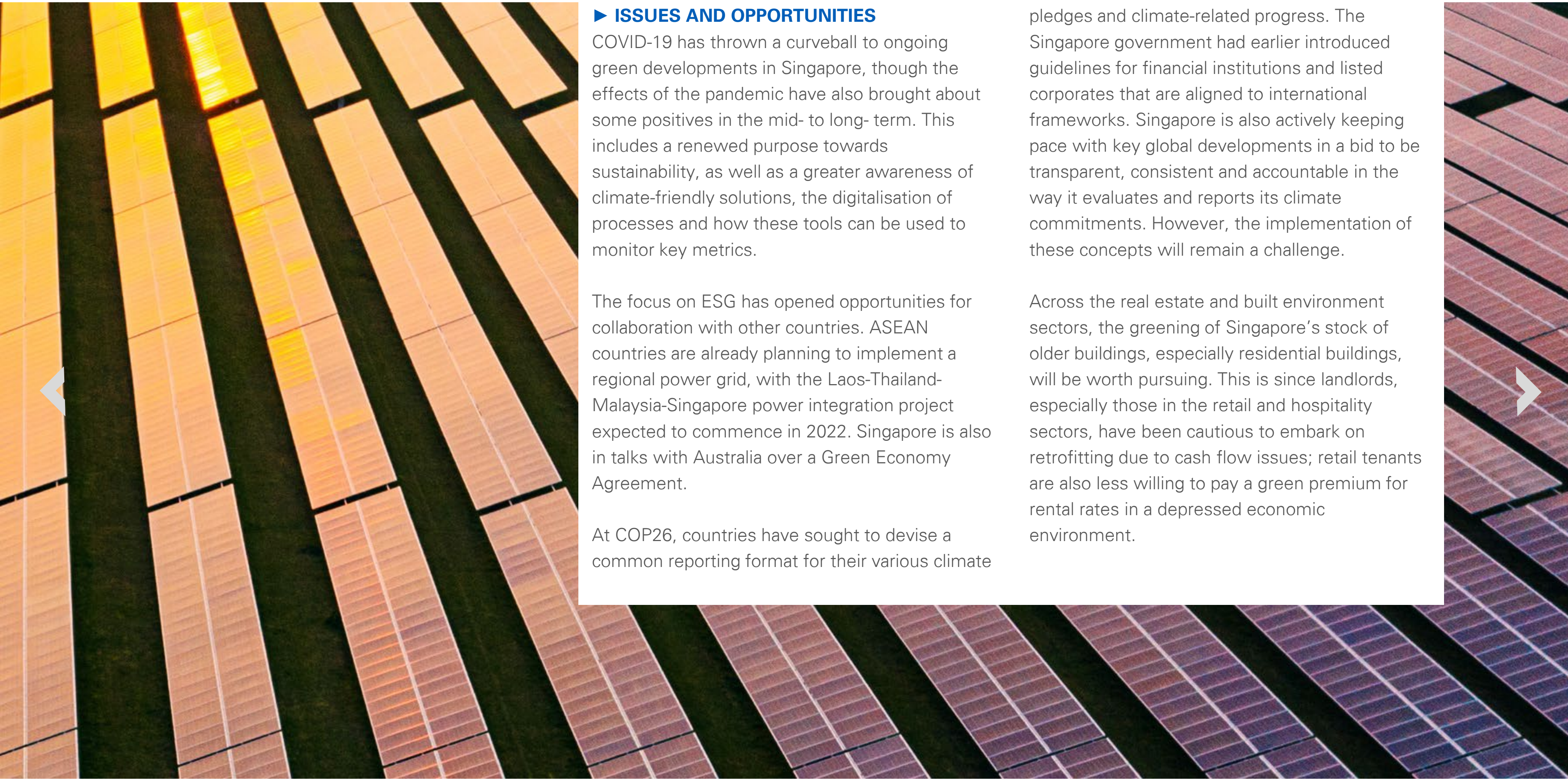
CATCHING THE SUN

Bright prospects for ESG agenda

► BACKGROUND

The ESG agenda has become a top priority for governments and corporates in the past year. At the recent COP26 climate summit, Singapore stated its full commitment in accelerating its transition to a low carbon future. While the Singapore Green Plan 2030 has provided a comprehensive outline and statement of intent across key broad areas, there will be a greater urgency to achieve these goals and fast track initiatives that have been detailed.

While businesses across all sectors will require support to be operationally and strategically ready for a sustainable future, national efforts are likely to start with the financial services and climate-sensitive sectors such as food, infrastructure and real estate, energy, transport and logistics.



► ISSUES AND OPPORTUNITIES

COVID-19 has thrown a curveball to ongoing green developments in Singapore, though the effects of the pandemic have also brought about some positives in the mid- to long- term. This includes a renewed purpose towards sustainability, as well as a greater awareness of climate-friendly solutions, the digitalisation of processes and how these tools can be used to monitor key metrics.

The focus on ESG has opened opportunities for collaboration with other countries. ASEAN countries are already planning to implement a regional power grid, with the Laos-Thailand-Malaysia-Singapore power integration project expected to commence in 2022. Singapore is also in talks with Australia over a Green Economy Agreement.

At COP26, countries have sought to devise a common reporting format for their various climate pledges and climate-related progress. The Singapore government had earlier introduced guidelines for financial institutions and listed corporates that are aligned to international frameworks. Singapore is also actively keeping pace with key global developments in a bid to be transparent, consistent and accountable in the way it evaluates and reports its climate commitments. However, the implementation of these concepts will remain a challenge.

Across the real estate and built environment sectors, the greening of Singapore's stock of older buildings, especially residential buildings, will be worth pursuing. This is since landlords, especially those in the retail and hospitality sectors, have been cautious to embark on retrofitting due to cash flow issues; retail tenants are also less willing to pay a green premium for rental rates in a depressed economic environment.

OUR PROPOSITION

Singapore must seek to position itself as a global ESG player through having a "gateway to Asia" implementation approach. The country will also have to leverage technology, demonstrate its credibility, and make its ESG projects future-ready and sustainable.

The greening of Singapore's buildings could begin at the start of its life cycle by leveraging technologies like building information modelling and focusing on life cycle optimisation. Green funding and the ability to tap capital markets for green bonds will in turn make available a new pool of capital for the built environment sector.

To further Singapore's national ESG agenda, we recommend the following:

01 Legislation requiring independent verification of ESG data and disclosures

Regulatory and legislative changes could help push companies towards effective ESG disclosures amid increasing stakeholder expectations. In terms of implementation, this could take the form of large-scale verification with processes embedded in open digital platforms, with the costs shared between the government and corporates. Greenwashing is a valid and real challenge. Singapore should consider legislating and enforcing the assurance of ESG data that are material to investors.

02 Setting up of a green financing bank for infrastructure projects and incentives to stimulate green lending

Green finance will be critical to finance infrastructure projects as Singapore looks to boost its standing as a sustainable finance hub in Asia along with its role as the region's project financing centre. We propose for a green financing bank that will focus on supporting projects with a strong ESG angle. While most banks and multilateral agencies have started applying an ESG lens to their lending, the decarbonisation of their portfolio will take a few years given the nature of their lending to various sectors of the economy.

A green financing bank could be given a mandate to focus on primarily three things:

1. Developing a robust framework to identify and qualify projects that can be supported including energy transition, decarbonisation, carbon abatement, among others
2. Developing a research and development line of credit to help fast track innovation and pilot use cases in emerging areas of storage, hydrogen and energy efficiency
3. Providing capability building and knowledge sharing by setting industry verticals to drive the ESG investment agenda. This could also help in facilitating collaborations.

There is potential to start with the key pillars of the Singapore economy, including the financial services, built environment, energy and chemicals as well as logistics sectors. The bank could strike alliances and partnerships for co-lending with multilateral banks and green focused funds with regional and global mandates.

Singapore's green bond market framework is robust, and the country will need to drive efforts in making the Singapore Exchange a preferred location for such issuances. Benchmarks from different issuers in Singapore could help attract more regional players to Singapore for issuances. The government can offer to defray issuance costs for a period of 12 months to fast track issuances by infrastructure companies.

The government should also explore ways to stimulate more green lending. This could include a 10 per cent concessionary rate of tax for financial institutions on interest income from loans for the acquisition and development of green properties, coupled with tax exemptions for investors on income derived from green bonds.

03 Green Energy Investment Fund to drive innovation and low carbon tech adoption

Singapore has already pumped in S$10 million into two new funds for low carbon research. It has also expanded an earlier fund to S$55 million for 12 projects in hydrogen and carbon capture, utilisation and storage.

To further drive green innovation and tech adoption, we are proposing a green energy investment fund, a multi-year programme till 2030, that incorporates multiple initiatives in these areas. This could be in the form of partnership with the government and private sector with strong involvements from academic institutions and research agencies. A joint commitment to the tune of S$1 billion could be mobilised to drive the country's net zero roadmap, green energy innovation and low carbon technology adoption.

By promoting innovation in emerging green technologies through venture fund investments, the fund could help drive an ecosystem of innovative solutions across industries. This could involve hydrogen fuel cells, carbon sequestration, distributed generation and energy storage.

Beyond investing in new technology companies, the fund will also support the deployment of use cases by industry. These will act as path finder projects for other companies to emulate. It will also help strengthen Singapore's value proposition as a low carbon innovation hub and compliment other initiatives already in place, such as the Low-Carbon Energy Research Funding Initiative (LCER FI).

As Singapore's net zero journey cannot be disconnected from rest of ASEAN, the fund could also look at supporting ASEAN-wide projects that will benefit the broader region's energy and low carbon innovation.

04 Green gross floor area (GFA) scheme to step up on the country's push for green buildings

We propose reinstating the Building and Construction Authority's green mark gross floor area (GFA) incentive scheme to encourage developers to build Super Low Energy (SLE) buildings – the proceeds from the Green GFA sold can, in turn, raise capital for the retrofitting of old buildings.

Green GFA is additional permissible floor area over and above the limits specified in the master plan. Developers can purchase "Green GFA" from the government, which would be additional GFA that can only be used in SLE buildings. Alternatively, laws can be set so that energy intensive developments, such as data centres, can be built only by purchasing Green GFA.

Proceeds from the sale of Green GFA can be channelled into government funds to finance the retrofitting of older buildings to make them more energy efficient. Financing can take place via very low or zero interest loans for landlords who are unable to secure bank or EPC (Energy Performance Contractor) funding due to a low credit rating. The fund can also provide first loss cover on loans by banks or EPCs.

05 Tax deductions and loans to spur both supply and demand of green buildings

Faced with cash flow concerns during the pandemic, landlords have been reluctant to retrofit older buildings to make them more energy efficient. This is more apparent in the retail and hospitality sectors. Tax incentives will help property owners manage the costs of greening their buildings.

Green leases[1] are currently present in a very limited capacity in the commercial and industrial sectors. The government may consider a 200 per cent tax deduction on financing costs as well as a property tax rebate of 30 per cent to owners of commercial, industrial and residential properties (i) if they enter into green leases with tenants, or (ii) if such green properties are occupied or put to use for business purposes by owners themselves.

Other measures aimed at green property owners and developers could encompass a 50 per cent exemption on taxable gains from the sale of green buildings, and GST rebates on imported green related equipment and raw materials.

Additional tax incentives could also spur property owners to commit to greening their properties by retrofitting. Budget 2021 has already extended the Investment Allowance for Energy Efficiency (IA-EE) to any project that involves reduction in greenhouse emissions. The government can further offer a 200 per cent tax allowance on capital expenditure (including professional fees) on green initiatives that are specifically targeted at retrofitting of existing buildings.

Existing schemes could also be extended. The Building Retrofit Energy Efficiency Financing scheme offers a loan of up to S$4 million or 90 per cent of the total cost to implement energy efficient equipment. So far, loans worth more than S$30 million have been offered to close to 20 building owners. The scheme, which is set to expire in 2023, should be extended in a strengthened form to provide a source of financing for retrofitting of existing buildings.

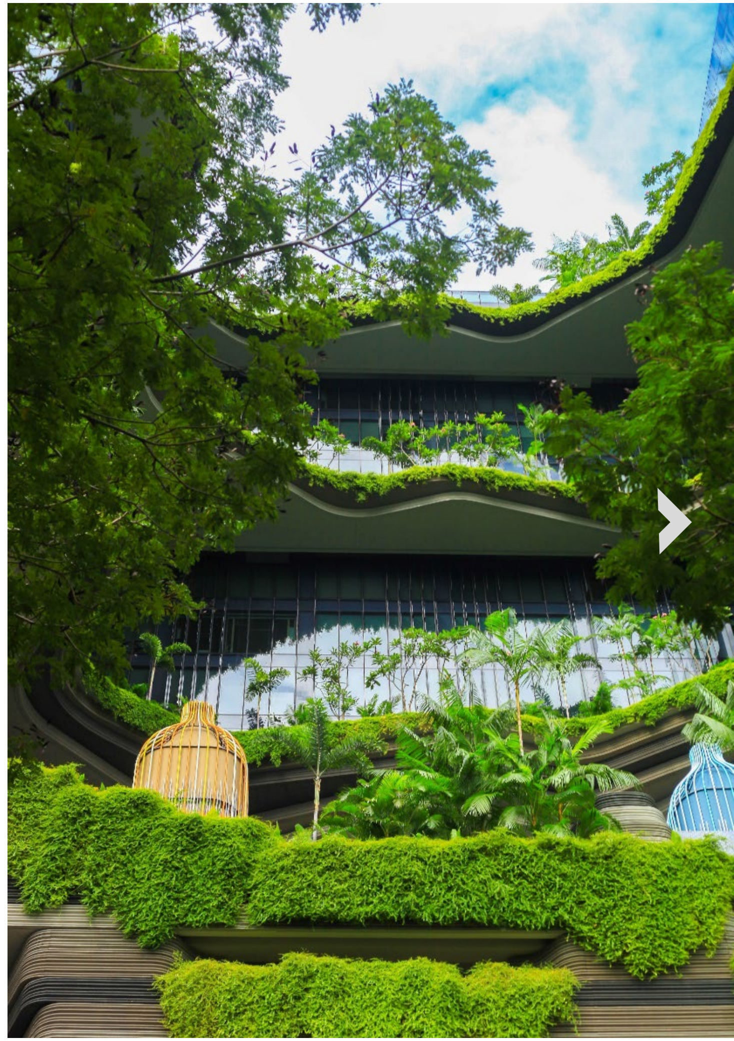
[1] The environmentally friendly leasing arrangement or 'Green Lease' in short, is an agreement between landlord and tenant which sets out environmental objectives on how the building is to be improved, managed and/or occupied in a sustainable manner. This both yields cost savings in energy and water which can be shared among parties and provides a better indoor environment.

06 Encouraging the uptake of proptech solutions through tax incentives

The government can also look towards removing the cost barriers in the adoption of property technology (proptech) solutions. The use of technology could support the real estate industry in its collection and analysis of ESG performance indicators. It also allows for optimisations to be carried in real-time to improve sustainability factors, such as energy usage and waste. With an increase in the collection and usage of data, companies should also look at how they can put in place better safeguards against cyber risks and cyber-attacks. We are proposing a 300 per cent tax deduction and allowances on the costs incurred towards the adoption of these solutions. Grants and assistance could also be offered to co-fund up to half the costs of research and development work on proprietary technologies, along with reduced tax rates of 5% or 10% on income from businesses providing proptech solutions.

07 Spurring green building innovations

Resources could be channelled towards fostering green building innovation and creating an ecosystem for start-ups in climate-friendly design and technology. These efforts will nurture a conducive environment for these ideas to achieve enough scale to be competitive in Singapore and the region. We believe there is scope to enhance funding for the Green Buildings Innovation Cluster programme, which provides a one-stop research, development and demonstration platform for technologies and innovations that lead to highly energy efficient buildings. The government could also set up a dedicated fund to incubate climate-friendly innovations in design, construction and asset management.



CATCHING THE SUN

Harnessing global tax opportunities

► BACKGROUND

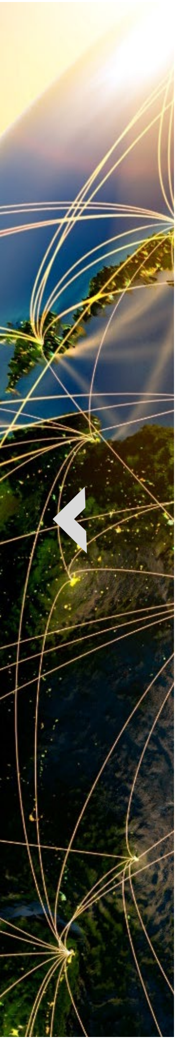
The Organisation for Economic Co-operation and Development/Group of Twenty (OECD/G20) Inclusive Framework (IF) on BEPS has agreed to reform existing international tax rules and the agreement sets the key terms for a two-pillar approach. It has been endorsed by 137 out of 141 IF members and by the G20 finance ministers and leaders at their October 2021 meetings in Rome, with proposed changes coming into effect in 2023.

Pillar One significantly departs from standard international tax rules of the last 100 years. It signals a move away from the idea that income taxation largely requires a physical presence in a country before that country has a right to tax. This pillar will apply to multinational groups that have more than EUR20 billion of global turnover, and profitability above 10%. Over 100 global groups are likely in scope.

Pillar Two of the agreement will subject thousands of multinational groups around the world to a global minimum tax rate of 15%. These new rules will result in a new compliance burden and likely additional top-up taxation where company profits are subject to an effective tax rate (on a jurisdictionally blended basis) below 15%. Additionally, intra-group transactions may be subject to new withholding taxes under the subject to tax rule (STTR) or other taxation consequences under the undertaxed payments rule (UTPR).

Another factor to watch out for is the interaction of the new rules with U.S. tax reforms, specifically the way in which that country's global intangible low-taxed income ("GILTI") and other taxation rules will co-exist with OECD's two pillar approach.

U.S. President Joe Biden's Build Back Better Act has proposed a number of reforms to domestic U.S. tax rules and tax rates to align U.S. tax legislation with the OECD's BEPS rules. This has been approved by the House of Representatives on 19 November 2021 and now requires Senate approval. It is worth mentioning that this Act largely deals with Pillar Two and Pillar One has not made progress in the U.S. to date. Should the U.S. tax reform adopt BEPS rules, there will be knock on effects, especially for large U.S. multinationals operating in Singapore and the wider Asia-Pacific region.



► ISSUES AND OPPORTUNITIES

The new international tax rules may have a significant impact on Singapore because the country offers a range of tax incentives, which primarily result in reduced corporate income tax rate below the prevailing statutory corporate tax rate of 17%, for a range of qualifying activities. Many multinational corporations also use Singapore as a regional or global hub.

These tax incentives include the Finance and Treasury Centre, Headquarter Incentive or the Intellectual Property Development Incentive. These incentives result in income tax rate reductions below the newly agreed 15% global minimum tax rate during the tenure of the incentive.

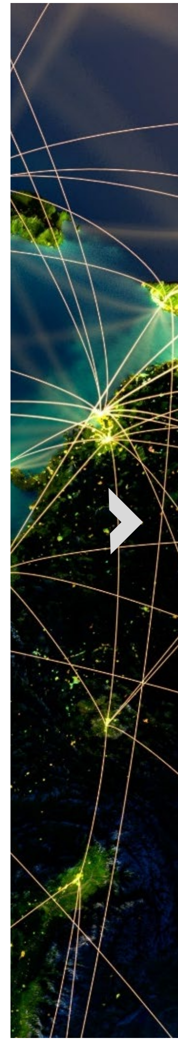
In addition, passive foreign-sourced income (e.g. interest and royalties) is only taxed in Singapore when remitted onshore. This will impact effective tax rate (ETR) calculations, where such income is included in financial statements but not subject to tax in the same tax year, and also lead to other considerations for certain cross-border-related party payments.

Singapore also exempts certain classes of income which may have income inclusion rule (IIR), UTPR or STTR impacts. On the other hand, the Pillar Two Global Anti-Base Erosion (GloBE) rules allow for a substance carve-out on tangible assets and payroll costs which will be beneficial to some groups with substantial activities located in Singapore.

Opportunities may, however, arise to relocate operations from other foreign jurisdictions with high-taxed profits into Singapore so as to blend in with any pre-existing low-taxed profit pools. This might result in simplified group structures or transaction flows, while preserving the benefits of pre-existing Singapore tax incentives. This is especially relevant given that the OECD average corporate income tax rate in 2021 was 22.9% according to the OECD's Corporate Tax Statistics: Third Edition. With the Pillar Two proposals targeting large multinationals, Singapore also has the opportunity to position itself to attract Asian high-growth businesses that fall below the €750 million threshold, as a new engine of growth.

Pillar One rules will also impact ETR calculations for some very large Singapore taxpayers due to the reallocation of profits to market jurisdictions. This will likely increase ETR for Singapore-based profit pools as the reallocation of profits under Pillar One is likely to result in higher levels of overall corporate taxation and might, in part, offset some of the impacts under Pillar Two.

In summary, the jurisdictionally blended ETR calculation requirement under GloBE rules needs to accommodate these issues, as well as many other timing and permanent differences. Relevant transitional rules (e.g. carry forward losses) also need to be considered. Modelling the impact of these rules will be important to identify likely taxation costs, which will lead to financial statement and market disclosure considerations.



▶ OUR PROPOSITION

As Singapore prepares for new international tax rules, there is room to consider how fiscal tools should be introduced to attract and anchor businesses in the country, while scoping out the effectiveness of current and future tax incentives. KPMG in Singapore suggests the following three-pronged framework in order to seamlessly adapt to the changing tax landscape while creating jobs and increasing competitiveness.

Enhance relative competitiveness

Easily communicable system of incentives

Boost non-tax measures

01 Enhance relative competitiveness

As Singapore emerges from the pandemic, there will be opportunities to focus on policies which drive growth both locally and in the global marketplace.

Singapore businesses are facing continued disruption and intensifying competition across sectors in the post-pandemic world. They are looking to tap on mergers and acquisition (M&A), while forging strategic alliances. They are also driving organic growth through capital investments, innovations and new products.

Against this backdrop, it is critical that the government considers what other jurisdictions are doing in order to ensure that Singapore's relative competitiveness is not impacted. The following are critical changes that should be implemented as soon as possible:

First, replace the existing R&D enhanced tax deductions with a Refundable R&D Tax Credits scheme, similar to those offered in some European countries such as Ireland and UK, as well as Canada and Australia. This is because the R&D Tax Credits may not have an adverse impact on the calculation of effective tax rates for purposes of implementing OECD BEPS Pillar 2 measures.

Second, mirror the ability to claim writing down allowances for corporate tax purposes on a broader range of intangible assets (such as goodwill / marketing intangibles and similar exclusive contractual rights), as these are similarly offered in other countries.

Thirdly, the existing M&A allowance scheme could be enhanced with an expanded scope covering capital expenditure incurred in the formation of strategic alliances between unrelated Singapore corporate groups which do not fall under BEPS Pillar 2. Such qualifying expenditure should include legal and professional fees incurred in respect of the formation of such strategic alliances.

02 Easily communicable system of incentives

It is important that incentives offered to international investors are easily communicable. This is vital as companies need to factor the benefits of incentives in their cost-benefit analysis when considering investment locations.

We therefore propose that Singapore develops "incentive packages" that combine tax and non-tax (cash grants) incentives that target various activities, as follows:

High-Growth Incentive package: Singapore's Budget 2022 provides an opportunity to attract high-growth, high-tech local and regional companies to Singapore, and also grow our promising Singapore businesses, especially those below the threshold set by Pillar Two of OECD's rules. For companies that are able to show that they have high-growth potential with clear scalability for the international market, the following incentives should be considered by Enterprise Singapore and EDB as part of this package:

- Concessionary tax rates of 10% for qualifying income
- Grants to anchor R&D activities in Singapore
- Extend the R&D enhanced tax deductions to R&D performed outside Singapore (currently the scheme is only available to R&D performed in Singapore)
- Double tax deductions for overseas marketing, promotion and set-up costs

The types of businesses targeted should be technology and innovation-driven businesses, as well as businesses focused on the ESG agenda.

Enhanced Regional HQ incentive: When choosing regional headquarters (HQs) jurisdictions, multinational companies (MNCs) consider a range of factors including locations best suited to business development, a ready workforce and a conducive ecosystem for business. There is an opportunity here to expand current incentives to ensure MNCs see it as beneficial to continue locating offices in Singapore, even as post-pandemic realities transform traditional work models. The following incentives may be considered on a more transparent basis (possibly as a package) to promote Singapore as regional HQ of choice in the wake of new international tax rules:

- Continue to offer concessionary tax rates of 10% for income from regional HQ functions and regional sales principals (for businesses that are still able to benefit from tax incentives) .
- Grants to encourage investments to transform the regional HQ functions. For example, through greater use of automation, artificial intelligence and data analytics.
- Grants to encourage establishment of Centres of Excellence for various core capabilities. This includes Centres of Excellence for Operations Excellence (e.g. for Supply Chain, Finance, HR activities), Innovation and Technology Development, Cybersecurity, R&D etc. that would help promote the transformation of the regional or global business using the Centres of Excellence. While this is currently being offered to certain multinationals, going forward, this should be offered to more multinationals on a more transparent basis, in terms of clear requirements for the scheme, scope of activities that can be covered etc.
- Given the hybrid working models moving forward, to allow the consideration of full-time employees to include employees that may be based outside Singapore for the purpose of meeting the incentive milestone commitment, so long as the Singapore company is able to substantiate that such employees are performing duties solely for the benefit of the Singapore company (accordingly the salaries and expenses relating to such employees should be considered as local business expenditure)

- Remove R&D beneficiary requirements for the R&D enhanced tax deductions to encourage multinationals to anchor R&D activities in Singapore
- Extend the R&D enhanced tax deductions to R&D performed outside Singapore (currently the scheme is only available to R&D performed in Singapore)

Factory of the Future incentive: One area for potential transformation is the local manufacturing space amid the global realignment of supply chains that is set to be accelerated by global tax changes. Singapore businesses are seeking to use cutting-edge technologies to improve their manufacturing processes and produce high-value products. This creates an opportunity to incentivise 'factories of the future' by anchoring advanced manufacturing or pilot plants in Singapore:

- Enhanced (100%) investment allowances for businesses in these industries which tend to be capex-heavy (and hence loss-making in early years and unable to benefit from concessionary tax rates)
- Grants to invest in pilot plants, cutting-edge equipment, state of the art logistics systems and Industry 4.0 automation plants
- Property tax exemption for capex cost incurred in respect of cutting-edge equipment, state of the art logistic systems and other automation equipment which are currently subject to property tax
- Land Intensification Allowance for investments for the construction / building costs regardless of the industry or gross plot ratio as long as productivity enhancement benchmarks are met

Incentives for technologies that help improve the quality of tax data and reporting: In-house tax functions are likely to see a huge increase in workload due to more and increasingly complex compliance reporting as a result of both Pillar One and Pillar Two rules. This will be exacerbated by personal / corporate tax implications from increasing instances of overseas remote working arrangements.

Technology is a major enabler in this ever-changing tax climate and with the significant advancements seen in this area, it can effectively support an environment where data is expected to be available in varying formats and at very short notice.

Companies are not just facing new international rules on the horizon, but also a general shift in demands for effective data management driving efficient tax planning and reporting. High quality data, together with technologies, is set to underpin all successful tax transformation efforts.

Double tax deductions / cash grants for such technologies used by in-house tax teams should thus help improve the quality and reliability of tax reporting.

03 Boost non-tax incentives

Singapore is well-placed to adapt to any changes to international tax rules, owing to its strategic geographic location, global connectivity, strong rule of law and overall business-friendly environment.

As global competition intensifies, Singapore will need to step up efforts to enhance its lead in such areas to remain a preferred investment jurisdiction. The need to attract internationally trained and experienced human capital, with a diverse range of skills, remains a cornerstone of Singapore's value proposition. A skills shortage, or barriers to the import of human capital, could undermine Singapore's competitive advantage as a regional hub. For Singapore to retain and build on this important value proposition, especially where taxation laws may potentially adversely impact Singapore's competitiveness, ease of access to a highly skilled workforce is essential for Singapore to remain attractive in the eyes of the investors. A highly skilled workforce underpins the conduct of many of the commercial activities conducted from Singapore and will remain a critical value driver for Singapore into the future.

A focus on favourable non-tax and non-incentive factors such as the stability of our political system, the quality of our legal system, infrastructure, education and human resource, availability of banking and financing options etc., coupled with Singapore's competitive statutory corporate tax rate of 17%, should help the country maintain its attractiveness. The following are some examples that can be considered:

- "One stop shop" relationship to be widened beyond key multinationals to also include high growth / promising businesses with a goal to foster stronger coordination between government agencies, for example between economic agencies and IRAS, to help speedy resolution of issues and expedite setup of operations in Singapore.
- Economic agencies can support businesses to work with Ministry of Manpower to address shortage of manpower. For example, while the country's Tech.Pass scheme helps attract key talent in the technology industry, it is focused on founders, leaders and technical experts. In light of the need for technology professionals at all levels, the scheme can be widened, and also possibly subsidising businesses for certain models of remote working where required
- To coordinate similar programs across government agencies – for example, innovation projects awarded by economic agencies should also qualify for R&D tax incentive claims

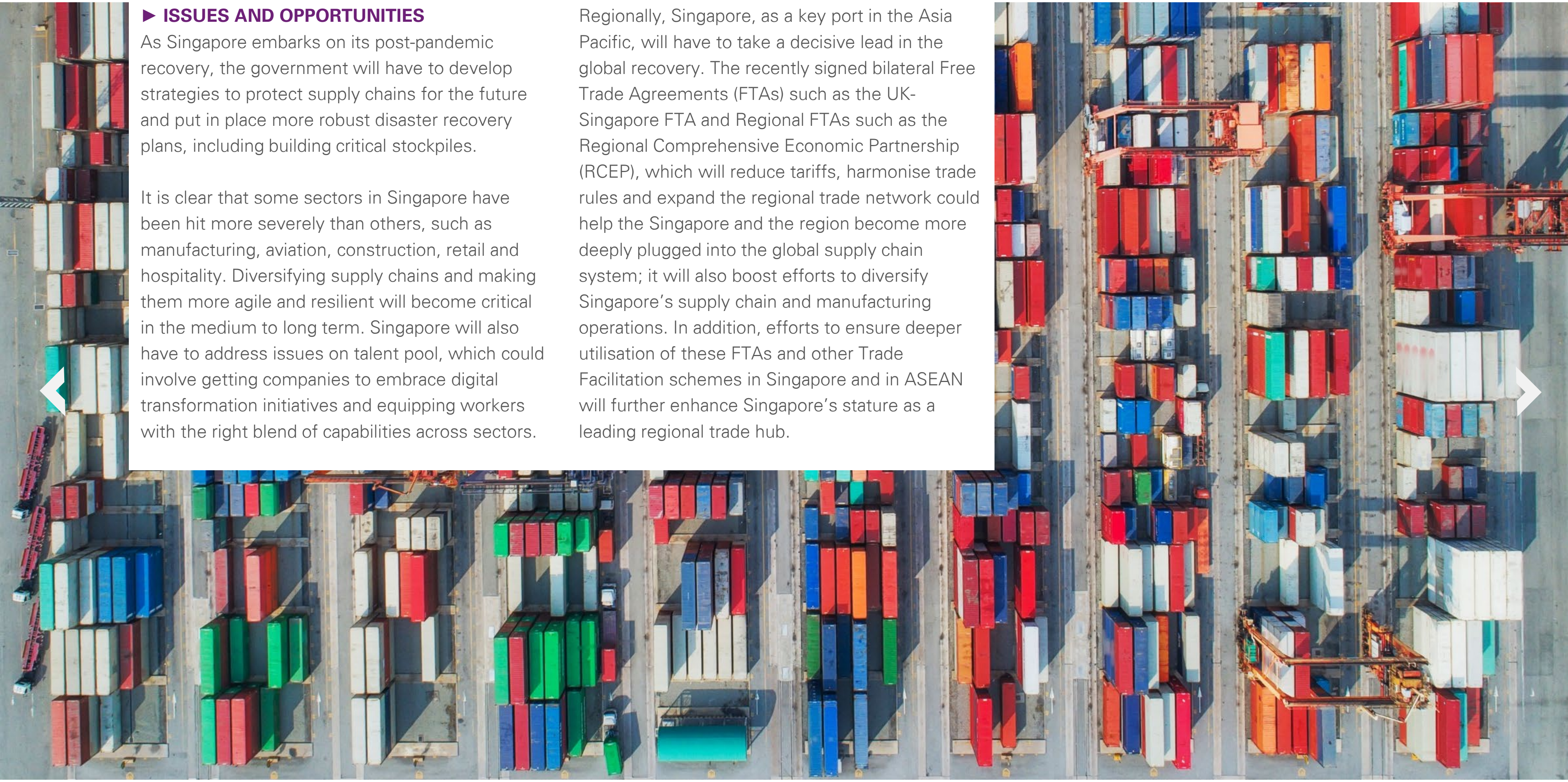
CHARTING NEW ORBITS

Supply chain's next wave

► BACKGROUND

For many companies and industries, the COVID-19 pandemic has been the black swan event that has not only exposed their supply chain vulnerabilities but also forced them to rethink and transform their supply chain models. Delays in shipments, shortage of containers and constrained production capacity have impacted revenue performance.

Meanwhile, rising costs for raw material, shipment, labour and fuel have contributed to an overall increase in supply chain costs, putting pressures on the profit margins of companies. As the virus situation improves and demand picks up worldwide, the impact will still be felt on global supply chains, with companies feeling the squeeze on both their top-line and bottom-line performances. This comes amid a record manufacturing backlog across multiple industries.



► ISSUES AND OPPORTUNITIES

As Singapore embarks on its post-pandemic recovery, the government will have to develop strategies to protect supply chains for the future and put in place more robust disaster recovery plans, including building critical stockpiles.

It is clear that some sectors in Singapore have been hit more severely than others, such as manufacturing, aviation, construction, retail and hospitality. Diversifying supply chains and making them more agile and resilient will become critical in the medium to long term. Singapore will also have to address issues on talent pool, which could involve getting companies to embrace digital transformation initiatives and equipping workers with the right blend of capabilities across sectors.

Regionally, Singapore, as a key port in the Asia Pacific, will have to take a decisive lead in the global recovery. The recently signed bilateral Free Trade Agreements (FTAs) such as the UK-Singapore FTA and Regional FTAs such as the Regional Comprehensive Economic Partnership (RCEP), which will reduce tariffs, harmonise trade rules and expand the regional trade network could help the Singapore and the region become more deeply plugged into the global supply chain system; it will also boost efforts to diversify Singapore's supply chain and manufacturing operations. In addition, efforts to ensure deeper utilisation of these FTAs and other Trade Facilitation schemes in Singapore and in ASEAN will further enhance Singapore's stature as a leading regional trade hub.

▶ OUR PROPOSITION

We believe that the following initiatives will help address Singapore's key supply chain concerns:

01 Setting up Cognitive Decision Centres to boost visibility of supply chains and anticipate crises

Singapore should encourage global and regional organisations to invest in setting up their supply chain Cognitive Decision Centres in Singapore as part of their digital transformation agenda. It is vital for Singapore to establish visibility over its key supply chains, especially for critical items, and this can best be achieved through technology. A predictive supply chain toolset will not only help to boost end-to-end visibility, but organisations will also be able to identify where future shortfalls are likely to occur and allow alternative plans to be put in place. Such a tool can also act as a sandbox, where scenarios to help address potential future crises can be tested.

To encourage organisations to set up these centres in Singapore, we propose extending grants for them to conduct feasibility studies here as well as SkillsFuture grant support to help them build their capabilities at the centres.

02 Support for companies to accelerate supply chain digital transformation

Some large organisations have embarked on their supply chain digital transformation journeys to manage future disruption, but more support through tax incentives and dedicated programmes for digital skills trainings will be needed to nudge smaller companies in this direction. Micro and small enterprises, in particular, can benefit from having shared digital platforms to improve their productivity and efficiency. The government can help these companies through special assistance and grants to lower the costs of adopting such platforms. It can also consider extending the Productivity Solutions Grant (PSG) support beyond March 2022 to further support companies that are keen on adopting IT solutions and equipment to enhance business processes. Beyond that, it can also look at including supply chain Enterprise Resource Planning (ERP) systems under the PSG.

To provide financial support for companies undertaking supply chain transformation and related consultancy, the government can consider enhanced tax deductions for companies looking to acquire new ERP systems or upgrade their existing ones. This scheme would be similar to the Productivity and Innovation Credit Scheme that was first introduced in Budget 2010. This could benefit companies in the manufacturing sector, which are among those most exposed to the global supply chain disruptions, either due to delays in receiving the necessary raw materials from the suppliers or in delivering finished goods to their customers.
To help companies in sectors that more affected by the COVID-19 situation, a higher percentage of financial grant support and enhanced deduction can be considered.

03 Securing critical material supply through nearshoring and diversifying supply chains for other materials

Singapore will need to seize new areas of opportunities and refocus its strategies to be more agile and diverse in the years ahead. Governments around the world are now encouraging organisations to explore a China Plus One strategy, which involves reducing supply chain dependence on China and diversifying into other countries. Singapore will also have to look at how companies can maintain presence in China, while tapping additional manufacturing and sourcing locations and resources so as to build resiliency in supply chains. The government can encourage companies to adopt this strategy via grants or in providing support in identifying ideal locations for different industries.

There is also an opportunity to expand the scope of the double tax deduction scheme for initiatives undertaken to enhance supply chain resilience, as well as to explore new Free Trade Agreements (especially with emerging economies in Africa and South America) and enhancement of existing Avoidance of Double Taxation Agreements (especially with major trading partners such as US, China, Japan and Korea, as we have seen with the recent enhancements to the Indonesia treaty). These should help provide greater certainty on trade, customs and taxation matters for Singapore businesses.

Countries are already encouraging reshoring of critical capabilities lost from nations through globalisation. However, post-pandemic, the government should develop focused strategies and attention should also be directed towards specific supply chains supporting healthcare, disaster recovery and critical national infrastructure. Singapore can look at stimulus packages to encourage companies to actively set up manufacturing operations for critical resources in Singapore as well as other emerging ASEAN countries to diversify its operations. At the same time, companies could also benefit from government-supported programmes to conduct feasibility studies of nearshoring operations.

04 Improving supply chain agility through just-in-case principles

Supply chains have historically relied on minimal inventory and lowest material cost with the use of "just-in-time" methodology. With recent history of disruptions and on-going trade wars, countries and organisations will need to strike a balance between "just-in-time" lean and "just-in-case" agile methodology to build flexibility and resilience.

This will require companies to increase their inventory levels and source materials from more expensive locations, which will see the need for additional working capital. In this regard, there will be a need to improve ease of access to credit and capital for Singapore businesses in building just-in-case agile business models. Financial support from the government in the form of financial grants and working capital loans would help relieve the cost pressures on businesses.

05 Enhancing supply chain resilience while supporting Singapore's ESG agenda

KPMG's 2021 CEO Outlook Survey found that 80 per cent of Singapore CEOs reported significant demand from stakeholders for increasing reporting and transparency on ESG issues, as compared with 58 per cent globally and 70 per cent in the Asia Pacific region. In addition, 96 per cent of CEOs here say they are looking towards the government to provide the stimulus to help turbo charge the climate change investments they have made.

An ethical and sustainable business operating model, which is supported by supply chain and procurement, is key to enhancing resilience and business continuity. Companies should look at how they can establish a circular supply chain, where the value of a product is extracted fully before it is recycled and reused, as part of their ESG agenda.

The government can support businesses through public-private partnerships to develop industry standards for ethical and sustainable supply chain and procurement, while providing grants for companies to embark on ESG efforts in this area. As part of the circular economy initiative, the government should also make companies progressively accountable through the Extended Producer Responsibility (EPR) framework, such as by including additional categories beyond e-wastes and packaging wastes.

06 Nurturing supply chain talent in Singapore

Supply chains are becoming more complex, as modern operations are increasingly relying on technology and innovations. With this, the boundary between blue-collar and white-collar workers are diminishing. Supply chain and manufacturing operations will need a blend of both physical and technological skills to sustain its growth. It will become more critical to train ground level staff and equip them with the right skills and capabilities.

With a growing demand for 5G-enabled smartphones and autonomous vehicles expected to boost the country's semiconductor sector, Singapore is in a unique position to become the innovation centre for capabilities in the high-tech industry. Companies are drawn by the opportunity to innovate and produce high-value products in Singapore, which is also known as a reliable export hub. However, Singapore is among the most expensive manufacturing locations across the globe and this is a concern for companies looking to establish operations here. Singapore will need to work on optimising costs while also enhancing science, technology, engineering and mathematics (STEM) talent to increase the country's attractiveness as a semiconductor manufacturing hub.

At the same time, companies should also rethink their approach in engaging with the future Gen Z workforce. The government could consider refining the SkillsFuture programme initiative on digital supply chain to appeal to Gen Zs, who will be interested in the intersections between supply chain operations and technology innovation.
A mentorship programme which will allow industry experts to share skills and knowledge with young talents could also be developed.

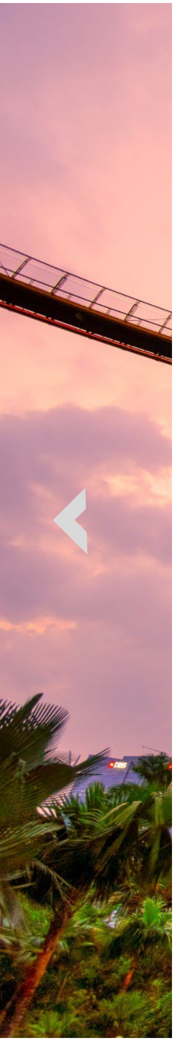
CHARTING NEW ORBITS

New day for trade, travel and tourism

▶ BACKGROUND

As the economy and borders reopen, there is renewed optimism that the travel, trade and tourism sectors are ready to set a course for recovery. Based on advance estimates released by the Ministry of Trade & Industry (MTI), the Singapore economy grew by 6.5% on a year-on-year basis in the third quarter of 2021, moderating from the 15.2% growth in the previous quarter. Similarly, preliminary data from MTI reveals that total trade at current prices is up 18.7% on a year-on-year basis in Q32021.

Singapore is currently deploying its "living with COVID" strategy as it charts its recovery from the pandemic. A high vaccination rate and easing travel restrictions, such as a reduction in quarantine period and the establishment of several vaccinated travel lanes (VTLs), are already contributing to the recovery of the sectors hardest hit by COVID-19. This can be seen in the soaring demand for flights from Singapore to the rest of Asia ahead of the winter holidays and Lunar New Year.



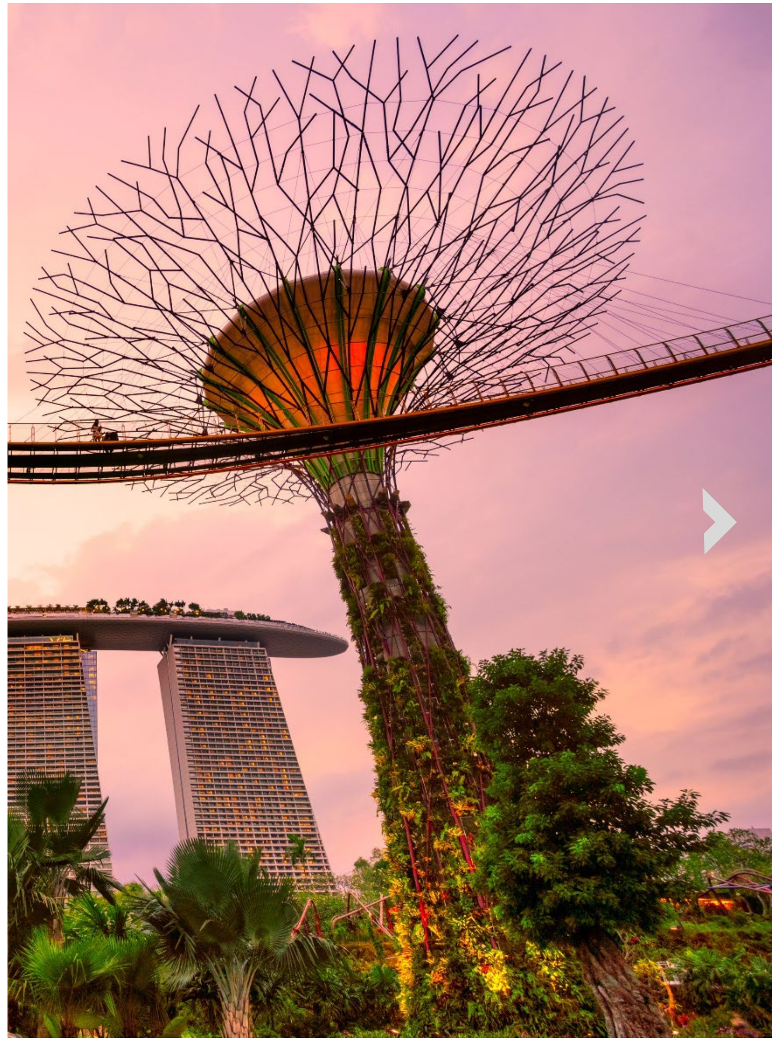
► ISSUES AND OPPORTUNITIES

Singapore is well-poised to recover from the COVID-induced setback to hard-hit sectors such as travel, trade and tourism.

As the economy reopens, one issue that Singapore faces is talent shortages, especially in light of its ageing population and foreign manpower hiring rules. The nation-state has strong pull factors such as world-class healthcare, quality education, political stability and well-developed infrastructure that supports digital connectivity. But amid intensifying global competition, the country will need to position itself to attract highly qualified workers to boost economic growth, while upskilling employees to be future-relevant. The Ministry of Manpower reported that 25% of job vacancies here were left unfilled for six months or more. The ratio of job vacancies to unemployed persons reached a high of 1.63 in June 2021.

Beyond the issues facing trade, travel and tourism, the consumer and retail industry also faces massive disruptions on many fronts, with COVID-19 having accelerated the shift towards digital channels and triggered seismic shifts in consumer behaviour, such as reduced discretionary spending and a preference for local brands. However, few traditional retailers are well poised to deliver omni-channel success in this new reality. It not only requires investment into infrastructure and increases the fixed cost base, but also potentially cannibalises sales from the retailer's own brick-and-mortar stores, adding running costs but not revenue.

At the same time, as discussed in the first chapter of our Proposal, Singapore is seeking to expand its ESG agenda and promote green infrastructure, which in turn will spur travel, trade and tourism. Under the country's "Green Plan," Singapore has outlined a set of clear goals and objectives for a greener economy by 2030. These include setting aside 50% more land (approximately 200 more hectares) for parks, quadrupling solar energy deployment, finance schemes for companies to pivot to more sustainable strategies and innovations, and meeting 30% of the population's nutritional needs through locally produced food by 2030.



▶ OUR PROPOSITION

The following measures can help boost the recovery of the travel, trade and tourism sectors:

01 Spur business recovery and growth

- **Enhance Double Tax Deduction Scheme for Internationalisation (DTDi) scheme:** This scheme offers a 200% tax deduction on eligible expenses for international market expansion and investment development activities. Possible enhancements could include (i) additional categories of expenses such as COVID-19 travel related expenses and (ii) enhanced 400% deduction on existing qualifying expenses for businesses in trade, travel and tourism sectors.
- **Extend property tax rebate and rental support packages:** Such support would help alleviate the cash flow concerns of businesses in sectors badly affected by the pandemic (e.g. F&B, brick-and-motar retail, tourism and hospitality sectors).
- **Enhance M&A allowance scheme:** Enhancement of the existing M&A allowance scheme for struggling consumer, hospitality, and retail businesses would help encourage consolidation for those hit badly by the pandemic.

02 Boost ESG-related trade agreements

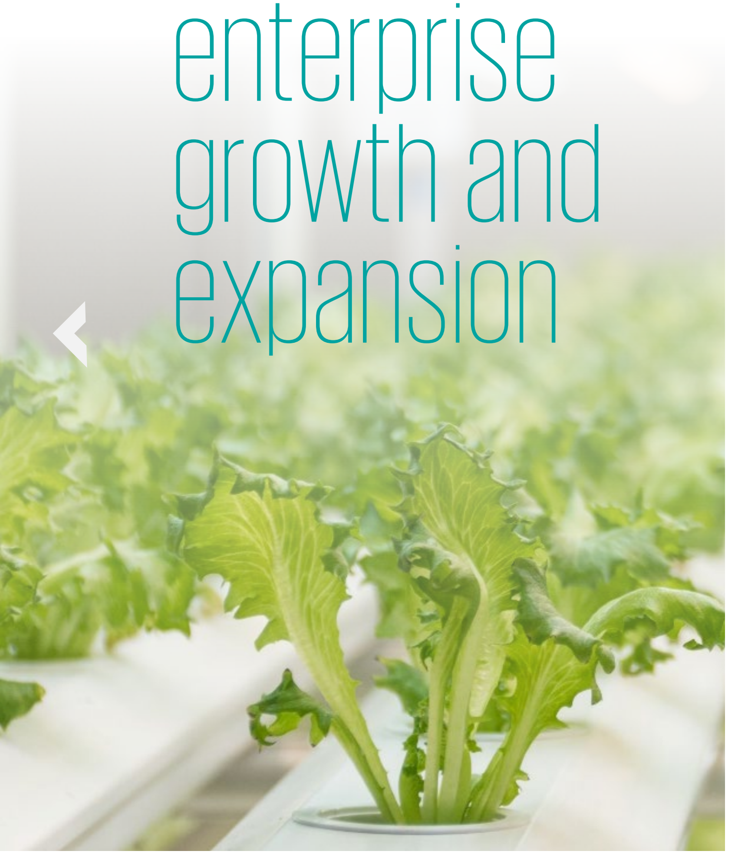
- **Expand international trade agreements and collaborations to meet ESG goals:** There is scope to expand Singapore's agreements, especially with a focus on the ESG change agenda. Singapore's recent agreements with the European Union, for example, may be re-looked at in this context. In December 2020, two agreements to facilitate cooperation and business activities between Singapore and the European Union were signed. One is an administrative arrangement between Singapore and the European Commission on cluster cooperation and the other is a memorandum of understanding (MOU) between the Singapore Business Federation (SBF) and the European Chamber of Commerce, Singapore (EuroCham). Given the EU's renewed focus on climate change, these two agreements could be expanded to focus on supporting businesses focused on sustainability, and on how to effectively collaborate to develop world-class green technologies and/or green infrastructure.

03 Enable digital ecosystems to foster resilience

- **Enhance capital allowance (CA) and tax deduction claims on in digitalisation initiatives:** This will help to alleviate cash tax burden as businesses step up digitalisation efforts and expand their service offerings.
- The STB could also set up **a one-stop shop online marketplace for tourism and hospitality players** to sell travel packages to tourists. This not only helps tourists book packages easily but also helps local businesses get more publicity and visibility.

STRENGTHENING OUR CORE

Fuelling enterprise growth and expansion



► BACKGROUND

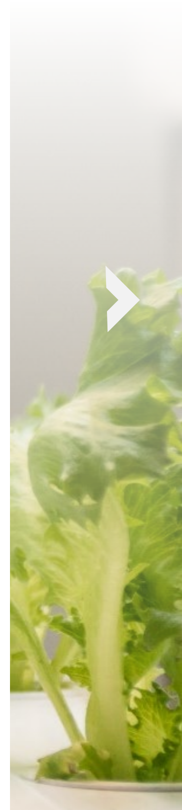
Singapore has not been spared by the severe economic disruptions caused by the COVID-19 pandemic in the last two years. As businesses gear up for the path to recovery, the focus will turn towards how they can cope with the immediate challenges ahead, such as rising costs, cash flow concerns and manpower limitations. Beyond that, all sectors are looking towards business expansion, seizing new growth opportunities, and building economic resilience. This will mean increasing their top line, while keeping a pulse on emerging trends, digital technologies, innovation and ESG aspects.

► ISSUES AND OPPORTUNITIES

As businesses step out of COVID-19, they are likely to encounter increasing costs on all fronts and cash flow will remain a focus in the immediate term. The sudden surge in activities as economies begin to open is also likely send costs even higher up as companies jostle for raw materials and labour to meet the demand. Higher costs, on top of manpower shortages, are expected to impact businesses in the coming years and affect ongoing transformation efforts. There will be greater urgency among enterprises to transform their operations to become more productive and sustainable.

Yet insights from KPMG's 2021 CEO Outlook show that 92 per cent of Singapore CEOs remain confident about Singapore's growth outlook while 96 per cent of them predict that their company's earnings will increase in the next three years. Furthermore, M&A appetite among Singapore CEOs has soared to a three-year high. Considering these ambitions as well as the surge in M&A interest in enterprises looking to quickly acquire capabilities, more can be done policy-wise to support growth via this route. Meanwhile, organic growth, such as through R&D and capital investments, remains an important strategy, alongside strategic alliances.

Also critical for enterprise growth and competitiveness will be sector-specific talent needs. These should be considered as part of the national manpower strategy, with policies to mitigate the needs of enterprises and welcoming specialised talent. This has to be balanced with borders reopening and more flexible ways of working facilitating atypical employment schemes and hybrid work models.



OUR PROPOSITION

We are proposing the following initiatives to support enterprises in their post-pandemic efforts:

01 Support measures to relieve cash flow issues for businesses in the immediate term

Financial support from the government in the form of rent relief, cash grants, wage support and temporary bridging loans continue to be effective support measures to relieve cash flow issues. It would be key to provide more targeted support as well as a more gradual phasing out of these measures.

The tax measures that could help to alleviate tax outlays include:

- Extension of corporate tax rebates with special rules allowing carry forward of unutilised credits to future years
- Allowing tax deferral (e.g. payment of corporate income tax to be deferred by 6 to 12 months, coupled with longer installment plans) on application by companies whose cashflow are adversely affected by the pandemic
- Allowing deferral of distribution of taxable income by S-REITs
- Allowing carryback of tax losses to pre-COVID-19 periods
- Accelerating capital allowance claims for the next two years of assessment

02 Enhance M&A support schemes to help local enterprises grow and expand

In the wake of the pandemic, government agencies can play a more active role to facilitate discussions on M&As and enable deals to take place. This includes providing support for M&A activities in targeted sectors so that Singapore companies can be better positioned as strong regional and global players.

To grow a conducive environment for M&A activities, we propose these support measures:

- Enhancing grants for M&A deal evaluation costs, including financial, tax, legal and commercial due diligence fees and post-deal integration costs
- Tax deductions on abortive deal costs and other related costs
- Allowing group relief and carryback of M&A allowances
- Bringing back stamp duty reliefs on qualifying M&A transactions
- Enhancing fund incentives schemes to facilitate capital investments

Facilitating successful M&As would enable companies to gain bigger financial strength and capabilities to win contacts in the rest of Asia Pacific.

03 Position Singapore as a place for unicorns to invest and set up their base

Singapore has taken positive steps towards positioning itself as a choice location for fast-growing companies, for example, with the recent introduction of the Singapore Exchange's SPAC listing framework. However, KPMG recommends that more can be done to support unicorns to thrive in the country. This will add to the attractiveness of the entrepreneurial ecosystem here, on top of benefiting the economy.

Currently, the scope of some of these 'hot sectors' may not necessarily fall within various government programmes, incentives and schemes and thus face challenges in getting the support they need. We recommend creating a closer public and private collaboration to bridge this. In addition, some of these schemes should also be extended to non-Singapore companies if these enterprises contribute sufficiently to Singapore's GDP. Doing so will help to create employment and upskill our workforce.

To capture the opportunities in Southeast Asia and position Singapore as a hub in the region, the country should continue to have an attractive environment that supports the entrepreneurial scene here. This will attract both local and overseas entrepreneurs. The government can encourage investments in potential unicorns through more targeted grants and tax incentives. It can also consider providing tax deductions or tax rebates for private enterprises with failed investments in these unicorns. Furthermore, it will be crucial to create an environment to grow tech talent here, beyond attracting inbound talent. This warrants developing a local world-class education system that can anticipate new industry trends and enculturate young talent to meet pipeline needs in a timely fashion.

04 R&D tax credits and tax incentives

Many businesses are facing difficulties in hiring R&D resources, which could impact their growth if left unaddressed. Current R&D tax incentives only allow enhanced tax deductions on manpower costs for R&D performed in Singapore. We believe there is scope to allow the incentive to be expanded to costs related to R&D performed overseas, so that enterprises can engage with R&D service providers outside of the country to supplement the work undertaken by the teams in Singapore.

05 Expansion of DTDi for marketing and promotion costs

Singapore wants to encourage start-ups across the world to use the country as a base for its global operations. Besides R&D, technology start-ups would also require a significant portion of capital for various marketing and promotion efforts to generate revenue from the region, which includes payments for online advertising as well as customer acquisition costs, such as discounts for new customers. We are proposing that the Double Tax Deduction for Internationalisation (DTDi) scheme should be expanded to include all marketing and promotion costs incurred to expand into new markets. To cap potential revenue loss to Singapore, the following can be included as requirements for the scheme:

1. Available on an application basis
2. Available for the first three years of any new market
3. Available for carryforward
4. Company must have its global headquarters in Singapore

06 Further support for digitalisation and automation

With working from home becoming a norm, businesses are recognising the need to digitalise their operations more urgently. They could benefit from direct financial support, including grants, subsidies, co-funding and loans. For instance, Singapore's manufacturing sector will continue to need support in its automation journey and smart factory transformation. Companies in this sector that are willing to upgrade themselves could get tax benefits along with the government grants. The government could also explore supplementary tax measures that are similar to the Productivity and Innovation Credit Scheme to help defray costs in designing, testing and implementing digitalisation projects.

Apart from grants and tax reliefs, the government could also set up a Centre of Excellence for businesses to get expert advice and guidance on what other companies have done in their respective industries. Efforts can also be channelled towards working with consultancy firms to provide businesses with strategies on how they can go digital with their business, with the costs to be co-funded by the government. Alternatively, the government could consider partnering with universities, which can work with businesses on these consultations.

07 Temporary removal of Market Readiness Assistance scheme cap

Post-COVID-19, "work from anywhere" could become the prevailing work model for many businesses. This means that its implications on tax, such as permanent establishment issues, local payroll and social security contributions requirements, will need to be addressed. Current support measures under the Market Readiness Assistance (MRA) grant are only available for business that do not have revenue exceeding S$100,000 in a particular market. They will be able to receive funding of up to 80% of costs, capped at S$100,000 per company per new market, paid to consultants for overseas market expansion. We propose that the cap should be removed temporarily to support businesses as they try to realign their workforce policies in a post-pandemic world, and to expand possible options for hiring due to shortage of talent.

08 Measures to attract and retain talent

One-off tax relief package for employees in businesses which experienced pay cuts/layoffs: For workers who are retrenched, we can consider giving a tax holiday for the year they are retrenched. For consumer and retail businesses, specific measures such as enhancing the loss carry back regime, enabling unutilised foreign tax credits to be carried forward and allowing brought-forward unabsorbed loss item for group relief scheme will help reduce cash tax.

Enhance existing tax measures such as the Jobs Growth Incentive (JGI): Talent retention remains a challenge. The Jobs Growth Incentive (JGI) supports employers to expand local hiring from September 2020 to March 2022 (inclusive), so as to create good and long-term jobs for locals. Some enhanced tax measures (e.g. double tax deduction) for training and development expenses will be welcomed to boost necessary spending in these areas.

STRENGTHENING OUR CORE

The rise of a wealth and asset management hub

► BACKGROUND

In the last decade, Singapore has strengthened its position as a global financial services hub, taking impressive strides in transforming its offerings to meet the changing needs of customers. COVID-19 accelerated digitalisation in the financial services industry, with many players pivoting their business and operational models to digital platforms. Customer demand for smooth, personalised and touchless digital experiences continues to seed new opportunities for growth. According to KPMG's latest Pulse of Fintech Report, the Republic's financial technology (fintech) industry saw a three-year high in deals transacted in the first half of 2021, with a total of 72 deals worth US$614.2 million (S$830.9 million) recorded.

Singapore has also enhanced its reputation as an asset management hub in recent years. The capital managed out of Singapore is an important part of the local financial services system. Singapore currently has over 1,000 fund managers covering a broad spectrum of strategies. Hedge funds are a source of alternative debt capital, while venture capital funds play a crucial role in bridging the funding gap that is experienced by many start-up businesses. Traditional assets managers provide liquidity to public debt and equity markets. While the country has managed to build a reputation as a funds management hub, many Singapore-managed funds are currently established in another jurisdiction.

► ISSUES AND OPPORTUNITIES

Wealth management

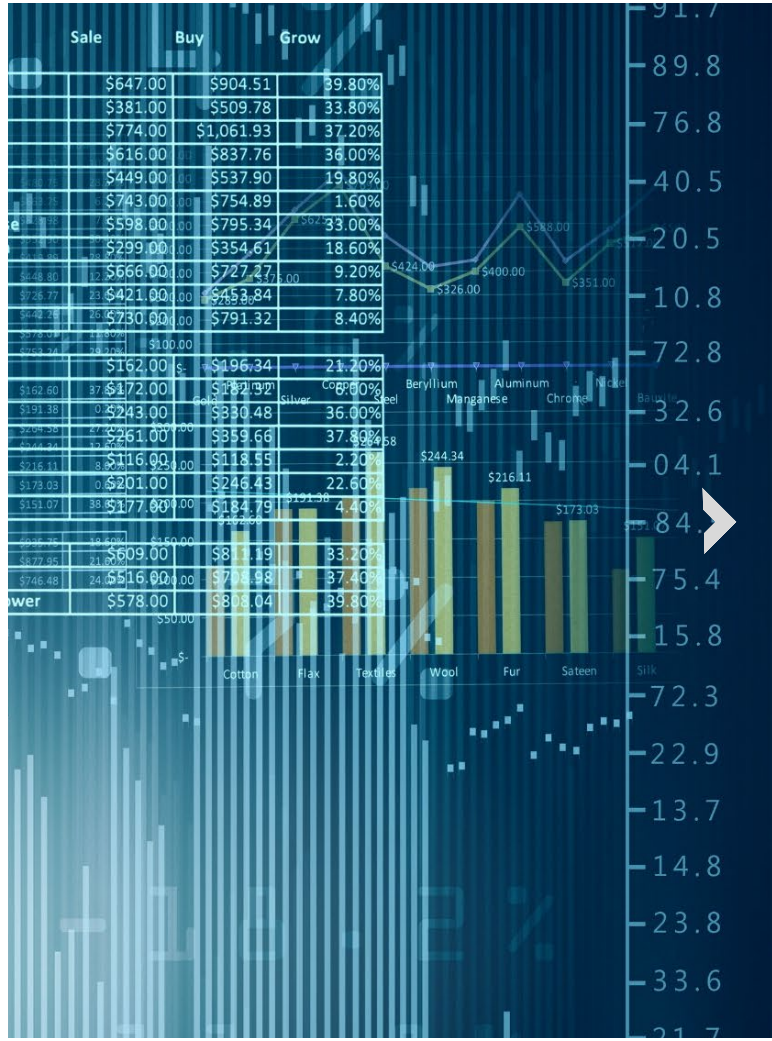
COVID-19 has accelerated the shift towards digital channels and triggered major shifts in consumer behaviours, such as a preference for highly personalised, digital products. This is fuelling the rise of digital ecosystems, including highly integrated apps that offer a one-stop-shop for a range of financial services including wealth management. As we look ahead to life after the pandemic, a new world of wealth is taking shape, where younger clients are demanding a low touch experience and the emerging affluent classes are digital natives who prefer being engaged digitally and expect to have information on demand.

For instance, the intergenerational transfer of wealth means millennials are now among the ultra-rich, yet they may prefer digital tools and might be interested in alternative ways of managing their money.

Several individuals are also rethinking their savings and retirement plans, while showing a willingness to explore new solutions and digital channels. Many wealth managers benefited from higher transaction revenues as their customers actively looked to manage their portfolios to protect financial investments amid COVID-19 uncertainties.

Going forward, financial institutions are likely to continue to see high returns especially in wealth management and personal banking, as digital innovation democratises wealth management, breaking down the barriers for services most often reserved for high-net-worth individuals. This will create new opportunities to expand the scope of wealth management services and products to customer segments that have typically been underserved such as the core affluent group.

A major differentiator for wealth managers is the advice they provide customers. In this context, wealth managers are set to sharpen their focus on upgrading digital and analytics infrastructure while upskilling their relationship managers (RMs) in preparation for increased reliance on digital engagement models and digital-led advisory.



► ISSUES AND OPPORTUNITIES

Asset management and fund domiciliation

Singapore is already an established asset management hub. But for Singapore to also become the default go-to location for global funds to be set up here, it will be important to find ways to convince investors and fund sponsors to shift over from established locations. One of the biggest issues is investor familiarity. The recent promotion of Singapore as a funds domicile has almost exclusively centered around the launch of the variable capital company (VCC). While the continued process of promotion is certainly a good thing, it is arguable that this could be expanded to include incentives to encourage the adoption of Singapore fund vehicles other than the variable capital company. This includes the limited partnership which has a largely untapped potential as a master pooling vehicle for Singapore. Some funding could be made to advisors based in Singapore to help with the promotion of the full suite of Singapore fund vehicles internationally.

Tax neutrality is also one of the 'must haves' when a fund sponsor is deciding upon the domicile of a fund. Essentially what is required is a structure that does not cause any tax leakage at the level of the fund itself. This simplifies the tax position of investors who are then only required to consider the taxation of their interests in the fund based on the laws of their own jurisdiction. Tax leakage can exist as income tax that is imposed on the profits of the fund, and indirect taxes which may be charged on services that are provided to a fund. It can also arise in the form of income or transfer taxes upon a disposal of the interests held in a fund by investors.

Singapore has mostly addressed the risk of income tax on fund profits through the various tax incentive schemes. There is however room for improvement in the GST treatment. This is because the way that the GST remission currently works means that a small amount of irrecoverable GST may be borne by a fund that is managed by a Singapore fund manager. This is a direct cost of a fund and reduces the returns achieved by investors.

OUR PROPOSITION

The following steps may be considered to augment Singapore's position as a global Asia node for financial services and wealth management, as well as a hub for asset management and domiciliation:

01 ESG Agenda

The recent outcomes of COP26 have highlighted that financial markets have a major role to play in positively influencing the climate transition. A focus on holistic client service often means wealth managers seek to help their clients with frameworks for their ESG transition as well as with capacity building and training. Quality of data continues to be a significant issue for all financial institutions, including wealth managers. A consistent set of data is also required to make effective business decisions. In this context, non-tax policies or support in promoting Singapore as a centre for research to develop such data sets may be timely.

Apart from data, incentives to create and develop digital solutions to increase transparency can help enhance Singapore's status as the driver of ESG agenda. This will in turn influence capital allocation.

02 Mainstreaming sustainable investing

The government could consider ways to encourage more flows of sustainable funds. This could include financial incentives for sustainable funds. The existing mechanisms around grant offerings (for example, green bond assurance) and other incentives for companies to meaningfully pivot towards sustainable activities continue to drive funds and activity in the sustainable area. In addition, increased regulation (for example, MAS Environmental Risk Management) continues to mandate that financial institutions take significant steps towards ensuring that sustainable considerations become a core part of their operations and decision processes when either investing or making financing decisions.

With heightening focus on purpose as a driver of business strategies, ESG in all forms will permeate how banks operate and financial institutions will need to group together to solve industry wide solutions such as access to reliable ESG data. Therefore, consistent definitions and taxonomies along with new ESG data platforms are required to ensure that financial institutions in general understand ESG data and how to use it.

03 Driving growth for challenger banks

So-called challenger banks, the collective term used to describe the new banking players that have emerged since the Global Financial Crisis, have made a significant impact in the market. These new entrants will play a crucial role in the democratisation of wealth management for mass market as Singapore emerges from the pandemic.

With the recent setting up of digital banks and the continued support from the MAS for digital innovation, challenger banks will continue to shape the offering of wealth management services.

A focus on holistic financial advice will likely mean that none of these players will be able to significantly affect the status of current wealth management players. However, there will be a positive impact on the industry as a whole as large wealth managers look to partner with these new entrants to improve their overall client experience. In this respect, the government may need to step in to regulate by building structures to ease collaboration between banks and wealth managers, while reviewing competition rules to keep players motivated.

This focus on new and innovative solutions as well as Singapore's existing reputation for incubation and support of the FinTech industry are providing alternatives to the traditional banks in particular for the mass market (and core affluent customer) segments.

Digital assets continue to be a new and growing part of the wealth management market, with increasing expectations that wealth managers should facilitate brokerage / trading and custody of such assets. This involves not only providing access to different instruments via different exchanges, but also being able to continue to correctly advise clients on their investments and financial wealth when having to choose between digital assets versus more traditional asset classes, such as funds and bonds.

There are currently numerous providers offering access to digital assets, but a lack of regulation means that wealth management clients continue to approach more traditional players as they are seen as trustworthy and may be held accountable. The introduction of controls and regulations by the government would assist in increasing investor confidence and allow some of these smaller providers to gain some market share from traditional wealth managers.

04 Establishing VCC 2.0

The recent introduction, and the continued promotion, of the variable capital company was a move towards increasing the profile of Singapore as a place to establish a fund. While this new regime has been well received, a number of changes may help to further drive forward the adoption of Singapore funds more generally.

- Limited Partnerships are the gateway to VCCs. The limited partnership is arguably the most popular fund vehicle and is internationally recognised as a default structure for venture capital and private equity managers. It is also used by other alternative asset managers for real estate and infrastructure funds. While Singapore has had a limited partnerships law since 2009, there is room to consider a more nuanced and flexible limited partnerships law which addresses many of the concerns that a foreign investor may have going into these structures.
  - This includes a long list of matters that a limited partner may become involved in without risking their limited liability status. The position around a transfer of partnership interests should also be clear, and so too the relationship between partners when it comes to questions of conflicts of interest and fiduciary obligations.
  - The government could also clarify the Stamp duty position on transfer of interests in a Singapore limited partnership or make it tax neutral (i.e. specifically exempt from stamp duty).

- There is room for further incentives to help both fund sponsors and cornerstone investors defray the costs of exploring the use of Singapore structures more generally. This approach could even be introduced into the existing grant scheme for VCCs.
  – At the moment a fund is able to recover a significant proportion of its establishment costs, but an investor who may incur additional legal expenses to understand exactly what the VCC is and how it works at a granular level has to bear those costs themselves. This is something that could be addressed in a targeted way through tweaks to the existing grant scheme which may be modified to include foreign tax and legal costs incurred by a cornerstone investor.
- The use of a grant scheme could also be expanded beyond the VCC and is a mechanism to pique interest in new fund vehicles and to help drive adoption by fund sponsors. It could even be used to encourage the adoption of the Singapore limited partnerships and even unit trusts and companies as well.

05 Step up promotion efforts

As borders reopen and social distancing restrictions are relaxed, there will be new opportunities to physically visit destinations around the world to highlight Singapore's proposition to global fund managers and investors, complementing virtual efforts over video collaboration platforms. But all this comes at a cost. This opens up co-funding opportunities for the MAS to collaborate with the private sector and intermediaries like accounting firms and law firms to improve investor awareness worldwide. For example, the EDB has a similar programme where leading accounting and law firms as well as banks go on roadshows to market Singapore.

06 Abolish the applicability of GST entirely for funds exempt under 13R/X

This will help put Singapore on par with leading global fund domiciles. The focus on this will intensify as GST leakages are set to increase when the GST rate is hiked to 9%. This has the potential to be a drag on investment returns even with the remission.

07 Include cryptocurrency as a designated investment for the purpose of tax exemption under S13R/X/CA.

The current list of designated investment qualifying for exemption under Section 13R/X/ CA schemes should be expanded to specifically include cryptocurrency, which is an emerging asset class that is increasingly becoming mainstream.

08 Consider non-tax measures to encourage the development of Singapore as a hub for data centres and renewables.

- Single window clearance for new asset managers setting up fund operations in Singapore would be welcome. In the post COVID era, the reputed Singapore efficiency has suffered a setback and involves protracted dealings with multiple government agencies. Single window clearance would not only help save time and resources, but also improve ease of establishment and operations to attract global and regional players.
- There is also scope to think about how Singapore can position itself to attract and retain global talent across ranks, particularly in the areas of new age and developing technology (eg. tokenisation of funds, digital asset management etc).

09 Possibilities to renegotiate better benefits for our double tax agreements (DTAs):

Singapore currently has double tax agreements with over 80 countries. Aside from renegotiating such agreements for better benefits, it would be useful to consider a DTA with the US. This will encourage asset managers based in Asia who are managing US and Asian money to also use Singapore as a platform to invest into the US.

10 Accelerate Asia passporting

The Asia Region Funds Passport (ARFP) is an economic initiative to provide regional management of funds throughout member states in Asia. The initiative protects investors and ensures they benefit from increased competition between financial markets in the region. Singapore was involved in the drafting of the ARFP framework since 2013 but eventually did not sign a Statement on Understanding to participate as its concerns over unequal tax treatment were not addressed.

We believe that Singapore should continue to advance discussions on this initiative as this will make it easier for Singapore domiciled funds managed by Singapore-based fund managers to be marketed to investors from certain regions or jurisdictions, such as Europe and Germany.

11 Regulatory considerations

Considering improvements to regulations for funds will help position Singapore as a reliable place to do business. Thus, it is protective for the further development of Singapore as a financial and asset management hub. As much as possible, the idea should be to filter out bad actors early.

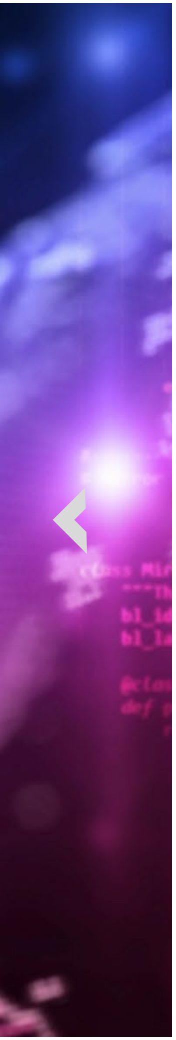
This is also an opportunity to legislate certainty on tax treatment of distributions to investors of tokenised funds, while introducing a light-touch regulation for real estate and infrastructure fund managers - even lighter than Venture Capital Fund Management (VCFM)

STRENGTHENING OUR CORE

Wider horizons for tech innovation

▶ BACKGROUND

The COVID-19 pandemic has accelerated the pace of digitalisation in Singapore and collectively lifted the entire nation's digital literacy. There are tremendous opportunities for businesses in a future shaped by 5G technology, as consumers and businesses increasingly integrate new technologies into their daily activities, seen through an increase in digital onboarding for payments, videoconferencing and QR codes, amongst other areas. Continuous investments in digital services and co-innovation across organisations and industries will be critical in reaching scaled adoption of technology in the enrichment of our lives.



► ISSUES AND OPPORTUNITIES

We have identified five key areas that Singapore will need to continually focus on in driving effective technology innovation at scale, as its target for nationwide 5G roll-out draws near.

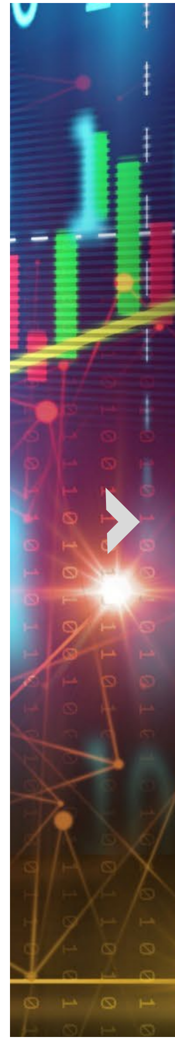
Greater urgency in 5G roll-out: Post-pandemic, there is a bigger appetite to speed up the roll-out of 5G in Singapore, including increased market activity around 5G Stand Alone networks and a continued push for Use Case innovation. Singapore remains a gateway for multinational corporations into ASEAN, which encourages continued foreign direct investment into areas that will enable 5G. However, concerns over 5G network reliability as well as the costs of operating and maintaining the network, which may be passed onto consumers remain.

Unlocking the potential of sector-specific innovations: The low latency and high-speed interactions offered by a 5G network will be vital in unlocking the potential of sector-specific innovations, including the use of autonomous vehicles, virtual experiences in retail and the workplace and immersive learning/diagnosis in healthcare. With Singapore an ideal testbed for these innovations, the country will have to provide a platform to drive greater collaborations and data sharing between various industry partners to make these ideas a reality.

Attracting companies and talent to create disruptive innovations: The government has consistently highlighted the need for Singapore to attract top digital and infocomm media talent; it has also continually identified the key tech advancements needed in each sector and the strategic areas as well as companies, along with associated talent that Singapore wishes to target. It is equally critical that the government encourages these companies and talent establish concrete localisation plans in playing their part to reskill the Singapore core.

Helping businesses thrive in a digital world: Even as they recognise the value of going digital, many smaller businesses remain coy in their endeavours. Some of the key barriers they face include the high costs of implementation, mismatch in requisite digital skills and importantly unproven return on investments. Creating a common and integrated infrastructure for all smaller businesses would be vital for productive adoption of digitalisation at scale.

Bridging gaps in the workforce and society: The pandemic has also revealed inequalities among segments of society. As such, Singapore will need to continue to take an inclusive approach, including providing accessible sources of "digital knowledge" for all ages, as it grows an adaptable, innovative, and resilient workforce. Increased digitalisation also increases the risks of isolation and divide in the community. The need for well-funded and cherished communal public spaces and workspaces (including physical innovation hubs), regardless of ethnicity or socio-economic backgrounds will be increasingly critical. The 2021 KPMG Technology Industry Survey found that almost twice as many global tech leaders (39 per cent) believe that hubs are still critical for driving technology innovation. Even among respondents who are neutral or feel that physical hubs are not important, 92 per cent still think that physical hubs will exist four years from now.



▶ OUR PROPOSITION

To seize the opportunities post-COVID-19, we recommend the following initiatives:

01 A 'digital community centre' to pilot new innovations and technology and business models

Ahead of the nation's 5G roll-out, we propose the setting up of a "digital community centre" to act as a platform which (a) enables industry players to exchange ideas, (b) to pilot innovative technologies that are interlinked with daily living, such as products related to health, wellness and education, as well as (c) measure use case value.

The 'digital community centre' could embody a 5G Use Case Innovation Factory, which facilitates the sharing of best practices and ideas, along with curation of the best use cases, via the definition and application of methodologies and frameworks to measure outcomes and targets that could strengthen their business case. This will result in enhanced monetisation and scalability around the use cases generated within key sectors.

At the same time, in driving 5G and smart city innovations, the government could explore the potential of open source technology applications and study its advantages, which include its speed to market and reduced costs.

With new trends such as hybrid workplaces becoming a norm, the 'digital community centre' can serve as an innovation experience centre that enables communities to test and experience new concepts as well as play a vital role in enabling talent to coalesce and collaborate in and with communities.

Such government-funded customer and user experience spaces would gain attention from global tech and software vendors looking to trial new 5G technology products. At the same time, these hubs can also serve as an engagement platform, where "digital knowledge" for all ages can be made available and learning can take place. We also propose that the current R&D tax incentive should also be widened to include the cost of equipment that is needed to testbed new applications.

02 Supporting telcos and 5G service providers in 5G roll-out

Network reliability could be a potential issue to tackle, alongside the nationwide 5G roll-out by 2025. One way to mitigate this would be network sharing between 5G service providers. Network sharing expands the capacity of networks while avoiding the high costs of doing so, which would ultimately translate to better coverage and reduced costs for users. We have seen governments around the world encourage network sharing in various ways, such as promoting common or shared infrastructure and incentivising applications and software development, especially in the initial stages of deployment. Singapore could benefit from regulatory guidelines that would encourage the adoption of this approach among telcos, while balancing possible concerns over competition.

03 Reduce mobile taxation to encourage network sharing and infrastructure expansion

From industry trends, good infrastructure availability tends to be lower in markets where operators have made higher tax payments. This could be in cases where payments for spectrum rights and licences are not deductible for corporate tax purposes.

We are proposing to provide tax depreciation or writing down allowances for spectrum rights payments, which will mirror the tax treatment in other countries. Currently, no tax deductions can be claimed on such payments, which may result in significant additional costs (due to the non-deductibility of such payments for tax purposes) for telcos. If left unaddressed, such costs may potentially be passed on to consumers.

Furthermore, a stable tax regime that supports investment is important in ensuring that a country's mobile infrastructure develops at a rate faster than its population. Tax uncertainty may disincentivise investors from committing to investments in a particular market. To provide greater certainty to telcos and other players in the industry, the following measures are recommended:

1. Withholding tax exemption for payments for the use of international submarine cable capacity made under indefeasible rights of use (IRU) agreements. This is currently made available to non-residents up to 31 December 2023 (date inclusive). This exemption should be extended for at least another 10 years.
2. Writing down allowances for IRUs: Current tax legislation does not allow for more innovative methods of devising purchases of IRUs. For example, due to high investment costs, investors may devise a revenue sharing model of payment for the IRUs, which may not exactly be covered under the proposed open market valuation. We suggest that the legislation allows the Comptroller or Minister discretion to allow considerations of values other than open market value on a case-by-case basis for purposes of claiming writing down allowances. In addition, currently writing down allowance is only available for capital expenditure incurred for acquiring IRUs incurred on or before 31 December 2025. This causes further uncertainty. The sunset date should be removed, or alternative, the scheme should be extended for another 10 years. It is important to consider the extension now so that investors will have the opportunity to take into account the impact with such high value investments.
3. Extending the R&D tax incentive: Innovation will continue to be key for the industry. The current R&D tax incentive is set to expire in the Year of Assessment 2025. To give investors certainty, especially as R&D tends to involve significant investments in both equipment and manpower resources, the incentive should be extended for at least another 10 years. It is important that the scheme be extended now to give businesses sufficient time to plan their investments, especially as other countries do not have similar end dates to their R&D incentives.

04 Funding to drive 5G commercialisation and talent development in key new sectors

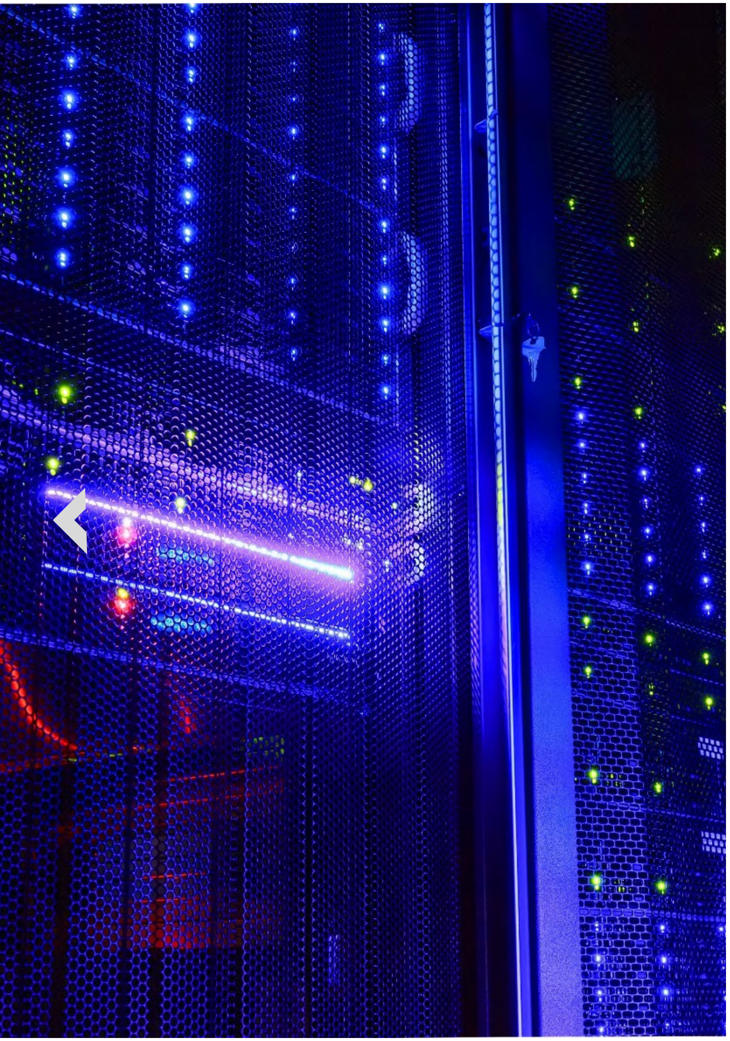
Singapore can look to focus investment, grants and training in areas that best accelerate its advancement around 5G use cases. We propose extending the scope of the 5G innovation grant, which is part of the Infocomm Media Development Authority's 5G Innovation Programme, to include new sectors such as healthcare, fintech and agri-tech to further drive the adoption and commercialisation of 5G solutions in areas that have rose to prominence during the pandemic. The grant can also be further expanded to include subsidies for talent development and skills training.

In addition, we propose to introduce refundable R&D tax credits, not just for development of 5G applications but also for innovative projects in general. This will enhance the effectiveness of the current R&D tax incentive for smaller technology players that have yet to generate profits. Offering refundable tax credits of up to 42.5 per cent of qualifying R&D and innovation costs (pegged to current R&D tax and incentive scheme benefits) will help support these smaller enterprises. They are critical players in the technology ecosystem as they are known for being nimble and are able to bring fresh ideas to the table.

05 Align Singapore's AI regulations in step with global regulatory updates

Singapore's Smart City push could see artificial intelligence systems become more embedded in products, services and processes rolled out by both the government and companies. The risks and challenges that will need to be addressed include any unintended consequences from decision making, the impact of bias and the issue of responsibility.

Singapore could do more to prepare for these discussions that will feature in future conversations on smart city innovations. There needs to be added focus on ethics in AI and surrounding concerns on privacy and security, with increasing access to data and the ability to participate in real-time. Singapore has announced its National AI Strategy in 2019. It has also released its Model AI Governance Framework and an Implementation and Self-Assessment Guide for Organisations (ISAGO). The government can explore education programmes to raise awareness of these resources for private and public sector partners leveraging AI. This will ensure that applications of the future are developed and deployed in an ethically sound way.



06 Data Sharing mechanisms for deeper cross-collaboration

According to KPMG's The Data Imperative report, 57 per cent of technology, media and telecommunications (TMT) executives say that they do not have a defined enterprise-level data strategy. Only 32 per cent believe they are fully utilising their customer data.

Along with the government's move to allow new entrants into spaces dominated by traditional players, more can be done to encourage cross-collaboration between businesses in the technology, media and entertainment, and telecommunications sector. Government support can take the form of grants to set up collaborative teams or partnerships between these organisations, including offsetting costs for engaging consultancy firms to provide their expertise.

We anticipate that there could be difficulties in getting competitors to share their data. However, the government could look at how consumers could play a greater role in both facilitating information sharing, along with the balancing of data protection, transparency and security priorities.

The Personal Data Protection Act currently provides a baseline for the data protection of both digital and non-digital information. However, with an increase in personal data production and availability especially during the pandemic, consumers may not fully understand the nature and amount of data they are sharing with businesses. In most instance, the obligations in the "agree and continue" sections are often easily dismissed by consumers in exchange for the ease and convenience of subscribing to the services. Although it is presented as an option, not agreeing to these terms and conditions precludes the use of the services. For instance, the government could look at how consumers can have more influence in this regard, whilst not undermining data sharing efforts and imperatives.

APPENDIX ▶ OTHER TAX PROPOSALS

01 - Corporate Tax

GENERAL

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ Encourage companies to provide support to their employees for working from home and to embrace this as a new norm even after the COVID-19 situation settles down.	✚ Provide double tax deduction to companies on reimbursements made to employees on expenses incurred to set up their workstations at home.	✚ Make Singapore's workforce truly mobile post COVID-19.
✚ Under FRS 116 Leases, lessees are no longer required to make a distinction between operating lease ("OL") and ("FL") but rather, ROU assets and lease liabilities, unless exemption applies (e.g. for short-term leases and leases which the underlying assets are low value). Notwithstanding the above, for SG corporate income tax purposes, there is still a requirement for lessees to make a distinction between OL, FL Treated As Sale and FL Not Treated As Sale to apply the appropriate tax treatment.	✚ The current income tax laws governing the tax treatments for OL and FL in the hands of lessees should be reviewed to assess how the current tax laws could be better aligned with FRS 116. This may help reducing the administrative burden for SG lessee companies to categorise their leases that are recognised as ROU assets in the accounts into OL or FL (including FL treated as sale or FL not treated as sale) for corporate tax purpose.	✚ Promoting a simple tax regime which facilitates taxpayers' compliance.

FINANCIAL SECTOR

Background / Issues identified	Our suggestions / recommendations	How our suggestions / recommendations would benefit Singapore
Section 10N of the Singapore Income Tax Act ("SITA") provides concessionary tax treatment for qualifying securities lending and repo transactions entered into on or after 23 November 2001. However, the benefits are only available where the securities and collateral are those other than stocks and shares in unlisted Singapore resident companies subject to other conditions. We understand that the policy intent is for Section 10N of the SITA to cover only securities that are shares and debt instruments. Given that many new financial instruments such as collective investment scheme, exchange traded funds and business trust have been introduced in the Singapore market since the introduction of Section 10N, securities for Section 10N should be expanded to include these newer instruments.	To include other instruments such as collective investment schemes, exchange traded funds and business trusts for the purposes of Section 10N of the SITA.	The expansion of the instruments that could qualify for the concessionary tax treatment under Section 10N will help to further broaden and deepen the securities and capital markets in Singapore and build on Singapore's strength as a financial center.

FINANCIAL SECTOR

Background / Issues identified	Our suggestions / recommendations	How our suggestions / recommendations would benefit Singapore
As the carrying on of an insurance business are regulated activities, the only provisions that permit or allow an insurance company's business to be merged with another company is through a scheme of transfer pursuant to section 49FB of the Insurance Act ("Scheme of Transfer"). Hence, such a merger cannot be carried out through a corporate amalgamation under the Companies Act to automatically avail of the Corporate Tax Amalgamation Framework. This creates an anomaly in the position for insurance companies unless an approval is obtained from the MOF on a case-by-case basis.	Expand the scope of qualifying amalgamation under Section 34C of the Singapore Income Tax Act to also include the transfer of insurance businesses of a company to another company that is carried out through the Scheme of Transfer.	The suggestion is in line with the government's effort in encouraging Singapore companies, including insurance companies, to grow through strategic merger and acquisition.

FINANCIAL SECTOR

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ Whether cryptocurrency trading and derivative activities may qualify for the FSI-ST award (for new applicants) and/or fall within the list of qualifying activities for FSI-ST (for existing award holders). Based on informal feedback from MAS: 1. Income derived from cryptocurrency trading: generally difficult to classify such income as income from foreign exchange transactions [refer to 1(e) of First Schedule to Income Tax (Concessionary Rate of Tax for Financial Sector Incentive Companies) Regulations 2017] or other qualifying FSI activity. 2. Derivative transaction: it is a question of fact whether a transaction is indeed a derivative transaction, and the current list of FSI qualifying activities generally does not specify the reference asset in a derivative transaction [refer to 1(g) of First Schedule to Income Tax (Concessionary Rate of Tax for Financial Sector Incentive Companies) Regulations 2017].	✚ Clarify / expand list of FSI-ST qualifying activities in First Schedule to Income Tax (Concessionary Rate of Tax for Financial Sector Incentive Companies) Regulations 2017 to specifically include trading in cryptocurrency (e.g. Bitcoin, Ether, etc.) and cryptocurrency derivatives activities. As there is no formal definition on what cryptocurrency is, a suggestion can be to define cryptocurrency to mean "digital payment tokens", which is currently already defined in the Payment Services Act, as well as in the Goods and Services Tax Act.	✚ With the inclusion of cryptocurrency, Singapore's identity as a leading fund management hub could be further strengthened, as more and more hedge fund managers are looking at setting-up funds dedicated to investment in cryptocurrencies. This will also provide greater tax certainty to taxpayers and enhance attractiveness of Singapore for cryptocurrency businesses.

FINANCIAL SECTOR

Background / Issues identified	Our suggestions / recommendations	How our suggestions / recommendations would benefit Singapore
Under the Insurance Business Development ("IBD") schemes revised in 2017, interest income earned by reinsurer on reinsurance deposits retained by cedants has been regarded as incidental to a reinsurer's business but no longer a direct payment related to reinsurance treaties. Thus, such interest income has not been treated as premiums and not fallen within the scope of qualifying income incentivized in the revised IBD schemes. As a result, such interest income could not qualify under the 10% concessionary tax rate but subject to tax at the standard rate of 17%, regardless whether it is generated from onshore or offshore reinsurance business. The tax rate differentiation has caused a significant financial burden to the Singapore-based reinsurers on those reinsurance contracts concluded prior to the revised IBD schemes came in effect in 2017.	The current structure of the SITA appears to pre-suppose two mutually exclusive categories of income that an / a insurer / reinsurer would primarily derive, i.e., "premiums" and "investment income". This reading is also supported by the MAS Circular No. FDD Cir 05/2017, which, likewise, presents a dichotomy between "underwriting income" (i.e., premiums) and "investment income". Notably, the SITA's dichotomy between premiums and investment income (including gains from the sale of investments) reflects the dual nature of an insurance business, which comprises primarily of the underwriting of insurance in exchange for premiums; and, the investment of monies to obtain the most efficient yield of income and to serve as a reserve fund to meet claims made in respect of losses insured. Further, the current tax rules treat "premiums" and "underwriting income" as interchangeable, which supports a broad interpretation of the definition of "premiums".	Since funds withheld arrangement is very a common feature in a reinsurance contract due to the regulatory and commercial reasons specified in the two left columns, almost all the Singapore-based reinsurers have entered into such reinsurance treaties with their respective cedants (be in onshore or offshore ones). Our suggestion would further strengthen Singapore's position as one of the key reinsurance hubs in the Asia Pacific region.

FINANCIAL SECTOR

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
	Given that the interest on reinsurance deposit comprises one of the payments exchange between the cedant and the reinsurer that alongside the transfer of risk form the consideration of the reinsurance contract, such amounts form part of the consideration provided for the reinsurance contract, and consequently should be regarded for tax purposes as a "premium" that is derived by the reinsurer for entering into the reinsurance contract. Hence, we are of the view that "premiums" should be interpreted broadly to simply refer to the consideration provided under a contract of insurance / reinsurance. With the above in mind, we would recommend interest income earned by reinsurer on reinsurance deposits retained by cedants should properly be classified as premiums, and would fall within the scope of Section 43C(1)(aa) of the SITA and Regulation 6 of the Reinsurance Regulations for the purposes of qualifying for the 10% concessionary tax rate under the revised IBD scheme.	

FINANCIAL SECTOR

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ WHT exemption is granted to Finance and Treasury Centre ("FTC") on interest payments to overseas banks and approved network companies where the funds borrowed are used for approved activities.	✚ Should consider broadening the withholding tax exemption by incorporating this into liberalization of withholding tax exemption regime for specified entities under Section 45I(2). This would also align with the move, which started in Budget 2018, to rationalize the withholding tax exemptions for the financial sector.	✚ This should help to ease the burden of administration for FTC and broaden FTC's funding sources.
✚ *Changing the economic conditions under the Section 13X scheme for SPVs under the Master-Feeder SPV / Master-SSPV structure* Under the present scheme, a Master-Feeder-SPV and Master-SPV structure can submit a consolidated tax incentive application and meet the sum of the economic commitments expected from each fund entity collectively. An exception is available where the Feeder Fund does not trade, the Master Fund and Feeder Fund will only need to meet one set of the economic commitments. There are no such exceptions for an SPV.	✚ It is common for fund managers to structure their portfolio holdings under one or more SPVs. These SPVs generally have little (if any) economic substance but they are important from a structuring point-of-view as they, among other things, facilitates ring-fencing of liabilities, co-investment by fund investors and they also potentially provide more flexibility at exit (allowing for sale of the SPV rather than sale of the portfolio company directly). Requiring each individual SPV to separately meet the Section 13X economic commitments is very challenging for funds. We suggest that as long as the main fund (i.e. Master Fund and any Feeder Fund) is able to meet the Section 13X requirements, there seems no reason to impose additional requirements on the SPVs that were set up for structural reasons.	✚ This would encourage Fund Managers to set-up SPVs in Singapore instead of in tax havens or low tax jurisdictions. The set-up of SPVs also creates opportunities in Singapore for the service industry, such as audit and tax professionals, administrators, lawyers, etc..

FINANCIAL SECTOR

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ *Under the Section 13X scheme, requirement for all limited partners of the Master Fund in a Master-Feeder-SPV structure to consist of only Singapore tax residents* In cases where a Master Fund, under a Master-Feeder-SPV structure, is established as a Singapore limited partnership, there is a requirement for all limited partners in the Master Fund to be Singapore tax residents (i.e. an investor restriction). There are no such investor restrictions in cases where the Master Fund is set up as a company or a trust, where the only requirement is for the company to set up and tax resident in Singapore, or the trust to have a trustee that is set up and tax resident in Singapore	✚ We recommend that the MAS revisits the above-mentioned investor restriction. MAS might consider an alternative requirement for the Singapore limited partnership to have a general partner that is set up and tax resident in Singapore. This would ensure consistency with the requirement for a Master Fund that is set up as a company or a trust, which is to be controlled and managed in Singapore.	✚ Limited partnerships have been used in Europe and US as the main fund entity in the fund industry due to investor familiarity, ease of wind-up, confidentiality, etc. Investors from sophisticated jurisdictions (eg. US, Europe) particularly prefer to invest directly in a limited partnership for both commercial and tax reasons. With the removal of the requirement for the limited partners to be Singapore tax residents, Singapore fund managers could provide flexibility to offshore investors to invest directly in a Singapore limited partnership which acts as a Master Fund, thereby increasing the marketability of a Singapore fund structure.

FINANCIAL SECTOR

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ *Disposal of interest in a non-publicly traded partnership* The current list of 'designated investments' only covers investments in publicly-traded partnerships. It is unclear whether tax exemption is extended to income/gains derived from investments into non-publicly traded partnerships.	✚ It is becoming increasingly common for funds to invest into other funds and the most common form of fund vehicles is that of a limited partnership. Large fund managers often look to seed small / new fund managers, usually in a strategy or region that is different from what the large manager focuses on. There are many examples of this strategy having been successfully employed by the large global private equity funds. Other fund managers (e.g. growth-stage private equity fund) will sometimes invests into other funds (for example, an early-stage venture fund) in order to secure preferred access to the invested fund's portfolio companies as they grow. A growth-stage private equity manager would generally not want to actively find, conduct due diligence, or cultivate small investments in many start-up companies (since VC managers are better and are right-size to execute it). However, they may still want to provide capital in such rounds as part of their investment strategy.	✚ As the fund industry and fund structures are involving, giving way to alternative forms of vehicles, mainly from a commercial perspective, it is important that the taxation laws also change to accommodate the changing dynamics of the sector. With this change, Singapore would be viewed as a jurisdiction that is abreast on the developments in the fund industry and willing to adapt its taxation laws in order for the provisions to be more relevant to the current features of the industry.

FINANCIAL SECTOR

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
	Based on latest clarifications with the MAS, while partnership distributions from non-publicly traded partnerships can be tax exempt, gains (e.g. disposal gains) from investing into such partnerships do not qualify for tax exemption, on the basis that it is not covered under the current list of "designated investments". It is unclear why the two would be treated differently. This ambiguity on the tax treatment of investments in non-publicly traded partnerships is not helpful to the further development of Singapore as a fund management hub. In view of the above, we urge the MAS to consider expanding the designated investment list to include "all partnerships, including LLPs and LPs".	

SHIPPING SECTOR

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ There is currently a WHT exemption on container lease payments under OL for qualifying agreements that are entered into on or before 31 December 2022, while the relevant date for the WHT exemption on container lease payments under FL is 31 December 2023.	✚ We recommend that the sunset clause for the WHT exemption on both OL & FL for container lease payments be extended for at least another five years. If this is not possible, we would recommend that the sunset clause for the WHT exemption for OL be extended for at least another year so both dates can be aligned.	✚ Container shipping is an important segment of the shipping industry and with COVID-19, the level of activity in this segment has been on the rise. Given the uncertainty on how the COVID-19 situation will be in the next one to two years, and with people gradually getting used to online shopping, it is not unexpected for the level of container shipping to be continue around this level in the next few years. The extension of the WHT exemption on both OL & FL for container lease payments is therefore likely to maintain Singapore's attractiveness as an international maritime centre and entice more container liners to anchor their container liner activities in Singapore.

APPENDIX ▶ OTHER TAX PROPOSALS

02 - Personal Tax

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ Currently, only a married male taxpayer may claim for life insurance premiums paid on his wife's life. In addition, the relief is capped and does not apply if CPF contributions have exceeded S$5,000 per year.	✚ Propose to allow both married male and female taxpayers to claim for life insurance premiums paid for their respective spouses. Propose to remove the CPF link and allow the claim for life insurance relief separately regardless of the amount of CPF contributions made.	✚ This will encourage Singaporeans and permanent residents to invest in seeking financial protection for family members arising from sudden life changing events and should be gender neutral, reflecting the changing demographic of society. As the relief does not apply if CPF contributions have exceeded S$5,000 a year, many Singaporeans are precluded from such reliefs as compared to foreigners who do not contribute to CPF.
✚ There is currently only life insurance premium relief while medical insurance relief is not claimable.	✚ Propose to allow medical insurance premium relief for self / dependents.	✚ This will be aligned to the call for Singaporeans to seek insurance protection to take charge of personal medical costs.
✚ No personal tax rebate was granted for YA 2021.	✚ Due to the devastating effect of COVID-19 on employment and income, propose to allow a personal tax rebate of 50% of tax payable, capped at a higher amount of say, S$1,000 for those whose income is taxed at a lower tax bracket.	✚ This will help cushion the impact for taxpayers in lower income bracket, who may be more affected by the COVID-19 related economic challenges.

Background / Issues identified	Our suggestions / recommendations	How our suggestions / recommendations would benefit Singapore
Course fee relief	To support individuals to invest in their own upgrading and stay relevant amidst the rapid workforce transformation, to increase the course fee relief from current S$5,500 to a higher threshold, say S$10,000 to align to market rates of courses. To remove the restriction that the courses, seminars or conferences attended must be relevant to the current employment, trade, business, profession or vocation, in order to support individuals who are diversifying their career options or preparing for a career switch.	As our workforce undergoes rapid transformation and individuals are encouraged to acquire new skills and pivot to new opportunities to stay relevant in the new economy, the increase in course fee relief threshold will encourage and help support such efforts. The removal of the restriction will also be timely, aligning to the critical need for Singaporeans to acquire new skills beyond their current employment or profession, to stay competitive and relevant.
Instalment plan to pay tax.	To extend GIRO deduction cycle to 18 or 24 months instead of the usual 12 months upon request by taxpayers.	This may help provide some temporary relief to taxpayers who have suffered job loss or income reduction during the year.

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ Capping of reliefs to S$80,000 1. From a tax perspective, this is not aligned to the intention to incentivize Singaporean working women with higher income to have more children. Very often, for higher income women, the Working Mother's Child Relief (WMCR) exceeds the S$80,000 combined with other reliefs such as CPF, SRS, etc. 2. With the capping limit, this may disincentivize working women with children to contribute to SRS which was set up to encourage the setting aside of more funds for retirement.	✚ Increase / remove the cap of personal tax relief at S$80,000; or SRS / WMCR relief to be excluded from the S$80,000 cap.	✚ To provide more incentives for families / Singapore women to have children; at the same time encouraging more women to join the workforce. To encourage more working mothers with children to set aside funds for retirement
✚ Middle income employees	✚ To review the quantum of reliefs since these have not increased in tandem with the increase in costs of living for a number of years.	✚ With COVID-19 and increasing cost of living, the relief amount should be reviewed in tandem with these challenges.

APPENDIX ▶ OTHER TAX PROPOSALS

03 - GST

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ In a global digital economy, the tax administrations in other jurisdiction are constantly striving for visibility of the end to end supply process through the use of technology tools that automate the GST / VAT reporting process, from e-invoicing to digital reporting or even real time reporting. For example, countries such as India, China and Australia have either enacted legislation, rolled out pilot program or plan to introduce the relevant requirements. In Singapore's context, the e-invoicing refers to the mode of documentation of the invoice which is in the electronic form instead of physical form as required by GST-registered businesses in the issuance of tax invoice in accordance with the guidelines issued by the IRAS that contains mandatory information.	✚ While there are current GST rules about e-invoice in place, this refers to the format of the tax invoice which is in the electronic form. On the other hand, we are proposing prescribing the issuance of e-invoicing similar to that of other GST / VAT jurisdictions such as India and China. The transaction level of data in the e-invoicing can be transmitted to tax authority by specified electronic system in real time. It is recommended that the IRAS to consider implementing e-invoicing and the digital reporting or real time reporting requirements in Singapore.	✚ This enhances the IRAS's audit tools as it grants access to the transaction level of data from the businesses and such data could in turn be analysed with the opportunity to identify high-risk transactions and businesses. As the result, more GST revenue can be collected by reducing the GST gap.

Background / Issues identified	Our suggestions / recommendations	How our suggestions / recommendations would benefit Singapore
Currently, GST on chauffer expenses and limousine services is disallowed under regulation 27 of the GST (General) Regulations.	While we are cognizant of the motor car policy in Singapore, by denying GST on chauffer expenses and limousine services which are part and parcel of the business expenses such as hotel business for the making of taxable supplies is overly strict. Besides, these charges are passed on to the consumers with GST which is ultimately borne by consumers. This is not in line with the policy intention. We therefore recommend widening the interpretation of regulation 27 or amend the provision to allow the GST claim in connection with motor car to the extent the expense is used in its business of making taxable supplies.	This will provide level playing field for business which decides to engage the services of chauffer or limousine or taxi companies (no GST is charged). This supports a friendly environment for businesses to operate in.

APPENDIX ▶ OTHER TAX PROPOSALS

04 - Property tax and stamp duty

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ Property tax is imposed on all immovable properties situated in Singapore, regardless of the use of the property	✚ Provide 25% property tax rebate for immovable properties used for food production purposes.	✚ The proposed property tax rebate will help reduce the operating cost of companies in the agritech and aquatech industries.
✚ Property tax is imposed on all immovable properties situated in Singapore, including machinery which are regarded "fixtures". A limited exemption is currently available where the machinery is (1) used in the making of articles, (2) alteration, repairing, ornamenting or finishing of articles, or (3) adaptation for sale of articles. In a recent Court of Appeal case, the judges further held that the scope of the exemption is limited to cases where the articles made, altered, repaired, ornamented or finished are "for sale".	✚ Grant exemption of property tax for machinery where the taxpayer is able to substantiate that the said machinery automates or facilitate trade / business processes, increase efficiency / productivity, reduce workplace related risks, etc. Examples of such machinery (which are currently taxable for property tax purposes) include (1) automatic storage and retrieval systems, (2) automatic sorting systems, (3) machinery used for the provision of contamination-free or sterile environment for the life sciences industry and (4) machinery such as robotics, Internet of Things (IoT)-enabled carts and automated guide vehicles used for the lifting and conveying of goods.	✚ The expansion of the scope of the property tax exemption is in line with the Government's push for companies to automate and adopt technology.

▶ Background / Issues identified	▶ Our suggestions / recommendations	▶ How our suggestions / recommendations would benefit Singapore
✚ The current stamp duty legislation does not adequately address the stamp duty treatment of limited partnerships and variable capital companies.	✚ The stamp duty relief regime should be expanded to specifically include limited partnerships and variable companies. In addition, a specific exemption should be legislated to provide for the non-applicability of stamp duty to the transfer of interests in limited partnerships.	✚ Limited partnerships and variable capital companies are commonly used in the asset management industries as a holding vehicle. The amendment of the stamp duty legislation will be in line with the Government's objective of promoting Singapore as an asset management hub.

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