KPMG

SINGAPORE BUDGET 2022

Capturing opportunities at a new dawn

How will it prepare Singapore to harness growth in an economic sunrise?

FOREWORD

Optimism is in the air as most countries adjust their economic recovery strategies to live with COVID-19. Having weathered the crisis better than most – supported by high vaccination rates - the time is ripe for Singapore to position itself for the upturn and capture new opportunities for growth. Building on its core strengths and riding on new trends, Singapore has the potential to become a formidable regional leader in environmental, social and governance (ESG) initiatives and a global hub for top businesses and talent. Budget 2022 lays pivotal steps towards these aspirations. Not only does it chart a fairer post-pandemic social compact supported by progressive taxation policies, but it also outlines a vision of Singapore as a “bright green spark” for the world and a forerunner in innovation.

At the same time, fast-developing challenges remain. Amid a renewed purpose towards sustainability, countries are recognising that they will need to deliver on their environmental commitments with urgency. Businesses, too, are facing the heat from stakeholders to be more transparent, consistent, and accountable on their ESG targets. Singapore has made some bold climate-related commitments in Budget 2022. The most notable would be the acceleration of the net-zero emissions timeline to 2050.

Other challenges on the horizon include the new global tax rules that could kick in next year and growing concerns over inflation and the costs of living. Coupled with the pressure for growth and expansion, businesses could be squeezed on all fronts as they look to survive and thrive. Against this backdrop, Singapore should capitalise on its strengths and reputation as a hub for business and innovation. In the wake of a pandemic that has accelerated the move to a digital future, this means supporting businesses in their recovery and digitalisation efforts, while ensuring that R&D and innovation ecosystems here are being cultivated steadily. Singapore will also have to be cognizant of how its various tax and non-tax measures can attract large multinationals and fast-growing enterprises to anchor their operations here.

In the times ahead, enterprises will need to build greater agility and resilience amid unpredictability. Businesses will have to keep prioritising the development of digital capabilities in emerging areas and attract highly nimble talent who are able to transform disruption into growth.

Today, Singapore can stand proud as it holds the recipe for building lasting companies and societies that will make a positive mark on the world. It will be a pivotal year and Budget 2022 sets the stage towards an economic horizon filled with boundless possibilities.

Ong Pang Thye
Managing Partner
KPMG in Singapore

A NEW WAY FORWARD

Evoking how the Singapore spirit shone through the difficult years of the COVID-19 pandemic, Budget 2022 is positioned as a "new way forward together". It includes tangible measures that businesses, residents and workers can look forward to improve their prosperity in the years ahead – and more fundamentally sets a comprehensive path towards national economic recovery and sustainable growth, aided by progressive policies on the taxation of income, consumption, and wealth. Here is KPMG's analysis of three key themes:

Singapore as a key driver of ESG in the region

Budget 2022 details an ambitious vision for Singapore to help lead the world's transition to a net-zero carbon future. Bringing additional risks of extreme weather events, climate change represents an existential threat to Singapore's way of life and requires it to take decisive steps to overcome its lack of renewable energy resources.

Building on its commitment to halve peak emissions by 2050, as well as last year's launch of the Singapore Green Plan 2030, Singapore will now seek to bring forward its achievement of net-zero emissions through a higher carbon price. A total of $35 billion in green bonds was announced to fund public sector infrastructure projects. The Budget also emphasises the government's desire to minimise car use (including by phasing out internal combustion engines by 2040), incentivise the adoption of electric vehicles and boost the public transport network.

Introduced in 2019, Singapore's carbon tax will be gradually increased from its current $5 per tonne of emissions to $25 per tonne by 2024; $45 per tonne by 2026; and between $50 and $80 per tonne by 2030. While these increases are higher than the rates many were expecting, they should not come as a major surprise to businesses given recent global trends, the greater urgency to address climate change-related issues and the general drive towards more sustainable solutions.

Industries that are most affected can take some comfort from the fact that the first rise will not be effective until 2024, and that a "transition framework" is being drawn up which will provide allowances based on efficiency standards and decarbonisation targets. There will also be a support package for households to offset rising electricity prices.

Yet rather than intended as a revenue raising measure, the rise in Singapore's carbon tax is positioned as part of a decisive economic restructuring towards decarbonisation. Budget 2022 makes an impassioned pitch for Singapore to become Asia's go-to location for green finance, carbon services and an expert in areas such as sustainable aviation, marine fuels and tourism.

Besides an increase in carbon taxes, there were also a range of green initiatives and incentives announced for Singapore to establish itself as a "green hub". In building a more sustainable city, Singapore will also have to look at how it can create good jobs for Singaporeans in the green economy, together with the reskilling and upskilling of employees.

Overall, Singapore's commitment to building a sustainable future has come across very strongly. The combination of increasing taxes and incentives should be an effective tool to encourage businesses to move towards greener solutions sooner rather than later.

Singapore as a choice destination for businesses

A second major theme of Budget 2022 is Singapore's determination to be a strategic launchpad for businesses around the world that are looking to expand across Asia. Hence, even as new global tax rules come to the fore in the next 1 to 2 years, the country should consider the balance of tax and non-tax measures that are key in attracting multinational enterprises (MNEs) to continue locating their offices and headquarters in Singapore.

Singapore has a well-established reputation of a leading smart city. Budget 2022 has reaffirmed the government's commitment to support innovation and R&D - public investments in R&D is set at about 1 per cent of GDP - and the city-state is home to a thriving innovation ecosystem. In addition, the extension of the Approved Royalties Incentive (ARI) to 2028 will continue to encourage companies to leverage on state-of-the-art technologies to capture growth opportunities.

Singapore was also among the world's first few nations to establish a standalone 5G network. Certainly, the pandemic has turbocharged the trends towards digital acceleration in all sectors of the economy. Budget 2022 has highlighted the need to keep upgrading broadband infrastructure and to invest in future technologies such as 6G. The ability of businesses to prosper and continue creating jobs and opportunities for their workforce, will require them to embrace this transition. As such, the Budget contains an additional $200 million to improve digital capabilities in businesses and workforces. It also commits to keep upgrading broadband infrastructure, invest in future technologies such as 6G – and to pursue new use cases in areas such as virtual and augmented reality and robotics that can generate innovation across the economy.

As we look at the current trend of Metaverse and the virtual world, we are seeing an exponential need for data streaming, high velocity and low latency data. New technology, such as 5G and in the future 6G, will drive the push for more creative ways to integrate immersive experiences within our real world and adjacent "worlds". These provide opportunities for businesses to engage with consumers differently and market their products. To best capitalise on these emerging technologies, there will be a strong need to drive new ways of working, while encouraging lateral thinkers and problem solvers.

Budget 2022 also aims to anchor Singapore's traditional strengths. The enhancement of the existing tax incentive schemes for funds managed by Singapore-based fund managers will further cement Singapore's reputation as an asset management hub. In addition, the extension and rationalisation of various existing withholding tax exemption schemes will further boost Singapore's position as an international hub for financial services, mediation and arbitration, maritime and aircraft leasing.

Singapore as a magnet for top talent across industries

Thirdly, Budget 2022 contains a comprehensive plan to position Singapore as a global centre of talent. The pandemic has reduced worker and student mobility around the world, leaving nations facing skills shortages. However, as Singapore postures for economic growth, the key policy priority identified in the Budget is achieving a complementarity between luring overseas talent and investing in the local workforce. The Government has correctly recognised the need to expand educational opportunities for Singaporeans through initiatives such as SkillsFuture. It is also committed to the special reskilling challenges facing midcareer workers given their vulnerability to digital disruption and the transformation of local Institutes of Higher Learning.

At the same time, one of Singapore's hallmarks is its ability to combine local and foreign workforces into diverse, high-performing teams. Changes in Budget 2022 slightly recalibrating eligibility to Employment Pass and S Pass Holders, and tightening the Dependency Ratio Ceiling, are designed to protect mid-level Singaporeans while not interfering with the nation's ability to bring in professionals to address higher end skills shortages and to welcome talent from around the world. The slight increase in the top marginal personal tax rate to 24 per cent is also unlikely to adversely affect Singapore's ability to attract top talent.

CONCLUSION

Singapore has the potential to shoot for an economic sunrise, and in doing so, also ascend to be a force for positive influence in the region and globally towards sustainability. But this is contingent on the country and its companies being clear in identifying what they want to be known for in the years ahead. In a world without borders, global competitiveness will also not just be about Singapore, but about ASEAN and the world as a whole. In laying a strong foundation for the country in the areas of sustainability, digitalisation and talent, Budget 2022 is a clear roadmap on the way forward and beyond.

Minimum Effective Tax Rate (METR) Regime

- Singapore is exploring a top-up tax called METR due to Pillar 2 of BEPS 2.0
- METR will top up multinational enterprise (MNE) group's effective tax rate in Singapore to 15%
- Will apply to MNE groups in Singapore with annual revenues of at least €750 million in consolidated financial statements of ultimate parent entity
- METR will be studied further and industry stakeholders consulted on its design

Increase in carbon tax

- From now until 2023 - Current tax of $5 per tonne will remain unchanged
- For 2024 & 2025 – Increase from $5 to $25 per tonne
- For 2026 & 2027 – Increase from $25 to $45 per tonne
- By 2030 – Increase from $45 per tonne to range of $50 to $80 per tonne

Increase in personal income tax rates from YA 2024

Tax Resident - new chargeable income tiers & rates

- $500,001 – $1,000,000: 23%
- In excess of $1,000,000: 24%

Non Tax Resident

- Tax rate increased from 22% to 24% [other than employment income and certain income taxable at reduced withholding tax (WHT) rate]

Disclosure of company-related information for official duties

- Where taxpayers have provided consent, the Inland Revenue Authority of Singapore (IRAS) can disclose such information to a public officer
- The IRAS can also disclose prescribed list of identifiable information on companies to public sector agencies for performance of official duties without need for taxpayer's consents
- Changes will be made to Income Tax Act (ITA) and Goods and Services (GST) Act

Insurers' basis of preparation of tax computation changed to align to Monetary Authority of Singapore (MAS) Statutory Returns

- MAS Statutory Returns used instead of Financial Statements with adoption of Financial Reporting Standard 117
- Takes effect from Year of Assessment (YA) 2024 (or YA 2025 for insurers whose financial year end is not 31 December) .
- IRAS to provide further details by 30 September 2022.

Additional Registration Fee (ARF) increase

- New ARF tier of 220% introduced for portion of Open Market Value above $80K

Enhance Tax Incentive Scheme for Qualifying Funds

- Conditions imposed on investments in physical Investment Precious Metals (IPMs) under designated investments list will be refined on and after 19 February 2022:-
  - Investments in physical IPMs need not be incidental to trading of derivative IPMs; and
  - Cap will be revised to 5% of total investment portfolio for incentive awards under Sections 13D/13O/13U of ITA
- MAS will provide further details by 31 May 2022

Increase in property tax rates for owner-occupied residential properties

- Increase applies to owner-occupied residential properties with annual value above $30k
- 1 January 2023: Top marginal rate increases from 16% to 23%
- 1 January 2024: Top marginal rate increases from 23% to 32%

Increase in property tax rates for non-owner-occupied residential properties

- Increase applies to all non-owner-occupied residential properties
- 1 January 2023: Top marginal rate increases from 20% to 27%
- 1 January 2024: Top marginal rate increases from 27% to 36%

GENERAL TAX CHANGES (continued)

GST rate hikes

- Increase to 8% with effect from 1 January 2023
- Increase to 9% with effect from 1 January 2024

Change in basis of zero-rating for travel arranging services

Currently, travel arranging services are zero-rated if the services comprise the arrangement of international transport of passengers, arrangement of insurance related to such transport and arrangement for accommodation in property located outside Singapore.

From 1 January 2023, zero-rating will only apply where:
i. The contractual customer belongs outside Singapore; and
ii. The direct beneficiary belongs outside Singapore or is GST-registered in Singapore.

WITHDRAWALS

WHT exemption for financial sector

- WHT exemption for payments made under interest rate or currency swap transactions by financial institutions to lapse after 31 December 2022
- Such payments can be covered under existing WHT exemption for payments on over-the-counter financial derivatives
- MAS to provide further details by 31 May 2022

Tax Incentives for Project and Infrastructure Finance

- Approved Infrastructure Trustee-Manager/Fund Management Company from managing qualifying SGX-listed Business Trusts/Infrastructure funds in relation to qualifying infrastructure projects/assets (ITMFM) scheme to lapse after 31 December 2022
- Existing ITMFM scheme recipients will continue to enjoy the tax benefits for the remaining tenure of their existing awards
- MAS to provide further details by 31 May 2022

Integrated Investment Allowance Scheme

To lapse after 31 December 2022

ENHANCEMENTS AND EXTENSIONS

Aircraft Leasing Scheme

Extended till 31 December 2027

Approved Foreign Loan scheme

Extended till 31 December 2028

Approved Royalties Incentive

- Simplified to cover classes of royalty agreements based on activity-set-based approach
- Economic Development Board to provide further details by 30 June 2022

Extended till 31 December 2028

WHT exemption for non-resident mediators

- Extended till 31 March 2023
- Concessionary WHT rate of 10% (subject to conditions) on gross income from 1 April 2023 to 31 December 2027 or 24% on net income from YA 2024 onwards

Tax Framework for Facilitating Corporate Amalgamation under Section 34C of the ITA to Licensed Insurer

- Extended to cover amalgamation of Singapore-incorporated companies involving a scheme of transfer under Section 117 of the Insurance Act 1966 (IA), where the court order for confirmation of the scheme referred to under Section 118 of the IA is made on or after 1 November 2021
- Subject to conditions
- IRAS will provide further details of the changes by 31 October 2022

Tax incentives for Project and Infrastructure Finance

- Existing tax incentive schemes on exemption of qualifying income for qualifying project debt securities (QPDS) and qualifying offshore infrastructure projects / assets were to lapse after 31 December 2022

Extended till 31 December 2025 and MAS to provide further details by 31 May 2022

WHT exemption for non-resident arbitrators

- Extended till 31 March 2023
- Concessionary WHT rate of 10% (subject to conditions) on gross income from 1 April 2023 to 31 December 2027 or 24% on net income from YA 2024 onwards

WHT exemption for container lease payments made to non-tax resident lessors under operating lease agreements

Extended to cover agreements entered into on or before 31 December 2027

WHT exemption for ship and container lease payments under finance lease agreements for Maritime Sector Incentive recipients

Extended to cover agreements entered into on or before 31 December 2028

WHT exemption for financial sector

- Certain payments made under interest rate or cross currency swap transactions, interest payments on certain margin deposits and specified payments made under securities lending or repurchase agreement were to lapse after 31 December 2022

Extended till 31 December 2026 and MAS to provide further details by 31 May 2022

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