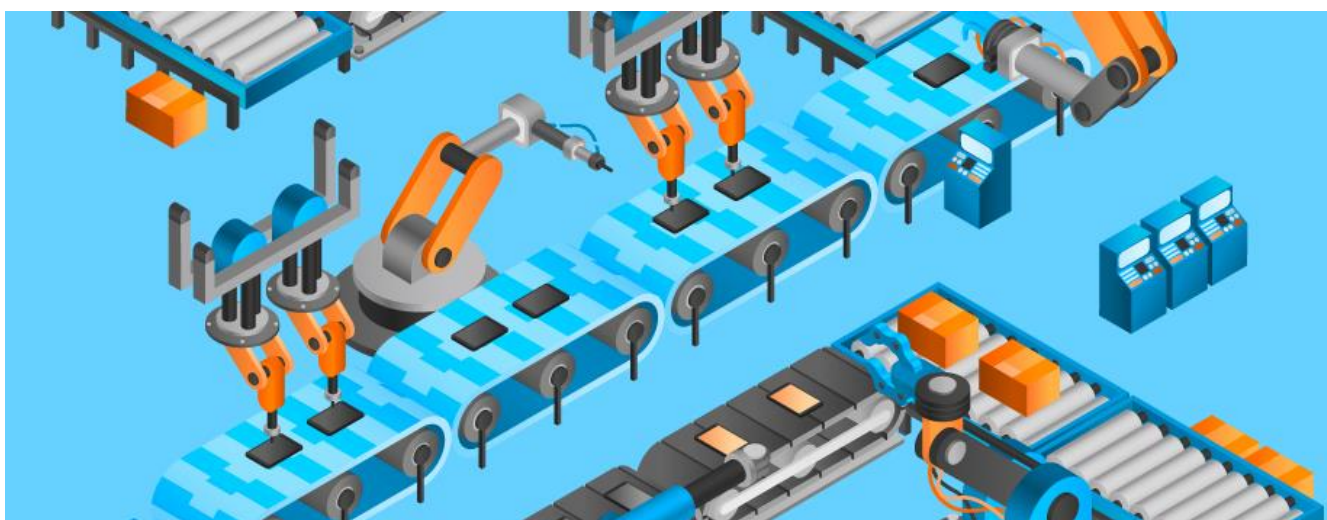


Can property tax promote Industry 4.0?



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Singapore needs to take a closer look at its tax policies aimed at spurring advanced manufacturing and the use of technologies in business.

Singapore's industrial economy is heading towards a brave new world and Industry 4.0 is the roadmap for getting there. Although the Singapore government has implemented many measures to encourage companies to embrace Industry 4.0, more should be done in respect of property tax.

Industry 4.0 - also known as advanced manufacturing - has the potential to boost productivity and the optimisation of resources. It is a revolution in manufacturing through the combination of Internet, information and communication technologies (ICT) with industrial know-how.

Other facets of Industry 4.0 include the collection (and analysis) of vast quantities of data and the use of automation, robots and augmented reality to

improve the manufacturing process.

New manufacturing ecosystems will be created, with the systems of manufacturers, suppliers and distributors being increasingly linked and integrated through the use of wireless and Internet technologies.

Through the collection of data on the factory floor and employment of big data and cloud computing, valuable information will be mined for analysis, triggering further innovation.

Manufacturing is an integral part of Singapore's economy. It currently forms a fifth of Singapore's gross domestic product and the sector employs 13.7 per cent of Singapore's workforce.

The manufacturing sector (according to the Committee on the Future Economy) also has positive spillovers for the trade, finance, tourism and professional services sectors.



Innovative technologies

In order to stay relevant and competitive as a manufacturing hub, Singapore has taken strides to transform the manufacturing sector by embracing Industry 4.0. Under the Research Innovation Enterprise 2020 Plan (RIE 2020), the government has pumped S\$19 billion to support R&D efforts that include research into advanced manufacturing solutions.

In addition, the government has encouraged and partnered MNCs that employ advanced manufacturing solutions to continue to expand in Singapore.

With the SkillsFuture movement, professional conversion programmes, industry transformation maps and skill framework, the Singapore workforce is also being groomed and retrained to provide sufficient trained high-tech talent for the sector.

But to spur companies further to adopt Industry 4.0 and invest in advanced manufacturing, a conducive tax environment is also necessary. This is where property tax plays a role.

At present, Section 2(2) of the Property Tax Act (PTA) provides that machinery used in the making, altering, repairing, ornamenting or finishing of any article, or the adapting for sale of any article, is not taxable. One of the purposes of this provision is to encourage investments in manufacturing, processing and other industrial purposes.

However, in a draft bill to amend the PTA which was put up for public consultation by the Finance Ministry (MOF) recently, there was a legislative proposal to carve out for taxation, machinery which is used for "the controlling, maintaining or modifying of the temperature, atmospheric, humidity or air quality in premises", on the basis that this machinery is used for providing "the setting/controlled environment for business and industrial processes to take place in the building".

With the increasing integration of systems and machines in advanced manufacturing, it will become more difficult to separate 'pure' manufacturing machinery and machinery that is regarded as 'peripheral' to the manufacturing process.

If implemented, the legislative proposal would have subject some machinery used in manufacturing, processing and other industrial purposes to property tax.

This would have, in our view, gone against the purpose of the Section 2(2), and work against the government's objective to grow advanced manufacturing. After all, in a 'smart' factory that optimises resources, every piece of machinery is, in a sense, crucial to the manufacture of the final product.

As it is, under the current PTA, machinery such as automated storage and retrieval systems, cranes installed in buildings, by extension the robotics installed in buildings and used for the conveying of materials for industrial processes, are taxed as they are considered not directly involved in the actual making of articles.

This position needs to be reviewed with the push to use innovative technologies and align with the government's objective to grow advanced manufacturing.

The counter-argument is that the legislative proposal is meant to arrest revenue erosion, on the doctrine that machinery - which provides the setting and environment - is associated with the built environment, and should thus be subject to property tax.

However, if Singapore fails to adapt and encourage innovation, industries and businesses may choose to move to more amenable jurisdictions for their manufacturing activities, resulting in the loss of not only tax revenue but jobs as well.

Economic restructuring

Any legislation contemplated should thus further incentivise, not discourage, the use of technologies.

In the light of competing considerations, the Singapore government has to study the issue carefully before proceeding with any amendments to the property tax regime.

As such, MOF should be applauded for its recent decision to withdraw proposed amendments to Section 2(2) until a further study is conducted. The decision reflects the Singapore government's willingness to listen to feedback and commitment to working with the business community. This bodes well for Singapore as the economy undergoes the transition.

Indeed, in this age of increasing complexity, it is important for both the public and private sectors to communicate and collaborate closely, in order to better understand the impact of proposed policies and legislative changes.

In our view, a broad interpretation and application of Section 2(2) will be beneficial to Singapore, and will be aligned with the Singapore government's other efforts to encourage advanced manufacturing and the innovative use of technologies in all business sectors.

Technology is transforming production processes, becoming more efficient with increasing use of automation and augmented reality.

We are seeing the growth of cyber-physical systems employing the use of ICT, embedded sensors and intelligent robots to control physical processes and systems, factories and production plants will be custom-built to accommodate and house the technologies.

In contemplating any future changes to the PTA, it may also be worthwhile to consider, on a more fundamental level, whether the scope and application of property tax should be reviewed and made future-ready to support the transition and restructuring of Singapore's economy.

How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.



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