KPMG

BUDGET 2023

Moving forward towards lasting paths

KPMG in Singapore

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Foreword

Singapore has shown its mettle as a nation, having emerged stronger and more united from the Covid pandemic. The country's decisiveness and fortitude during the pandemic have enhanced its reputation on the global stage while its strong ties with other countries, especially in ASEAN and the wider region, have strengthened its position as a place for global and regional businesses.

Building on its sound macroeconomic and prudent fiscal policies, the country will now have to focus on the future it wants to create – in a post-pandemic era that continues to be shaped by evolving geopolitical and economic challenges and shifting aspirations.

At the heart of Singapore's priorities will have to be strategies to power a more resilient, sustainable and innovative nation. This means taking advantage of emerging opportunities to attract new flows of investments, capital, talents and ideas – all of which will add vibrancy to the economy, while building a collective resilience to move forward into a new era.

With greater contestation and fragmentation worldwide, Singapore will need to adapt quickly and reposition its economy, including doubling efforts to attract high quality investments and uplifting the competitiveness of key priority sectors. This also signals the need to optimise human capital beyond the existing workforce, ramping up innovation, reskilling employees and managing costs of doing business amid rising costs. This being the case as Singapore faces up to bigger countries well able to offer competitive subsidies and offerings to attract multinational corporations to anchor on their shores. If done well, it can lead to outcomes of more resilient enterprises in Singapore, along with good jobs for Singaporeans.

Other areas Singapore must press on with will be economic restructuring to raise its competitiveness, as well as keeping a steady eye on the global tax rules to attract and retain investments. The various schemes rolled out in Budget 2023 will help companies of all sizes boost innovation and R&D while at the same time allow them to internationalise; they also signal Singapore's confidence to be a strategic launchpad for all businesses.

Ultimately, to weather any external shocks and crises, Singapore will need to move forward as one with the shared purpose and values of a 'Forward Singapore' social compact for the next generation. However, these will have to be underpinned by efforts to shore up its climate resilience – which came across as missed opportunities in this Budget if Singapore is to claim a stake as centre for green financing.

As Singapore's goal to reach net zero by 2050 draws closer, strengthening Singapore's leadership role in driving regional decarbonisation and sustainable practices as well as boosting the attractiveness of green buildings and electric vehicles will have to remain top of mind.

Singapore will have its work cut out as it looks to carve out a prime position for businesses and individuals to move forward into a resilient, inclusive and sustainable world. The good news is: the pivotal stepping stones have already been laid in Budget 2023 this Valentine's Day.

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BUDGET 2023

Moving forward towards lasting paths

The global economic slowdown, geopolitical developments and rising inflation may have clouded the global outlook, but Singapore has its sights firmly trained on brighter long-term prospects, as it charts its way forward into a new era driven by innovation, resilience and sustainability.

Budget 2023 is balanced and prudent in scope, with a focus on boosting national resilience. It includes measures to help businesses and individuals achieve shared prosperity, while bolstering Singapore's fiscal resources for the uncertainties ahead.

Here are KPMG's viewpoints of the three themes that stand out:

BUDGET 2023

Strengthening Singapore's innovative edge and global competitiveness

With the Base Erosion and Profit Shifting (BEPS 2.0) Pillar 2 initiative on the horizon, Singapore has chosen to implement the Global Anti-Base Erosion (GloBE) rules and Domestic Top-Up Tax (DTT) from 2025, a year later than some other jurisdictions. The announcement of the timeline provides much-needed clarity to multinational enterprises in Singapore and gives them sufficient time to prepare. However, this delay may result in Singapore enterprises of impacted multinational groups being subject to top-up taxes in other jurisdictions in 2024. The next two years will be an important window for Singapore to hone its competitive edge in attracting and retaining investment, as it conducts reviews of its broad suite of industry development schemes.

Amidst the backdrop of a global economic slowdown and rising geopolitical tensions, Singapore will need to nurture even more agile enterprises as global supply chains are reconfigured or relocated. In this regard, the Government has provided schemes for businesses here to pursue and grow in innovation and R&D.

The new Enterprise Innovation Scheme (EIS) offers significantly enhanced tax deductions for key activities in the innovation value chain, including R&D, registration of intellectual property as well as skills training. The enhanced tax deduction is at 400 percent (or conversion to a non-taxable cash payout, subject to a cap) on a whole suite of expenditures including staff costs and consumables incurred on qualifying R&D projects. Companies should take advantage of the new scheme to invest in innovation, and anchor R&D and intellectual properties in Singapore.

Besides the EIS, Budget 2023 lays pivotal steps towards strengthening Singapore's economic competitiveness and innovation prowess through various targeted initiatives. The S$4 billion top-up to the National Productivity Fund to anchor quality investments here will be channelled towards building new capabilities, enhancing productivity and reskilling the workforce. This signifies the Government's commitment to invest in the country's medium to longer term competitiveness.

Under the Singapore Global Enterprises initiative, companies will also be given advice from experts who can suggest how to accelerate internationalisation plans and strengthen their talent pipeline.

The Government has appealed to businesses to take advantage of these schemes, and not pull back from their pursuit of business transformation amid the need to tighten belts during a slower economy.

With the worst of the Covid-19 pandemic behind us, businesses in Singapore may be eager to push forward in a next stage of growth by pursuing overseas expansions and nurturing the next generation of local talents. And if so, they should be ahead of the curve when it comes to adopting automation and other digital capabilities – exploring potential emerging technologies such as artificial intelligence that won't just help them manage costs, but can give rise to higher-value products or an all new revenue stream.

BUDGET 2023

Optimising human capital to thrive in an ever-changing landscape

Human capital is the lifeblood of a future-ready economy. Singapore's efforts to continually reskill and upskill its workforce must be complemented with a pipeline of new initiatives to keep its environment stable, liveable and attractive for both local and foreign talent.

Schemes to extend and support employment to ex-offenders and also to Persons with Disabilities are to be applauded, as this isn't just about promoting a more inclusive society but considers how best to optimise Singapore's human capital amidst an ongoing labour crunch, even as pressure will be on companies to deliver more innovations to thrive in this competitive landscape.

To continue the building of the talent pool in an ever-changing landscape, Singapore has provided new schemes to boost skills training and bridge the skills gap in key growth sectors. The appointment of new 'Jobs-Skills Integrators' will optimise training and job placements across different sectors, starting with pilots in the precision engineering, retail and wholesale trade sectors.

At the same time, Budget 2023 has made clear that Singaporeans of all backgrounds will receive the support they need to reskill and upskill as well as have access to job opportunities. This includes supporting the participation of senior citizens in our ageing workforce, such as extending the Senior Employment Credit till 2025 to provide wage offsets to companies that hire senior workers.

With a stronger fiscal position this coming year, Budget 2023 has provided more support to lower-income earners, retirees and working mothers. For instance, the Working Mother's Child Relief will be changed from a percentage of the mother's earned income to a fixed dollar relief, which can provide greater benefit and support for lower-to-middle income working mothers.

Such moves are timely amid a groundswell of support for inclusive growth in the form of a social compact, which can facilitate social mobility and provide opportunities to all, regardless of one's socio-economic background.

BUDGET 2023

Singapore as a key accelerator for green finance and sustainability

As Singapore and other countries set increasingly ambitious goals for climate action, funding sustainable development has become a key focus.

Singapore has the potential to become a regional green finance hub, mobilising much-needed capital to fast-track green projects. To realise these opportunities, for Singapore and ASEAN as a whole, the country will need to further build on its existing initiatives, and should also review periodically the efficacy of its carbon taxes. Ecosystems supporting carbon trading and facilitating greater access to green bonds will need to continue to evolve as well, which means co-opting financial institutions to play a greater role in the nation's green agenda.

There is still opportunity for Singapore to claim a greater stake as a centre for green financing. This is a pressing agenda as funding our move to a lower-carbon economy needs to come sooner rather than later. More can be done to boost the growth of blended and transition finance to help direct funds to projects, such as transitioning from fossil fuels to renewable energy across the region.

While the Energy Efficiency Grant will be extended for another year until 31 March 2024, local action could also be spurred on green infrastructure with more fiscal support to retrofit existing buildings with sustainable features. This could include appropriate incentives such as (i) concessionary property tax rates for green buildings, (ii) enhanced tax deduction on financing costs incurred to retrofit existing buildings and (iii) concessionary tax rate for financial institutions on interest income earned from green loans.

A future area to watch will be the promised significant increases in climate spending in the medium term – including for adaptation measures such as coastal and flood protection. This will create new opportunities in the infrastructure sector. Actions to deal with climate change and create resilience against climate change will only grow in importance in the years to come.

Conclusion

Singapore stands at a pivotal juncture as it enters into a new era of technology disruption, global uncertainty and environmental challenges. Against this backdrop, the country's path to lasting prosperity will be shaped not just by ambition and vision, but also by an all-encompassing strategy to do good for the economy and society.

General tax changes

Option to Accelerate Capital Allowances (CA) on Plant and Machinery (P&M)

- Taxpayers who incurs capital expenditure on P&M during the basis period for Year of Assessment (YA) 2024 have an option to accelerate CA over 2 years (i.e. 75% in YA 2024 and 25% in YA 2025) with no deferment of claims
- This option, if exercised, is irrevocable

Philanthropy Tax Incentive Scheme for Family Offices

- New tax incentive scheme introduced for qualifying donors with family offices operating in Singapore
- Donors must have a fund under the Monetary Authority of Singapore (MAS)'s Section 13O or 13U schemes and meet eligibility conditions (e.g. incremental business spending of S$200k) to qualify
- Qualifying donors can claim 100% tax deduction for overseas donations made through qualifying local intermediaries under the scheme, capped at 40% of the donor's statutory income
- MAS will provide further details by 30 June 2023

Increase in Buyer Stamp Duty (BSD) rates

- Applicable to acquisitions on or after 15 February 2023
- For residential properties:
  - Portion of property value above S$1.5m and up to S$3m: 5% BSD (up from 4%)
  - Portion of property value above S$3m: 6% BSD (up from 4%)
- For non-residential properties:
  - Portion of property value above S$1m and up to S$1.5m: 4% BSD (up from 3%)
  - Portion of property value above S$1.5m: 5% BSD (up from 3%)

Enterprise Innovation Scheme

- New scheme valid from YA 2024 to YA 2028
- Provides 400% tax deductions / allowances on qualifying expenditure incurred on:
  1. Staff costs and consumables incurred on R&D conducted in Singapore
  2. Registration of qualifying Intellectual Property (IP)
  3. Acquisition and licensing of qualifying IP rights (available to businesses that generate below S$500 million in revenue in relevant YA)
  4. Innovation projects carried out with partner institutions
  5. Training via courses approved by SkillsFuture Singapore
- Capped at S$400k of qualifying expenditure per YA for each activity (S$50k cap for item 4)
- Eligible companies can opt for a non-taxable cash pay-out in lieu of tax deductions, capped at S$20k per YA, across all 5 qualifying activities
- Section 14A, 14C, 14D, 14U and 19B of the Singapore Income Tax Act will be extended till YA 2028
- Inland Revenue Authority of Singapore will provide further details by 30 June 2023

Option to Accelerate the Deduction for Renovation or Refurbishment (R&R) Expenditure

- Taxpayers who incurs qualifying R&R expenditure during the basis period for YA 2024 have an option to claim R&R deduction over one YA (instead of three YsA)
- The cap of S$300k for every relevant three-year period continues to apply
- This option, if exercised, is irrevocable

More progressive vehicular tax system

- Preferential Additional Registration Fee (PARF) rebates will be capped at S$60k
- Applicable to all vehicles registered with COEs obtained from the second COE bidding exercise in February 2023
- For vehicles that do not need to bid for COE, the new PARF rebate cap will apply to those that are registered on or after 15 February 2023
- Further details will be announced by the Land Transport Authority

Increase in Additional Registration Fee (ARF)

- Applicable to vehicles registered with Certificates of Entitlement (COEs) obtained from second COE bidding exercise in February 2023 (new rates will apply on or after 15 February 2023 for vehicles that do not need COE):
  - ARF rate for portion of Open Market Value above S$40k and up to S$60k will be increased to 190%
  - ARF rate for portion of Open Market Value above S$60k and up to S$80k will be increased to 250%
  - ARF rate for portion of Open Market Value above S$80k will be increased to 320%

Implement the GloBE rules and DTT

- Singapore plans to implement the GloBE rules and DTT from financial year starting on or after 1 January 2025
- Implementation timeline will be adjusted if there are delays internationally
- Businesses will be engaged to provide them with sufficient notice ahead of any rules becoming effective

General tax changes

Grandparent Caregiver Relief (GCR)

- The GCR would be allowed for working mothers where the caregiver derived income from trade, business, profession, vocation and/or employment, as long as the total income from these activities does not exceed S$4k in a year
- The change will take effect from YA 2024
- Prior to YA 2024, the GCR is not applicable if the caregiver was carrying on any trade, business, profession, vocation and/or employment

Working Mother Child Relief (WMCR)

- The WMCR amount for a qualifying child who is a Singapore citizen born or adopted on or after 1 January 2024 will be changed from a percentage of the mother’s earned income to a fixed dollar relief
- The amount of WMCR relief (subject to certain existing caps) will be:
  - S$8k for first child
  - S$10k for second child
  - S$12k for third child and beyond
- The WMCR amount for quailifying children born or adopted before 1 January 2024 will remain unchanged

Foreign Domestic Worker Levy Relief (FDWLR)

- The FDWLR will lapse from YA 2025

Increase in excise duties for all tobacco products

- Excise duties for all tobacco products will be increased by 15% with effect from 14 February 2023

Withdrawals

Tax deduction for expenditure on building modifications for benefit of disabled employees

- Will be withdrawn effective from 15 February 2023

Enhancements & extensions

Tax measures relating to submarine cable systems

The following tax measures relating to submarine cable systems will be extended till 31 December 2028:

- Withholding tax (WHT) exemption on payments made to non-residents for use of international telecommunications submarine cable capacity under indefeasible right to use (IRU) agreements
- Writing-down allowance for the acquisition of an IRU over its useful life
- Investment Allowance for the construction and operation of submarine cable systems in Singapore

Double Tax Deduction for Internationalisation Scheme

- Enhanced to include a new qualifying activity “e-commerce campaign” covering expenses on business advisory, account creation, content creation, product listing and placement
- Effective for qualifying e-commerce campaign start-up expenses incurred on or after 15 February 2023
- Prior approval is required from Enterprise Singapore (maximum period of one year, on a per-country basis)
- Enterprise Singapore will provide further details by 28 February 2023

Approved Special Purpose Vehicle (ASPV) engaged in asset securitisation transactions scheme

- Extended till 31 December 2028
- GST recovery methodology for ASPVs to be aligned with methodology for licensed full banks
- Introduction of ASPV (Covered Bonds) sub-scheme for SPV holding the ”cover pool” in relation to covered bonds
- ASPV (Covered Bonds) sub-scheme effective from 15 February 2023 to 31 December 2028
- MAS to provide further details by 31 May 2023

IP Development Incentive

- Extended till 31 December 2028

Pioneer Certificate Incentive and Development and Expansion Incentive

- Extended till 31 December 2028

Financial Sector Incentive (FSI) Scheme

- Extended till 31 December 2028
- WHT exemption on interest payments on qualifying loans under the FSI-Headquarter Services also extended till 31 December 2028
- New and renewal awards approved on or after 1 January 2024 will be streamlined to two tiers of concessionary tax rates, 10% and 13.5%:
  - FSI-Capital Market, FSI-Derivatives Market and FSI-Credit Facilities Syndication will enjoy 10% concessionary tax rate (instead of 5%)
  - FSI-Trustee Companies will enjoy 13.5% concessionary tax rate (instead of 12%)
  - No change to concessionary tax rates for FSI-Fund Management and FSI-Headquarter Services (10%) and FSI-Standard Tier (13.5%)
- Qualifying activities list will be updated
- MAS will provide further details by 31 May 2023

Investment Allowance Scheme

- Extended till 31 December 2028

Investment Allowance Scheme for Automation Projects

- Extended till 31 March 2026

Enhancements & extensions

Corporate Volunteer Scheme

- 250% tax deduction on qualifying expenditure incurred extended till 31 December 2026
- Qualifying volunteering activities expanded to include activities which are conducted virtually (e.g. online mentoring and tuition support for youths/children) or outside of the Institutions of a Public Character (IPCs)' premises (e.g. refurbishment of rental flats)
- Cap on qualifying expenditure per IPC per calendar year doubled to S$100k

Tax Deduction for Qualifying Donations to IPCs and Eligible Institutions

- 250% tax deduction extended to qualifying donations made from 1 January 2024 to 31 December 2026

Tax Concession for Deduction of General Provisions for Doubtful Debts and Regulatory Loss Allowances Made in respect of Non-credit-impaired Financial Instruments for Banks (including Merchant Banks) and Qualifying Finance Companies

- Extended till YA 2029 [for relevant taxpayers with 31-December Financial Year End (FYE)] or YA 2030 (for relevant taxpayers with non-31-December FYE)

Tax Exemption on Income Derived by Primary Dealers from Trading in Singapore Government Securities

- Extended till 31 December 2028

Insurance Business Development – Insurance Broking Business Scheme

- Extended till 31 December 2028

Qualifying Debt Securities (QDS) Scheme

- Extended till 31 December 2028
- Scope of qualifying income will include all payments in relation to early redemption of a QDS
- Debt securities issued on or after 15 February 2023 must be substantially arranged in Singapore by a financial institution holding a specified licence (instead of a FSI company)
- Insurance-linked securities (ILS) issued on or after 1 January 2024, which cannot meet the above "substantially arranged" condition, can still qualify if at least 30% of the ILS issuance costs are paid to Singapore businesses
- MAS will provide further details by 31 May 2023

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