KPMG

A TIME TO MOVE FORWARD

Singapore Budget 2020

▸Transforming enterprises to grow a sustainable revenue base

The black swan shock of COVID-19 reaffirms the need for enterprises to equip themselves to face any disruption. Budget 2020's most commendable aspect is its focus beyond the immediate and medium-term, by continuing to catalyse enterprise transformation for the long-term, to help enterprises re-orientate their business models and operations.

This aligns with KPMG's Budget 2020 proposal for Singapore to become a hub for enterprise transformation. Singapore can claim leadership in what could become an entirely new industry – an expertise that can also be exported overseas.

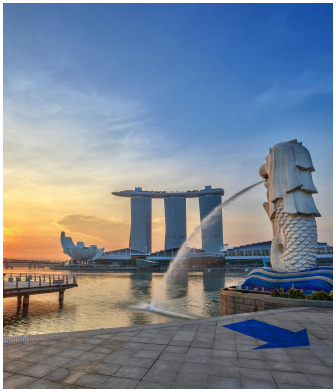
Singapore's enterprises would benefit from targeted measures such as enabling stronger partnerships within and outside Singapore, enhancing the Market Readiness Assistance Grant, and expanding the SMEs Go Digital Programme to build core capabilities such as in digitalisation, innovation and productivity, and market access.

Fiscal sustainability is another reason to prioritise enterprise transformation. Given an ageing population and a volatile global economy, Singapore needs more sustainable revenue sources. Developing into an enterprise transformation hub would help expand the tax base by boosting a long-term source of operating revenue that would, in turn, lift the income of workers.

Budget 2020 lays the groundwork to build a transformation ecosystem – one that offers end-to-end solutions from procurement to fintech, from basic data protection to advanced cyber security, and from foundational enterprise infrastructure to long-term sustainability.

Ong Pang Thye
Managing Partner, KPMG in Singapore

A TIME TO MOVE FORWARD



Moving forward as one

The COVID-19 outbreak has impacted our people and our businesses. Budget 2020 offers measures to help Singapore's most-affected sectors move forward, while transforming the way we protect and grow our economy.

The Situation

▸ New economic risks with COVID-19

COVID-19, which broke out in China in December 2019, has since spread to more than 70,000 people in over 20 countries and has overtaken the 2003 Severe Acute Respiratory Syndrome (SARS) epidemic both in terms of confirmed cases and deaths.

To date*, Singapore has 81 confirmed cases of the virus, one of the largest number of infections outside China. In response to new cases without any links to previous cases or travel history to China, the Government raised its disease response level to DORSCON Orange on 7 February 2020.

Given China's 19.71% share of the global Gross Domestic Product (GDP) and a much more inter-connected global economy than in 2003, the impact on the Singapore economy will be significant, with the FY 2020 GDP forecast already revised downwards to between -0.5% to 1.5%.

The COVID-19 outbreak has also created public anxiety and taken a heavy toll on businesses. Sectors such as aviation, tourism, retail, food and beverage and point-to-point transport have been most severely hit. Many supporting industries are also affected.

** Accurate as of 18 February 2020*

The Government's response

▸▸ A well-rounded support package

To help workers and businesses deal with the immediate economic impact arising from the COVID-19 outbreak, the Government has announced a S$4 billion Stabilisation and Support Package, which provides broad-based and targeted measures for the following:

(i) Workers
(ii) Businesses
(iii) Specific sectors

(i) BROAD-BASED MEASURES FOR WORKERS

Jobs Support Scheme

Employers will receive an 8% cash grant on the gross monthly wages of each local employee (applicable only to Singapore Citizens and Permanent Residents) for the months of October 2019 to December 2019, subject to a monthly wage cap of S$3,600 per employee. Cash grants received by employers would be tax exempt.

Enhancements to Wage Credit Scheme

The scheme which co-funds wage increases for Singaporean employees will see an increase in the qualifying gross monthly wage ceiling from S$4,000 to S$5,000. The Government will also increase the level of co-funding by five percentage points to 20% and 15% of the wage increases in 2019 and 2020 respectively.

Budget 2020 balances near term challenges brought about by COVID-19 with future growth opportunities… We particularly welcome its push to transform enterprises, which aligns with our vision for Singapore to be the Transformation Capital of Asia.

Tay Hong Beng
Head of Tax
KPMG in Singapore

The Government's response

▸A well-rounded response package (continued)

(ii) BROAD-BASED MEASURES FOR BUSINESSES

Enhanced SME Working Capital Loan

The SME Working Capital Loan (which has been subsumed under the Enterprise Financing Scheme), will be enhanced to increase the maximum loan quantum from S$300,000 to S$600,000. The Government's risk share will also be increased from the current 50% to 70%, to 80% for SMEs borrowing from Participating Financial Institutions under the scheme. The above enhancement will be effective from March 2020 and is available for one year till March 2021.

Corporate income tax rebate

Companies will enjoy an enhanced corporate income tax rebate of 25% of tax payable, capped at S$15,000 for YA 2020. This is an increase from the 20% rebate (capped at S$10,000) granted for YA 2019.

Interest-free instalments for Estimated Chargeable Income (ECI) payments

An additional two months of interest-free instalments will be granted to companies paying their corporate income tax by GIRO when they file their ECI within three months from their financial year-end. This automatic extension of instalment plan will apply to companies that file their ECI from 19 February 2020 to 31 December 2020; or companies that file their ECI before 19 February 2020, and have ongoing instalment payments to be made in March 2020.

Enhanced carry-back relief scheme

The carry-back relief scheme will be enhanced to allow all persons carrying on a business, including sole proprietorships as well as partnerships, to carry back qualifying deductions (capped at S$100,000) for YA 2020 for deduction against assessable income up to three immediate preceding YAs (previously only up to the immediate preceding YA), subject to certain conditions.

Options to accelerate capital allowance claims and deductions

a) Taxpayers who incur capital expenditure on plant and machinery in the basis period for YA 2021 will have an option to claim accelerated capital allowance over two years. Taxpayers can claim capital allowances of 75% of the costs in YA 2021 and the remaining 25% in YA 2022. No deferment of claims is allowed under this option.

I am pleased that the Budget announcements show a good balance that addresses short-term issues arising from COVID-19, without losing sight of the importance of longer-term structural issues.

Satya Ramamurthy
Head of Infrastructure, Government & Healthcare
KPMG in Singapore

The Government's response

▸A well-rounded response package (continued)

b) Taxpayers who incur qualifying expenditure on renovation and refurbishment for the basis period of YA 2021 will have the option to claim renovation and refurbishment deductions in one YA (instead of over three YAs). The cap of S$300,000 for every relevant three year period continues to apply.

(iii) TARGETED MEASURES FOR SPECIFIC SECTORS

Enhancement to the Adapt and Grow initiative

Employees in affected sectors such as tourism, aviation, retail and food services sectors will receive enhanced support through new redeployment programmes. The funding support period for existing redeployment programmes (i.e. Job Redesign Place-and-Train (PnT) Programme for Hotel Industry and Job Redesign PnT Programme for Retail) will be extended from three months to a maximum of six months.

Property tax rebate (PTR) for qualifying commercial properties

a) 30% PTR for accommodation and function room components of licensed hotels and serviced apartments, and Meetings, Incentives, Conventions and Exhibitions spaced components of Suntec Singapore Convention & Exhibition Centre, Singapore EXPO and Changi Exhibition Centre
b) 15% PTR for other qualifying commercial properties such as the premises of international airport and tourist attractions, shops within hotels, etc.
c) 10% PTR for Marina Bay Sands and Resorts World Sentosa

One-year temporary bridging loan programme for tourism sector enterprises

Eligible enterprises will be able to borrow up to S$1 million, with the interest rate capped at 5% p.a. The Government will co-share up to 80% of the borrowing risk.

S$112 million aviation sector assistance package (co-funded by the Government)

a) Rebates on landing, parking and regulatory fees, etc. for airlines, freighter airlines and cargo agents
b) Assistance to ground handling agents
c) Rental rebates for shops and cargo agents at Changi Airport.

Port dues concession

Cruise ships and regional ferries with a port stay of not more than five days, and passenger-carrying harbour craft, will be given a 50% port dues concession from 1 March 2020 to 31 August 2020.

Rental waivers

Hawkers managed by the National Environment Agency will be provided with one month's worth of rental waiver while qualifying commercial tenants managed or owned by other government bodies will be provided half a month's rental waiver.

Rental waiver to help businesses affected by COVID-19 is a welcome move but is limited to hawker centres, markets and commercial tenants of government-owned or managed facilities. While savings from property tax rebates granted to private commercial properties are encouraged to be passed on to tenants, the Government could also look into more targeted measures such as rental aid packages to address retailers' broader rental concerns.

Tan Chee Wei
Head of Consumer & Retail, Tax
KPMG in Singapore

Our point of view

▸ Support in a time of need

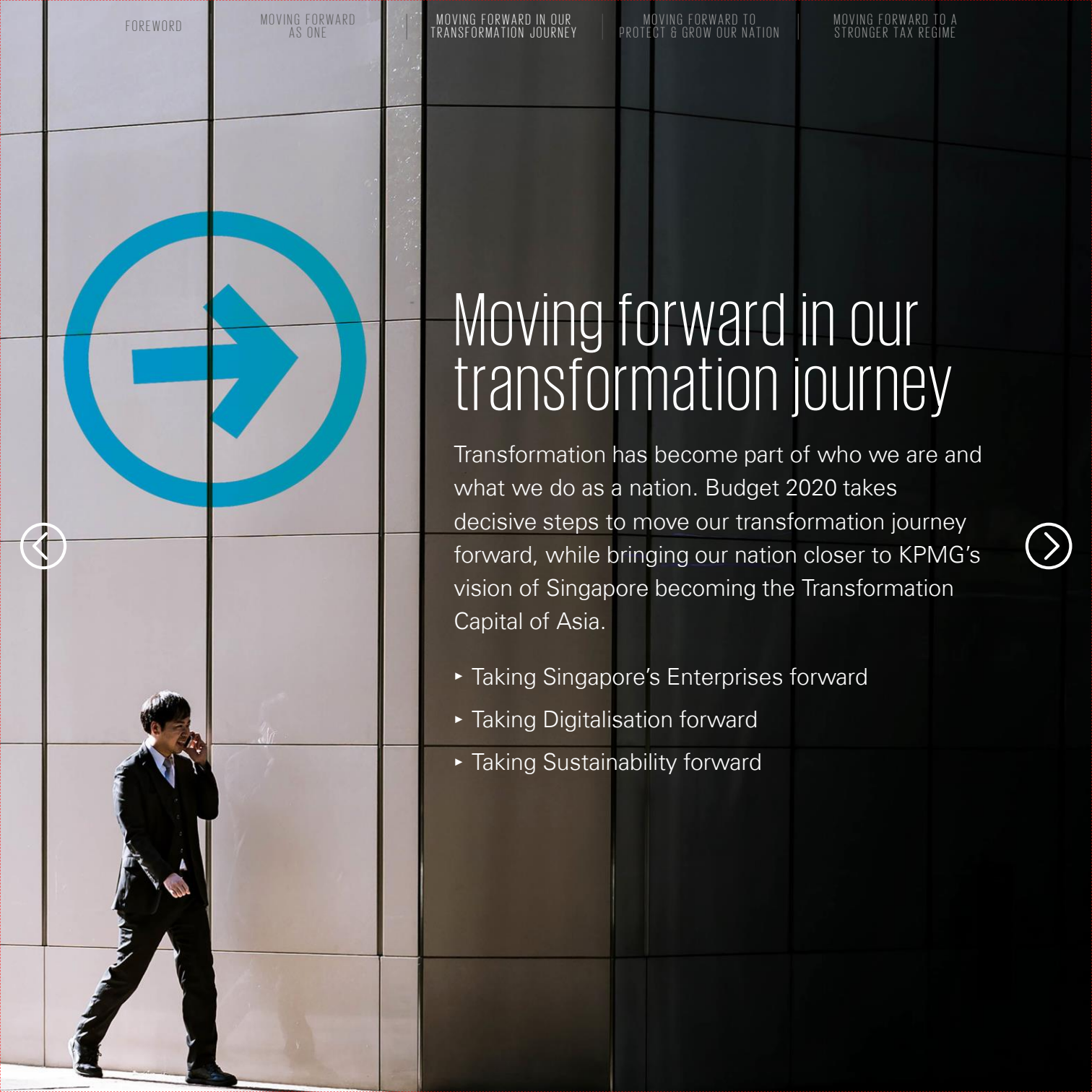
The Stabilisation and Support Package offers both broad-based measures as well as targeted measures to sectors most affected by the COVID-19 outbreak – namely, tourism, aviation, retail, food and beverage, and point-to-point transport.

The introduction of the relief package is necessary, timely and welcomed to weather the immediate economic impact. Measures such as PTRs of up to 30% for the tourism sector, bridging loans and rental waivers for targeted sectors provide a much needed reprieve from the sudden impact of the crisis.

Beyond the short-term support package, businesses should set their sights on the medium-and long-term measures in the transformation and growth of their enterprises to scale up, innovate and internationalise to enter new markets and reach new customers. This can be done through the Adapt and Grow initiative to train, upskill and reskill local workers so as to prepare themselves to ride on the economic upturn.

While it is still too early to tell if the Stabilisation and Support Package can sufficiently offset the impact on local businesses, it would certainly go a long way towards helping local businesses tide over the difficult period and retain jobs, where possible. Compared to the S$230 million SARS relief package provided in 2003, the S$4 billion budget allocated to the Stabilisation and Support Package is far more generous and significant. This demonstrates the Government's appreciation of the impact of the outbreak on Singapore's economy and workforce, and its commitment to helping affected stakeholders, including workers, businesses and specific sectors.

We are seeing the integration of health and economy now more than ever. KPMG has long been an advocate that investment in health is investment in wealth – with every year of life expectancy gained by a country equating to a 4% contribution to GDP. But as the current situation shows, investments in healthcare cannot be taken for granted. We applaud the Government for its commitment to a resilient healthcare ecosystem as Singapore has achieved "gold standard" for COVID-19 control at the global level, and we look forward to exploring new sustainable healthcare financing programmes.



Moving forward in our transformation journey

Transformation has become part of who we are and what we do as a nation. Budget 2020 takes decisive steps to move our transformation journey forward, while bringing our nation closer to KPMG's vision of Singapore becoming the Transformation Capital of Asia.

- Taking Singapore's Enterprises forward
- Taking Digitalisation forward
- Taking Sustainability forward

The change

▸ More support to accelerate enterprise transformation

ESG aims to support up to 3,000 enterprises in FY 2020 with the Enterprise Development Grant (EDG). The EDG provides SMEs with up to 70% support in three areas: Core Capabilities, Innovation and Productivity, and Market Access.

Enterprise Leadership for Transformation (ELT), aimed at business leaders with the ambition and commitment to transform their business, is a three-year pilot focused on helping the professional growth of SME business leaders.

The programme comprises:

- Structured modular training in business growth capabilities, with a focus on using frameworks and case studies to address actual business problems.
- Coaching by advisors and industry practitioners, who will guide business leaders in the development of a business growth plan.
- Access to alumni engagement and networking, to enable peer learning and collaboration.
- Support for implementation of business growth plans, depending on the enterprises' respective needs.

The way forward

▸▸ Transform or get left behind

Even if business leaders do not know where or how to start the transformation of their business, the ELT programme provides personal coaching and guidance. Regardless of the company's stage of growth, leaders of enterprises who are motivated to transform can now tap on this programme to gain knowledge and jump-start their journey.

With the target of 3,000 enterprises, ESG wants to help the wider pool of Singapore companies to transform and scale to achieve their next phase of growth – be it strengthening their business foundation, embracing innovation or venturing overseas.

The EDG covers a broad spectrum of business needs under the three areas by supporting costs involved with initiatives such as business strategy development, financial management, automation and expanding overseas market presence.

Companies should definitely take advantage of the opportunities presented by ESG as soon as possible and embark on their transformation journey.

The change

▸ Enhancements to the Market Readiness Assistance (MRA)

The MRA Grant is a broad-based enterprise grant scheme that provides 70% funding for eligible costs incurred by SMEs taking their first steps overseas.

It supports prescribed activities to help SMEs to:

- set up overseas (e.g. business entity registration, tax structure implementation).
- identify business partners.
- promote their products and services overseas.

To accelerate the internationalisation efforts of SMEs, the MRA Grant will be enhanced as follows:

- Expand scope of supportable activities to include (a) Free Trade Agreement (FTA) consultancy services; and (b) in-market business development
- Increase grant cap from S$20,000 per year to S$100,000 per new market per company
- Extend the scheme for another three years, till 31 March 2023

The way forward

▸▸ Enter new markets with confidence of more support

The larger MRA Grant cap is a long-awaited enhancement and will be welcomed by businesses.

Expanding overseas can involve significant investment in activities such as feasibility studies, getting advice on legal, business and tax considerations, business incorporation, etc. Hence, the previous cap may have been inadequate for comprehensive planning of expansion into a single market, let alone multiple markets.

The enhancement of the MRA Grant is therefore a step in the right direction. For example, companies can leverage on the enhanced MRA Grant support to engage consultants which can now include FTA and customs planning.

There should however be flexibility on how "new market" is to be interpreted. For example, Shanghai might be considered as a different market from Beijing in view of different tastes or buying preferences.

The change

▸ Enhanced support for internationalisation

The Double Tax Deduction for Internationalisation (DTDi) scheme currently gives businesses an automatic 200% tax deduction on qualifying expenditure of up to S$150,000 incurred on four specified activities. Businesses may apply to ESG or STB to claim double tax deduction (DTD) on qualifying expenses exceeding the expenditure cap, or those incurred for other qualifying activities.

Budget 2020 proposes to extend the qualifying period of this scheme to 31 December 2025.

The DTDi scheme is now enhanced to include the following expenses from 1 April 2020:

1. Third-party consultancy costs relating to new overseas business development to identify suitable talent and build up business networks
2. New categories of expenses incurred for overseas business missions

The way forward

▸▸ Now is the time to go global

The enhancements provide better support to businesses venturing overseas; in particular, first-timers looking to establish an overseas business development team and network would stand to benefit. Businesses which may not have internal expertise could consider enlisting the help of third-party consultants to undertake internationalisation activities.

Businesses that have already embarked on their internationalisation journey would also appreciate the expanded scope of support.

In 2019, ESG co-organised 230 overseas business missions, involving an approximate 3,360 enterprises. With these enhancements, the number of enterprises involved is expected to grow.

ESG will provide further details by end March 2020.

The Executive-in-Residence programme for Trade Associations & Chambers is long awaited. It will address SMEs' low digital adoption rate by offering ready guidance on the government support available for SMEs to adopt digital technology.

Chiu Wu Hong
Partner, Tax
KPMG in Singapore

The change

▸ New efforts to build a stronger workforce

To encourage enterprises to develop the skills of employees, a few of the pertinent measures introduced include:

- New SkillsFuture Enterprise Credits to help enterprises defray 90% of out-of-pocket costs of business transformation, job redesign and skills training. At S$10,000 per enterprise, this will benefit over 35,000 enterprises, mostly SMEs.
- The Productivity Solutions Grant, which supports enterprises to adopt pre-approved IT solutions and equipment, will be expanded to include job redesign consultancy services.

The way forward

▸▸ Sustainable growth and deepened capabilities ahead

Employees upskilling is crucial as Singapore takes further steps to help businesses thrive in a growing digital economy. Placing employees at the core of innovation will enable strong sustainable growth and deepen enterprise capabilities.

It is critical for enterprises to recognise the skills that their workforce must possess to stay ahead. Enterprises, especially SMEs that are experiencing funding issues, may utilise some of the measures to defray some of these costs while being able to train a talent pool to foster growth and to reduce the negative impacts of job displacement.

The change

▸Tightening of the Mergers & Acquisitions (M&A) scheme

Presently, the M&A scheme allows eligible companies to claim tax deductions and enjoy stamp duty relief up to a certain cap for qualifying acquisitions.

These benefits were only available to acquiring companies held by an ultimate holding company that is incorporated in and is a tax resident of Singapore. For foreign-owned companies enjoying certain tax incentive schemes, a waiver of this condition may be obtained.

This scheme, which is scheduled to lapse after 31 March 2020, will now be extended to cover qualifying acquisitions made on or before 31 December 2025. However, the following changes are proposed for acquisitions made on or after 1 April 2020:

1. Stamp duty relief to lapse for instruments executed on or after 1 April 2020
2. No waiver to be granted for the condition that the acquiring company must be held by an ultimate holding company that is incorporated in and is a tax resident of Singapore

The way forward

▸▸ Expect more growth via strategic acquisitions

This extension of the M&A scheme will provide a continuous drive to encourage and support enterprises, especially SMEs, to continue to transform and grow via strategic acquisitions. However, the stamp duty relief (which is currently capped at S$80,000) will be withdrawn.

MOF also commented that the said waiver for MNCs will no longer be granted so that the incentive will be more targeted at providing much needed support to SMEs.

MNCs with headquarters in Singapore that are looking to expand inorganically will not enjoy this benefit further.

The change

▸ Reduced Dependency Ratio Ceiling (DRC) for S Pass holders

The DRC refers to the percentage of foreign workers to local workers that businesses are allowed to hire. The S Pass sub-DRC refers to the percentage of foreign employees on S Passes to local workers.

The sub-DRC for S Passes for the construction, marine shipyard, and process sectors will be reduced from 20% to 15%. This will be done in two stages:

Current S Pass sub-DRC	20%
S Pass sub-DRC from 1 January 2021	18%
S Pass sub-DRC from 1 January 2023	15%

The Government had lowered the DRC for S Passes and Work Permits (for semi-skilled and unskilled workers) in the services sector last year.

The DRC for the manufacturing sector will remain unchanged for now, while the earlier announced foreign worker levy increases for the marine shipyard and process sectors will be deferred for another year. There are no changes to the policy on Employment Passes (highly skilled foreign employees) for all sectors.

The way forward

▸▸ Cope with the new policies and tap on relevant assistance

This announcement to tighten the foreign worker quota for the above industries is consistent with the Government's policy of encouraging businesses to strengthen their Singaporean core workforce and regulate foreign worker reliance.

Those prepared to undertake transformation projects within the new DRCs can tap on the relevant assistance under the Lean Enterprise Development (LED) Scheme.

The overall DRC, which refers to the overall foreign worker quota across S Passes and Work Permits, is unchanged for these three sectors. This means that businesses in these sectors can hire more Work Permit holders (semi-skilled and unskilled workers), as only the sub-DRC for S Pass (mid-skilled employees) is reduced.

Budget 2020's Transformation and Growth Package will deepen capability at every stage of an enterprise's development. This will help businesses develop more holistically as compared to the previous Productivity and Innovation Credit Scheme.

Jonathan Ho
Head of Private Enterprise
KPMG in Singapore

The change

▸ More support for technology adoption

The SMEs Go Digital Programme will be enhanced to support more Industry Transformation Map sectors - from the current 10 to 23. This will include new sectors such as healthcare, food manufacturing, adult and early childhood education.

The Productivity Solutions Grant, where SMEs can receive up to 70% funding for pre-approved digital solutions, will also be enhanced to cover support for a more comprehensive suite of solutions and activities. New activities supportable under the grant will include job redesign consultancy services.

A new initiative introduced is Grow Digital, which aims to enable SMEs to access global markets via B2B and B2C digital channels. The Government will provide 70% funding for SMEs to participate in B2C e-commerce platforms. The Grow Digital initiative will also support SMEs to participate in B2B marketplaces to benefit from overseas procurement demand.

ESG and IMDA will provide further details in the second quarter of 2020.

The way forward

▸▸ Enhanced global competitiveness for local enterprises

The continuous efforts to increase technology adoption for SMEs further emphasises its importance in this ever-connected digital era. Globally, companies have been riding the digital wave to secure international income sources. This makes the Grow Digital initiative an aptly-timed scheme which aims to help SMEs quickly scale up in the global arena.

By leveraging established online distribution platforms, SMEs will be able to develop multichannel/omnichannel B2B and B2C networks to reach out to a wider market much faster, as they will not be burdened with developing their own platforms and channels. The essence of speed coupled with the ability to utilise built-in capabilities such as advanced data analytics and artificial intelligence in such platforms will likely lead to increased revenue growth for SMEs. Having access to multichannel online platforms can also help increase brand loyalty as customers will be better served by seamless consumer usability and connectivity.

Overall, these enhancements will put SMEs in a better position to be competitive globally.

Cloud-based services offer leading-edge technologies that can significantly reduce the time needed for digital transformation and bring substantial benefits to enterprises. More initiatives are therefore needed to encourage greater adoption of cloud-based solutions.

Ajay Kumar Sanganeria
Deputy Head of Tax
KPMG in Singapore

The change

▸ Extensions to enhance global connectivity

Tax depreciation is currently available under a writing-down allowances scheme for qualifying capital expenditure on the purchase of an indefeasible right to use an international submarine cable system.

This scheme, which was scheduled to lapse after 31 December 2020, has been extended till 31 December 2025.

The way forward

▸▸ Singapore as a Global-Asia Node of Technology

Connectivity is key to Singapore's transformation as a Global-Asia Node of Technology, Innovation and Enterprise. Keeping in mind the progressive roll-out of the 5G network by telecommunication companies in Singapore within the next two years, this ability to claim tax depreciation on significant capital expenditure on the purchase of an indefeasible right to use will be pivotal to maintaining and improving competitiveness.

More support is needed to enable 5G development and adoption at a larger scale, and to lower costs for telcos through tax incentives such as writing-down allowances for spectrum rights payment. This is critical to ensure that savings are passed down to consumers.

Juvanus Tjandra
Partner, Technology, Media & Telecommunications
KPMG in Singapore

The change

▸ Increased focus on combating climate change

The way forward

▸▸ More innovation and opportunities ahead

As part of Singapore's continuing commitment to combat climate change, the following are proposed:

Close to S$1 billion commitment for research on Urban Solutions and Sustainability

This will cover a host of environmental solutions including circular economy models to manage waste, research on renewable energy alternatives, cooling measures and carbon capture.

Given rapid global urbanisation, it is the right time for Singapore to establish itself as a test case for innovative urban solutions. We need to replicate our success in NEWater – an initiative that created circular economy advantage. NEWSand (using Incineration Bottom Ash) can be a ground-breaking sustainable solution for construction and infrastructure sectors. The commercial viability of these innovations will position Singapore to capture new opportunities offered by climate change initiatives.

Initial injection of S$5 billion for a Coastal and Flood Protection Fund to address the existential threat of rising sea levels

This follows the National Day Rally 2019 estimate of more than S$100 billion over 100 years.

This fund will not only encourage a suite of new climate change players to explore effective/innovative solutions to kick-start a climate adaptation and mitigation ecosystem; it will also position Singapore as a model for climate risk mitigation for other coastal cities and countries to follow.

Budget 2020 confirms our nation's commitment to do our part for climate change, while offering opportunities for Singapore to stay relevant on the global stage and move our enterprises and people into the new economy.

Cherine Fok
Director, Sustainability Services
KPMG in Singapore

The change

▸ Increased focus on combating climate change (continued)

The way forward

▸ ▸ More innovation and opportunities ahead (continued)

Phase out of Internal Combustion Engine vehicles by 2040

The Government will take a lead role by progressively procuring cleaner vehicles and moving towards a mobility future by putting in place an enhanced public charging infrastructure as well as incentives to encourage more pervasive adoption.

There will be a review of the existing vehicular tax structure as well.

Amidst continued population growth, urbanisation and environmental concerns, new forms of mobility are critical to support tomorrow's population hubs and economic activities. Future mobility systems promise convenient, safe and economic mobility, with less impact to health and the environment. There are opportunities we should capture by swiftly adapting business and operating models and securing the right partnerships and acquisition targets.

100% of HDB towns to be eco-friendly by 2030

The HDB Green Towns Programme along with incentives for lower-income households to purchase energy efficient appliances will encourage people-led, ground-up activities around reducing waste, water and energy use that are an essential part of an eco-friendly environment.

The HDB Green Towns Programme is a heartlands initiative that fosters national pride, as individuals step up to do their part to reduce waste, water and energy use, supported by incentives to purchase energy-efficient household appliances.

Positive environmental impacts aside, its implicit value lies in strengthening the social fabric of our society. It is this same indomitable spirit that our pioneer generation had, and we can now replicate, to see Singapore into the next phase of transformation.

The S$5 billion Coastal and Flood Protection Fund announced at Budget 2020 will not only protect Singapore from climate change risks; it also moves us closer to building a climate adaptation and mitigation ecosystem that other coastal cities and countries worldwide can look to in the future.

Sharad Somani
Head of Infrastructure Advisory
KPMG in Singapore

Moving forward to protect & grow our nation

This year's Budget mobilises key sectors across Singapore, setting in place initiatives that will transform our economy to be smarter, stronger and more resilient for the years ahead.

- Taking Real Estate forward
- Taking Financial Services forward
- Taking Asset Management forward
- Taking Shipping forward

The change

▸ Extension and exclusions to the safe harbour rule

While Singapore does not have a capital gains tax, gains from disposal of shares may still be considered as revenue gains and be subject to tax. To address this uncertainty, a safe harbour rule was introduced to provide upfront certainty of non-taxation of gains derived from the disposal of ordinary shares by companies under certain circumstances. This scheme will be extended for another five years to 31 December 2027.

Currently, the rule does not apply to gains from disposal of unlisted shares in an investee company that is in the business of trading or holding Singapore immovable properties (other than the business of property development). From 1 June 2022, the scheme will also not apply to disposals of unlisted shares in an investee company that is in the business of trading, holding or developing immovable properties in Singapore or abroad. The tax treatment of gains from such share disposals will be assessed based on the facts and circumstances of the case.

IRAS will provide further details by end June 2020.

The way forward

▸▸ Time to rethink investment structures and exit strategies

While the extension of the safe harbour rule to 31 December 2027 is a welcome change, the expansion of the exclusion has come as a surprise.

Unless specific exemption applies, Singapore companies will no longer enjoy certainty on gains relating to the disposal of shares in a company that invests in offshore real estate.

It is not clear at this stage whether grandfathering rules will be provided for existing structures.

The lack of certainty may encourage investors with investments in offshore real estate to consider applying for Singapore fund exemption schemes. Real estate investors may need to revisit their investment structure and exit strategy in view of this change.

Budget 2020 could have pushed harder on proptech solutions and green building initiatives that we could later export.

Tay Hong Beng
Head of Tax
KPMG in Singapore

The change

▸ Enhancement of the withholding tax exemption for interest on margin deposits

Currently, the withholding tax exemption applies to interest payments made on margin deposits by members of approved exchanges[1] to non-resident persons on certain covered products[2]. The exemption is available till 31 December 2022.

The scope of covered entities under this exemption has now been extended to include the following:

- Members of approved clearing houses
- Approved exchanges
- Approved clearing houses

The scope of covered products has also been liberalised to include all other derivative contracts traded or cleared on approved exchanges and approved clearing houses.

The enhancements will apply to agreements entered into on or after 19 February 2020.

MAS will provide further details by May 2020 and review the extension of this exemption by 31 December 2020.

The way forward

▸▸ A strengthened position as a global financial centre

The enhancement of the end-to-end withholding tax exemption regime will further liberalise the financial services sector.

A broad-based withholding tax exemption would have further simplified the process and help Singapore-approved exchanges gain access to more diversified funding sources. This would have strengthened Singapore's position as a global and regional funding hub.

Derivatives are risk management products which are important and attractive in times of volatility in financial and commodity markets, such as economic uncertainty due to exposure to overseas markets or the COVID-19 outbreak impacting supply chains and affecting production. It is therefore opportune that the extension of the exemption to such products has been granted as it will further enhance Singapore's position as a global financial market.

[1] Approved exchanges include Singapore Exchange Securities Trading Ltd (SGX-ST) and Singapore Exchange Derivatives Trading Ltd (SGX-DT).
[2] Covered products include non-Singapore dollar spot foreign exchange, financial futures and gold futures.

While Budget 2020's enhancements to the SME Working Capital Loan under the Enterprise Financing Scheme promises help for cash-strapped enterprises, banks must also ease the loan application process – for example, by waiving the need for personal guarantees from shareholders or directors.

Chia Tek Yew
Head of Financial Services Advisory
KPMG in Singapore

The change

▸ Enhanced regime for venture capital funds

Venture capital funds
Section 13H venture capital funds (S13H funds) currently enjoy tax exemption on income from qualifying investments. Budget 2020 expands the list of qualifying income and investments to include relevant items which enjoy tax exemption under other fund tax exemption schemes (e.g. Sections 13R, 13X, 13CA).

Similar to Sections 13R and 13X fund tax exemption schemes, S13H funds will now enjoy GST remission at a fixed recovery rate to claim GST incurred on their business expenses. They can also now be constituted as foreign-incorporated companies or Singapore Variable Capital Companies.

Venture capital fund management companies
Fund managers managing S13H funds currently enjoy a 5% concessionary tax rate on management fees and performance bonuses from S13H funds for up to 10 years. Going forward, the incentive tenure has been set at five years and can be renewed subject to conditions.

The S13H exemption and fund management incentive will be extended till 31 December 2025.

The way forward

▸▸ A step forward for Singapore to become a regional fund hub

These announcements are a welcome step towards promoting Singapore as a regional fund hub for start-ups and aspiring entrepreneurs.

With the proposed expansion of the list of exempt income, there is a clear intent to align the benefits of this scheme with other more successful fund incentive schemes under Sections 13X and 13R. This measure addresses industry concerns about the restrictive nature of the exempt income list that was previously available for S13H funds.

While there are some enhancements to the incentive, it remains to be seen if fund managers will finally embrace S13H over other fund incentive schemes.

For example, restrictive qualifying conditions for S13H funds such as the prescribed level of investment in Singapore start-ups ought to be relaxed further. In the absence of which, it is debatable whether the revised S13H fund scheme is a game changer for the venture capital fund community.

The proposed enhancements to the venture capital funds incentive focusing on Singapore start-ups is a step in the right direction. The changes provide these funds with more flexibility to structure their investments to achieve tax certainty and efficiency, and aid in improving their cash flow position.

However, without relaxing the prescribed level of Singapore investments, these changes would likely benefit existing funds and those managed by fund managers approved under the Global Investor Program rather than attracting venture capital funds in general.

Teo Wee Hwee
Head of Real Estate and Asset Management, Tax
KPMG in Singapore

The change

▸Extension and enhancements of the Maritime Sector Incentive (MSI) schemes

Budget 2020 offers key enhancements to the existing MSI schemes as follows:

1. MSI schemes will be extended till 31 December 2026.
2. Withholding tax exemption will be extended for qualifying payments made on qualifying financing arrangements entered into on or before 31 December 2026.
3. In-house ship management income derived on or after 19 February 2020 by an MSI-Approved International Shipping Enterprise (AIS) Sister Company and an MSI-AIS Local Subsidiary will enjoy tax exemptions under the MSI-AIS Award.
4. Income derived on or after 19 February 2020 from operating a provisionally Singapore registered ship will qualify for a tax exemption under the MSI-Shipping Enterprise (Singapore Registry of Ships) scheme. Where a permanent certificate of registration is not obtained, the tax exemption is allowed up to one year from the date of issue of the provisional certificate.
5. Stamp duty remissions will lapse for instruments executed on/after 1 June 2021.

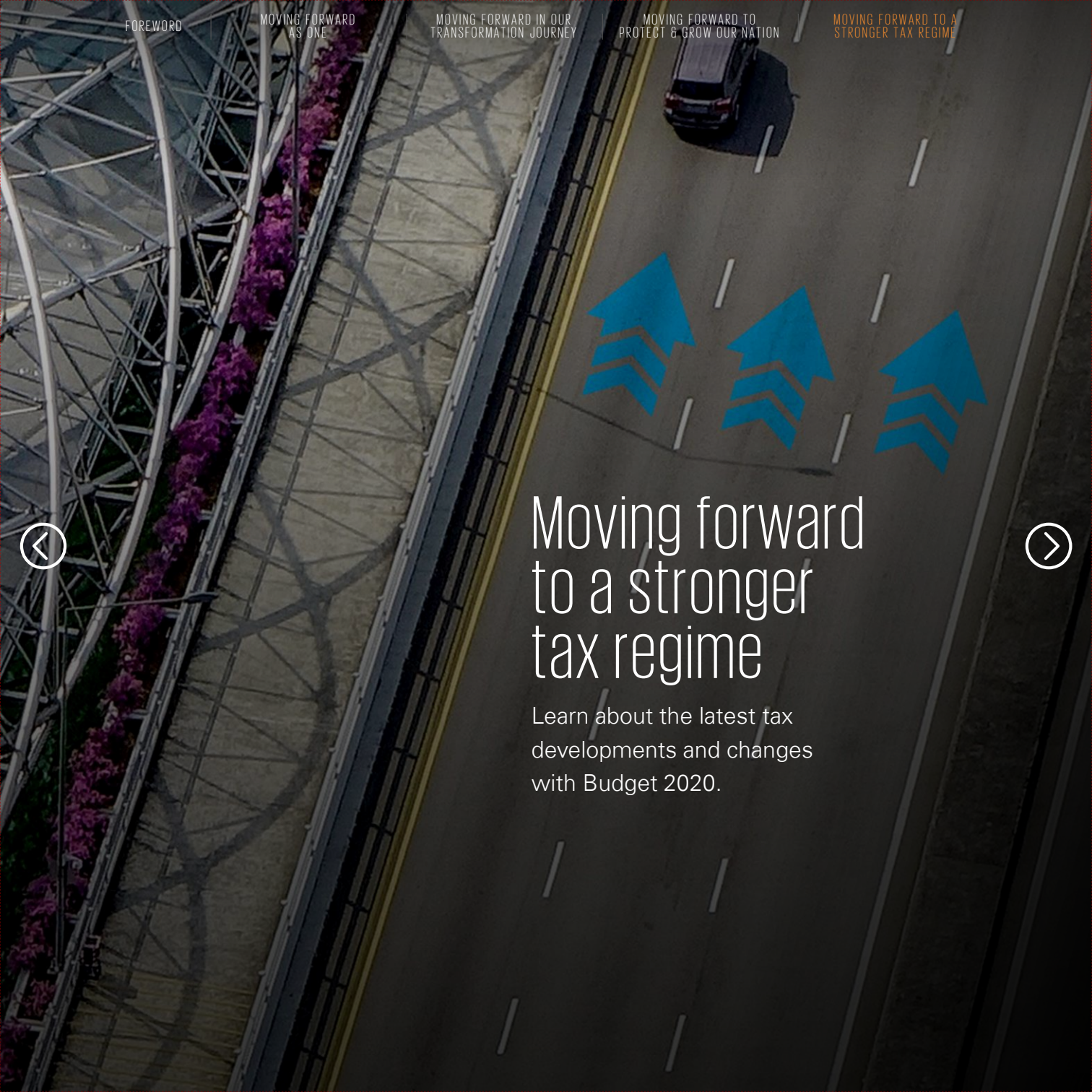
The way forward

▸▸A strengthened position as a global maritime hub

In line with the overall theme of Budget 2020 to transform and grow Singapore's economy and enterprises, it is important to improve our market position in the wake of increasing competition from global economies.

The move to extend and enhance the MSI schemes is pivotal to deepening and strengthening Singapore's competitiveness as an international maritime hub in order to tap on the increasing trade volumes in one of the fastest growing regions in the world.

MPA will provide further details by May 2020.



Moving forward to a stronger tax regime

Learn about the latest tax developments and changes with Budget 2020.

The change

▸ No GST hike in 2021

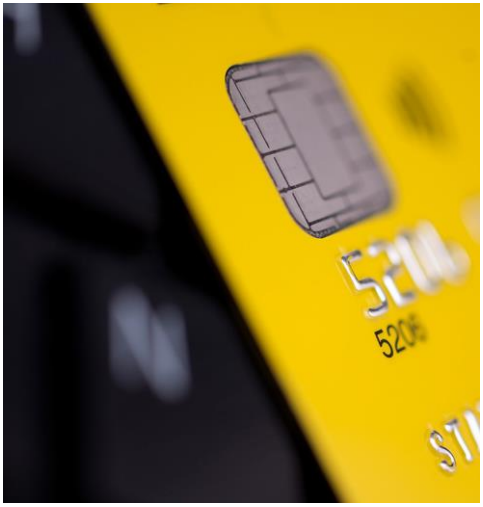
It was announced in Budget 2018 that the GST rate would be increased to 9% in the period between 2021 and 2025. Considering the impact of COVID-19 on the economy, Budget 2020 has announced that this GST rate increase will not take place in 2021. Nonetheless, to cushion the rate increase which will still take place by 2025, an Assurance Package worth S$6 billion including a cash payout and enhanced GST Vouchers will be extended to eligible Singaporeans.

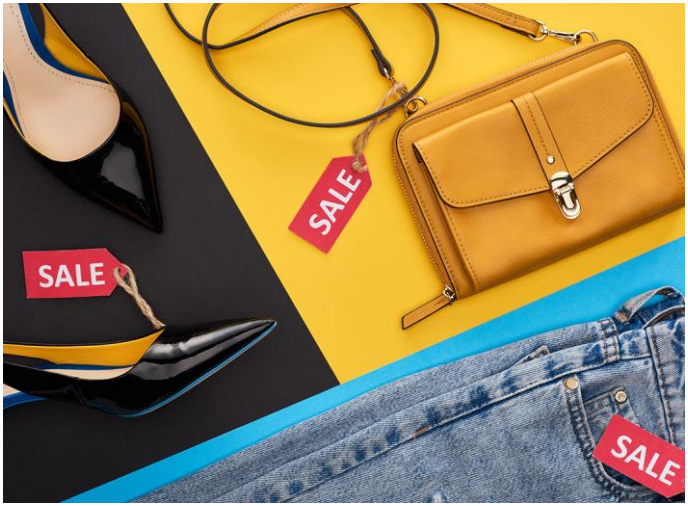
The way forward

▸▸ More assurance for all

The certainty that the GST rate will not increase in 2021 is assuring, considering that Singaporeans are deeply concerned with the multiplier effect of COVID-19 on the overall economy and personal resources.

This Assurance Package will help eligible Singaporeans to cushion the 2% rate hike when the GST rate is eventually raised by 2025.





We commend the S$6 billion Assurance Package announced to help offset the impending GST rate hike to 9% by 2025. However, the cost of the Assurance Package must be funded from other sources.

Lam Kok Shang
Head of Indirect Tax
KPMG in Singapore

The change

▸ Extension and refinements to the Global Trader Programme (GTP)

To further strengthen Singapore's position as a global trading hub and to encourage more structured commodity financing (SCF) activities to be done in Singapore, the following changes will be made to the GTP:

1. Qualifying activities of the GTP (SCF) to be subsumed under the GTP with effect from 19 February 2020
2. The GTP (SCF) to lapse after 31 March 2021
3. The concessionary tax rate of 5% on income from qualifying transactions in liquefied natural gas (LNG) to lapse after 31 March 2021

Existing recipients of 2. and 3. can continue to enjoy the respective tax concessions up until the expiry of their awards, if the conditions for approval of their awards continue to be met. ESG will provide further details by May 2020.

The GTP scheme, which is scheduled to lapse after 31 March 2021, will be extended to 31 December 2026.

The way forward

▸▸ Opportunities for trade financing and LNG trading

Trading companies planning to undertake SCF activities, such as factoring, forfeiting, export receivable financing and Islamic trade financing, will no longer need to apply for both the GTP and the GTP (SCF) in order to cover both trading and SCF activities.

The GTP companies would welcome the subsuming of the GTP (SCF) under the GTP as they would likely not be expected to fulfill another set of conditions, such as an additional set of headcount and business spending, as required previously under the GTP (SCF).

For LNG traders, there remains a window of opportunity to apply and obtain the GTP award by 31 March 2021 in order to enjoy the concessionary tax rate of 5% on income from LNG trading. Thereafter, LNG will be treated no differently from other qualifying commodities under the GTP.

Refinement

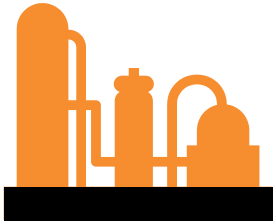
Scheme

Recipients of capital grants from the Government or statutory boards will not be allowed to claim tax deduction or allowance on the portion of the expenditure funded by such grants

Effective Date

Applicable for capital grants approved on or after 1 January 2021

Enhancement



Scheme

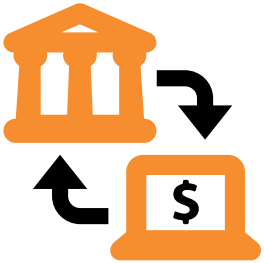
Streamlining of the number of years of working life of Plant and Machinery (P&M) for capital allowance claims under Section 19 and Sixth Schedule of ITA

Effective Date

Applicable for P&M acquired:

- in or after FY 2022; and
- prior to FY 2022, if the capital allowance claim on the entire cost of the P&M was deferred.

Extensions



Scheme
Finance and Treasury Centre scheme

Effective Date
Extended till 31 December 2026

Scheme
Land Intensification Allowance scheme

Effective Date
Extended till 31 December 2025

Scheme
Withholding tax exemption for non-resident mediators

Effective Date
Extended till 31 March 2022

Scheme
Withholding tax exemption for non-resident arbitrators

Effective Date
Extended till 31 March 2022

Scheme
Concessionary withholding tax rate for non-resident public entertainers

Effective Date
Extended till 31 March 2022 and will lapse thereafter

Extension / Streamlining / Withdrawal

Scheme
Insurance Business Development (IBD) and IBD-Captive Insurance schemes

Effective Date
Extended till 31 December 2025 to realign the tenure of all awards under the IBD umbrella scheme and to include the insurers engaged in Marine Hull Liability (MHL) business under the IBD scheme

Scheme
IBD-MHL scheme

Effective Date
Lapsed after 31 March 2020

Withdrawal

Scheme
Further tax deduction for R&D expenditure under Section 14E of the ITA

Effective Date
- Lapsed after 31 March 2020
- Existing Section 14E incentive recipients can continue to enjoy the incentive till their awards expire

Glossary

COVID-19 – Coronavirus Disease 2019

ESG – Enterprise Singapore

FY – Financial Year

GST – Goods and Services Tax

IMDA – Info-communications Media Development Authority

IRAS – Inland Revenue Authority of Singapore

ITA – Income Tax Act

MAS – Monetary Authority of Singapore

MNC – Multinational corporations

MOF – Ministry of Finance

MPA – Maritime and Port Authority of Singapore

R&D – Research and Development

SME – Small medium enterprises

STB – Singapore Tourism Board

YA – Year of Assessment

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