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Singapore needs to remain competitive

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Since independence, Singapore has stood out in the Asia-Pacific for attracting foreign direct investments (FDI) through its free, open and diversified economy.

However, global competition is intensifying. Our Asia-Pacific neighbours are enhancing their own competitiveness, and some of our traditional trading partners have also adopted a more protectionist stance to boost their economic prospects. One of the biggest indicators of this is the gradual decline of corporate income tax (CIT) rates by an average of seven percentage points this past decade in the Asia-Pacific.

Recent tax reforms in the US will see the headline CIT rate decline from 35 per cent to 21 per cent. In Europe, the UK's CIT rate is heading towards 17 per cent by 2020.

Closer to home, Hong Kong has signalled its intent to introduce more incentives, including significantly enhanced research and development (R&D) tax deductions to make it more attractive for businesses. Malaysia has also implemented tax incentive regimes designed to encourage multinational corporations (MNCs) to set up their Asia-Pacific headquarters there. Thailand has also been actively encouraging foreign investments in 10 target industries.

How can Singapore keep pace? In a rapidly changing global environment, more needs to be done for Singapore to maintain its competitiveness to attract FDI from the MNCs.

An area to focus on is our existing trump card - tax competitiveness. This is important as investment decisions are made around a combination of tax and non-tax considerations.

We highlight a few tax considerations which we hope to see in this year's Budget proposal.

Monitoring Global and Regional Trends on CIT rates

Singapore's CIT rate has remained static at 17 per cent since 2010 while other countries have been gradually reducing their tax rate.

This rate is significantly lower than the Organisation for Economic Co-operation and Development (OECD) average and all of its Asia-Pacific neighbours, with the exception of Hong Kong at 16.5 per cent - which has recently introduced a two-tier tax rate to become even more competitive.

While there is no immediate need to reduce CIT rate in Singapore, continuously monitoring of global and regional trends in CIT rates is necessary.

Additionally, Singapore should also ensure that its tax treaty network is competitive and extensive by growing its treaty network and updating existing tax treaties, especially on the withholding tax rates applicable under the respective tax treaties.

Enhancing IP Regimes to Support Value Creation

The increasing shift from a knowledge to a digital and data-driven economy is fuelling the need for stronger support in IP commercialisation.

Singapore has already taken a major step to announce the introduction of the Intellectual Property (IP) Development Incentive in Budget 2017 to encourage the commercialisation of IP from Singapore.

The tax incentive provides concessionary tax rates on income from qualifying IP rights, similar to IP regimes such as the UK Patent Box and the Irish Knowledge Development Box schemes.

Meanwhile, the Productivity and Innovation Credit (PIC) scheme which was introduced in 2010 has, over several enhancements, offered companies a 400 per cent writing-down allowance on qualifying expenditure to acquire IP rights.

This significant tax benefit ensured that Singapore stood out as a key player in attracting IP and technology knowhow for further development and commercialisation.

However, the recent phasing out of the PIC benefits leaves a writing-down allowance of only 100 per cent for qualifying IP acquisition costs. This could negate a key competitive advantage of the Singapore tax system.

We hope that the government would consider enhanced writing-down allowances for IP acquisition.

Currently, the Economic Development Board (EDB) may grant investment allowances, less than the full IP acquisition costs, for approved projects. The enhancements could increase the investment allowance rate to 100 per cent (on top of the existing writing-down allowance) on an automatic basis, subject to a cap of S$500,000 for each acquisition.

In addition, we suggest that the writing-down allowance should also be accorded to the "economic owner" of the IP rights, without the need to obtain pre-approval from the EDB. Currently, approval from EDB is required if the legal rights of the IP cannot be transferred.

These proposed changes would complement the objective of the IP Development Incentive and strengthen Singapore's position as an IP management hub.

They would also put Singapore on a par with many significant markets such as the UK and Australia on IP tax amortisation rules, which do not differentiate between legal and economic ownership rights of IP.

Finally, they would be aligned with commercial realities reflecting legal or commercial considerations which may be preventing MNCs from transferring full ownership rights of their IP to Singapore.

Tailored MNC Incentives

There is an increasing trend of Asian MNCs expanding their footprint globally. Many are keen to consider Singapore as a test-bed and/or as an entry point to access South-east Asia's emerging middle class. These MNCs also favour Singapore's high standard of living and English-speaking population.

How can Singapore ensure that its incentive regime is attractive enough to woo these companies to set up their headquarters here?

For a start, Singapore could address three key challenges faced by Asian MNCs when considering Singapore as an investment location.

Firstly, Asian MNCs are highly cost-sensitive and may not want to start with a large regional headquarters in Singapore.

Secondly, Asian MNCs may already have a substantial operations base in their home country overseeing their core businesses in the Asean or Asia-Pacific region. As such, setting up a second regional base in Singapore may not be feasible.

Thirdly, Asian MNCs, especially privately-held family-run companies, prefer their headquarters to be on home ground as it accelerates decision-making and enhances nimbleness in managing their business operations.

Quantitative tax incentives that focus on headcount and local business spending may fail to address these challenges, which in turn, may impact Singapore's competitiveness in anchoring these MNCs.

One option to work around this situation could be to tailor the tax incentives criteria for Asian MNCs around the nature of value-creation activities that take place here.

This can take the form of focusing on key individuals who drive value in Singapore. Instead of requiring a company to commit a large number of headcount for an extended period of time, the incentive could be given for a shorter stint of three years (instead of five), with an emphasis on key decision-makers with responsibilities for the Asia-Pacific to be based here.

Despite increased competition from overseas, Singapore's value proposition remains high. The city state provides an ideal location for a regional or global headquarters, and it still outshines its Asia-Pacific neighbours through its commitment to internationalisation, ease of doing business and transparent tax regime.

Having said that, Singapore must not stand still. It needs to take the opportunity in the upcoming Budget to further enhance its reputation as the prime location for MNCs.

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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