SINGAPORE BUDGET 2023

Moore Stephens LLP

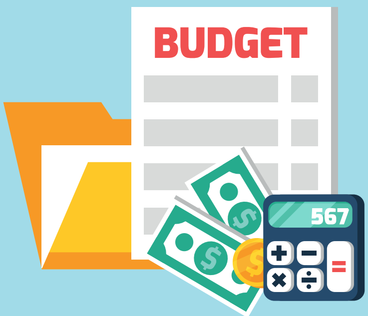
BUDGET COMMENTARY

Deputy Prime Minister and Minister for Finance, Mr Lawrence Wong, delivered his Budget 2023 speech in Parliament on 14 February 2023.

Given the challenging global economic outlook and uncertainties presenting us, the Budget charts the way forward for Singapore to embark on this new era. Budget 2023 strengthens our resolves and tackles issues across a wide spectrum of our society, including introducing adjustments to make our tax system fairer and more progressive. Very family friendly with an eye on family bonding and promoting procreation.

Collectively, we can become more resilient and work together for a better tomorrow for all.

Highlights of the key tax changes and enhancement schemes for both businesses and individuals announced by the Minister are set out below.



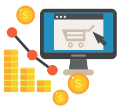
ENHANCEMENT OF THE DOUBLE TAX DEDUCTION FOR INTERNATIONALISATION (DTDI) SCHEME

CURRENT

The DTDI Scheme provides double tax deduction (i.e. 200%) to businesses engaged in certain qualifying market expansion and investment development activities, subject to prior approval from Enterprise Singapore ("Enterprise SG") or Singapore Tourism Board ("STB"). No prior approval is required from Enterprise SG or STB for tax deduction on the first S$150,000 of qualifying expenses incurred on selected eligible activities for each YA. The scheme is scheduled to lapse after 31 December 2025.

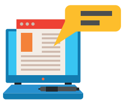
NEW TREATMENT

The DTDi Scheme will be enhanced to include a new qualifying activity "e-commerce campaign" and will cover the following e-commerce campaign startup expenses paid to e-commerce platform/service providers:-



Business advisory: Advisory on market promotion and execution plans (e.g. choice of suitable e-commerce platforms);

Account creation: Assistance with setting up accounts on e-commerce platforms, and the right to sell on e-commerce platforms;



Content creation: Design of e-commerce campaign publicity materials (e.g. e-store banners, online product images);

Product listing and placement: Uploading content on products / services to e-commerce platforms, and selection of suitable frequency and timing to display content on products / services.

To enjoy DTDi on the new qualifying activity, prior approval must be obtained from Enterprise SG.

The enhanced DTDi support will cover e-commerce campaigns for a maximum period of one year applied on a per country basis, and will take effect for expenses incurred on or after 15 February 2023.

Further details will be provided by Enterprise SG by 28 February 2023.

COMMENTARY

With e-commerce becoming a widely implemented mode of overseas expansion for businesses, the inclusion of the new qualifying activity will greatly support businesses to overcome initial challenges and mitigate set up costs in building up their capabilities and competitiveness in the global market.

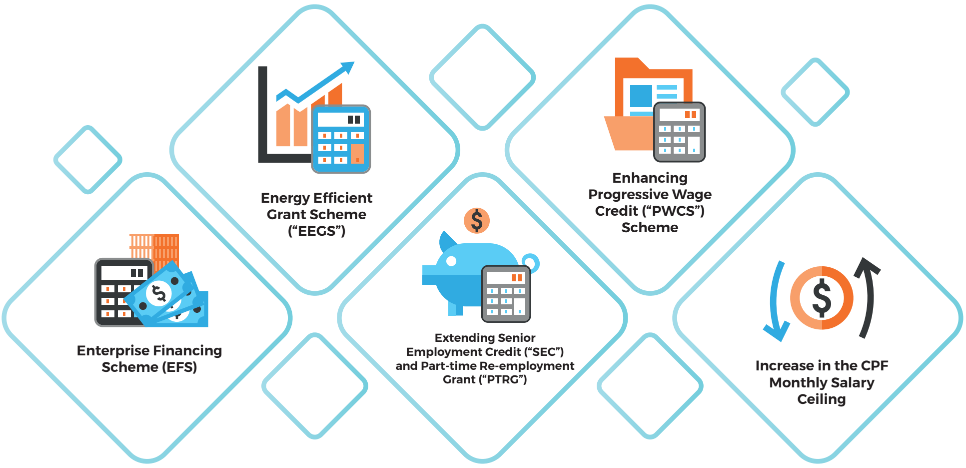
EXTENSION OF TAX SCHEMES FOR BUSINESSES

The following tax allowance / incentive schemes will be extended, as shown below.

Scheme	Tax benefit / incentive	Scheduled to lapse	Extended to
Investment Allowance (IA)	• Additional tax allowance on qualifying fixed capital expenditure on approved projects. • Calculated as a percentage of the capital expenditure amount incurred, net of grants, on an approved project. • Pre-approval must be obtained from the Singapore Economic Development Board, Building and Construction Authority, or Enterprise SG.	After 31 December 2023	31 December 2028
IA-100% Scheme for Automation Projects	• 100% IA support on approved capital expenditure amount, net of grants. • Automation projects must be approved by Enterprise SG.	After 31 March 2023	31 March 2026
Pioneer Certificate Incentive ("PC") Development and Expansion Incentive ("DEI")	• Aimed to encourage companies to grow capabilities, conduct new or expanded economic activities, and establish their global or regional headquarters in Singapore. • PC recipients enjoy full corporate tax exemption on income from qualifying activities. • DEI recipients enjoy concessionary tax rates of 5% or 10% on qualifying income.	After 31 December 2023	31 December 2028
IP Development Incentive ("IDI")	• Supports companies that use and commercialise IP rights arising from R&D in Singapore. • IDI recipients enjoy concessionary tax rates of 5% or 10% on a percentage of qualifying IP income.	After 31 December 2023	31 December 2028

EXTENSION OF AND CHANGES TO LOAN / GRANTS / CPF SCHEMES FOR BUSINESSES

The following loan / grants / CPF schemes will be extended / enhanced:-



Enterprise Financing Scheme (EFS)

The EFS will be extended for one year till 31 March 2024.

Trade Loan

To finance trade needs (inventory/ stock financing, factoring, overseas working capital etc.). 70% risk share; Up to S$10 million per borrower.

Project Loan

To support domestic projects for construction enterprises. To finance secured overseas projects. (Working capital, factory, equipment, etc). 50% risk share. Up to S$50 million for overseas projects. Up to S$30 million for domestic project.

Working Capital Loan

To finance of operational cashflow needs. 50% risk share. Up to S$500,000 per borrower.

Fixed Assets Loan

To finance the investment of domestic and overseas fixed assets. 50% risk share. Up to S$30 million per borrower.

Mergers and Acquisitions Loan

To support the acquisition of local or overseas target enterprises. 50% risk share. Up to S$50 million per borrower / borrower group.

Venture Debt Loan

To support the growth of later-stage enterprises. Finance the growth of innovative enterprises using Venture Debts and Warrants. 50% risk share. Up to S$8 million per borrower.

Green

Enables better access to green financing for enterprises that are developing enabling technologies and solutions to reduce waste, resource use or greenhouse gas emissions. 70% risk share.

Energy Efficient Grant Scheme ("EEGS")

- EEGS supports businesses within the Food Services, Food Manufacturing or Retail sectors to cope with rising energy costs through co-funding investments in more energy-efficient equipment.
- The grant scheme provides 70% support for SMEs to adopt pre-approved energy-efficient equipment, capped at S$30,000 per company per year.
- The EEGS will be extended for one year till 31 March 2024.

Extending Senior Employment Credit ("SEC") and Part-time Re-employment Grant ("PTRG")

Both SEC and PTRG will be extended from 2023 to 2025.

- SEC provides wage offsets to help businesses that employ Singaporean workers aged 55 and above, earning up to S$4,000 per month.
- PTRG supports employers that commit to providing part time re-employment opportunities to senior workers upon their request.

Enhancing Progressive Wage Credit Scheme ("PWCS")

Introduced in 2022, the PWCS provides transitional wage support for businesses to adjust to the increased cost of hiring lower-wage employees under the Progressive Wage Model. The PWCS co-funding support for wage increases in 2023 will be enhanced to 75% (additional 25%) / 45% (additional 15%) for the first / second income tier respectively.

Increase in the CPF Monthly Salary Ceiling

The CPF monthly salary ceiling for Ordinary Wages will be raised from S$6,000 to S$8,000 by 2026, in a four-step increase. However, the CPF annual salary ceiling, currently set at 17 times of the monthly salary ceiling (including bonuses equivalent to five months' salary), will be maintained at S$102,000.

TAXES

[Extension of the 250% tax deduction for qualifying donations]

CURRENT

Donors can enjoy 250% tax deduction on qualifying donations made to Institution of a Public Character ("IPC") and other qualifying recipients between 1 January 2016 to 31 December 2023.

NEW TREATMENT

The 250% tax deduction on qualifying donations will be extended for another 3 years, until 31 December 2026, with the same parameters.

COMMENTARY

The 250% tax deduction given to donors remains as one of the highest, as compared to other jurisdictions and further cements Singapore's agenda in encouraging charitable giving.

Extension of Business and IPC Partnership Scheme ("BIPS") and Enhancement of Corporate Volunteer Scheme

CURRENT

A qualifying person[1] can enjoy 250% tax deduction on qualifying expenditure such as wages incurred by that person between 1 July 2016 to 31 December 2023 in respect of:

- The provision of services by that person's qualifying employee to an IPC during that period; or
- The secondment of that person's qualifying employee to an IPC during that period.

The volunteering projects (which can include general activities and skills-based activities) have to be mutually agreed upon between the business and the IPC, and the qualifying expenditure is subject to a cap of S$250,000 per business per YA, and a cap of $50,000 per IPC per calendar year.

[1]A qualifying person includes companies, sole proprietorships, partnerships (including limited partnerships and limited liability partnerships) registered business trust, bodies of persons (e.g., clubs and associations) that are deemed to be carrying on a business.

NEW TREATMENT

The BIPS has been enhanced into a broader **Corporate Volunteer Scheme** to include activities which are conducted virtually or outside IPCs' premises, and extended for another 3 years until 31 December 2026, with the same parameters. In addition, the qualifying expenditure will be doubled to S$100,000 per calendar year.

COMMENTARY

Singapore has always placed its focus on making a positive impact toward the community, as businesses can play a vital role to participate their corporate volunteering by enabling their employees to give back and contribute to the local communities.

With the extension and enhancement of the Corporate Volunteer Scheme as well as doubling the qualifying expenditure, this will help to facilitate deeper partnerships between businesses and IPCs. This will also lead to the improvement in the team working and gaining an overall sense of fulfilment within the organisation, and make Singapore a more caring and healthier place to live in.

Option to accelerate write-off of cost of acquiring plant and machinery ("P&M")

CURRENT

Taxpayers that carry on a trade, profession or business may claim capital allowances ("CA") on the expenditure incurred on the acquisition of P&M for use in its trade, profession or business under Section 19 or 19A (based on the Sixth Schedule) of the Singapore Income Tax Act ("SITA").

NEW TREATMENT

Where capital expenditures have been incurred on the acquisition of P&M during the basis period for YA 2024, an irrevocable option may be elected to accelerate the tax write-off of the cost on acquiring such P&M over two years. This is in addition to the existing tax write-off provided under Sections 19 (based on the Sixth Schedule) and 19A (claims are generally over one or three years) of the Singapore Income Tax Act ("SITA").

The rates of the accelerated CA allowed are as follows:

a. 75% of the cost incurred to be written off in the first year (i.e. YA 2024); and

b. 25% of the cost incurred to be written off in the second year (i.e. YA 2025).

Once the option is exercised, it is irrevocable and no deferment of CA claim under this option is allowed. Do note that this option is in addition to the options currently available under Section 19 and 19A of the SITA.

COMMENTARY

The option to accelerate tax write-off on the acquisition of P&M will enable businesses in a tax paying position to have some cashflow benefit.

Option to accelerate deduction of expenses incurred on renovation and refurbishment ("R&R")

CURRENT

Tax deduction is granted under Section 14N of the ITA for qualifying expenditure incurred by taxpayers carrying on a trade, profession or business for R&R works done on their business premises.

The deduction, capped at S$300,000, is given over each period of three consecutive years on a straight-line basis, starting from the YA for which those expenses were incurred. The claim for Section 14N deduction cannot be deferred.

If no income is derived from the trade, business or profession in any YA and that trade, business or profession ceases permanently during the basis period for that YA, S14N deduction ceases in that YA.

NEW TREATMENT

For qualifying R&R expenses incurred in YA 2024, taxpayers will be granted an option to claim accelerated Section 14N deduction in one YA. The cap of S$300,000 for every relevant period of three consecutive years will still apply. Once this option is exercised, it is irrevocable.

The option to claim R&R deduction in one YA was in addition to the existing option provided under Section 14N of the SITA.

COMMENTARY

Other than easing the cashflow of businesses, the extension of the option to accelerate R&R deduction would encourage businesses, especially those in the badly affected sectors, to carry out upgrading and refurbishment works and be better prepared for the expected economic rebound in 2023.

The option to claim accelerated Section 14N over one year was also introduced by the Singapore Government during the pandemic outbreak in year 2020 for in YA 2021 and 2022.

ENTERPRISE INNOVATION SCHEME ("EIS")

The Government has consistently encouraged businesses to engage in R&D activities, invest in new capabilities and make innovation pervasive. To help businesses spur on with innovation, the Government has introduced or enhanced a suite of tax measures under EIS.

Name of tax measure	Current tax treatment	New tax treatment
A-R&D Projects Enhanced tax deduction for staff costs and consumables incurred on qualifying R&D projects conducted in Singapore	• 100% tax deduction on qualifying expenditure incurred on qualifying R&D projects • Additional 150% tax deduction for staff costs and consumables incurred on qualifying R&D projects conducted in Singapore • Sunset date is YA 2025	• 400% tax deduction on the first S$400,000 of staff costs and consumables incurred on qualifying R&D projects conducted in Singapore • Applicable for each YA from YA 2024 to YA 2028 • Sunset date will be YA 2028
B-IP Registration Costs Enhanced tax deduction for qualifying IP registration costs	• 200% tax deduction on the first S$100,000 of qualifying IP registration costs incurred on registration of patents, trademarks, designs and plant varieties • 100% tax deduction on subsequent qualifying IP registration costs incurred • Sunset date is YA 2025	• 400% tax deduction on the first S$400,000 of qualifying IP registration costs incurred • Applicable for each YA from YA 2024 to YA 2028 • Sunset date will be YA 2028
C-IP Rights ("IPRs") Enhanced tax allowance / deduction for acquisition and licensing of qualifying IPRs	• 100% writing down allowance over a 5, 10 or 15-year period on acquisition cost of qualifying IPRs. • 200% tax deduction on the first S$100,000 of qualifying expenditure incurred on licensing of qualifying IPRs. • 100% tax deduction on subsequent qualifying IPRs licensing expenditure incurred. • Sunset date is YA 2025	• 400% tax allowance / deduction on the first S$400,000 (combined cap) of qualifying expenditure incurred on the acquisition and licensing of qualifying IPRs • Applicable for each YA from YA 2024 to YA 2028 • Available to businesses that generate less than S$500 million in revenue in the relevant YA • Sunset date will be YA 2028
D-Training Expenditure Enhanced tax deduction for qualifying training expenditure	• 100% tax deduction on training expenditure as a deductible business expense	• 400% tax deduction on the first S$400,000 of qualifying training expenditure incurred • Applicable for each YA from YA 2024 to YA 2028 • Qualifying courses are training courses eligible for SkillsFuture Singapore funding and aligned with the Skills Framework

ENTERPRISE INNOVATION SCHEME ("EIS")

Name of tax measure	Current tax treatment	New tax treatment
E-Innovation Projects Tax deduction for innovation projects carried out with polytechnics, the Institute of Technical Education and other qualified partners	-	• 400% tax deduction for up to S$50,000 of qualifying innovation expenditure incurred on qualifying innovation projects carried out with the partner institutions • Applicable for each YA from YA 2024 to YA 2028. • Qualifying innovation projects refer to projects that predominantly involve one or more innovation activities including software development, IP-related activities, engineering, design and other creative work activities.
F-Cash conversion	-	• Eligible businesses can, in lieu of tax deductions / allowances, opt for non-taxable cash payout • Cash conversion ratio is 20% on up to S$100,000 of total qualifying expenditure across all qualifying activities in A to E above per YA • Cash payout is capped at S$20,000 per YA • Available to businesses with at least three full-time local employees (Singapore Citizens or Permanent Residents with CPF contributions) earning a gross monthly salary of at least S$1,400, in employment for six months or more in the basis period of the relevant YA • Cash payout applications are to be submitted with the businesses' income tax returns

COMMENTARY

In the previous decade, many businesses had benefitted from the Productivity and Innovation Credit ("PIC") Scheme which has lapsed after YA 2018. With some similarities to the PIC scheme, the new EIS is a bold move and offers significantly enhanced tax deductions for key activities that will help businesses to boost their competitiveness in this challenging global landscape. The EIS aims to spur businesses to accelerate their R&D and innovation efforts in Singapore.

The IRAS will provide further details of the scheme by 30 June 2023.

BASE EROSION AND PROFIT SHIFTING ("BEPS") 2.0 – PILLAR 2

Minimum Effective Tax Rate ("METR") for Large Multinational Corporations ("MNCs")

In Budget 2022, Singapore announced that it was studying the Organization for Economic Cooperation and Development ("OECD")'s BEPS 2.0 – Pillar 2 initiatives. Fast forward a year later, Singapore has now announced intentions to implement the METR of 15% from 2025 to align with global corporate tax rates for large MNCs (i.e. MNCs with annual group revenues of at least 750 million euros).

The METR comes under the OECD's BEPS 2.0 – Pillar 2 initiative, whereby, a "top up tax" will be calculated and applied that brings the total amount of taxes paid on an MNC's tax adjusted profits in a jurisdiction up to the minimum rate of 15% (after taking into account a substance-based carve-out).

As developments on BEPS are fluid, Singapore will monitor international development closely. Should there be any additional delays internationally, Singapore will adjust their implementation timeline accordingly. Nevertheless, MNCs will be given sufficient notice ahead of any changes to existing tax rules or schemes.

COMMENTARY

Tax incentives are currently one of Singapore's main policy instruments to attract and retain investments. Given Singapore's intention to implement OECD's BEPS 2.0 – Pillar 2 initiatives, the benefits of such tax incentives may be counteracted. Therefore, nimble changes to existing incentives or introduction of new incentives and grants are required to attract and retain investments.

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