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What's on SMEs' wishlist for 2018?

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There's little doubt that 2017 has been one of the more interesting years for the Singapore economy. While it was not plagued by big economic or financial upheavals, the rise of economic nationalism and digital integration has changed the way we conduct business.

Technology disruption, manpower constraints, rising costs and cross-border competition all put pressure on business confidence. The ability of companies, big or small, to retain operational flexibility and adapt their portfolio mix to rapidly changing market conditions is the best option for Singapore enterprises.

Many respondents in our upcoming pre-Budget 2018 poll said they were concerned with the current volatile global economic environment. Many also recognise the need for greater investments in technology and innovation, and are looking to the Government for greater support in innovation, research & development (R&D) and value creation.

With this in mind, we have given some consideration to what a wishlist for our local enterprises should look like in the run-up to Singapore Budget 2018.

1. Supporting businesses in the digital economy

In the 2017 KPMG CEO Outlook, 96 percent of Singapore CEOs view disruption as an opportunity to make meaningful transformations in their business models, develop new products and services, and reshape industries.

We believe that boosting the number of Government incentives and tax changes can develop this potential further. This must start with the recognition that such support can no longer be "same same, but different".

Digitally transforming one's business is not just about doing existing activities more efficiently, such as increasing productivity, finding or engaging customers, or creating new products and services.

Rather, it has to be a complete mindset change. It's almost akin to building a new business from ground up, and entails addressing new markets, looking at new revenue streams and possibly finding strengths in product portfolios that did not exist before.

This requires significant upfront capital investment and staff retraining or redeployment – neither of which are resources that many SMEs have. Double tax deductions on expenses incurred for retraining employees for roles supporting the digital business may be helpful.

A greater focus on capital allowances, rather than more deductions, also sends the signal that any path towards a digital future must start with investing in the future, and not merely modernising old ways for a new digital age. We propose enhancing capital allowances to help businesses invest in new capital assets to develop a digital business, or digitise part or all of their existing business.

Enhancements of existing programmes that help SMEs take smaller steps could also be beneficial. For instance, IMDA's SMEs Go Digital programme, which was rolled out in April last year, has since helped more than 100 SMEs use digital technology to boost their productivity and build digital capabilities.

However, such assistance, while useful, may not be sufficient to help small companies overcome operational hurdles. Making this assistance more accessible, with lower barriers to entry, could go a long way to helping even the smaller of Singapore's enterprises in ushering them into a new digital age.

2. Accelerating the growth of enterprises

Our economy needs a strong core of Singapore companies which are anchored locally even as they expand overseas to ride on the region's dynamic growth prospects. Many companies have already taken the first step out into the region but others need more support. To this end, the Government should make it a priority to support companies in their internationalisation plans.

It has long been a clarion call for SMEs to internationalise in search of growth. Indeed, as ASEAN marks its 50th anniversary, its member states boast growth rates of around 6 percent, a combined population of 620 million, and an economy of US$2.6 trillion, representing a key growth market for SMEs.

While Singapore's chairmanship of ASEAN speaks well to the state's ability to maintain good relationships to help our enterprises regionalise, more can be done to make them ready.

For example, in Budget 2018, we hope to see the Government introducing a programme to fund multipliers, such as consulting firms and trade associations, to help local enterprises expand their overseas footprint.

At the same time, it is also important that entrepreneurship continues to be encouraged in Singapore. We therefore suggest that some local regulations, such as the existing Corporate Income Tax rebate at 20 percent tax payable, capped at S$10,000, be extended to tide companies over in the expiry of the Productivity and Innovation Credit (PIC) scheme in YA 2018. This would benefit SMEs in particular, which would likely feel the brunt of paying higher taxes when the PIC scheme lapses.

3. Strengthening Singapore's fiscal position and competitiveness

The Committee on Future Economy (CFE) strategy to build strong digital capabilities is also timely. As more economic activities take place in the virtual space, digital connectivity could magnify Singapore's competitiveness by enabling access to large pools of data.

Innovation is key in the new digital economy, but cannot be fostered in a vacuum. It needs to be cultivated in a broad ecosystem involving businesses, academia and research institutes. There is therefore intense global competition to attract and retain R&D activity.

As R&D activities do not always seem to have an immediate pay-off, we hope that there will be an increase in R&D tax deduction from 150 percent to 300 percent to encourage enterprises to continue to undertake and increase their R&D activity. Such activity is ultimately crucial in building a sustainable competitive advantage and is critical for Singapore's continued economic growth.

Looking ahead

These are some of our suggestions to help local enterprises transit into the digital economy. As more local enterprises invest in digital technologies, we expect to see a rise of new opportunities for competitive advantage.

Our view is that technology will create new customers' experience and business models, drive operational and cost efficiencies and enable companies the ability to reach customers outside our geographical boundary.

Because of this, the key risk that companies cannot ignore is that of disruption to their business or sector by competitors who may be regional or international players. They should therefore take a more holistic view to who their competitors are and from where new competition may originate. This could be companies from different markets or even unrelated sectors which are converging.

Our SMEs can also look forward to tapping into Singapore's economic growth. The latest Q3 GDP from MTI shows a more optimistic growth outlook, pointing to better days ahead for Singapore's economy. The manufacturing sector, especially electronics, semiconductor, and specialty chemicals manufacturing, is expected to drive overall economic activity.

As we head into 2018, there should be a push to support SMEs and promote locally produced goods and services in order to nurture indigenous capacity in the domestic economy.

Ultimately, our local enterprises are vulnerable to the business environment and they thrive when the business context is conducive. We are confident that despite increasing challenges, our local enterprises have the tenacity and resilience to be future-ready, as proven time and again.

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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