Towards lasting paths

Taking Singapore forward into a fairer, greener and more inclusive world

Budget 2023 proposal

Foreword

It is time for leaders to push forward with foresight to find new paths to lasting prosperity, even in the face of an economic slowdown. Singapore has shown relative resilience amid recent global challenges, and must become even more responsive to weather coming storms.

The Government may need to provide short-term support for businesses and individuals in a global economic downturn, all without losing focus on sustainable and inclusive growth.

Planned tax raises for 2023 must carefully balance between bolstering fiscal resources and protecting prospects for growth. KPMG's proposal for Singapore Budget 2023 lays out strategies and actions to shape, spur and secure our nation's shared future in a changing world. These span three areas: (1) Powering sustainability, (2) Opening doors to new opportunities for Singapore's enterprises and residents and (3) Finding strength in adversity.

Firstly, new challenges should not distract us from financing the country's green agenda, advancing the energy transition and getting companies ready to move to a lower carbon economy. If we don't reduce our carbon emissions now, we will deal with greater physical risks associated with climate change in future. Transforming Singapore into a City in Nature will require new green solutions to create long-term prosperity for our planet and people. Singapore also has the opportunity to spearhead the environmental, social and governance (ESG) progress in the region.

Secondly, strengthening our position as a global hub for talent is crucial to remaining competitive on the regional and global stage. Together, the above measures will strengthen the Government's position to offer robust and meaningful support to Singaporeans as part of a refreshed social compact, underpinned by its Forward Singapore consultation.

Finally, in a world where disruption is the norm, Singapore will need to strengthen its resilience by fortifying its relevance. Supporting a digital asset ecosystem and embedded finance, as well as greening our economy and financial system are other areas of focus. Such measures can create opportunities in new markets and ensure progress in the context of continuous change.

Doubling down on sustainability, creating opportunities for all Singaporeans and fostering renewed resilience will help this nation thrive. Now is the moment for Government, businesses and people to come together to chart our lasting path to a future that we all want to be part of.

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Managing Partner, KPMG in Singapore

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Financing the Green Agenda 1A

Background, issues and opportunities

Sustainable development has become a topic of global interest in recent years, with countries prioritising ESG and stepping up climate pledges. However, adequate funding remains an area of concern – securing funding can be challenging with individual countries facing ongoing economic headwinds while also dealing with domestic developments and priorities.

Development banks continue to play a key role in facilitating private investment, which can drive projects such as sustainable infrastructure to benefit multiple countries in a region. Structures are required to facilitate private capital to flow into public projects, lowering risks and removing constraints to invest. Increasingly, governments, development banks and financial regulators work together on this topic to ensure that private capital can flow to areas with the highest need. The increased awareness around the Triple Bottom Line – People, Planet and Profit - and sustainability has led to institutional capital focusing more on sustainable goals.

Our proposition

Singapore has the potential to play a regional leadership role in green funding, aside from encouraging funding potential domestically to support the national ESG agenda. The following strategies are proposed:

1. Implementing a framework to spur growth of blended finance

To accelerate the growth of blended and transition finance in Singapore, there is scope to introduce multi-pronged strategies comprising both broad-based schemes with low entry thresholds coupled with more targeted schemes with a focus on priority sectors (such as emissions-intensive industries or transition projects). These can be coupled with non-financial perks such as dedicated specialist teams and fast-track channels to expedite any necessary regulatory approvals.

Taking the Singapore Green Bond Framework as reference, a blended finance equivalent can ideally be implemented to increase the funding for Singapore's sustainability efforts. There is scope for Singapore to serve as a base for financial institutions (FIs) to provide green financing solutions to the ASEAN region, especially since transitioning carbon-intensive power facilities are a regional challenge.

An Energy Transition Mechanism (ETM) fund is another emerging area where Singapore can mobilise capital to fast-track the retirement of fossil fuel-based power plants and replace it with cleaner energy sources. Given Singapore's strong financial eco-system and our geographic position at the nexus of regional logistics, pipelines, and power grid infrastructure, we have an opportunity to lead such an ETM initiative to facilitate energy transition in Southeast Asia.

2. Extension of the Sustainable Bond Grant Scheme

Singapore's Sustainable Bond Grant Scheme (SBGS) offsets up to S$100,000 of additional expenses for external reviews of eligible green, social, sustainability and sustainability-linked bonds and promotes the adoption of internationally accepted standards. Our interactions with industry players indicate that issuers would welcome the extension of the scheme beyond its current validity of 31 May 2023. KPMG also recommends lowering the minimum issuance size, currently pegged at S$200 million, to enhance the accessibility of the scheme to a wider audience of issuers.

3. Engaging financial institutions on how they can contribute

Transition is not just the responsibility of corporates; it is also the responsibility of FIs in that financing a company who has high emissions will soon become no different from banking an entity that fails basic Know-Your-Customer (KYC) rules. Engagement and education of FIs is key to help them understand that the cost of carbon and inaction towards climate change will become very expensive either through carbon tax or prohibitive measures imposed on who they are allowed to do business with and ultimately finance.

Blended finance will help FIs reduce their overall carbon footprint while also re-directing much needed capital to markets which require much more investments in their efforts towards net-zero. Once FIs understand that re-directing funds towards these projects with a longer return on capital can also have a positive impact on their carbon footprint, private capital will be encouraged to participate.

In addition, Singapore must continue to create ecosystems of like-minded investors with common objectives and goals both in the public and private arena to ensure that capital can be re-directed accordingly.

To encourage green financing from FIs in Singapore, we recommend that the Government consider a 5 or 10 percent concessionary tax rate under the Financial Sector Incentive (FSI) scheme on the interest derived from green loans.

▶ Powering Sustainability

The Energy Transition 1B

Background, issues and opportunities

Singapore and the rest of the world will have to address the energy trilemma – security, affordability and sustainability in their energy transition journeys. Recently, at the Singapore International Energy Week 2022, Singapore announced that it will (1) enhance its 2030 NDC Target [to peak emissions earlier and reduce emissions to around 60 million tonnes of carbon dioxide equivalent (MtCO2e) in 2030 — a 5MtCO2e drop from the existing NDC target]; (2) explore having low-carbon hydrogen supply up to 50 percent of Singapore's energy needs by 2050; and (3) commit to the development of hydrogen, ecosystem and developing its infrastructure.

Singapore's Energy 2050 Committee report has identified three clear pathways which will guide the country's decarbonisation journey, with low-carbon hydrogen and the import of low carbon power through regional power grid interconnections a critical component of its strategy. A large-scale interconnected grid upgrade will thus be necessary to enable Singapore to import low carbon power into the country while also encouraging the two-way transfer of power to meet the energy and grid security needs of connected ASEAN countries.

Our proposition

Achieving net zero by 2050 will require concerted action from various stakeholders, including the Government, businesses and the public, along with international cooperation. Hence, it is imperative for Singapore to constantly review its portfolio of energy options and supplement it with emerging alternatives based on technological advancements and leverage its geographical position as a nexus of regional connectivity through the below recommendations: -

1. Ramp-up alternate and renewable energy sources

- Singapore to act as a test bed for green technologies that can later be replicated in other ASEAN countries.
  - Singapore should continue to explore alternate renewable energy sources such as geothermal, biomethane, and nuclear fission small modular reactors (SMRs).
  - This can be done by working alongside research institutions, MNCs and local Singapore businesses and developing global or regional collaborations and academic partnerships.

- Singapore can promote pilot projects in energy storage, energy efficiency and distributed generation to create a holistic pathway towards net zero.
  - Aligning with global initiatives in this area and collaborating with research institutions, multilateral agencies and regional blocks to drive the low carbon agenda across sectors. To facilitate this, we propose additional tax deduction on top of the 150 percent enhanced tax deductions for R&D activities on technology that can translate to sustainability outcomes, such as lower energy consumption, use of recycling technology and less wastage.

- Deploying multi-layered grid with digital technologies to ensure a secure and optimised system. The overall success will depend on the ability to develop low carbon technologies that generate energy in a commercially viable, price competitive way as well as provide a sustainable base load over the long term. Hence, we propose enhanced capital allowances for the purchase of sustainable technology, for example lower energy consumption equipment, intelligent energy management system, alternate renewable energy sources. Furthermore, incentives can be given to businesses who repurpose existing manufacturing plants to transit into producing and storing clean energy.

2. Increasing efficiency and productivity

With rapid advancement in semiconductor technologies, computing power, storage capacity and internet bandwidth, there has been a dramatic reduction in the costs of implementing technology to make energy more efficient. Hence, Singapore can invest in sensor infrastructure, network and communications technologies and big data analytics to help optimise costs and drive efficiency, by considering the following:

- Optimise load and generation capacity across the grids: run analytics on operational data to generate deeper insights which can help anticipate grid congestion and planning capacity upgrade and redundancies. Companies can benefit from developing a 360-degree view of operations, resources, and assets in real-time to drive more informed decision-making using IoT with machine learning and AI capabilities.
- Usage of smart meters: utilise data aggregated by digital twins and geographic information systems to facilitate bilateral communication between meters and central system. This enables companies to replicate, anticipate and automate energy systems which improves operational efficiency and enhances predictive maintenance capabilities as it provides real-time insights on power outages, line disturbances and grid stability.

3. Explore asset recycling and alternate funding options

Singapore can help countries develop and implement asset recycling frameworks as a mechanism to refinance brown field infrastructure while achieving the broader ESG objectives in ASEAN countries. An asset recycling mechanism allows governments to bring private sector innovation, investment and efficiency to operating infrastructure asset while freeing up capital that can be deployed in other priority green field infrastructure projects. For example, Singapore might get more value financially and environmentally when taking a strategic and programmatic approach to bringing assets in Southeast Asian countries to monetise in the capital markets.

An Energy Transition Mechanism involving early retirement of coal fired power projects could be a good test case and impactful decarbonisation initiative. Essentially, those coal assets are ring-fenced into a package and then a mixture of grant concessions and commercial financing is used to buy-down the cost of that asset, thereby allowing it to be retired earlier than planned.

4. Further push for green investments

Improvements in renewable energy technologies, coupled with energy storage options, will pave the way for countries to reduce their over reliance on oil and gas as feed stock for power generation. This means that investments into green energy infrastructure projects and R&D in clean energy technology will need to be intensified in this decade.

To support the green energy transition, green bonds should be a theme for Singapore statutory boards. We propose to set frameworks to analyse projects qualification for green investments and introduce a green credit scoring system which introduces new environment and energy factors.

Secondly, to decarbonise the grid, having a faster roll-out of nearshore import of renewable energy is important. One way is to pump up investments in large scale solar projects in other ASEAN countries under a 'generate and transfer model'. For more scale-up projects to take place, there is a need for collaboration with capital providers to improve financing terms for green projects. Furthermore, market structure changes are also needed, as this will increase capacity allocation in tenders which will allow proficient developers to harness economies of scale for electricity generation.

To further boost the decarbonisation agenda and strengthen Singapore's position as a green finance hub, we recommend for the authorities to consult and work together with the relevant industry bodies to develop additional measures to support FIs, for example setting up a new subset of qualifying activities under the FSI scheme that qualifies for concessionary tax rates and/or enhanced deduction or cash grant schemes to defray expenses incurred for relevant activities.

▶ Powering Sustainability

Driving Forward with Decarbonisation 1C

Background, issues and opportunities

Budget 2023 offers a chance to ramp up action on Singapore's goal of net zero emissions by 2050. This may be guided by the Singapore Green Plan 2030, for which the Government may wish to accelerate some existing targets.

Singapore's transition to a low carbon economy will create new opportunities in sustainable industries and environmental benefits. Given its relatively small carbon footprint, Singapore has the opportunity to achieve emissions neutrality quickly and become a regional leader, exporting its decarbonisation best practices. Success will require more public spending and new green technologies. Two key areas to tackle are the built and land transport sectors, which together account for 35 percent of Singapore's emissions.

Our proposition

Budget 2023 has potential to drive sustainable practices in the property and EV industries through fiscal support as well as stronger regulation.

▶ Green buildings

1. Develop more aggressive plans to lead the way

New requirements to embed sustainability in building design, construction and management should be formulated in consultation with academia and industry. This could support and increase the ambition of the Singapore Green Building Masterplan and Green Mark Scheme 2021. The Government should also define a decarbonisation roadmap for real estate and harmonise industry standards.

2. Extend support to activate industry

The following targeted temporary support can bridge the green building demand-supply gap:

- A 200 percent tax deduction on financing costs, as well as on rental of green properties
- A 30 percent property tax rebate and a 50 percent exemption on taxable gains from green building sales.
- Subsidies for a period of four to five years for retrofitting of existing buildings
- A ten percent concessionary tax rate for FIs on interest income from loans for the acquisition and green redevelopment of older properties, coupled with tax exemptions on income from green bonds.

3. Boost use of sustainable supply chains and materials

The following measures could help promote use of sustainable materials for Singapore buildings:

- Establish sustainability certifications for building materials and equipment
- A “comply or pay” model set against benchmarks on use of recycled materials in new builds
- GST rebates on imported green materials and equipment for non-GST registered businesses.
- A grant to help construction contractors acquire offshore material supply companies to establish vertically integrated supply chains for sustainable products
- A greater push towards offsite manufacturing, e.g., by using precast and prefabrication

Electric vehicles

1. Consider more ambitious targets and regulations

To promote EVs, the Government could bring forward the current 2040 deadline for an outright ban on petrol and diesel vehicles. We assess that the Government's target to have 60,000 EV chargers installed in Singapore by 2030 will sufficiently support increased EV use, though faster deployment could help us reach 100% cleaner energy vehicle adoption faster.

2. Support roll-out of charging infrastructure

The Government can continue tactical subsidies such as the Electric Vehicles Common Charger Grant, which supports installation of charging infrastructure in non-landed private residences.

3. Extend subsidies to spur early adoption

Consumer tax incentives may also be extended. Current subsidies such as Singapore's EV Early Adoption Incentive (EEAI) and the Vehicular Emissions Scheme (VES) can save consumers up to a combined S$45,000 on a new EV. These have been critical in boosting EV purchases and could be extended for two years beyond their respective current expiry dates of 2023 and 2025. This can help eliminate price differentials between EVs and ICEs. Other incentives could include offering subsidised parking and/or high-occupancy vehicle lane privileges to EV drivers or waiving Electronic Road Pricing charges for EVs for a limited period.

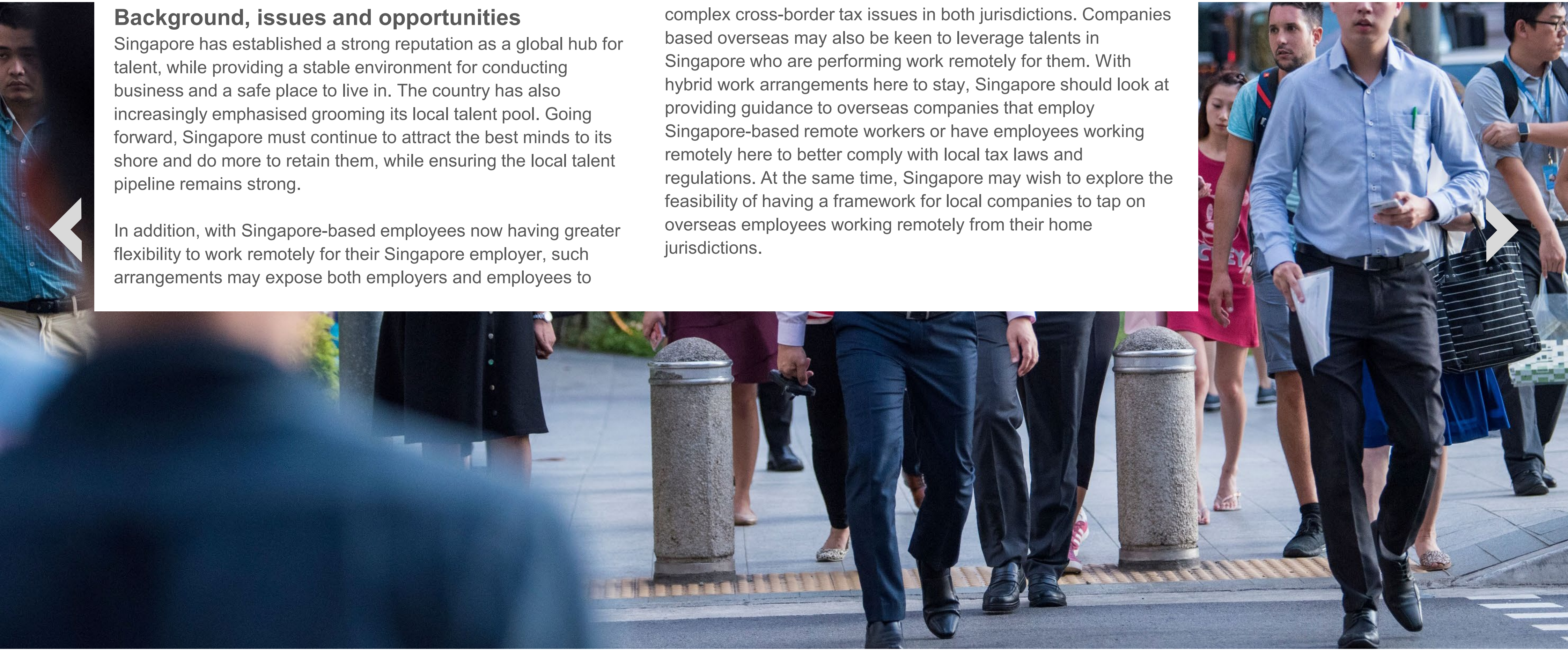
Funding considerations for decarbonisation

The decarbonisation drive must balance between the "Carrot" of incentives to encourage investment and the "Stick" of carbon tax. We do not currently see a need for changes to the carbon tax but expect that the Government will closely monitor its effects. Singapore can incentivise investment by providing opportunities in renewable infrastructure and tax breaks related to such projects for Singapore lenders, or in withholding tax exemption for foreign lenders. The Government could also further leverage financial markets to fund green transport and building infrastructure, such as through green bonds.

Opening Doors to Opportunity

▶ Opening Doors to Opportunity

Singapore as a Global Hub for Talent 2A



Background, issues and opportunities

Singapore has established a strong reputation as a global hub for talent, while providing a stable environment for conducting business and a safe place to live in. The country has also increasingly emphasised grooming its local talent pool. Going forward, Singapore must continue to attract the best minds to its shore and do more to retain them, while ensuring the local talent pipeline remains strong.

In addition, with Singapore-based employees now having greater flexibility to work remotely for their Singapore employer, such arrangements may expose both employers and employees to complex cross-border tax issues in both jurisdictions. Companies based overseas may also be keen to leverage talents in Singapore who are performing work remotely for them. With hybrid work arrangements here to stay, Singapore should look at providing guidance to overseas companies that employ Singapore-based remote workers or have employees working remotely here to better comply with local tax laws and regulations. At the same time, Singapore may wish to explore the feasibility of having a framework for local companies to tap on overseas employees working remotely from their home jurisdictions.

Our proposition

We are proposing the following measures to boost Singapore's attractiveness as a global hub for talent:

1. Time apportionment concession

In the past years, the Not Ordinarily Resident Scheme has attracted foreign investors to set up regional headquarters in Singapore, as key executives who are based here and take frequent business trips around the region are able to enjoy tax breaks under the Time Apportionment (TA) concession. However, the scheme has been phased out since year of assessment 2020.

We are proposing that the TA concession be considered for both foreign employees and Singaporeans with regional roles who travel regularly in the region for business. The scheme is one of the ways that has helped Singapore to successfully attract talents, and an expansion to include Singaporeans will ensure that the country achieve parity between foreign employees and its citizens.

2. Align deemed exercise rule with international tax practices

Under the existing deemed exercise rule, Singapore is allowed to collect tax upfront on the deemed gains calculated from unexercised/restricted Employee Share Option Plan (ESOP) and unvested/restricted Employee Share Ownership Plans (ESOP) for foreign employees leaving Singapore permanently. This ensures that there are no tax leakages for the share awards and stock options granted to foreign employees during their employment in Singapore.

However, this could pose some challenges to talents during the end of their stay in Singapore, including cash flow issues, as they would be paying tax in advance on shares that they are not entitled to sell at the point of seeking tax clearance. The current "either all or none" tax treatment on share awards and stock options based on the grant date also does not align with the sourcing principle. Foreign employees may also be subjected to double taxation from the deemed tax paid after repatriation.

While the tracking option scheme serves as an alternative to the deemed exercise rule, the stringent requirements for this option mean that only a limited number of employers can qualify.

As many companies regularly offer share awards and stock options to employees to attract, retain and reward employees, the Government could look at attributing gains from share awards and stock options to the period sourced in the relevant country at the time when the rights of the shares are acquired by the individual. This basis of taxation provides the opportunity for cross-border employees to sell the shares upon eventual acquisition of the rights to pay for the tax liability and mitigate cash flow challenges. This would also be aligned with international tax practices.

3. 'Work from Home' relief and partial exemption on housing benefits

As more companies champion a hybrid working model, with employees working from home (WFH) during a significant portion of the week, home rental and other WFH-related costs may no longer be considered entirely personal expenses. The Government could consider implementing a 'Work from Home' relief for employees adopting such work arrangements. This is in recognition of the fact that the burden of such costs has shifted from employers to employees.

In the same vein, the Government can also consider providing partial exemption on housing benefits and allowances provided by employers.

4. Tax incentives to attract talents in key sectors for Singapore's economy

As Singapore looks to capture new areas of growth, it will be crucial for Singapore to attract talents in sectors such as biomedical sciences, technology, interactive digital media and financial services. This could be challenging amid a talent crunch.

For Singapore to differentiate itself from other countries, it can consider extending the tax exemption days for foreign employees working in these sectors to 90 days. This will attract talents who may not wish to relocate to Singapore but are still eager to be based here on short-term basis.

5. Removing cap for Course Fees Relief to encourage lifelong learning

To develop a continuous pipeline of local talent to fuel future-focused businesses, Singapore has to invest in the lifelong learning and development of its workforce to empower them with the skills and capabilities to cope with evolving business needs. There could be a greater focus on mid-career workers who may be looking to pivot into emerging sectors.

To encourage Singaporeans to be agile in adapting to future trends through upskilling and reskilling, we are proposing that the cap on Course Fees Relief of S$5,500 each year be removed and to allow the full course fees to be claimed. Unabsorbed claims could also be carried forward to subsequent years. Alongside nationwide initiative such as SkillsFuture, this will ensure that the local workforce can transform in tandem with the industry.

6. Guidelines on remote working regime

With remote work becoming a long-term option for many companies, the Government has to do more to ensure that there are no tax leakages, as the employment income derived by such remote workers based in Singapore are technically considered to be derived from Singapore employment under the sourcing principle. Singapore will need to review all underlying policies under domestic tax laws, but as a start, the country may wish to set the relevant guidelines for remote working employees based in Singapore to provide more clarity to foreign employers and employees.

In addition, government agencies could be roped in to design electronic entry approval application requirements to track employees entering or leaving Singapore for remote working activities. This could provide the Government with the option in the future to have companies track and report employees’ remote working periods within and outside of Singapore.

Furthermore, by leveraging the talent pool available overseas, Singapore companies will be able to benefit from the increase in business revenue, which should in turn help to generate higher corporate tax revenue for the Government. In this regard, the Government could also consider an ASEAN initiative such as an agreed framework addressing the issues that may arise for companies which have remote workers in another country within ASEAN. Such a framework can help address the tax issues arising from remote working – for example, the creation of a Permanent Establishment in an overseas jurisdiction, the taxing rights over the salaries and related remuneration of the remote workers, whether the corporate tax deduction applies to the relevant staff costs incurred on remote workers based in an overseas jurisdiction, and so on.

Opening Doors to Opportunity

Creating Singapore's Social Compact 2B

Background, issues and opportunities

New challenges are prompting leaders to refresh Singapore's social compact and re-examine how the country distributes and creates wealth. Priorities set now, including via the Government's 'Forward Singapore' consultation, may prompt reconsideration of the financial and social roles we all play. The Government will likely maintain its focus on enabling personal autonomy and community support. However, our changing society will require adaptation of social services. This will prompt budgetary trade-offs – either to fund increased spending, or find ways to keep costs down. The Government must maintain an effective and efficient tax framework to meet spending needs while also protecting Singapore's position as somewhere where individuals and businesses can thrive.

Target areas for social interventions may include catering to an aging population, preventing inequality and ensuring food security.

Our proposition

1. Boost community care and technology for a healthier, older Singapore

Singapore's public health system must ensure access to services, information, and affordable care. To achieve this, the Government can consider:

- Increasing spending on community health approaches
- Working more closely with practitioners as they adjust their business models and pricing in response to the Government's new Healthier SG initiative.
- Channeling more funds to healthcare technology R&D, such as by further leveraging telehealth technology as the 'front door' to care.
- Encouraging public healthcare providers to incorporate sustainability requirements into public tenders, and pass on any cost savings created to patients.

2. New ways to feed the country through agri-technology

Singapore should balance importing food with local production to ensure accessibility, affordability and nutritional quality while meeting consumer preferences. Rising food prices may make targeted food aid a necessary stopgap for some low-income households. In the longer term, the following can be considered:

- Continued strategic investment in agri-technology to make the most of the 1 percent of Singapore land available for agriculture.
- Targeted support for the development of solutions such as hydroponics, rooftop farming, and the alternative protein segment.
- Funding for skills training to help ensure the necessary manpower and expertise in new agri-technology sectors.
- Consumer education to reduce food waste and nudge people towards sustainable choices such as local and plant-based produce in order to help foster local agri-industries and cut emissions.

3. Empower social mobility through targeted funding for upskilling

Singapore's focus on self-reliance has fostered a culture in which most individuals work hard and save to meet their needs. Avoiding the high social spending of many western countries has enabled Singapore to build substantial reserves and punch above its weight globally. Any dramatic hikes in taxes to fund social spending may reduce individuals' motivation to work and could erode Singapore's strong foundation of meritocracy. Nonetheless, certain social groups may require increased Government intervention in difficult times.

Supporting low-income workers' wages in the face of inflation will be one priority. Most low-wage workers are aged 50 and above or have secondary school level or lower qualifications. Many struggle to increase their income or change careers, underpinning the need for skills-based education for adults. The Government can address this by engaging with employers on wages, linking salaries to skills and supporting career progression through training.

4. Balance funding social spending with economic competitiveness

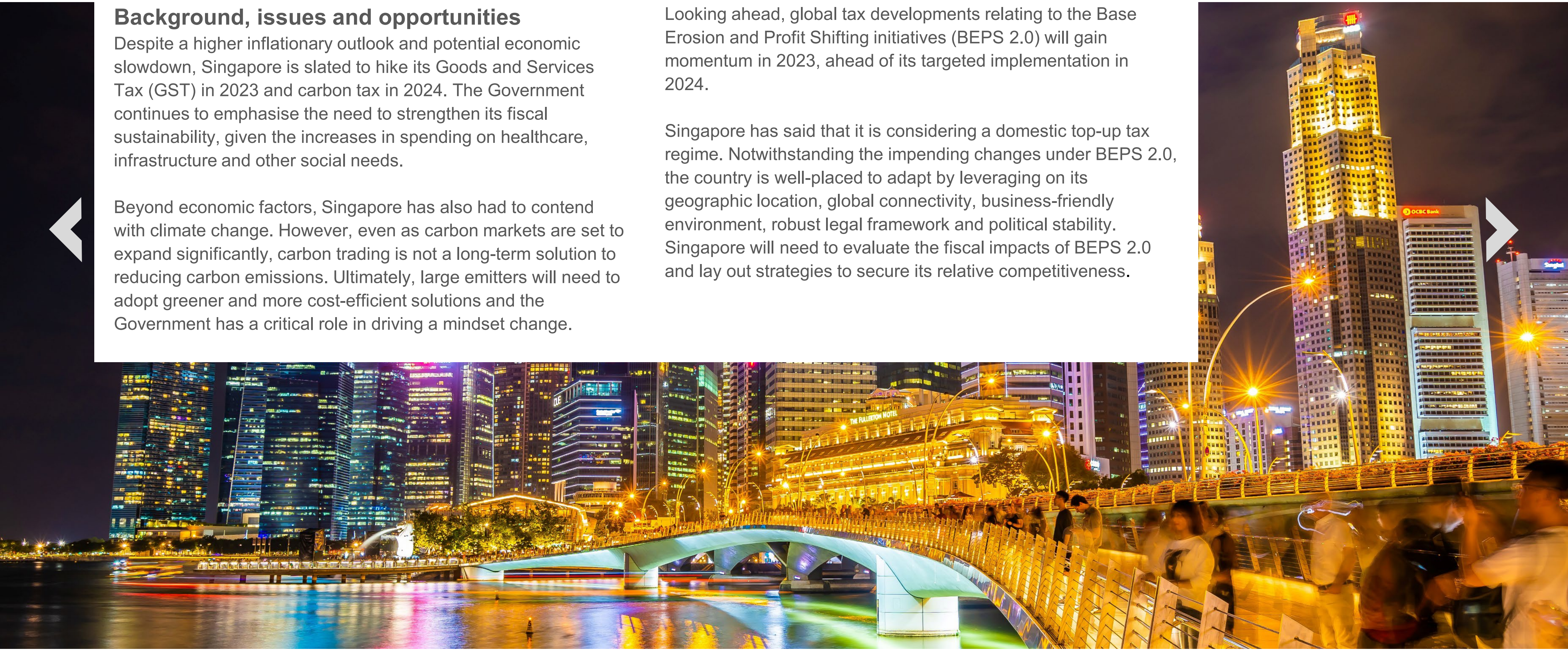
Singapore has been reviewing its tax system to enhance revenue generation potential, including changes to GST as well as personal, property and carbon tax rates. There has also been debate about introducing a wealth tax, given that many other countries implementing this have later abolished it after administration costs outweighed revenue. Any enhancement of tax revenue should be fair and progressive, keeping the overall tax burden low for the majority of Singaporeans. Any tax hikes for high-income individuals should be carefully considered in terms of rate and scope so as to avoid reducing the country's competitiveness.

Aside from taxes, the Government can also catalyse private and public capital for social spending through innovative blended finance structures and social bonds. Several Asia Pacific countries are already using these in areas such as healthcare, women's empowerment and financial inclusion. To spur their use, the Government may offer early-stage grants to support organisations in the design of social bonds, and provide partial guarantees to bond holders to lower investment risks and bring in private investors. Creating new platforms such as social stock exchanges can also attract new investment.

Strength in Adversity

▶ Strength in Adversity

Raising Taxes Responsibly 3A



Background, issues and opportunities

Despite a higher inflationary outlook and potential economic slowdown, Singapore is slated to hike its Goods and Services Tax (GST) in 2023 and carbon tax in 2024. The Government continues to emphasise the need to strengthen its fiscal sustainability, given the increases in spending on healthcare, infrastructure and other social needs.

Beyond economic factors, Singapore has also had to contend with climate change. However, even as carbon markets are set to expand significantly, carbon trading is not a long-term solution to reducing carbon emissions. Ultimately, large emitters will need to adopt greener and more cost-efficient solutions and the Government has a critical role in driving a mindset change.

Looking ahead, global tax developments relating to the Base Erosion and Profit Shifting initiatives (BEPS 2.0) will gain momentum in 2023, ahead of its targeted implementation in 2024.

Singapore has said that it is considering a domestic top-up tax regime. Notwithstanding the impending changes under BEPS 2.0, the country is well-placed to adapt by leveraging on its geographic location, global connectivity, business-friendly environment, robust legal framework and political stability. Singapore will need to evaluate the fiscal impacts of BEPS 2.0 and lay out strategies to secure its relative competitiveness.

Our proposition

Singapore will need to demonstrate how it can raise tax revenue responsibly and sustainably, as it pursues growth amid competing economic challenges. The country will also need to ensure that its tax system remains a progressive one that does not disproportionately impact lower-income groups or businesses. Hence, we are proposing the following measures:

1. Measures targeted at Singapore-based large multinationals impacted by global minimum tax

In the coming months, policymakers in Singapore will need to move more decisively to restructure its incentives to attract and retain investments from multinational corporations (MNCs) impacted by Pillar Two.

We are proposing the following measures for entities impacted by Pillar Two:

- Target to have a percentage of collections from Pillar Two measures channelled into a pool of funds that would be used to attract and retain investments not just from global MNCs, but also local MNCs (since local MNCs will also be subject to the GloBE rules). We propose that the funds can be accumulated over 10 years as follows:
  - Year 1-3: 50 percent of the additional tax collected
  - Year 4-5: 40 percent of the additional tax collected
  - Year 6-10: 30 percent of the additional tax collected

  This pool of funds would provide flexibility to economic agencies to provide targeted programmes to both global and local multinationals.
- Increase in the number of expenditure-based tax incentives (offered in the form of Qualified Refundable Tax Credits rather than enhanced tax deductions).
- To expand the list of IP categories that can qualify for writing down allowances, such as customer lists and marketing intangibles, in particular as industries such as technology and media are aggressively competing on the basis of number of daily active users or subscribers.
- The existing R&D tax incentives should also be redesigned to a Qualified Refundable Tax Credit scheme so that there will be minimal impact under the GloBE rules. This would ensure that Singapore's R&D tax incentives remain as attractive compared to countries with established R&D tax credit schemes.
- Increase the grant caps of existing programmes, such as the Research and Innovation Scheme for Companies (RISC) and Training Grant for Company (TGC), as follows:
  - Increase RISC and TGC grants from 30-50 percent funding to 50-60 percent,
  - Increase support period from two to three years to five years.

The above measures will be funded from additional taxes collected from Pillar Two measures. Hence, any revenue costs of the implementation to the Government are likely be mitigated.

2. Enhanced allowances and incentives to boost the adoption of green technologies

To encourage investments in green technologies, the Government can consider introducing enhanced allowances on a broader range of capital expenditure incurred in relation to energy efficiency and emissions reduction solutions. It can also explore incentives, such as GST rebates and vouchers, for individuals and businesses who purchase certified energy efficient appliances.

To ensure that companies can easily access available incentives, and are tapping on these resources effectively, the Government could set up a one-stop emissions reduction portal providing details of the incentives and the agencies through which they are administered.

3. Financial support for large emitters to adopt low carbon solutions

There will be a need for the Government to have close consultation with the larger emitters (including refineries, chemical plants and other industrial manufacturing facilities) on their energy transition, including providing them with specific support. As many of these large companies should be above the €750 million threshold of the GloBE rules, ensuring that the incentives offered for switching to lower carbon solutions are not negated by the global minimum tax and the domestic top-up tax regime will also be important.

We are proposing for the Government to offer additional grant funding for companies to develop lower carbon solutions or “above-the-line” credits for specific sustainability related investments. The latter should fall within the requirements of Qualified Refundable Tax Credits as defined in Article 10.1 of the GloBE rules.

4. Grants for businesses to cope with GST compliance costs

GST-registered businesses may face inconveniences with a staggered hike as they will have to tweak enterprise resource planning systems, price displays and more on two occasions. To support businesses that may be struggling with various GST compliance costs, the Government can consider providing grants targeting these concerns.

Grants can also be offered to a specific group of businesses, such as non-profit organisations and charities, which are not able to recover the GST paid on their businesses in full, and consequently bear the brunt of higher GST.

5. Providing certainty on whether new wealth taxes will be introduced

Singapore has been taxing wealth in several ways – through property tax, stamp duties, and the additional registration fee for motor vehicles. The country has also increased the progressivity of such taxes over the years.

Over the past year, there has been much discussion and debate on whether Singapore should introduce new forms of wealth taxes (such as those on net wealth or inheritance). Some have raised potential negative repercussions which may arise from introducing a net wealth tax or reintroducing estate duty or inheritance tax. Others have noted that certain countries which implemented such taxes had to abolish these taxes later on when administration costs outweighed collected tax revenue.

Regardless, ongoing speculations on whether new forms of wealth taxes will be introduced here have been causing uncertainty in the market. This applies especially to the wealth management industry and individuals contemplating if they should move their assets to Singapore.

To provide greater certainty to the market, the Government could consider clarifying whether it will indeed be introducing new forms of wealth taxes in the near future and what this might mean for the country.

▶ Strength in Adversity

New Markets, New Businesses 3B

Background, issues and opportunities

To further boost Singapore's status as a global business hub, Singapore enterprises must continue to reinvent themselves, strengthen their research and development (R&D) efforts and grow their overseas presence. At the same time, Singapore must continue to be an attractive place for top talents, as this will attract fresh business ideas and new technologies to Singapore-based enterprises. These need to be supported by continued development of the country's infrastructure, including its seaports and airports, for it to stay connected to its regional and global networks.

Meanwhile, supply chains continue to be under pressure. COVID-19 has forced businesses to review their operations and embrace digital capabilities. With focus shifting from efficiency and low-cost sourcing to supply chain resilience and visibility, many companies are doubling down on investments in advanced technologies, such as blockchain, artificial intelligence (AI), machine learning and intelligent automation. Many are also keen to advance their predictive data and virtual modelling capabilities via digital twin technology to generate insights for physical operational improvements.

Our proposition

We are proposing the following measures for enterprises to cope with the ever-evolving complex business landscape as they seize new areas of growth:

▶ Financial services

1. Support for Singapore's digital asset ecosystem

Some promising use cases of digital assets include boosting digital connectivity and economic integration, with the facilitation of cross border payments and settlements as well as trade finance – all of which embedded financial products can help improve. Our research reveals that some of the most common areas of innovation included non-fungible tokens (NFT) and Decentralised Finance (DeFi). We propose to further enhance policies and incentives to enable these.

Singapore should further promote the use of digital accelerators or hackathons which bring together industry advisory boards to guide and sponsor fintechs to solve industry wide problem statements. Furthermore, to keep up with the evolution of digital asset classes, the industry should continue to study the changing landscape and look into providing certainty in the regulatory and tax treatment of new investment products such as crypto and digital assets. For example, providing certainty on whether activities involving digital assets could qualify under existing tax incentive schemes for financial services players enjoying tax incentive schemes.

2. Strengthening Singapore's funds domiciliation framework

There is scope for Singapore to do more to increase its competitiveness as a funds domiciliation location and anchor itself as a global hub for investors and asset managers. The Government can consider the following measures:

- Consider zero-rating the investment advisory or management fees charged to Singapore funds or allow a 100 per cent remission from a GST perspective to achieve alignment with similar fees charged to offshore funds such as the Cayman Islands.
- Look into the revision and modernisation of Singapore trust law to attract more ultra-high net worth/high net worth individuals to set up Singapore trust and build up the sophistication and capabilities of the Singapore trustee eco-system.
- Propose for Singapore's fund tax incentives provided under Section 13O and Section 13U to be combined into a single incentive to achieve streamlining of the schemes. These funds, if set up by startup fund managers, may not have to meet the minimum required fund size of S$50 million in order to apply for the Section 13U Scheme which does not have the equivalent investor test. This is in line with Singapore's efforts in promoting the setting up of startups.
- Provide grants to asset management professionals and wealth managers as well as professional firms to attract the right talent. Among the skills needed are those capable in fund management as well as within ESG investments and philanthropy realms.

▶ Supply chain

3. Financial support for businesses to transform their supply chain and embed ESG

In response to supply chain disruptions and the push towards ESG, many companies are rethinking the sustainability of their supply chains, including the labour involved, cost efficiency and their carbon footprint. Consequently, many companies are looking to invest in the digitalisation of their workflows and processes to be more efficient and sustainable. We propose that the Government support these initiatives with the following tax incentives:

- Enhanced deductibility of expenses incurred on supply chain digitalisation and transformation (i.e. deductions in excess of actual expenditure incurred)
- Consulting grants for businesses embarking upon supply chain transformation and digitalisation
- Special taxation regime and/or financing for companies involved in investment, development and trade of renewable energy, hydrogen (or other green alternatives) and carbon credits

4. Establish supply chain taskforce to support enterprises hit by supply chain challenges

The Government could explore setting up a national supply chain disruption taskforce, with the aim of improving business engagement and keeping closer tabs on business performance, including industry growth, value-add per actual working hour and unit business cost. The taskforce can focus its work on the more vulnerable manufacturing, construction and logistics industries to enable them to achieve faster and more effective responses to disruptions, such as:

- Provide financial and advisory support for smaller businesses to tackle immediate challenges such as rising fuel costs and energy prices.
- Push small businesses towards pursuing greener supply chains with grants and support schemes targeted at the broader ecosystems of suppliers and partners.
- Provide grants or bonds to support businesses caught in supply chain disruptions, cash disbalances due to rising prices of raw materials and those who are unable to have access to finance.

Enterprises

While most businesses would have regained their footing since the pandemic, some could still be concerned about a possible economic downturn and how they can open up new revenue streams in the future, while embarking on cost cutting control measures. Businesses will also continue to need help with restructuring and transforming their operations to be more sustainable, innovative and future-ready. Hence, we are proposing the following measures:

5. Financial support for businesses to seek new growth areas and raise capabilities

- To drive internationalisation efforts by increasing the support level of the Enterprise Development Grant (EDG) for overseas M&A activities to up to 90 percent for smaller and medium enterprises (SMEs) and up to 70 percent for non-SMEs for an initial period of two years. This is up from the current level of up to 70 percent for smaller enterprises and up to 50 percent for larger enterprises. Additionally, to help businesses to penetrate into overseas markets, the Government can expand the EDG to cover businesses looking to bring products that are currently being sold in Singapore to overseas markets.
- To further Singapore's position as a leading advanced manufacturing destination, the Government could offer enhanced support of up to 80 percent under the Productivity Solutions Grant (PSG) for companies to adopt advanced manufacturing solutions. In addition, to re-emphasise the need for companies in the manufacturing sector to adopt automation solutions, the 100 percent investment allowance that is due to expire on 31 March 2023 should be extended for another two years. This will encourage the sector to shift towards a focus on value creation and the production of higher-value products.
- To encourage companies to factor ESG considerations into their planning, the Government can consider increasing the EDG support for sustainability and ESG initiatives (for example, in developing sustainability strategies) to up to 90 percent for SMEs and up to 70 percent for non-SMEs. This is up from current levels of up to 70 percent for SMEs and up to 50 percent for non-SMEs.

6. Various tax rebates and incentives to cope with rising costs

These measures would include:

- A one-off 10 percent corporate income tax rebate to help businesses tide through the economic uncertainty, while increasing the number of installments that companies can take to pay their income tax liabilities.
- Expanding the coverage of the current R&D tax incentive to cover costs incurred for overseas R&D activities. Currently, companies are only given enhanced tax deduction on staff costs and consumables if the R&D activities are performed in Singapore. An expansion of this incentive would provide Singapore enterprises with more avenues to undertake R&D activities, which will increase the chances of local enterprises achieving success with products that are able to generate demand on a global scale.
- Helping businesses invest in their employees and capture employment opportunities in the local market with an additional 100 percent deduction on training expenses, with similar conditions to the Productivity and Innovation Credit (PIC) scheme for qualifying training expenditure.

7. Co-funding initiatives and grants to raise cybersecurity capabilities

As the rate of digital adoption among business continues to grow, cyberattacks risks have also become more prominent. Hence, companies should also look at improving their cyber and data security capabilities in line with its investments in digitalisation. In this regard, the Government should provide co-funding and grants to encourage local businesses to take up cybersecurity projects in order to strengthen their capabilities. This could be in the form of enhanced support of up to 80 percent for cybersecurity solutions under the PSG.

Appendix

▶ Corporate Income Tax

1. Expand the scope of qualifying securities lending or repurchase arrangement

Section 10H of the Singapore Income Tax Act ("SITA") provides concessionary tax treatment for qualifying securities lending and repurchase 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 10H 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 10H, securities for Section 10H should be expanded to include these newer instruments.

Recommendations

To include other instruments such as collective investment schemes, exchange traded funds and business trusts for the purposes of Section 10H of the SITA.

Benefits

The expansion of the instruments that could qualify for the concessionary tax treatment under Section 10H will help to further broaden and deepen the securities and capital markets in Singapore and build on Singapore's strength as a financial centre.

2. Enhance the Safe Harbour Rule

The safe harbour rule under Section 13W of the Income Tax Act is currently only available in respect of the disposal of ordinary shares.

Recommendations

The minimal 20 percent shareholding threshold should be further reduced to 5 percent in line with the participation exemption rules in other countries. In addition, the scope of the exemption should be extended to preference shares as well as other common type of financial instruments (e.g. bonds).

Benefits

The proposed changes will enhance Singapore's attractiveness as a location to set up, conduct and reorganise businesses.

▶ Corporate Income Tax

3. Expand list of FSI-Standard Tier (FSI-ST) qualifying activities

Based on informal feedback from the Monetary Authority of Singapore (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].

It is not clear whether cryptocurrency trading and derivative activities 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).

Recommendations

Clarify or 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 of cryptocurrency, a suggestion would be to define cryptocurrency to mean “digital payment tokens”, which is currently already defined in the Payment Services Act, as well as in the GST Act.

Benefits

With the inclusion of cryptocurrency, Singapore’s identity as a leading fund management hub could be further strengthened, as a growing number of hedge fund managers are looking to set up funds dedicated to investment in cryptocurrencies. This will also provide greater tax certainty to taxpayers and enhance Singapore’s attractiveness for cryptocurrency businesses.

▸ Corporate Income Tax

4. Interest income earned by reinsurer on reinsurance deposits

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 have not fallen within the scope of qualifying income incentivised in the revised IBD schemes. As a result, such interest income could not qualify under the 10 percent concessionary tax rate but subject to tax at the standard rate of 17 percent, regardless of whether it is generated from onshore or offshore reinsurance businesses. The tax rate differentiation has caused a significant financial burden to Singapore-based reinsurers on reinsurance contracts that concluded prior to 2017 when the revised IBD schemes came into effect.

Recommendations

The current structure of the SITA appears to pre-suppose two mutually exclusive categories of income that an insurer or 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".

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 or reinsurance.

With the above in mind, we would recommend that 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 percent concessionary tax rate under the revised IBD scheme.

Benefits

Since the funds withheld arrangement is a very common feature in a reinsurance contract due to the regulatory and commercial reasons specified above, almost all Singapore-based reinsurers have entered into such reinsurance treaties with their respective cedants (be in onshore or offshore ones). KPMG's suggestion would further strengthen Singapore's position as one of the key reinsurance hubs in the Asia Pacific region.

▶ Corporate Income Tax

5. Withholding Tax (WHT) exemption granted to Finance and Treasury Centres (FTCs)

WHT exemption is granted to FTCs on interest payments to overseas banks and approved network companies where the funds borrowed are used for approved activities.

Recommendation

The Government should consider broadening the WHT exemption by incorporating FTCs into the liberalisation of the WHT exemption regime for specified entities under Section 45I(2). This would also align with the move to rationalise the WHT exemptions for the financial sector, which started in Budget 2018.

Benefit

This should help to ease the burden of administration for FTCs and broaden FTCs' funding sources.

6. Economic conditions under Section 13U scheme for Special Purpose Vehicles (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.

Recommendations

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 are important from a structuring point of view as they facilitate ring-fencing of liabilities, co-investment by fund investors and also potentially provide more flexibility at exit (allowing for sale of the SPV rather than sale of the portfolio company directly), among other things.

Requiring each individual SPV to separately meet the Section 13U 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 13U requirements, there seems to be no reason to impose additional requirements on the SPVs that were set up for structural reasons.

Benefits

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, and so on.

▶ Corporate Income Tax

7. Investor restriction under Section 13U scheme where Master Fund in a Master-Feeder SPV structure is set up as a limited partnership

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.

Recommendations

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 in Singapore and is a tax resident. 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.

Benefits

Limited partnerships have been used in Europe and US as the main fund entity in the fund industry due to investor familiarity, ease of winding-up, confidentiality, and so on. Investors from sophisticated jurisdictions 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.

▶ GST

1. Provision of loans to related companies within group

The provision of loans is an exempt supply. It is not uncommon for a company within a group of companies to borrow from the bank and on-lends to other companies within the group to enjoy a lower interest rate from banks. Another common feature is cash pooling where a group of companies pool their cash reserves and lend to other related companies to manage their cashflow and in turn reduce the interest cost. Currently, such activities lead to GST cost in terms of a portion of the input GST being denied when the interest income is significant for the company managing the cashflow.

Recommendation

To review the GST treatment for the provision of loans to related entities within a group and treat such an exempt supply as integral to the business of making taxable supplies so that input GST would not be denied.

Benefit

This will reduce the GST costs of businesses.

2. Threshold for deeming rule for gifts

The deeming rule for gift kicks in when each gift exceeds a threshold of S$200. This amount has remained the same since 1994 when GST was introduced.

Recommendations

We would recommend for the Government to increase this threshold.

Benefits

This would help in reducing the compliance costs for businesses.

▶ Personal Income Tax

1. Self-review programme for employers

There is currently no mandatory review requirement for companies in relation to the annual tax reporting of employees' remuneration through the Auto-Inclusion Scheme. Voluntary disclosure is normally initiated through IRAS audits or voluntarily by companies.

Recommendations

The IRAS may wish to consider implementing a framework for Employers' reporting (similar to the Tax Risk Management and Control Framework for Corporate Income Taxor ACAP for GST), for employers to benefit from longer grace period and waivers of penalties when they voluntarily disclose tax errors. This will encourage organisations to review their tax reporting on a regular basis and ensure the tax positions adopted are up to date.

Benefits

This move would ensure compliance and accuracy in tax reporting, reducing administrative cost to the IRAS. It will also encourage organisations to review their tax reporting regularly in view of the fast-changing environment.

2. Remote working in Singapore

With the opening of Singapore's borders and the implementation of remote working arrangement post-pandemic, foreigners may be travelling into Singapore to work remotely for their foreign employers under a tourist visa.

Recommendation

MOM may consider implementing a special visa for such remote workers in Singapore with special requirements to ensure there are no tax leakages. As part of the visa application, the employer may be required to provide details of remote workers (designation, activities to be undertaken, and so on) so that tax compliance obligations are adequately discharged where required.

Benefits

This would allow tracking of foreign employees working in Singapore under such remote worker visa, which will increase tax revenue collection, where applicable.

▶ Personal Income Tax

3. Life insurance relief

Currently, only married men are allowed to claim insurance premiums if they have paid for their wife's life insurance policy, where qualifying conditions are met. On the other hand, if a married woman has paid for her husband's life insurance policy, this relief would not be extended to her.

Recommendations

KPMG recommends to allow a married woman who has paid for her husband's life insurance policy to claim this relief if the qualifying conditions are met.

Benefits

This will promote gender equality in Singapore.

4. Personal relief capped at S$80,000 per annum

There is no tax incentive for higher income working female taxpayers who are claiming the working mother's child relief (WMCR) to contribute to the Supplementary Retirement Scheme (SRS), as very often the claim for WMCR would hit the S$80,000 cap.

Recommendation

The S$80,000 cap should not include SRS relief for working female taxpayers who are claiming WMCR. For working female taxpayers who are claiming the WMCR and have maxed out the S$80,000 capped, the Government could consider allowing the SRS relief on top of to the S$80,000 cap.

Benefits

This will incentivise working female taxpayers to set aside funds for retirement through SRS.

▶ Personal Income Tax

5. Special tax regime for ONE Pass holders

For any international assignments, tax is one of the primary concerns for expatriates. With the growing trend of remote work, an individual may not need to be based in Singapore to perform work for a Singapore employer. This could be counteractive to efforts of attracting talents to Singapore who could transfer skills and knowledge to local talents.

Recommendations

In line with the ONE Pass initiative, the Government could consider a special regime on individual tax to enhance the attractiveness for foreign talents to be based in Singapore.

The Government could also introduce a similar concession like the NOR time-apportionment of employment income concession so that Singapore continues to attract talents with regional roles to relocate to Singapore.

Benefits

This may attract multinationals and foreign talents to set up or join global and regional headquarters in Singapore, especially in sectors that would require upskilling among the local talent pool. This could help Singapore stay attractive to talents and support the country's growth as a strategic global hub.

6. Relief for mortgage interest

The rising cost of housing in recent years has been a concern for many individuals

Recommendations

IRAS could consider allowing tax relief for mortgage interest incurred on owner-occupied properties.

Benefits

This move could mitigate the financial strain of owning a property in Singapore and is in line with the Government's policy to encourage home ownership.

7. Elderly Care relief

The increasing cost of healthcare may be a financial toil for many Singaporeans, especially for families with elderly parents.

Recommendations

To alleviate these costs incurred, IRAS may consider granting another tax relief (e.g., Elderly Care Relief of S$10,000) in respect of costs incurred (e.g. hospitalisation or nursing), subject to a reasonable cap.

Benefits

This would provide support to individuals who bear the financial responsibilities of caring for their elderly parents.

Property Tax

1. Property tax exemption on machinery

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".

Recommendations

We propose to grant an exemption of property tax for machinery where the taxpayer is able to substantiate that the said machinery automates or facilitate trade or business processes, increases efficiency or productivity, reduces 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.

Benefits

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.

Stamp Duties

1. Treatment for limited partnerships and variable capital companies

The current stamp duty legislation does not adequately address the stamp duty treatment of limited partnerships and variable capital companies.

Recommendations

The stamp duty relief regime should be expanded to specifically include limited partnerships and variable capital 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.

Benefits

This would help to promote Singapore as an asset management hub, given that limited partnerships and variable capital companies are commonly used in the asset management industry as a holding vehicle.

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