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Digital innovation, technology and manpower (ITM) needed for Singapore to stay relevant

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The golden digital era has brought the global market to the doorstep of businesses in Singapore, increasing their reach and transforming traditional business models into leaner and more disruptive agents of growth.

The upcoming Government Budget is yet another opportunity for Singapore to decisively push its digitalisation strategy.

The question is: can we continue to produce a crop of next-generation companies that are agile enough to harness the opportunities of the digital economy? And can our business leaders leverage Singapore's innovation capabilities to become innovation leaders in their respective fields?

In the last two years' Budgets, we saw a new Government strategy for Industry Transformation Maps, or ITM for short.

This Budget, we propose our version of a Digital ITM (Innovation, Technology and Manpower) as the key ingredients in accelerating the thrust of the Government's Industry Transformation Maps.

Digital 'I': Sustained and Collaborative Innovation

Over the years, both Apple and Samsung continued to revolutionise their products to keep pace with technology changes and stay ahead of competition. At the core of their evolution was an unrelenting spirit of innovation and survival.

In the retail industry, Amazon now has to continuously contend with the likes of Alibaba and Lazada, who are also upping their ante.

The message is clear: whether you are a corporate titan or a new disruptor, you need to continuously innovate. Business leaders must view innovation as importantly as top-and-bottom line growth, seeing it as a constant pursuit and a long-term investment, as opposed to a short-term sprint towards achieving the next set of growth metrics.

For Singapore, the R&D tax incentive is one of the most important tools to encourage continuous innovation.

Other existing schemes to encourage innovation such as the Capability Development Grant, are project specific and short-term and are not conducive for businesses to develop a continuous innovation mindset.

We propose that Singapore's R&D tax incentive needs to be enhanced, with an increase of a 150 to 300 percent deduction for R&D expenditure incurred in and outside Singapore.

If Singapore does not improve its R&D tax incentive, this would mean that the city is disadvantaged compared to China, Ireland, Australia and Hong Kong, which are more generous with their R&D tax incentives.

Another pressing issue is the need for more nimble administration of the incentive.

We recommend that for projects under the 23 industries identified under the Industry Transformation Maps (ITMs), the evaluation of the projects should be made by the lead agencies for each ITM. This provides additional tools for each of the ITM lead agency to encourage more innovation within each sector.

Beyond tax incentives, the development of the R&D ecosystem is also critical to anchoring R&D activity in Singapore.

With a traditional business model, R&D may often be conducted near customers or end-user markets. For Singapore, our small domestic market necessitates stronger support for R&D in order for such activities to mushroom. This is especially critical in the digital economy, for which the creation and retention of intellectual property (IP) is a key driver.

In our view, R&D cannot be undertaken in silo. Collaboration and support to scale and commercialise IP that is both made in, and made for Singapore, should be strengthened in tandem with tax incentives, for instance, through the use of consortiums, shared facilities, or other forms of partnerships. This is key for small and medium size enterprises (SMEs) which may face operational and financial constraints in undertaking ongoing R&D.

Digital 'T': Diffusion of Digital Technology

Riding the digital wave requires large upfront investments which include deploying capital, innovating processes, re-training of existing staff and the hiring of new talent.

Digital investments prove even more challenging for SMEs and start-ups due to their limited access to capital, less certainty of cash-flows and uncertain return-on-investments. These companies, along with larger corporates, also need professional help to overcome the complexity of implementation.

In light of these challenges, we propose enhanced tax deductions to help both small and large businesses offset costs incurred on implementation and consulting.

Enhanced capital allowances for digital adoption can also help businesses to invest in new capital assets for digital adoption. The enhanced deduction or allowances could be applied as follows: 400% tax deduction/allowances for the first $200,000 of expenditure annually, and 200% tax deduction on the remainder.

Lastly, as cloud-based technologies become more prevalent, we anticipate that any digitalisation efforts would entail more than simple expenditure on physical equipment. Any measures to deal with these aspects could potentially accelerate digitalisation especially among SMEs.

Digital 'M': Flexible Manpower Framework

As the digital economy takes root, there will be a need for more diverse skillsets. Increasingly, these skillsets are developed through experience rather than formal education.

To build up new capabilities quickly, businesses may need to import these skills to get a head-start over competition.

A manpower framework that is more robust and responsive to the needs of businesses should be developed to help businesses position themselves as global or regional champions.

This could include a relaxation of the Employment Pass framework to encourage the hiring of talent with skillsets currently lacking in Singapore. One example is the shortage of cyber security specialists.

In the hire of any foreign talent, consideration should be given to proven real-world credentials and not be narrowly tied to academic qualifications alone.

Beyond hiring international talent, we should also continue to develop the local talent pool, particularly in areas where our skills are currently lacking, or in capabilities such as artificial intelligence, Internet-of-Things and design thinking that are in demand.

In the long run, upskilling of local talent is also essential, as robots and automation displace manual workers and new careers and industries sprout out as a result of digitisation.

In our 2018 pre-Budget survey, 83 percent of the companies that we polled have shared that there will be more incentives to retrain and upskill their employees. This is certainly a promising sign.

With the Government's recent push to equip the workforce with digital skills, we propose an enhanced tax deduction on expenses incurred for digital skills training. Additionally, the existing Skillsfuture programme could also be enhanced to focus on developing skills in demand. Additionally, the existing Skillsfuture programme could also be enhanced to focus on developing skills in demand.

In closing

The speed of digitisation has created a widening digital divide in our society. Our proposals for a "Digital ITM" are aimed at narrowing this divide to create more opportunities for our people and companies, and to build a sustainable pipeline of next generation companies and business leaders for Singapore to stay relevant in the world.

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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