KPMG Budget Wishlist 2018:

Accelerating growth in the future economy

The digital economy provides new economic opportunities for Singapore businesses to capitalise upon. By adopting a global mindset and having a focus on transformation, companies can enter new markets with the right combination of business acumen and skill sets.

I: Supporting businesses in the digital economy

In view of the substantial cost involved and importance of digitalisation, we are recommending an Enhanced Tax Deduction / Capital Allowance scheme on digital initiatives structured as follows:

- 400% for first $200,000 of expenditure; and
- 200% beyond the first $200,000 of expenditure

This can be applied to the following areas 1.1 – 1.3:

1.1 Enhanced tax deduction for consultancy and professional fees

Enhanced tax deduction to help businesses offset costs of consultants involved in advising/implementing digitalisation initiatives.

1.2 Enhanced capital allowances for digital adoption

Enhanced capital allowances to help businesses invest in new capital assets (including software development) for digital adoption.

1.3 Enhanced deduction for digital skills training

Enhanced deduction on expenses incurred for digital skills training, so employees can develop technology-based skills supporting the digital business.

1.4 Support new businesses with Innovation Tax Credit

We propose an Innovation Tax Credit to support promising new businesses undertaking innovative R&D and other value creation activities. In more innovative companies, digital transformation may be executed in-house, without relying on external expertise.
Such an innovation tax credit could be set at 50% of eligible expenditure (such as the salaries of staff involved), which could be paid out in cash to SMEs.

There is merit to specifically encourage businesses to drive innovation utilizing in-house capabilities rather than outsourcing, as this would create long-term capabilities within the businesses themselves.
II: Accelerating the growth of enterprises

Supporting enterprises to innovate, scale up and find growth capital are key strategies in the Committee on the Future Economy report. Local enterprises often face challenges in financing their growth, especially when investors raise concerns about their financial systems, processes and corporate structures. The lack of proper risk-management and strong internal controls also makes companies vulnerable to business shocks, which can limit their growth potential.

### 2.1 Promote Internationalisation

- **Double the quantum of Market Readiness Assistance** grant that is currently capped at $20,000, in view that overseas regulatory and tax regimes are more complex.

- **Introduce a programme to fund ‘business multipliers’** such as consulting firms and trade associations, encouraging them to help local enterprises expand their overseas footprint. The programme could include provision of co-funding or subsidies given to multipliers who are organising workshops and conferences, or travelling to support identified local enterprises in their internationalisation efforts.

- **Introduce incentives to support building of local brands.** For example, allow tax amortisation of expenditure incurred in developing and growing local brands. For administrative expediency to relieve the burden of tracking expenses, especially those relating to costs of employees involved in building the brands, the amortisation could be allowed on the basis of the higher of $200,000 or 5% of revenue for 5 years. It should also be restricted to SMEs that have a registered brand under the company.

### 2.2 Encourage Funding of Start-ups and SMEs

- **Allow approved corporate investors** (instead of only individual investors who are eligible for the Angel Investors Tax Deduction scheme) to get tax deductions for investing in qualifying start-ups.

- **Confer a concessionary tax rate on banks and financial institutions** providing loans to SMEs, in respect of the income earned from the SME loans, to help address their funding needs and accelerate their growth.
2.3 Review R&D incentives

With changes in R&D landscapes globally including shorter gestation periods, private-public partnerships and global collaborations, governments are increasingly updating their policies to increase effectiveness in achieving the policy goals. Without a comprehensive R&D support environment, including R&D tax incentives, Singapore enterprises may be disadvantaged compared to competitors in other countries. We therefore propose the following:

- Enhance the R&D tax incentive to retain Singapore’s global competitiveness for R&D investments and achieve policy objectives. We recommend increasing the R&D enhanced deduction to 300% of expenditure, from the current 150%, for R&D performed in and outside Singapore.

- Currently, there are restrictions revolving the eligibility to make a claim for the R&D tax incentive. With open innovation and co-creation of IP becoming more prevalent, we need to allow the R&D tax incentive to be available to a wider group of businesses. We propose allowing the incentive to be available to the company that incurs the R&D expenditure, regardless of who bears the financial risk or owns the IP as long as the project meets the qualifying criteria.

- In a group of companies, allow the company that incurs the R&D expenditure to claim, even if the company is reimbursed or the IP is held by another company within the same group. Current concepts of beneficiary requirements are proving restrictions in the context of the current environment and need to be reviewed urgently.

- Allow companies to claim the enhanced R&D tax deductions in the year of assessment that they have incurred the qualifying expenditure on R&D, with a cash payout on the amount where there are no taxable profits. The current criteria to commence business before a company can claim enhanced tax deductions may inadvertently penalise companies that require a longer time to develop and commercialise products.

2.4 Merger of IE Singapore and SPRING Singapore

- Send a strong message to the SME community that the support they previously enjoyed will be enhanced following the merger of IE Singapore and SPRING, and processing times for such support will also be unaffected.

- The merged agency, Enterprise Singapore should provide a one-stop shop package specific to the needs of start-ups and enterprises. This should include
funding, capability development, digitalisation, internationalisation and talent development.

2.5 Cost Mitigation Measures

Despite the recent upturn in the economy, many SMEs have yet to see a turnaround in their businesses. It does not help that various government schemes (in particular, the Productivity and Innovation Credit) would be expiring. News of possible hikes in taxes are also causing further anxiety.

We recommend introducing the following measures:

- **Raise the cap on claimable carried back losses** that is currently being capped at $100,000, to $300,000 to off-set the amount of income tax payable for the preceding year.

- **Increase absolute threshold for De Minimis rule** under regulation 28 (GST) so that more businesses are able to claim input GST incurred in the making of exempt supplies.

- **Introduce commercial building allowances** on the cost incurred in the construction of office, commercial and similar properties.
Singapore has a reputation as an excellent investment destination, and its companies for producing or offering high-quality products and services, but regional competition is increasing. Companies need to continuously create new value through new products and services, new markets or new business models. This will enhance their international resilience and competitiveness.

**3.1 Enhancing Singapore’s competitiveness**

There should be no urgent need to increase or decrease corporate and individual income tax rate. Instead, the Government should continue monitoring international developments before making any decisions.

We propose that the Government look into the following specific aspects of our tax systems that may have an impact on the overall competitiveness of Singapore:

**a) Manpower Framework for New Skills**

- **Develop a manpower framework** that is more robust and responsive to the needs of businesses investing in leading-edge know-how in pursuit of global industry leadership.
  - This could include relaxation of the Employment Pass framework to encourage the hiring of talents with skillsets currently lacking in Singapore (e.g. cyber security experts). Such relaxation should not be tied to academic qualifications, but make references to qualitative experiences, in recognition that many skillsets today are not necessarily taught through educational institutions.
  - Concurrently, tax incentives (e.g. 200% tax deduction) should be provided to all Singapore-registered business, to encourage training of existing local employees (e.g. fresh graduates) to equip them with the relevant skillsets, in view that many of the skillsets required today were not taught through educational institutions.

**b) Foreign-sourced Income Exemption**

- **Expand the scope of the Foreign-Sourced Income Exemption** to include the ‘share of foreign profits’ derived from other foreign business vehicles (such as limited partnerships and limited liability partnerships) carrying on substantive activities in foreign jurisdictions. This aligns the playing field for companies that have ventured overseas using different types of business vehicles in foreign jurisdictions. Currently, foreign dividends, foreign services income and foreign
branch profits received in Singapore by companies are exempted from Singapore corporate income tax subject to certain conditions ("Foreign-Sourced Income Exemption").

c) Taxation of Equity-Remuneration

- **Harmonise the tax treatment for employee share options (ESOP) and shares under employee share ownership (ESOW) plans with foreign jurisdictions** by only taxing the part of the gain that relates to employment exercised in Singapore during the period from the grant of the ESOPs/ESOWs to the vesting/exercising of the awards.

Currently, ESOPs/ESOWs granted while the employee is exercising employment in Singapore is fully taxable at the date of exercise of the ESOP/date of vesting of the ESOWs or upon cessation of Singapore employment (under the deemed exercise rule for foreigners).

On the other hand, ESOPs and ESOWs granted while the employee is exercising employment outside Singapore is not taxable at all. While this taxation principle is quite clear from a Singapore tax perspective, it inadvertently creates double taxation in some cases where an employee is taxed in both Singapore and overseas.

d) Enhance Not Ordinary Resident Scheme

- **Allow the 90-day threshold in the scheme** to be pro-rated in the years of arrival and departure.

The Not Ordinarily Resident scheme was introduced to attract talents to relocate to Singapore. It is valid for 5 years starting from the year of arrival. Among other conditions, the taxpayer has to meet the minimum 90 days of business travel condition in order to enjoy the time apportionment concession under the scheme.

However, depending on the arrival and departure dates, many taxpayers may not achieve the minimum 90 days of the business travel threshold in the arrival and departure years, and hence, they do not get to enjoy the tax concessions.

e) Improving Tax Collections and Compliance

- **Enhance income tax compliance and facilitate the collection/refund of income tax**, the filing deadline should be changed from a fixed deadline of
30 November/ 15 December, to 11 months after the financial year end of the company.

Currently, the annual corporate income tax filing deadline is 30 November (for hardcopy filing) or 15 December (for online filing), regardless of the financial year end of the company.

### 3.2 Sustaining competitive relevance for different industries

#### a) Financial services

- The tax exemption and concessionary tax rate in respect of Qualifying Debt Securities (QDS) and QDS+ are due to expire on 31 December 2018. We recommend extending these schemes by another 10 years as they remain relevant in promoting Singapore as a financial hub.
  - In addition, we propose expanding the existing schemes to cover “Green Bond” and “SGD Credit Rating Bond”.

- Tax exemption is currently available in respect of over-the-counter financial derivatives payments by a financial institution in Singapore to persons who are neither residents nor permanent establishments in Singapore. We recommend including exchange-traded financial derivatives under this scheme.

- We propose the introduction of tax incentive(s) that offer a preferential tax rate of 10% or lower to promote financial innovation-related activities by financial services companies in areas such as digital and mobile payments, authentication and biometrics, block chain/distributed ledger technology, peer-to-peer lending, crowd funding, cloud computing, big data or robotics.

- The MAS should issue guidance on the taxation of digital token offerings as soon as possible given in line that there is the intention to promote fintech activities in Singapore.

The MAS has recently issued a regulatory guide on digital token offerings (for cryptocurrencies). While there has been guidance issued on the trading of virtual currencies, no guidance has been issued on the taxation of digital token offerings to-date. The guidance to be issued by the MAS should address the following:

- Whether the proceeds from an Initial Coin Offering (ICO) exercise attracts corporate taxation;
- In the event that the ICO proceeds are taxable, how the proceeds should be valued for tax purposes. This is especially vital, in view of the fact that most
ICO proceeds are received in the form of another crypto-currency (e.g. Ether, Bitcoin, etc).
— When the ICO entity (post-ICO event) subsequently deals with its self-issued crypto-currency (e.g. releases more of the currency into the market, or acquires some of the currency from market with a view to reselling it to others), what are the tax consequences for the ICO entity.

b) Insurance


- Double deduction to be allowed for expenses incurred in operating an innovation hub in Singapore. This will encourage investment in talents that could deepen the capabilities and position Singapore as a global insurance hub.

- Currently, for life insurers, allocations out of a participating fund by way of bonus to participating policyholders is taxed at 10%. If such policyholders, as individuals, had invested directly in various forms of investments, they would have enjoyed relevant tax exemption. To allow policyholders to have fair returns on their share of the participating fund, we propose exempting such allocations to policyholders. This will level the playing field of life insurance (participating fund) vis-à-vis other investments options from a tax perspective.

c) REITS, Real Estate and Hospitality

- **Introduce safe harbour rules**, similar to that available for gains arising on disposal of shares, for the taxation of gains arising from the disposal of direct holdings of properties to provide investors with tax certainty.

- **Accord some form of tax transparency treatment** to wholly-owned subsidiaries of REITs. This ensures parity with approved sub-trust that enjoys transparency.

- **Include a threshold** (such as 5% or 10%) of non-specified income earned by REITs to qualify as 'specified income'.

- **Standardise the GST treatment of serviced apartments and hotels** i.e. all input tax claims incurred in relation to serviced apartments should be allowable. This can help to ease compliance costs for providers of serviced apartments.
d) Shipping

- The tax exemption under Sections 13A and 13F of the Income Tax Act should be expanded to incentivise ship operators. Presently, charter income, including operating lease income, is exempted under these sections. However, the exemption is not extended to finance lease income. It should be extended to cover finance lease income that is derived from and is incidental to the operations of ship operators.

- All ship financing payments should be exempted from withholding tax.

- Tax incentives should be offered to promote ship pooling and pool management activities in Singapore. This can mirror how funds and fund management activities are incentivised.

- Section 13F exemption should be evolved to meet the needs of the modern shipping industry, in order to remain relevant. We therefore propose that the restrictive requirements in the section on the recipients and providers of the ship management to be lifted, so long as the recipients and providers are within the Approved International Shipping group.
IV: Achieving inclusive growth

For Singapore to remain competitive – besides developing future-ready skills and infrastructure, it needs to foster a caring, inclusive society and a quality living environment, while managing a fiscally sustainable system.

a) Re-skilling/Up-skilling of Employees

- **Extending the scope of existing government schemes** for businesses to re-skill and up-skill employees (e.g. extending current Workforce Development Agency schemes such as the WorkPro grants, or realigning the Wage Credit Scheme to incentivise the hiring and reskilling of displaced workers).

- **Provide enhanced tax deduction for companies** which put in place comprehensive training programmes to re-skill or up-skill employees every 3 to 5 years as part of an inclusive employment initiative.

b) Promoting Healthcare and Caring for the Aged and Sick

- **There is an urgent need to stimulate infrastructure development in healthcare.** With an ageing population, Singapore’s healthcare infrastructure is under strain.

- **An enhanced tax allowance should be introduced** to provide tax depreciation of the cost incurred to develop Singapore’s healthcare infrastructure, taking into account the gross plot ratio and capacity of the hospital facilities.

- **Provide support to encourage private healthcare providers to implement holistic remote care** so that the patient (expected to increase with ageing population) can be treated remotely and from the comfort of their homes. These include providing funding or subsidy to private healthcare providers and encouraging collaboration between the government and private healthcare providers.

- **Allow deductions for pre-school education expenses** and medical expenses incurred by taxpayers to relieve the financial burden of parents and the sick. This is in connection with the recent focus on pre-school education and diabetes during the 2017 National Day Rally.

- **Increase space for private hospitals** to cater for increasing demands for medical services.
c) Income Tax Relief for Individual Taxpayers

- **Revise spouse relief to $4,000** (same as that for child relief) or higher, to be reflective of current situation where the cost of living has substantially increased, and comparable to other developed countries.

- **Increase the amounts of earned income and child reliefs** granted to taxpayers, to take into account the current cost of living in Singapore.

- **Remove the conditions for parent relief**, i) if the parent lived in a separate household in Singapore in the year, the taxpayer must have incurred $2,000 or more in supporting him/her in that year, ii) the parent must not have an annual income exceeding $4,000 in the year.

- **Extend Foreign Maid Levy relief to unmarried taxpayers** caring for aged parents to encourage filial piety, as they presently do not qualify.

- **Grant relief for medical insurance premiums** to encourage more people to take up medical insurance and mitigate significant medical cost that may be incurred, especially with the ageing population.

These proposals will be particularly useful if GST (which is a regressive tax) were to be increased.