Key Budget Highlights
Impact on Businesses

BUDGET 2021

Singapore

THE POWER OF BEING UNDERSTOOD
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FOREWORD

The COVID-19 pandemic is far from over. We have not seen the light at the end of the tunnel yet. The Government has already spent nearly $100 billion in five Budgets last year to help Singapore tide over the pandemic, racking up in consequence the largest Budget deficit since independence. This is a rather grim message from the Deputy Prime Minister Heng Swee Keat as he delivered his Budget Speech on 16 February 2021.

This year's Budget is a fine balance between an $11 billion COVID-19 Resilience Package, providing immediate help to sectors which are still under stress from the pandemic, and a $24 billion investment in Singapore's longer term needs in building new capabilities in our people and businesses.

The focus of 2021 Budget is on accelerating structural adaptations, i.e. structural economic policies to equip businesses and workers with deep and future-ready capabilities through three key enablers. The first enabler is to grow a vibrant business community with a strong spirit of innovation and enterprise, deeply connected with Asia and the world. The second enabler is to catalyse a wide range of capital to co-fund and enable businesses, from start-ups to small, medium and large enterprises, to innovate, transform and scale. Equally important is the third enabler which is to create opportunities and redesign jobs for our people to develop their skills, creativity and talents.

The Minister also addressed building a sustainable Singapore for future generations. The launching of the Singapore Green Plan 2030 aims, amongst others, to green up Singapore and promote a car-lite society. With that the revised road tax treatment for electric cars was announced and the petrol duty rates upped immediately.

A fiscal deficit is unavoidable during this pandemic but a return to running balanced budgets is the aim of the Government. The country's longer term fiscal needs will be further reviewed. So will the taxation framework as the Singapore revenue base may be eroded as soon as the international tax rules that determine the allocation of taxing rights among various jurisdictions are changed following from the discussion under the Base Erosion and Profit Shifting initiative. Singapore may then also become less attractive for global companies to locate their operations here. For now, taxpayers are relieved to learn of no corporate and personal income tax increases apart from petrol taxes. Also no further curbs were announced on property purchases in Singapore.

A disappointment to note is the absence of corporate tax rebates which companies used to enjoy for at least the past five years. This would mean that companies will generally pay higher taxes for the same amount of taxable income earned in 2020 compared to previous years.

GST is set to increase by 2% sooner rather than later, which means the hike may perhaps occur in late 2022 or early 2023. The imposition of GST on imported low-value goods as well as consumer imported non-digital services however will kick in from January 2023.

This Budget is a carefully thought out package, taking into consideration short, medium and long term needs of Singapore going forward. Emerging stronger together as a nation is definitely key to Singapore's success.

Cindy Lim

Partner
16 February 2021

COVID-19 RESILIENCE PACKAGE

A total of $11 billion has been set aside for COVID-19 Resilience Package which focuses on three prongs (a) safeguarding public health for all our people so that businesses can re-open safely, (b) continuing support for workers and businesses, and (c) providing targeted support for the worst-hit sectors.

The Job Support Scheme ("JSS") aimed at protecting jobs and helping businesses to retain their local employees (Singapore Citizens and Permanent Residents) will continue to cover wages up to March 2021 for most sectors. The JSS support is extended for a further six months and three months for Tier 1 and Tier 2 sectors respectively. The percentage of wage support for the different Tiers are indicated in the table below.

Tier		To March 2021*	April to June 2021	July to September 2021
1	Aviation, aerospace and tourism	50%	30%	10%
2	Retail, arts and culture, food services and build environment	30%	10%	None
3A	All other sectors such as Financial Services, Information and Communications Technology and Media and Biomedical Sciences	10%	None	None

* As announced previously.

The sectors under Tier 1 are most affected by the pandemic and will receive targeted support at a much higher percentage and for a longer period compared to Tier 2. These include aviation, tourism, land transport sector, taxi and private hire car drivers as global air travels are still very much curtailed and remain restrictive.

As for all other sectors under Tier 3 which are generally recovering, JSS support will cease after the March 2021 payout. The Property Tax Rebate and Rental Relief Framework introduced last year seem to achieve substantially what was intended in cushioning the economic consequences brought about by the pandemic on individuals and businesses. No further measures in this area were announced.

The arts and culture and sports sectors are also deeply affected by the pandemic. The relief packages for these sectors are extended to this year and enhanced to support capability development and sector transformation, to encourage the community to deepen skills, go digital and transform business models.

The public health and safe re-opening measures as well as the COVID-19 Recovering Grant which supports workers who lost their jobs or suffered significant pay cuts will be funded by the Resilience Package also.

To facilitate job seekers moving to new jobs in growth areas, they may draw support from the SGUnited Jobs and Skills Package as fresh funds are being injected into the scheme which has now been extended.

TO BUILD A FORTIFIED CITY AND EMERGE STRONGER IN THE NEW NORMAL

The COVID-19 pandemic has triggered global shifts on the economic, social and political fronts. The Government identified three mega shifts (a) the changing competitive landscape, (b) rising inequalities and (c) the importance of sustainability, which will continue to reshape the world.

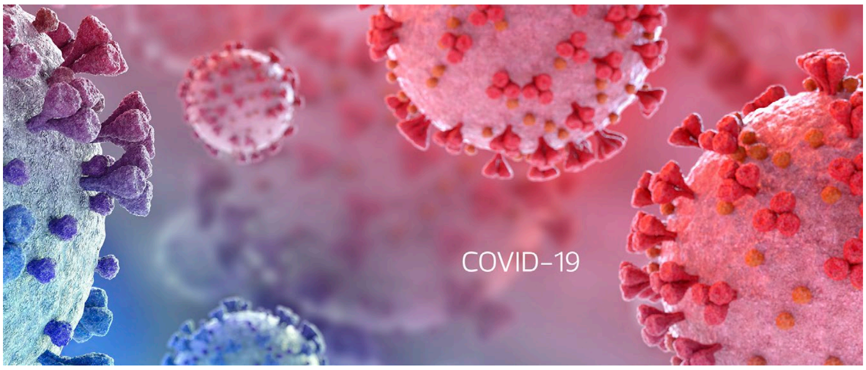
Beyond funding for the immediate needs, such as in the last year's Budgets where broad-based emergency support was provided to help businesses cope with the pandemic, the Government in this year's Budget has pledged to set aside $24 billion over the next three years to invest in our people and businesses so that we are ready for opportunities that arise, able to innovate, build deep capabilities and seize growth opportunities. Together it is hoped that we will emerge stronger from the crisis.

A slew of initiatives and schemes were announced by the Minister, some of which are outlined below:

- Restore Changi Airport's connectivity and invest in on-arrival COVID-19 testing and biosafety systems.
- Create platforms to help businesses digitalise and innovate. In this regard, a new Corporate Venture Launchpad will be piloted to provide co-funding for corporates to build new ventures through pre-qualified venture studios.
- The Enterprise Financing Scheme - Venture Debt Programme is extended and enhanced. The Programme is aimed at start-ups, where the Government shares up to 70% of the risk on eligible loans with participating financial institutions. The loan quantum cap is increased from $5 million to $8 million.
- The new Emerging Technology Programme will co-fund the costs of trials and adoption of frontier technologies such as 5G, artificial intelligence and trust technologies.
- To help firms identify and adopt digital solutions, the Chief Technology Officer or CTO-as-a-Service initiative will be launched which will give companies access to professional IT consultancies. The new Digital Leaders Programme will also support promising firms in hiring a core digital team and in developing and implementing digital transformation roadmap.
- Existing business-focused schemes such as the Productivity Solutions Grant, Market Readiness Assistance and Enterprise Development Grant will be extended to end March 2022 and the support levels enhanced of up to 80%.
- A new investment scheme targeted at large local enterprises was announced. The Government will set aside $500 million to be co-invested with Temasek in a Local Enterprises Funding Platform, to be managed commercially. Temasek will match the Government's funds on a one-for-one basis, so the platform will have $1 billion available for its investments in non-control equity and mezzanine debt of selected large local enterprises.
- A Bill will be tabled in Parliament later this year on the issuance of bonds under a proposed Significant Infrastructure Government Loan Act ("SINGA"). Proceeds from the bond issues will be used to finance assets that are crucial to Singapore's long-term development and sustainability, and which will benefit the current and future generations. Based on the expected pipeline of major long-term infrastructure projects (e.g. new MRT lines, and coastal and flood protection projects) over the next 15 years, $90 billion is expected to be raised under SINGA.

  The Government will take the lead by issuing green bonds for select public infrastructure projects. The future flow of green bond issues out of Singapore will deepen and broaden our capital markets, attract green issuers, capital and investors seeking stable, long-term returns with a good credit quality. These activities anchor well for Singapore and boost the country's position as the region's leading green finance hub.

CORPORATIONS AND BUSINESSES



Loss Carry-back Relief Scheme

Current

The Loss Carry-back Relief scheme was enhanced for YA2020. Under the enhanced scheme, current year unabsorbed capital allowances and trade losses (collectively referred to as "qualifying deductions") for YA2020 may be carried back up to three immediate preceding YAs, capped at $100,000 of qualifying deductions, subject to conditions.

Taxpayers were allowed to elect to carry back to the relevant preceding YAs an estimated amount of qualifying deductions available for YA2020, before the actual filing of their income tax returns for YA2020.

Proposed changes

To continue providing support to businesses, the enhancements to the Loss Carry-back Relief scheme for YA2020 will be extended to apply to qualifying deductions for YA2021, with the same parameters.

Effective date

The enhanced Loss Carry-back Relief scheme is extended to apply to qualifying deductions for YA2021.

Comments

- The extension of the enhanced Loss Carry-back Relief scheme is beneficial to businesses that have tax losses to carry back to qualifying prior YAs with taxable positions. Companies which are eligible to take advantage of this scheme would secure a cash refund of prior years' taxes paid and that would ease their cash flow position somewhat.

- It is however disappointing to note that the cap remains at $100,000 which is relatively low. Many businesses incurred losses far in excess of this limit during the pandemic. A much higher cap is therefore warranted.

Acceleration of Renovation and Refurbishment Expense Claim

Current

Taxpayers who incurred qualifying expenditure on renovation and refurbishment ("R&R") during the basis period for YA2021 (i.e. FY2020) for the purposes of their trade, profession or business were given an irrevocable option to claim R&R deduction in one YA (i.e. accelerated R&R deduction). The cap of $300,000 for every relevant period of three consecutive YAs applied.

The option above was in addition to the existing option under Section 14Q of the ITA.

Proposed changes

To continue providing support to businesses, the option to claim R&R deduction in one YA (i.e. accelerated R&R deduction) will be extended to qualifying expenditure incurred on R&R in the basis period for YA2022 (i.e. FY2021), with the same parameters.

Effective date

The option to claim R&R deduction in one YA is extended to qualifying expenditure incurred in YA2022 (i.e. FY2021).

Comments

- This extension would encourage businesses to undertake R&R projects during the present lull period of low economic activities so as to be ready when the economy recovers from the pandemic.

- The expenditure cap in question has remained at $300,000 for a good number of years. It would be more impactful if this cap is adjusted upward so that it would benefit those companies that had already exceeded the cap. Also for certain business sectors such as retail, food and beverage and hotel, the present expenditure cap is plainly inadequate.

Acceleration of Capital Allowances Claim for Plant and Machinery

Current

Taxpayers who incurred capital expenditure on the acquisition of plant and machinery ("P&M") in the basis period for YA2021 (i.e. FY2020) were given an irrevocable option to accelerate the write-off of the cost of acquiring such P&M over two years.

The rates of accelerated capital allowances allowed were as follows:

- 75% of the cost incurred to be written off in first year (i.e. in YA2021); and
- 25% of the cost incurred to be written off in second year (i.e. in YA2022).

The option above was in addition to the options currently available under Sections 19 and 19A of the ITA.

No deferment of capital allowances claims was allowed under the above option. This meant that if a taxpayer opted for the accelerated write-off option, it would need to claim the capital expenditure incurred for acquiring P&M based on the rates of 75% in YA 2021 and 25% in YA 2022.

Proposed changes

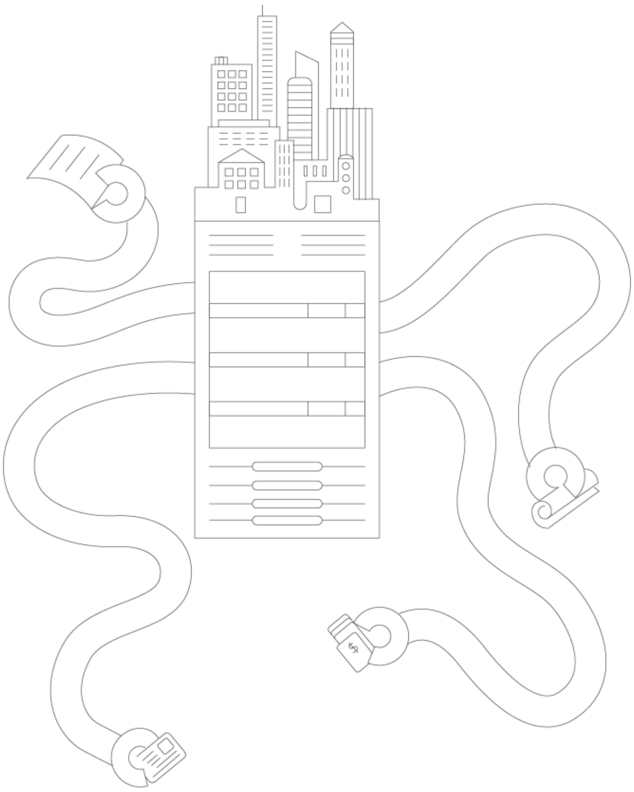
To continue providing support to businesses, the option to accelerate the write-off of the cost of acquiring P&M will be extended to capital expenditure incurred on the acquisition of P&M in the basis period for YA2022 (i.e. FY2021), with the same parameters.

Effective date

Acceleration of capital allowances claim is extended to capital expenditure incurred on the acquisition of P&M in YA2022 (i.e. FY2021).

Comments

- The extension of the option to accelerate the write-off of the cost of acquiring P&M reaffirms the Government's commitment to help businesses cope with cash flow difficulties amid the COVID-19 pandemic.
- This measure provides an immediate reduction in tax expense outlay to profitable businesses but will be of no consequence to those loss making businesses which are not in a taxable position.



Double Tax Deduction for Internationalisation Scheme

Current

Under the Double Tax Deduction for Internationalisation ("DTDi") scheme, businesses are allowed a tax deduction of 200% on qualifying market expansion and investment development expenses, subject to approval from Enterprise Singapore or Singapore Tourism Board ("STB").

No prior approval is required from Enterprise Singapore or STB for tax deduction on the first $150,000 of qualifying expenses incurred on the following activities for each YA:

- Participation in overseas market development trips/missions;
- Participation in overseas investment study trips/missions;
- Participation in overseas trade fairs; and
- Participation in approved local trade fairs.

The DTDi scheme is scheduled to lapse after 31 December 2025.

Proposed changes

- To continue supporting internationalisation efforts of businesses amid changes in the business environment, the scope of the DTDi scheme will be enhanced to cover the following specified expenses incurred to participate in approved virtual trade fairs:
  - Package fees charged by event organisers for virtual exhibition hall and booth access, collateral creation, business meeting/ match sessions, pitches/ product launches/speaking slots, webinar/ conference and post event analytics;
  - Third-party costs for design and production of digital collaterals and promotion materials for virtual fairs; and
  - Logistics costs incurred to send materials/samples overseas to potential clients met at virtual trade fairs.
- The list of qualifying expenses for overseas investment study trips will also be expanded to include logistics costs to transport materials/samples used during the investment trips.
- In addition, the scope of qualifying activities which do not require prior approval from Enterprise Singapore or STB will be enhanced to cover the following additional activities, up to the current annual expense cap of $150,000:
  - Product/service certification (primarily to increase buyer's acceptance in overseas markets) approved by Enterprise Singapore;
  - Overseas advertising and promotional campaign;
  - Design of packaging for overseas markets;
  - Advertising in approved local trade publication; and
  - Participation in virtual trade fairs approved by Enterprise Singapore.

Enterprise Singapore will provide further details of the changes by 28 February 2021.

Effective date

The DTDi expanded scope will take effect for qualifying expenses incurred on or after 17 February 2021.

Comments

- The enhancement made to the DTDi scheme is timely and will greatly benefit businesses that are keen and are continuing to explore new market overseas despite the pandemic. The increase in the scope of qualifying activities which do not require prior approval is also welcomed as it reduces administrative burden for taxpayers.
- With the change in global business environment amid the current pandemic, an increasing number of event organisers and exhibitors are bringing customers and suppliers together via virtual means since physical meetings and travels are still very much curtailed. Businesses therefore are expected to incur such additional costs associated with virtual events.
- The design and production of digital collaterals and the re-designing of product packaging are additional business costs which might not have been necessarily incurred before the pandemic. It is encouraging to note that such expenses are now covered by the DTDi scheme.

Double Tax Deduction for Qualifying Upfront Cost Attributable to Retail Bond Issuance

Current

Currently bond issuers who carry on a trade or business in Singapore are allowed to claim a tax deduction of up to 200% on qualifying upfront cost incurred on or after 19 May 2016 that is attributable to retail bonds issued during the period from 19 May 2016 to 18 May 2021 (both dates inclusive) under the Seasoning Framework and Exempt Bond Issuer Framework.

The Double Tax Deduction ("DTD") scheme is scheduled to lapse after 18 May 2021.

Proposed changes

To promote rated retail bond issuances, the DTD scheme will be extended for qualifying upfront cost incurred on or after 19 May 2021 that is attributable to rated retail bonds (instead of all retail bonds) issued during the period from 19 May 2021 to 31 December 2026 (both dates inclusive) under the Seasoning Framework and Exempt Bond Issuer Framework. The refinement of the DTD scheme seeks to provide investors with access to rated retail bonds. Credit rating improves market transparency by providing timely and independent assessments of the creditworthiness of bond issuers.

All other conditions of the DTD scheme remain the same.

MAS will provide further details of the changes by 31 May 2021.

Effective date

The DTD scheme is extended to cover qualifying upfront cost incurred and attributable to rated retail bonds issued during the period from 19 May 2021 to 31 December 2026.

Comments

- The extension of about five and a half years of the double tax deduction for qualifying upfront bond issuance cost would likely encourage more of corporate bond offerings to retail investors.

- The restriction of the DTD to rated retail bonds is appropriate to safeguard the interest and limit the risk of retail investors in bonds.

Investment Allowance (Energy Efficiency) Scheme

Current

The Investment Allowance (Energy Efficiency) ("IA-EE") scheme provides for investment allowance for energy efficiency improvement projects, subject to conditions.

Data Centres are subject to additional qualifying conditions under the IA-EE scheme, such as the following:

- Be compliant with the Singapore Standard for Green Data Centres (SS564:2010); and
- Have a minimum capacity of 400m^2 (floor space).

The conditions above apply to energy efficiency improvement projects approved by EDB on or before 31 March 2021.

Proposed changes

The IA-EE scheme will be renamed the "Investment Allowance for Emissions Reduction" scheme, with the following revisions:

- Expansion in the scope of qualifying projects to include projects involving a reduction of greenhouse gas emissions; and
- Streamlined and updated eligibility conditions. These will apply to all projects (i.e. there will no longer be a distinction between data centres and non-data centres).

The revised conditions will apply to projects approved by EDB from 1 April 2021 to 31 December 2026 (both dates inclusive).

EDB will release further details of the changes by 30 June 2021.

Effective date

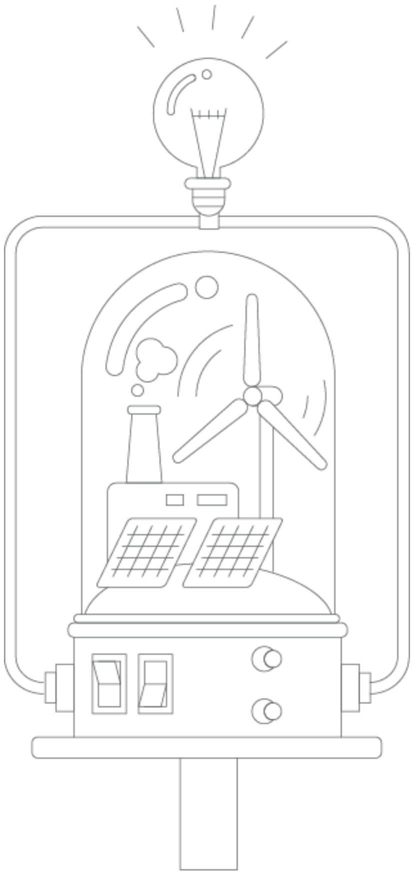
The revised conditions will apply to projects approved by EDB from 1 April 2021 to 31 December 2026.

Comments

- The Government is fully committed to do its part for the world on the green movement project.

  With the proposed changes, it would be even more attractive for businesses to invest in clean energy and carbon efficiency equipment to combat global climate change.

- We will stay tuned to the updated eligibility conditions that could encourage businesses to improve green energy efficiency through new and advanced technology.



Business and IPC Partnership Scheme

Current

A qualifying person can, subject to conditions, enjoy a total of 250% tax deduction on qualifying expenditure such as wages incurred by the person from 1 July 2016 to 31 December 2021 in respect of:

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

Proposed changes

To continue supporting corporate volunteering, the Business and IPC Partnership Scheme will be extended till 31 December 2023.

All other conditions of the scheme remain the same.

Effective date

The scheme is extended by two years; to 31 December 2023.

Comments

- In line with the Government's aim to build a more caring society, the scheme has been extended to continue to encourage employee volunteerism through businesses instead of the usual cash donations.
- The annual qualifying expenditure cap remains at $250,000 per business per year of assessment and $50,000 per IPC per calendar year.

Not-for-Profit Organisation Tax Incentive

Current

The Not-for-Profit ("NPO") tax incentive provides tax exemption on the income derived by an approved NPO, subject to conditions.

The incentive is scheduled to lapse after 31 March 2022.

Proposed changes

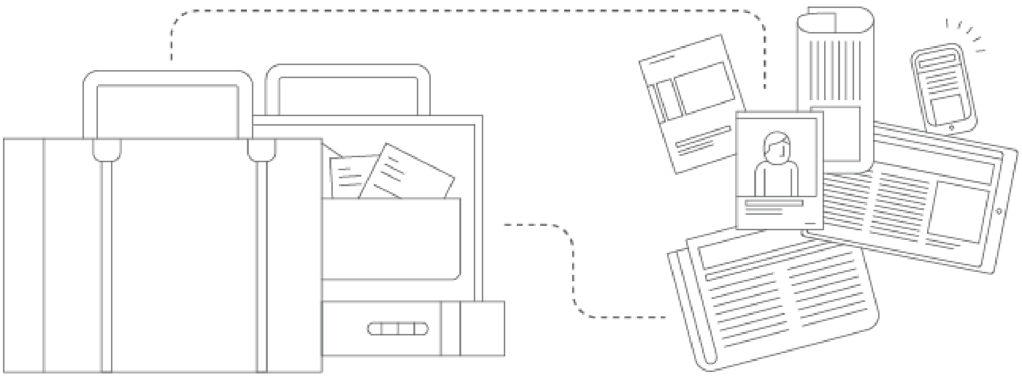
To continue attracting NPOs to Singapore, the NPO tax incentive will be extended till 31 December 2027.

Effective date

The NPO tax incentive is extended from 1 April 2022 to 31 December 2027.

Comments

- This is a welcome move to encourage more NPOs to establish and base themselves in Singapore.
- The extension of the incentive is certainly helpful to attract organisations that are established purely for altruistic purposes to conduct their philanthropic activities in Singapore.



Tax Deduction for Qualifying Donations

Current

Donors are eligible for a 250% tax deduction for qualifying donations made to Institutions of a Public Character ("IPCs") and other qualifying recipients from 1 January 2016 to 31 December 2021.

Proposed changes

To continue encouraging Singaporeans to give back to the community, the 250% tax deduction will be extended to qualifying donations made from 1 January 2022 to 31 December 2023.

All other conditions of the scheme remain the same.

Effective date

Extended for qualifying donations made from 1 January 2022 to 31 December 2023.

Comments

In the current pandemic crisis, IPCs are faced with reduced level of donations from the public. Extending the time-frame for another two years and maintaining the 250% tax deduction value to donors, it is hoped that this would encourage more donors to step forward to donate and cultivate the habit of giving back to society.

Withholding Tax Exemptions for the Financial Sector

There is a range of withholding tax ("WHT") exemptions or remission for the financial sector for all interest and other payments falling within Section 12(6) of the ITA ("Section 12(6) payments").

To support Singapore's value proposition and competitiveness of our financial sector, the following extension and rationalisation will be made. MAS will release further details of all changes by 31 May 2021.

Current	Proposed changes and effective date
a) All Section 12(6) payments made pursuant to interbank / interbranch transactions by banks in Singapore for the purpose of their trade or business.	*Proposed changes* ▪ The existing WHT remission for interbank / interbranch transactions will be legislated as a WHT exemption with effect from 1 April 2021, along with a review date of 31 December 2031. ▪ Under this WHT exemption, all Section 12(6) payments made by banks in Singapore[1], for the purpose of their trade or business, to their branches/head offices outside Singapore or other banks outside Singapore will be exempt from tax where such payments: ➢ are made during the period from 1 April 2021 to 31 December 2031 (both dates inclusive) under a contract that takes effect before 1 April 2021; or ➢ are made under a contract that takes effect during the period from 1 April 2021 to 31 December 2031 (both dates inclusive). In such cases, the WHT exemption will apply to the entire duration of the contract, including payments that are made beyond 31 December 2031 under that contract. *Effective date* The existing WHT remission will be legislated from 1 April 2021, with a review date stipulated of 31 December 2031.
b) All Section 12(6) payments made to any non-resident person (excluding any permanent establishments ("PEs") in Singapore) by the specified entities[2], for the purpose of the specified entities' trade or business, are exempt from tax where such payments:	*Proposed changes* ▪ The WHT exemption will be extended till 31 December 2026. All other conditions of the WHT exemption remain the same.

[1] Refer to banks licensed under the Banking Act or merchant banks approved under the MAS Act.

[2] Specified entities are:
(i) Banks licensed under the Banking Act or merchant banks approved under the MAS Act.
(ii) Finance companies licensed under the Finance Companies Act.
(iii) Approved entities that are (a) licensed under the Securities and Futures Act for dealing in capital markets products and advising on corporate finance; (b) involved or will be involved in the underwriting of debt or equity issuances; and (c) approved by MAS for the purpose of the exemption.

Current	Proposed changes and effective date
▪ are made during the period from 1 April 2011 to 31 March 2021 (both dates inclusive) under a contract that took effect before 1 April 2011; or ▪ are made under a contract that takes effect during the period from 1 April 2011 to 31 March 2021 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the contract, including payments that are made beyond 31 March 2021 under that contract.	▪ All Section 12(6) payments made to any non-resident person (excluding any PEs in Singapore) by the specified entities, for the purpose of the specified entities' trade or business, are exempt from tax where such payments: ➢ are made during the period from 1 April 2011 to 31 December 2026 (both dates inclusive) under a contract that took effect before 1 April 2011; or ➢ are made under a contract that takes effect during the period from 1 April 2011 to 31 December 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the contract, including payments that are made beyond 31 December 2026 under that contract. *Effective date* The WHT exemption scheduled to lapse after 31 March 2021 is now extended to 31 December 2026.
c) Specified entities are not required to withhold tax on all Section 12(6) payments made to any PE in Singapore if the payments: ▪ are made during the period from 17 February 2012 to 31 March 2021 (both dates inclusive) under a contract that took effect before 17 February 2012; or ▪ are made under a contract that takes effect during the period from 17 February 2012 to 31 March 2021 (both dates inclusive). In such cases, the specified entities do not need to withhold tax on all Section 12(6) payments that are made for the entire duration of the contract, including payments that are made beyond 31 March 2021 under that contract. Notwithstanding the above, PEs in Singapore are required to declare the Section 12(6) payments in their annual income tax returns and are assessed to tax on such payments (unless the payments are specifically exempt from tax).	*Proposed changes* ▪ The WHT exemption will be extended till 31 December 2026. All other conditions of the WHT exemption remain the same. ▪ Specified entities are not required to withhold tax on all Section 12(6) payments made to any PE in Singapore if the payments: ➢ are made during the period from 17 February 2012 to 31 December 2026 (both dates inclusive) under a contract that took effect before 17 February 2012; or ➢ are made under a contract that takes effect during the period from 17 February 2012 to 31 December 2026 (both dates inclusive). In such cases, the specified entities do not need to withhold tax on all Section 12(6) payments that are made for the entire duration of the contract, including payments that are made beyond 31 December 2026 under that contract. ▪ As per the existing tax treatment, PEs in Singapore are required to declare the Section 12(6) payments that they received in their annual income tax returns and are assessed to tax on such payments (unless the payments are specifically exempt from tax). *Effective date* The WHT exemption scheduled to lapse after 31 March 2021 is now extended to 31 December 2026.

Comments

- Broadly, all Section 12(6) payments made by banks in Singapore in respect of interbank/interbranch transactions for the purpose of their trade or business are exempt from WHT. For all these years, the exemption from tax withholding is covered by a remission order. Such WHT remission will be legislated from 1 April 2021. This proposed change will provide certainty to payers on the tax treatment of such transactions.

  Introducing a review date of 31 December 2031 for this piece of legislation allows the authorities to review the relevance of the legislated provisions at some future date and also to determine if any future refinements are necessary.

- Apart from the above, specified entities are also not required to withhold tax on all Section 12(6) payments made to non-resident persons (excluding PEs in Singapore) where such payments are for the purpose of their trade or business. In Budget 2012, the exemption from tax withholding was extended to cover payments made by specified entities to PEs in Singapore. However the PEs in Singapore are required to declare the Section 12(6) payments received in their annual tax returns and bring them to tax, unless the payments in question are tax-exempt.

  The expiry date for WHT exemption for both types of payments is now extended to 31 December 2026.

- The above proposed changes will further enhance and strengthen the financial hub status of Singapore.

Withholding Tax Exemption on Payments for Over-the-Counter Financial Derivatives

Current

WHT exemption is allowed on payments made to any non-resident person (excluding any permanent establishment ("PE") in Singapore) from over-the-counter ("OTC") financial derivatives made by a financial institution in Singapore where such payments:

- are made during the period from 20 May 2007[3] to 31 March 2021 (both dates inclusive) under a contract that took effect before 15 February 2007; or

- are made under a contract that takes effect during the period from 15 February 2007 to 31 March 2021 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the OTC financial derivatives contract, including payments made beyond 31 March 2021 under that contract.

The WHT exemption is scheduled to lapse after 31 March 2021.

Proposed changes

- To support Singapore's value proposition and competitiveness of the financial sector, the WHT exemption will be extended for another five years till 31 December 2026.

  All other conditions of the WHT tax exemption remain the same.

- All payments on OTC financial derivatives made by a financial institution in Singapore to any non-resident person (excluding any PE in Singapore) are exempt from WHT, where such payments:
  - are made during the period from 20 May 2007 to 31 December 2026 (both dates inclusive) under a contract that took effect before 15 February 2007; or
  - are made under a contract that takes effect during the period from 15 February 2007 to 31 December 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the OTC financial derivatives contract, including payments that are made beyond 31 December 2026 under that contract.

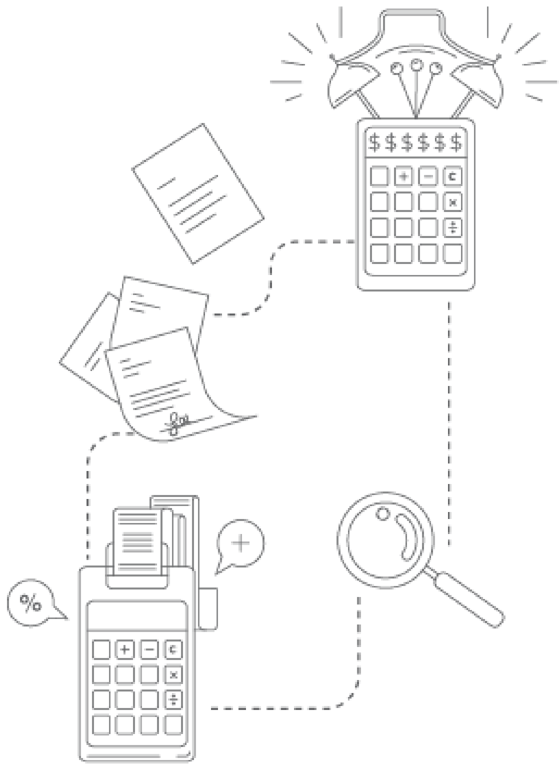
MAS will release further details of the changes by 31 May 2021.

Effective date

The WHT exemption is extended to 31 December 2026.

Comments

Extending the WHT exemption by a further five years would hopefully encourage more of OTC financial derivatives activities to be conducted out of Singapore and attract new players, adding depth to Singapore's financial market.



[3] The WHT exemption was previously allowed for such payments made during the period from 27 February 2004 to 19 May 2007.

Withholding Tax Exemption on Payments Made for Structured Products

Current

WHT exemption is allowed on payments made to a non-individual, non-resident person (excluding any PE in Singapore) from structured products offered by a financial institution in Singapore if such payments are made under a contract that takes effect during the period from 1 January 2007 to 31 March 2021 (both dates inclusive).

The WHT exemption is scheduled to lapse after 31 March 2021.

Proposed changes

To support Singapore's value proposition and competitiveness of our financial sector, the WHT exemption will be extended for another five years and will cover payments made under a contract that takes effect during the period from 1 January 2007 to 31 December 2026 (both dates inclusive).

All other conditions of the WHT exemption remain the same.

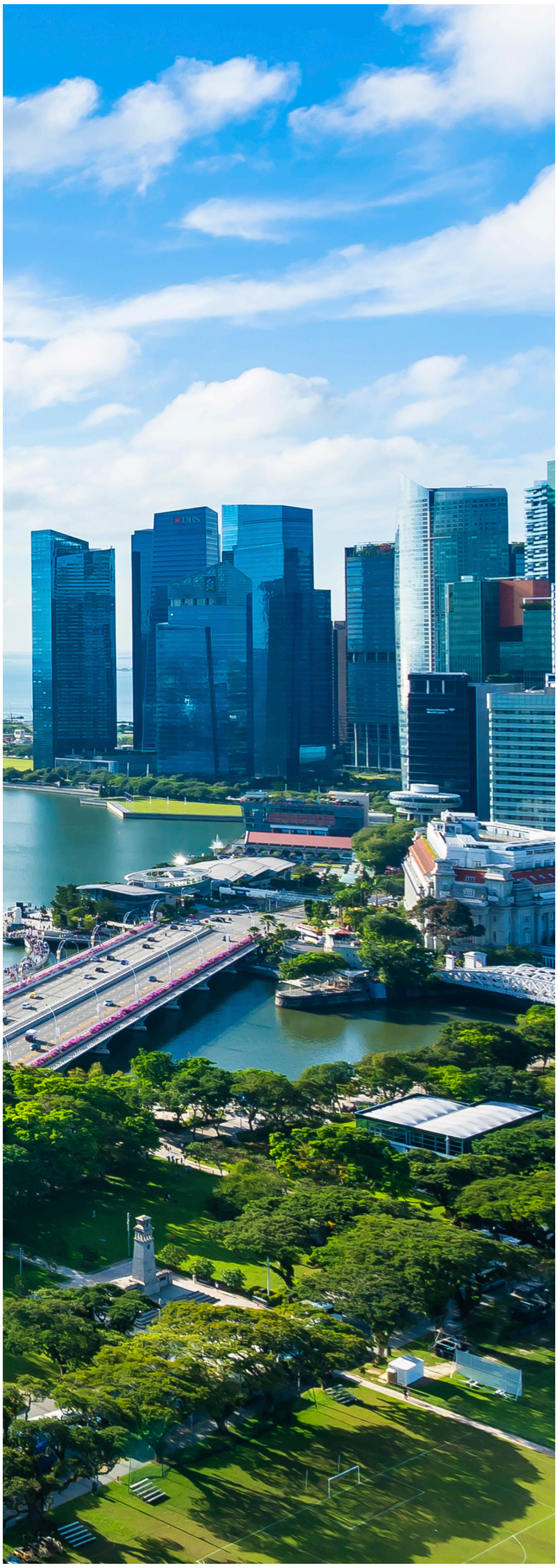
MAS will release further details of the changes by 31 May 2021.

Effective date

The WHT exemption is extended to 31 December 2026.

Comments

A further five-year extension of this WHT exemption scheme demonstrates the Government's commitment in strengthening the position of Singapore as the financial hub of Asia.



Lapse of the Automation Support Package but 100% Investment Allowance Scheme to Support Automation Retained

Current

The Automation Support Package ("ASP") was introduced in Budget 2016 to support businesses to automate, drive productivity, and scale up.

The ASP includes 100% Investment Allowance ("IA") support on the amount of approved capital expenditure, net of grants, for automation projects approved by Enterprise Singapore from 1 April 2016 to 31 March 2021. The approved capital expenditure for the 100% IA support is capped at $10 million per project.

Proposed changes

The ASP will lapse after 31 March 2021.

Schemes including the Enterprise Development Grant, IA scheme and the Enterprise Financing Scheme will continue to be available to support businesses in their automation, productivity and scale-up efforts.

Specifically, the 100% IA scheme to support automation will be extended by two years, for automation projects approved by Enterprise Singapore from 1 April 2021 to 31 March 2023. All other conditions of the scheme remain the same.

Effective date

The 100% IA scheme to support automation will be extended to cover projects approved by Enterprise Singapore on or before 31 March 2023.

Comments

- The extension of the IA scheme is very much welcomed as it supports large-scale automation projects.

- Apart from IA scheme which has been extended by two years, other support schemes such as the Enterprise Development Grant and Enterprise Financing Scheme continue to be available to businesses subject to approval by Enterprise Singapore of their projects on automation, productivity and scale-up.

Wage Credit Scheme

The Wage Credit Scheme ("WCS") supports enterprises embanking on transformation efforts and encourages employers to share productivity gains with workers. The scheme provides co-funding of wage increases up to a certain limit by the Government.

The Minister announced in Budget 2021 the extension of the scheme by one year to 2021 with the Government co-funding ratio at 15% and the qualifying gross wage ceiling at $5,000 (see table below).

Scheme	Enhancements announced in Budget 2020	Extension of WCS for a year
Qualifying years	▪ 2019 and 2020	▪ 2020 and 2021
Level of co-funding	▪ 20% of qualifying wage increases in 2019 ▪ 15% of qualifying wage increases in 2020	▪ 15% of qualifying wage increases in 2019, 2020 and 2021
Gross monthly wage ceiling	▪ $5,000	▪ $5,000
Qualifying wage increases	▪ Increases in gross monthly wage (at least $50) given to Singaporean employees in 2020 (up to gross monthly wage of $5,000) will be co-funded. ▪ In addition, increases in gross monthly wage (at least $50) given in 2017, 2018 and 2019 (up to gross monthly wage of $5,000) by the same employer will continue to be co-funded if they are sustained in subsequent years.	▪ Increases in gross monthly wage (at least $50) given to Singaporean employees in 2021 (up to gross monthly wage of $5,000) will be co-funded. ▪ In addition, increases in gross monthly wage (at least $50) given in 2019 and 2020 (up to gross monthly wage of $5,000) by the same employer will continue to be co-funded if they are sustained in 2020 and 2021.

Switching to Cleaner-energy Vehicles

To encourage the switch to cleaner-energy vehicles, enhancement was made to the Electric Vehicle Early Adoption Incentive ("EVEAI"). In tandem, the petrol duty rates were raised with effect from 16 February 2021 and transitional measures were introduced to ease the impact on vehicles using petrol.

<table>
<tr><th>Subject matter</th><th>Current</th><th>Proposed changes and effective date</th></tr>
<tr><td>Enhancement of the EVEAI</td><td>45% rebate off the Additional Registration Fee ("ARF") for electric cars and taxis from January 2021 to December 2023 at a cap of $20,000, with an ARF floor of $5,000</td><td>45% rebate off the ARF for electric cars and taxis from January 2022 to December 2023 at a cap of $20,000, with an ARF floor of $0</td></tr>
<tr><td>Revision to petrol duty rates</td><td><table><tr><th></th><th>Duty Rate</th></tr><tr><td>Premium grade petrol-unleaded (RON 97 and above)</td><td>$0.64 per litre</td></tr><tr><td>Intermediate grade petrol-unleaded (RON 90 and above but under RON 97)</td><td>$0.56 per litre</td></tr></table></td><td><table><tr><th></th><th>Duty Rate</th></tr><tr><td>Premium grade petrol-unleaded (RON 97 and above)</td><td>$0.79 per litre</td></tr><tr><td>Intermediate grade petrol-unleaded (RON 90 and above but under RON 97)</td><td>$0.66 per litre</td></tr></table>
The above revisions took effect from 16 February 2021.</td></tr>
<tr><td>Transitional offset measures for vehicles using petrol</td><td>▪ Road tax payable for vehicles using petrol is based on various factors, including the engine capacities (for cars and motorcycles) and based on maximum laden weight (for commercial vehicles).

▪ For taxis registered before 1 January 2021, road tax is $1,020 per year till 30 June 2022 and will follow the road tax structure of private cars thereafter.

The road tax for taxies registered on or after 1 January 2021 follows the road tax structure of private cars.</td><td>▪ To ease the transition to the revised petrol duty rates, a road tax rebate will be provided for petrol and petrol-hybrid vehicles at the following rates for one year:
➢ 15% for cars, including taxis and private hire cars;
➢ 60% for motorcycles; and
➢ 100% for commercial vehicles.

▪ The road tax rebate will be effective from 1 August 2021 to 31 July 2022.</td></tr>
</table>

Subject matter	Current	Proposed changes and effective date
		▪ On top of the 15% road tax rebate, active drivers of taxis and private hire cars using petrol will receive an additional Petrol Duty Rebate of $360 to be paid out over four months in view of their higher mileage. ▪ On top of the 60% road tax rebate, individual owners of motorcycles using petrol, registered as at 16 February 2021, with the following engine capacity will receive an additional Petrol Duty Rebate: **Engine capacity of motorcycle** — **Petrol duty rebate** ≤200 cc — $80 201 to 400 cc — $50 >400 cc — - ▪ Land Transport Authority will release further details on the additional Petrol Duty Rebates for taxi and private hire car drivers, and individual motorcycle owners in April 2021.

Comments

- The Government is fully committed on the Singapore Green Plan 2030 to do its part for the world. The measures announced are baby steps taken to tackle climate change.

- Lowering the ARF to zero for electric cars should entice potential buyers to invest in cleaner-energy vehicles.

  By the same token, the increase in petrol duty rates is to encourage consumers to switch to a more efficient use of fuel or environmental-friendly alternatives.

- Recognising that the increase in petrol duty rates may pose financial difficulties, especially to those who rely on their vehicles for their livelihood, transitional offset measures and additional rebates were announced.

Dependency Ratio Ceiling and Foreign Worker Levy

- Reduction in Dependency Ratio Ceiling ("DRC")

  The S Pass sub-DRC will be reduced[4] for the Manufacturing sector starting from 1 January 2022.

Sector	Current	Proposed changes
DRC		
Services	35.0%	None
Manufacturing	60.0%	None
Construction	87.5%	None
Process	87.5%	None
Marine Shipyard	77.8%	None
S Pass sub-DRC		
Services	10%	None
Manufacturing	20%	18% from 1 January 2022 and 15% from 1 January 2023
Construction, Process and Marine Shipyard	18%	15% from 1 January 2023

- Foreign Worker Levy

  The Foreign Worker Levy ("FWL") rates will remain unchanged for all sectors. The earlier announced FWL rate increases for the Marine Shipyard and Process sectors will be deferred for another year.

Sector / Pass Types	Tier	DRC	Levy Rates ($) (R1/R2)		
			1 Jul 2020	1 Jul 2021	1 Jul 2022
S-Pass	Basic Tier	≤ 10%	330	330	To be announced in 2022
	Tier 2	10-20%	650	650	
Construction Work Permit Holders ("WPH")	Man-Year Entitlement ("MYE")	≤ 87.5%	300/700	300/700	300/700
	MYE-Waiver		600/950	600/950	600/950
Services WPH	Basic Tier	≤ 10%	300/450	300/450	To be announced in 2022
	Tier 2	10-25%	400/600	400/600	
	Tier 3	25-35%	600/800	600/800	
Marine Shipyard WPH	Basic Tier	≤ 77.8%	300/400	300/400	
Process WPH	MYE	≤ 87.5%	300/450	300/450	
	MYE-Waiver		600/750	600/750	
Manufacturing WPH	Basic Tier	≤ 25%	250/370	250/370	
	Tier 2	25-50%	350/470	350/470	
	Tier 3	50-60%	550/650	550/650	

[4] When a DRC or a sub-DRC cut is implemented, firms that have exceeded the revised DRC or sub-DRC will not be able to renew work passes of foreign workers or hire new foreign workers. However, for the foreign workers above the DRC/sub-DRC limits, firms can retain them until their work passes expire to avoid disrupting existing operations.

Withdrawal of Incentive Schemes

Incentive scheme	Current	Proposed changes and effective date
Insurance Business Development-Specialised Insurance ("IBD-SI") Scheme	▪ Under the IBD umbrella scheme, the IBD-SI scheme provides for a concessionary tax rate of 8% and 10% for new and renewal award recipients respectively, on qualifying income derived by a (re)insurer from carrying on specialised insurance and reinsurance business. ▪ It is scheduled to lapse after 31 August 2021.	*Proposed changes* To streamline and simplify the IBD umbrella scheme, the IBD-SI scheme will lapse after 31 August 2021. With the lapse of the IBD-SI scheme, insurers engaged in the specialised insurance and reinsurance business can apply for the IBD scheme. *Effective date* The IBD-SI scheme will lapse after 31 August 2021.
Accelerated Depreciation Allowances for Highly Efficient Pollution Control Equipment ("ADA-PCE") Scheme	▪ The ADA-PCE scheme was introduced in Budget 1996 to encourage businesses to purchase and install clean technologies to improve air quality in Singapore. ▪ Under the scheme, a taxpayer who incurs capital expenditure to install qualifying highly efficient PCE can accelerate the write-off of the cost of acquiring such equipment over one year.	*Proposed changes* ▪ The ADA-PCE scheme will be withdrawn from 17 February 2021. ▪ Since the introduction of this scheme in 1996, regulatory measures have been introduced including our air emission standards, which set emission concentration limits for a list of controlled pollutants. These measures are reviewed over time. ▪ The Ministry of Sustainability and the Environment and the National Environment Agency will continue to regularly review our measures to manage pollution and improve air quality in Singapore. *Effective date* The ADA-PCE scheme was withdrawn on 17 February 2021.

GOODS AND SERVICES TAX

Proposed GST Rate Increase

Current

Taking into consideration the state of the economy at the time when the Unity Budget was announced on 18 February 2020, the Government indicated that the 2% GST rate increase would not take effect in 2021.

Proposed changes

In order to finance recurrent spending needs (especially in areas such as healthcare) with recurrent revenue, the Minister indicated that it is still very much within the Government's plan to effect the 2% GST rate increase sooner rather than later during 2022 to 2025, subject to the economic outlook.

Comments

- With the emphasis of meeting Singapore's long term structural needs and the Government's intent to return to running balanced budgets post current crisis, while keeping COVID-19 under control, we are anticipating a GST hike to occur some time between late 2022 and early 2023.

  The proposed GST rate increase would generally be neutral for fully taxable GST registered businesses which have made progressive efforts to align with existing GST requirements. While this is the case, GST registered businesses with sizeable import transactions and are currently not enjoying GST suspension schemes (e.g. the Major Exporter Scheme, Import GST Deferment Scheme, Zero GST warehouse scheme, etc.) should evaluate and/or revisit these options to alleviate the incremental upfront cash flow needed (e.g. paying 9% import GST) and eliminate the waiting time required through the GST refund route via the filing of periodic GST returns.

- GST registered businesses which are not fully taxable and/or are still playing catch-up on GST compliance aspects should calibrate their existing approaches and consider tapping into technology to maximise their net GST position as well as minimising penalties tagged to potential incorrect classification(s) of taxable supplies.

- It would also be worthwhile for businesses which currently fall below the compulsory GST registration threshold of $1 million taxable supplies per calendar year to consider and evaluate if voluntary GST registration should be opted for so as to make their businesses more competitive as the proposed 2% GST hike would erode their margins if they are unable to raise prices and have to absorb the additional GST cost for local purchases as well as imports.

Imported Low-value Goods and Business-to-Consumer Imported Non-digital Services

Current

- Low-value goods which are imported via air or post that are valued up to and including the current GST import relief threshold of $400 ("low-value goods") are not subject to GST.
- Business-to-consumer ("B2C") imported non-digital services (such as live interaction with overseas providers of educational learning, fitness training, counselling and telemedicine) are also not subject to GST.
- The digital economy has grown significantly over the years. In Budget 2018, GST was extended to:
    - B2C imported digital services (such as video and music streaming services, apps, software and online subscription fees). This is effected via the Overseas Vendor Registration ("OVR") regime[5]; and
    - Business-to-business ("B2B") imported services (both digital and non-digital). This is effected via the reverse charge regime[6].
- The OVR and reverse charge regimes mentioned above took effect from 1 January 2020 to ensure parity in GST treatment between local and overseas suppliers on their sales to local consumers and businesses and ensure that our GST system remains resilient in a digital economy.

Proposed changes

- GST will be extended to the following:
    - Low-value goods which are imported via air or post.

      This will be effected via OVR[7] and reverse charge[8] regimes. Jurisdictions that have extended their GST or Value Added Tax ("VAT") regimes to cover imported low-value goods include Australia, New Zealand, Norway, Switzerland and the United Kingdom.

      GST is already and will continue to be collected on goods imported via land or sea, regardless of value.
    - B2C imported non-digital services.

      This will be effected via the OVR regime. Jurisdictions which already tax similar services include Australia and New Zealand.
- IRAS will consult the industry shortly, before the Ministry of Finance finalises the implementation details.

Effective date

From 1 January 2023

Comments

- The move to levy Singapore GST on B2C import of non-digital services and low-value goods through the existing OVR and reverse charge regimes would:
    - level the playing field between GST-registered local businesses and non-GST registered overseas businesses;
    - allow the Government to extend current pool of goods and service where GST applies such that incremental revenue from this source could be channelled

[5] Under the existing Overseas Vendor Registration regime, overseas suppliers and electronic marketplace operators which make significant sales of digital services to local consumers are required to register with IRAS for GST.

[6] Under the existing reverse charge regime, GST-registered persons that make non-taxable supplies of goods or services such as exempt supplies (e.g. the provision of certain financial services, and the sale and lease of residential properties) are required to account for GST to IRAS on their imports of services.

[7] Overseas suppliers and electronic marketplace operators will be required to register for GST if they make significant supplies of low-value goods to local consumers. They will collect GST on the sale of low-value goods imported by local consumers and pay over the GST to IRAS.

[8] The local GST-registered persons will account for GST to IRAS on the low-value goods it imports. The local GST-registered person can in turn claim the GST accounted for as its input tax, subject to the GST input tax recovery rules.

towards funding the proposed structural changes; and

- ensure GST are applied on local consumption of goods and services.

- Perspective of GST registered and non-GST registered local customer
    - GST registered businesses which are not fully taxable and subjected to reverse charge would face incremental cost for its proposed purchase and import of low-value goods and/or non-digital services going forward.
    - Generally, GST registered businesses that are fully taxable will largely not be affected by this change.
    - Non-GST registered businesses that fall under a Partial Exempt Trader if it is GST registered and has imported services/goods over a 12-month period exceeding a certain threshold (details will be announced by the Ministry of Finance subsequently) might be liable for GST registration under the reverse charge regime.
    - For the end consumer, the decision to buy such imported goods and/or services either from overseas or local vendors will no longer be based on pricing alone.

- Perspective of overseas and local supplier
    - Overseas vendors need to ascertain whether they are required to register under the extended OVR regime.
    - Cumulating from the above, it is likely that:

(a) Overseas vendors will:

- face increasing pressure to maintain or increase their customer footprint in Singapore;
- be required to decide whether to pass on the additional GST cost to end consumers; and
- have to lower their profit margins so as to remain competitive compared to Singapore vendors.

(b) Local vendors will:

- in the short to mid-term enjoy potential growth with incremental orders from the perceived pricing equality; and
- need to calibrate on its capabilities and improve service levels and value-add on its product sales.

Basis Change for Determining Zero-Rating for Supply of Media Sales

Current

Currently for GST purposes, the basis for determining whether zero-rating applies to a supply of media sales is based on the place of circulation of the advertisement:

- If the advertisement is intended to be substantially circulated outside Singapore, the media sales is zero-rated; or
- If the advertisement is intended to be substantially circulated in Singapore, the media sales is standard-rated.

Proposed changes

Online advertising has grown and is expected to account for an increasing share of advertising spending in future. Developments in digital technologies have also changed the way that media sales are supplied, and have made it more difficult for suppliers of digital media sales to determine the place of circulation.

Given this trend, the basis for determining whether zero-rating applies to a supply of media sales will be updated, to be based on the place where the customer (i.e. the contractual customer) and direct beneficiary of the service belong:

- If the customer of the service belongs outside Singapore and the direct beneficiary either belongs outside Singapore or is GST-registered in Singapore, the media sales will be zero-rated; and
- If the customer belongs in Singapore, the media sales will be standard-rated.

Effective date

For the supply of media sales on or after 1 January 2022.

Comments

In addition to the continual evolution of the advertising industry, COVID-19 has accelerated the increased reliance on social media and digital platforms for businesses to reach out to a larger pool of audience worldwide.

Determining whether media sales is standard-rated or zero-rated based on customer's "belonging" status, taking into consideration both the contract party and the beneficiary of the service, allows Singapore to align its GST collection.

- Service provider's perspective
  - With the proposed change, there is fair competitive advantage of local media sale provider to overseas customer targeting the Singapore market as standard rated GST would no longer be incurred by the overseas customer.
  - Administratively, it will require additional effort and resources from the service provider to verify the contractual and beneficiary parties' belonging status (relying on the business and/or fixed establishment guidelines) as well as GST registration status via references to various guidelines specified by the tax authority during these touch points:
    - Customer on-boarding; and
    - Periodic verification.

    Hence it might be worthwhile for the service provider to consider semi-automation or full automation of its customer verification process.
- Customer's (local/overseas) perspective
  - With the proposed change, incremental GST cost might apply to:
    - Overseas customers where the direct beneficiary (non-GST registered) of the media space belongs in Singapore.
    - Local customers (both non-fully taxable and not GST registered) who currently enjoy 0% GST may face greater strain in advertising spending if the place of media circulation is substantially outside Singapore.
    - GST registered customers who are not entitled to full input tax claim.

ABBREVIATIONS

EDB	Economic Development Board
FY	Financial Year
GST	Goods and Services Tax
IPC	Institutions of a Public Character
IRAS	Inland Revenue Authority of Singapore
ITA	Income Tax Act
MAS	Monetary Authority of Singapore
PE	Permanent Establishment
WHT	Withholding Tax
YA	Year of Assessment
YAs	Years of Assessment

TAX SERVICES

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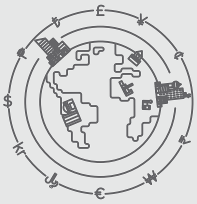

- Corporate Cross-border Tax Structuring and Planning
- Private Client, Family Offices and Wealth Planning
- Funds (including Variable Capital Companies) Planning and Structuring
- Tax Incentive Applications
- Tax Investigation, Audit and Due Diligence
- Advance Tax Ruling Applications
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Goods & Services Tax

- Assisted Compliance Assurance Programme Review ("ACAP")
- Assisted Self-help Kit Review ("ASK") and GST Health-Check
- GST Guidebook and Tax Code Analysis
- Due Diligence Reviews for Mergers and Acquisitions and IPO
- GST Scheme Certifications
- GST Analytics, Consulting and Advisory

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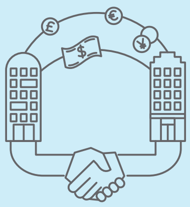

- Transfer Pricing Documentation Preparation
- Country-by-Country Reporting
- Strategy and Policy Development
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- Advance Pricing Arrangements and Rulings
- Risk Assessment and Controversy Management
- Transfer Pricing Audit Defences
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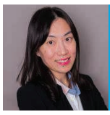

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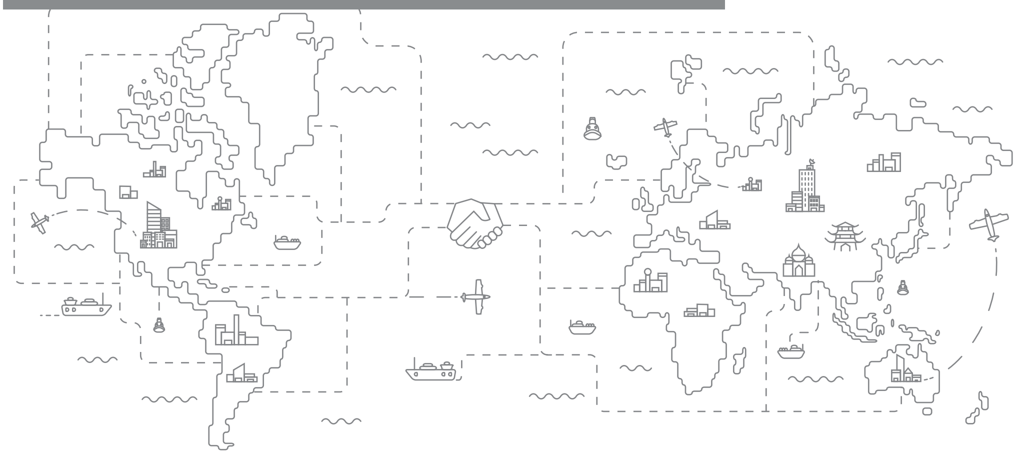

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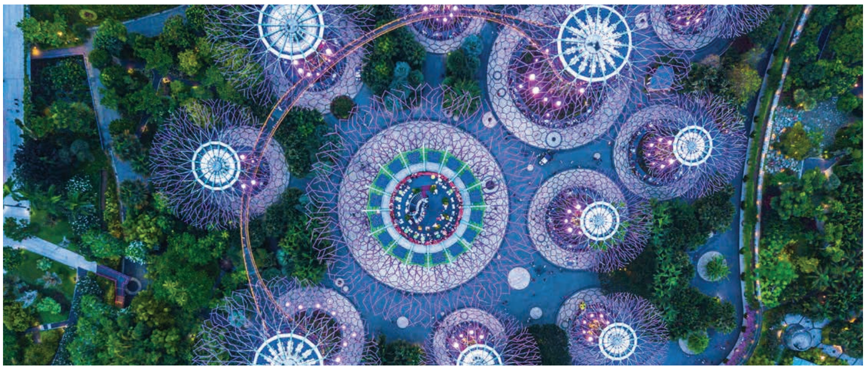

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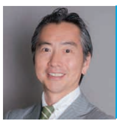

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