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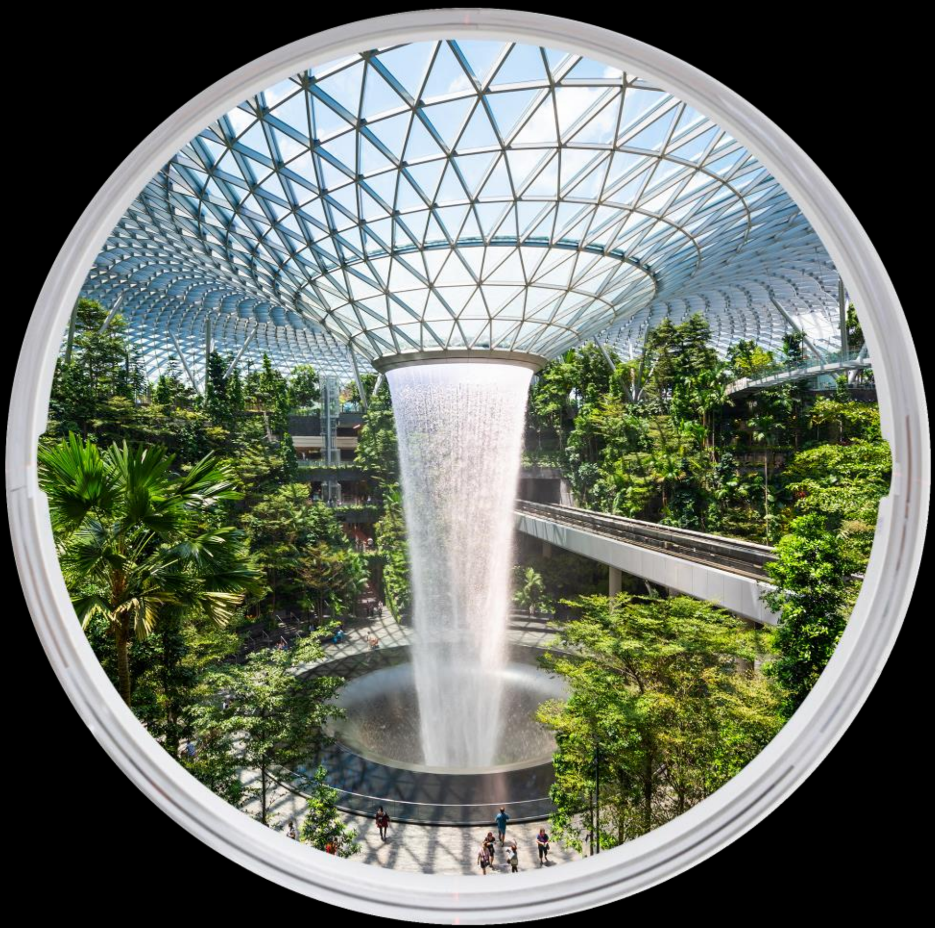


Singapore Budget 2022 Feedback

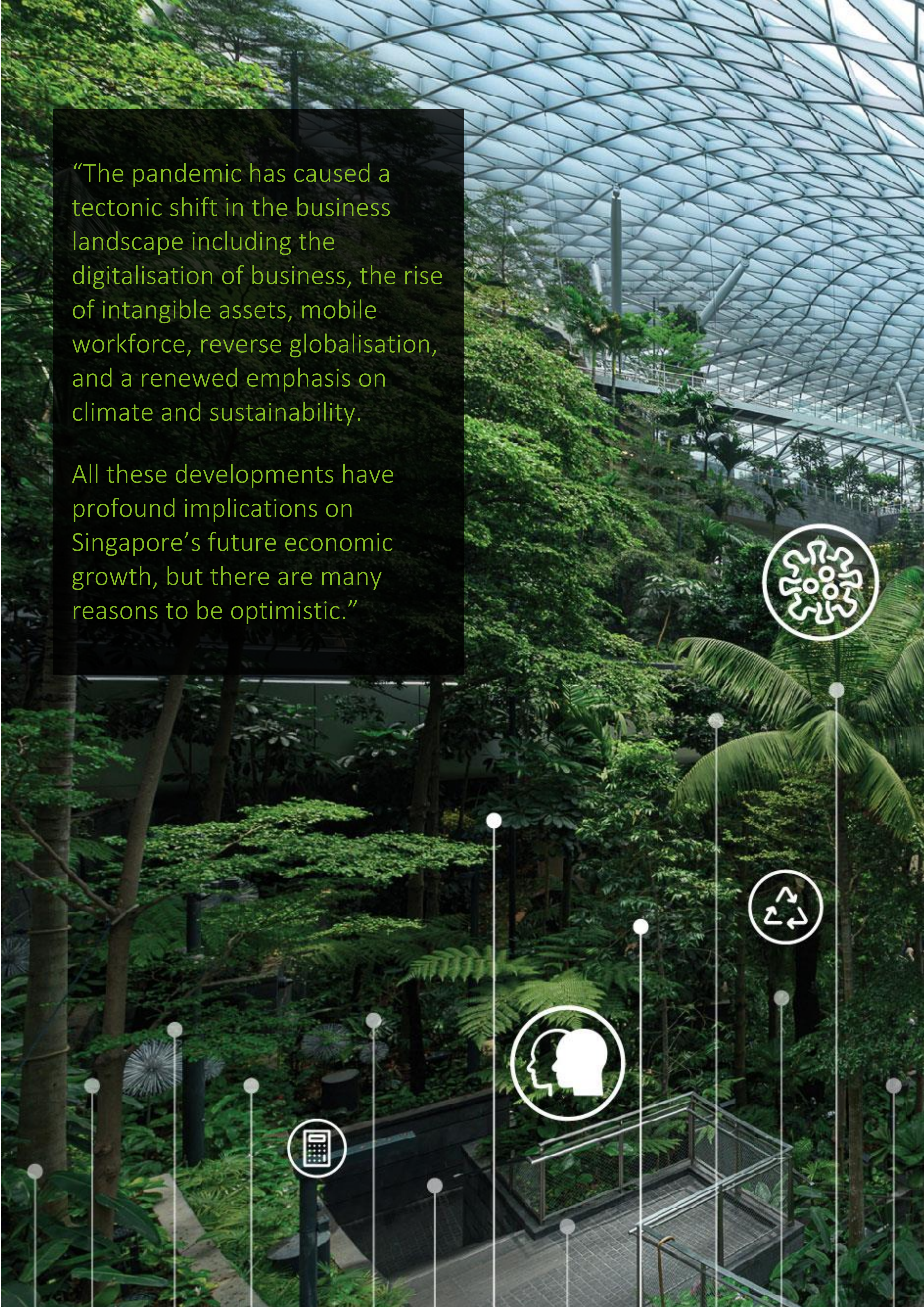
Trusted. Transformational. Together.

12 November 2021

MAKING AN IMPACT THAT MATTERS since 1845

“The pandemic has caused a tectonic shift in the business landscape including the digitalisation of business, the rise of intangible assets, mobile workforce, reverse globalisation, and a renewed emphasis on climate and sustainability.

All these developments have profound implications on Singapore’s future economic growth, but there are many reasons to be optimistic.”



Foreword

Trusted. Transformational. Together.

The COVID-19 pandemic remains part of our daily lives in 2021 but there are many reasons to be optimistic. Vaccinations in many parts of the world are gathering pace, providing hope of a resumption of normalcy. Singapore has transited to "endemic living" with the virus and has adopted a measured approach in re-opening its economy. However, two years of COVID-19 have changed Singapore forever—the pandemic has caused a tectonic shift in the business landscape including the digitalisation of business, the rise of intangible assets, mobile workforce, reverse globalisation, and a renewed emphasis on climate and sustainability. All these developments have profound implications on Singapore's future economic growth.

While the world grapples with COVID-19, the OECD pressed on with its BEPS 2.0 initiative. The framework, which aims to address the tax challenges posed by digitalisation, is divided into two pillars: Pillar One deals with the allocation of taxing rights between jurisdictions, while Pillar Two aims to implement a global minimum tax rate. It is anticipated that Pillar One may have a negative revenue impact on Singapore, being a hub economy with a comparatively smaller market, and the global minimum tax rate under Pillar Two may potentially limit the effectiveness of tax incentives as the icing to encourage foreign direct investments into Singapore. The eventual impact and Singapore's response could largely be dependent on how MNE groups and governments in other jurisdictions respond to these international developments. Whilst Singapore has largely followed international developments, particularly in the area of international taxation, it may be required to make innovative policy decisions in line with its national interests.

Against this backdrop, our proposals will address how Singapore can remain relevant for companies seeking to capitalise on new opportunities and achieve new levels of growth in the post-BEPS 2.0 environment. We attempt to address the following issues, some raised by our clients:

- Clarify existing tax rules and/or request for advance notification of impending changes to existing tax rules in Singapore. Clarification of existing tax rules may be necessitated by an evolving business landscape, such as companies' shift toward decentralised decision-making and hybrid work arrangements made possible by technological advancement.

- Propose tax changes to assist businesses and workers in Singapore to adapt and thrive in the endemic.

- Explore ideas to strengthen and leverage Singapore's innovation and IP ecosystem, resulting in a multiplier effect in the local economy.

- Discuss the relevance and effectiveness of Singapore's tax incentive regime in the post-BEPS 2.0 world, including analysing whether the tax schemes or aspects of our general tax regime should be rationalised or phased out.

- Propose changes to existing policies for the fund management, insurance, and financial industries in Singapore, with a renewed emphasis on green finance and the Environmental, Social, and Governance (ESG) initiatives.

- Ensure that the resilience of the fiscal system and the progressivity of Singapore's tax system, including considering the introduction of alternative revenue sources and the recalibration of tax reliefs for lower- and middle-income earners.

While the previous year's budget focused on issues concerning businesses' immediate survival, we anticipate that this year's budget will likely focus on a much broader range of issues that are likely to arise in the immediate, short, and long term as the economy begins to recover and businesses transition from responding to thriving in COVID-19.

Underpinning all of the above is the need to make tough decisions for Singapore to restructure, reorganise and reposition itself for new and better opportunities. Yes, the competition will be tougher, but we will take it in stride and transition to thriving in the endemic, together, as always.

Content

Abbreviations

BEPS	Base Erosion and Profit Shifting
CIT	Corporate Income Tax
CPF	Central Provident Fund
EDB	Economic Development Board
FSI	Financial Services Industry
FY	Financial Year
GST	Goods and Services Tax
IP	Intellectual Property
IPR	Intellectual Property Rights
IRAS	Inland Revenue Authority of Singapore
M&A	Mergers & Acquisitions
MNE	Multinational Enterprise
MOM	Ministry of Manpower
NsMan	National Serviceman
OECD	Organisation for Economic Cooperation and Development
PIC	Productivity & Innovation Credit
R&D	Research and Development
SME	Small and Medium-sized Enterprise
SPR	Singapore Permanent Resident
S$	Singapore Dollars
VCC	Variable Capital Company
WDA	Writing Down Allowance
WFH	Work from home
WHT	Withholding Tax
YA	Year of Assessment

1. Transitioning to the new norm

The COVID-19 pandemic has resulted in a radically changed business environment in which taxpayers may be required to make non-routine decisions quickly, with significant tax implications. While the IRAS' COVID-19 support measures and tax guidance have provided some immediate and increased certainty for businesses, these measures and tax guidelines are only intended to address immediate and short-term tax issues. We would, therefore, request for more specific guidance on certain tax issues, such as tax residence status of a company, that are likely to arise in the long run as Singapore enters the endemic phase. And, while most support measures have been phased out, many businesses continue to be severely impacted by COVID-19, and some sectors, such as hospitality and food and beverage, are still finding their feet, hence we would like to propose some new initiatives to continue to lend a helping hand to businesses. Finally, our proposals also include some initiatives to fund the COVID-19 recovery and future incentive programs to attract new types of investments, while maintaining the progressivity of our tax system.

1.1 Clarification on tax matters arising from COVID-19 travel restrictions

On 3 April 2020, the OECD Secretariat published its views on the application of tax treaty provisions in the context of the COVID-19 pandemic, followed by an update on 21 January 2021. In tandem, the IRAS published administrative guidance on the impact of COVID-19 related travel restrictions in determining corporate tax residence in Singapore.

In particular, the IRAS stated that where a company was a Singapore tax resident for Year of Assessment (YA) 2020 and/or 2021, the IRAS is prepared to consider the company as being a Singapore tax resident for YA 2021 and/or 2022, notwithstanding that it will not be able to hold board of directors meetings (during which strategic decisions for the company are made) in Singapore due to the COVID-19 related travel restrictions.

This is provided that:

- There are no other changes to the economic circumstances of the company.
- The directors of the company have to attend board meetings held outside Singapore or hold the meetings through electronic means (e.g., via video-conferencing, tele-conferencing, etc.) due to such directors being temporarily restricted in their travel as a consequence of COVID-19.

However, from a Singapore corporate tax residence perspective, there may be other situations that do not fall squarely within the conditions imposed by the IRAS, e.g., a company that is newly set-up in 2020 and/or 2021 but is unable to hold board meetings in Singapore due to COVID-19 travel restrictions would not be able to meet the conditions to claim itself as a resident of Singapore in YA 2021 and/or 2022 as it has no historical records of holding board of directors meetings in Singapore. As tax residency may be required in certain instances to provide certainty on tax positions, we would like to request that the IRAS provides additional guidance on Singapore tax residency for newly incorporated companies in view of the COVID-19-related travel restrictions.

1.2 Allow the costs of COVID-19 testing to be fully deductible

COVID-19 testing will be the "new normal" as Singapore reopens in a calibrated manner. Since the beginning of the stabilisation phase, all employees working in settings that involve frequent community interactions, such as retail mall establishments, supermarkets, last-mile delivery workers, and public and private transportation workers, have been required to undergo mandatory rostered routine COVID-19 testing. Furthermore, to detect and prevent infections in the workplace, many organisations are voluntarily requiring their employees to self-test for COVID-19 before returning to the office and/or work site.

Currently, the deduction of medical expenses incurred by an employer is restricted to 1% of total employee remuneration, unless the employer implements certain portable medical benefits schemes, in which case, the cap is increased to 2% of total employee remuneration. In most instances, COVID-19 testing will almost certainly increase the cost for employers to provide medical benefits to their employees. We propose that the costs of COVID-19 testing be fully deductible for tax purposes, rather than being subject to the medical expense restriction, where the costs of COVID-19 testing are not fully covered by a government subsidy. This is to encourage regular testing among employees to keep the workplace safe, and to reduce COVID-19 transmission rates in the community without tighter curbs.

1.3 Carry forward of unabsorbed donations for up to 5 YAs

Notwithstanding this difficult times, we continue to see viable businesses give back to the community – pitching in and doing their part where they can to ensure that Singapore emerges stronger from COVID-19.

Any unabsorbed donations may only be carried forward for up to 5 YAs, subject to meeting certain qualifying conditions based on the current tax rules whereas unabsorbed trade losses and capital allowances may be carried forward indefinitely subject to meeting similar qualifying conditions.

To support businesses that continue to contribute to the community during this period, we propose to allow any unabsorbed donations made during YAs 2021 to 2023 to be carried forward indefinitely, subject to meeting the current qualifying conditions. This is in view that the economic recovery may take a longer timeframe.

1.4 Enhance the progressivity of the property tax system and stamp duty regime

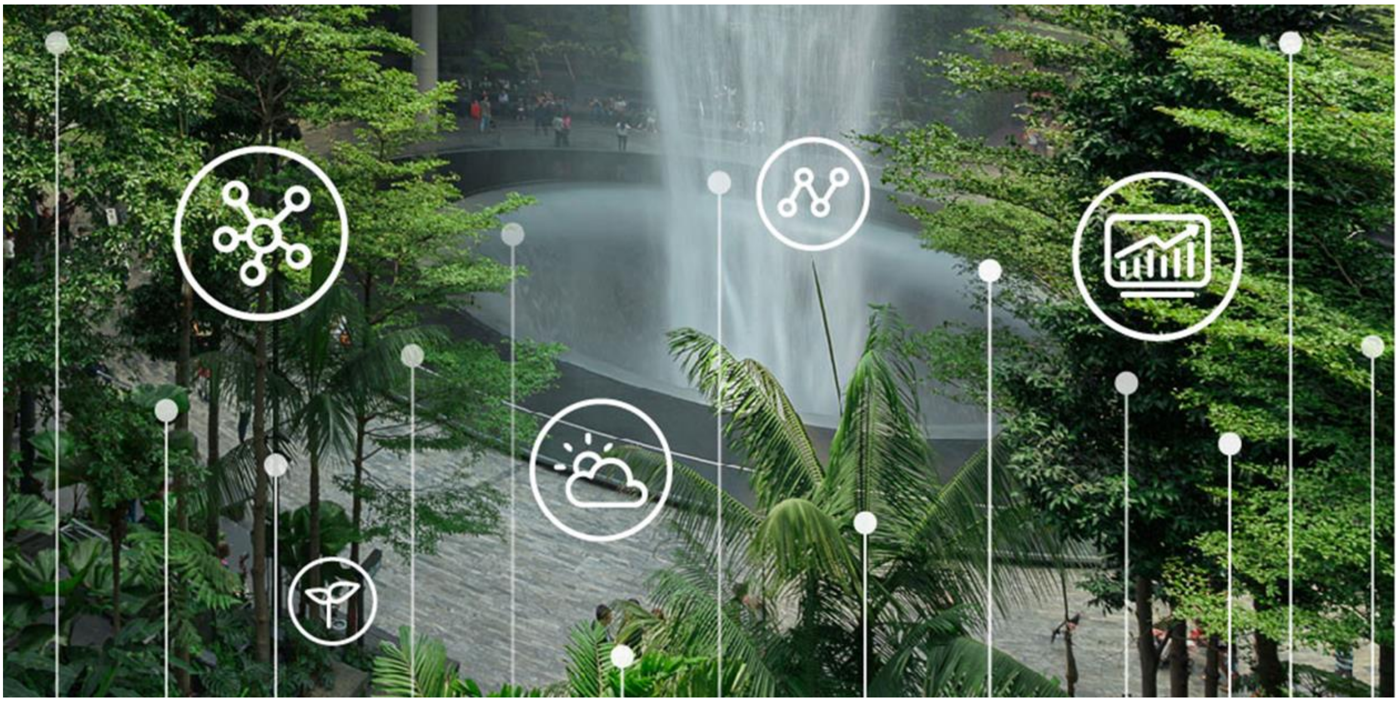
Wealth taxes are increasingly being considered as an option to raise additional revenue while addressing wealth (and income) inequality. Recently, wealth taxation has been frequently brought up in discussions on tax policy responses to the COVID-19 crisis.

Singapore's overall budget deficit for FY2020 was $64.9 billion, or 13.9% of GDP. This is the largest budget deficit since independence. The deficit was caused by lower revenues due to dampened economic activities, as well as the significant expenditures required to mount a decisive response to COVID-19. The increase in the Goods and Services Tax (GST) rate may not generate sufficient revenue to meet Singapore's growing healthcare and social spending needs, and parliamentarians have proposed wealth tax as an alternative source of revenue. We too agree that there could be further scope to review our wealth tax regime, which takes various forms, including property tax and stamp duties on residential properties, as well as additional registration fees on motor vehicles.

Despite the COVID 19 pandemic, Singapore's private property market is flourishing, owing primarily to increased demand for luxury properties. This suggests a link between rising private property prices and rising wealth inequality. According to Managing Director of the Monetary Authority of Singapore (MAS), Ravi Menon, "prolonged divergence between income and (property) prices is undesirable and unsustainable."

Against this backdrop, we propose enhancing the progressivity of the property tax system and stamp duty regime. Property tax rates are currently up to 16% for owner-occupied residential property and up to 20% for non-owner-occupied residential property. Furthermore, the purchase of a residential property is subject to a buyer stamp duty (BSD) of up to 4%. To reduce wealth inequality, we propose recalibrating the residential property tax rates by adding new tiers and/or increasing the highest tier rate, particularly on non-owner-occupied higher-end residential property. Furthermore, the Government may consider introducing additional tiers in the BSD for luxury properties.

2. Helping our businesses and workers adapt and thrive



While the varying progress on vaccination programs across the Asia Pacific region lead to different states of COVID-19 recovery, the market environment has been favorable to deal-making. Against this backdrop, and assuming the COVID-19 pandemic situation improves in the region, M&A activity has the potential to accelerate once again and may even surpass the pre-COVID-19 level of deal-making. As a result, we propose the following to assist Singapore companies in their efforts (i) to grow through M&A, scale-up and internationalize; and (ii) to develop, retain, and acquire the right talent across industries.

2.1 Enhancing the Merger and Acquisition (M&A) allowance

Currently, an acquiring company incorporated and tax resident in Singapore is allowed to claim M&A allowance on capital expenditure incurred by it or its subsidiary when acquiring the ordinary shares of a target company, subject to certain qualifying conditions being met. However, some of the qualifying conditions may be too prescriptive or onerous and hence, difficult to meet.

For instance, an acquiring company or subsidiary, as the case may be, is required to settle the consideration for the acquisition of the ordinary shares in the target company in full within six months from the date of the acquisition of the shares or, in the case of a contingent consideration arrangement, within six months from the date the contingent consideration is incurred. In addition, it appears that the acquiring company or subsidiary would have to be the party paying the consideration directly to the seller. However, there may be valid commercial reasons why the consideration is paid through instalments or why the party paying the consideration may not be the acquiring company or subsidiary. An example would be a situation where a listed parent company of the acquiring company may choose to issue shares to the seller due to the liquidity of such shares, and in turn, the acquiring company issuing additional new shares to the listed parent company of equivalent value.

We propose removing the requirement that the consideration must be fully paid up within six months from the date of share acquisition; or in the case of contingent consideration, within six months from the date on which the contingent consideration becomes payable. We presume these requirements were put in place to ensure that the acquiring company claiming the M&A allowance actually incurred the expenditure, but these additional requirements may sometimes make it difficult for companies to benefit from the M&A scheme.

We propose that the acquiring company be given the flexibility to carry out the M&A transaction in a commercially viable manner, including the flexibility to decide the timing and mode of payment, in a bona-fide commercial transaction. In any case, if the arrangement is deemed to be abusive for tax purposes, anti-avoidance provisions can be invoked.

2.2 Provide tax credit for qualifying training costs incurred by businesses

We are nearly two years into the COVID-19 pandemic, and there is no doubt that the way we work has permanently changed. Perhaps one of the most important lessons from the COVID-19 pandemic is that "the ability of our people to adapt, reskill, and assume new roles" will be a priority for navigating future disruptions. As Singapore reopens its borders and enters into the recovery phase, we propose additional expansionary measures to encourage employers to continue investing in workforce training and to improve adaptability to the structural changes that will define the new normal. In addition to the Jobs and Skills Package, we propose granting tax credits on training expenditure whereby any excess tax credit over the income tax payable will be refunded to the company. We propose that the tax credit rate be set at 3%, which is slightly above the average effective tax rate of 2.8% for all SMEs, and that the total amount of tax credit be capped at $100,000 per YA (similar to the cap for PIC cash payout).

3. Strengthening and making use of Singapore's innovation and IP ecosystem

Based on data from Ocean Tomo Intellectual Capital Equity and IP CloseUp, intangible assets now account for 90% of the standard & poor (S&P) 500 index's total assets. This is not only a historical high; it also demonstrates how prevalent technology has become in our lives[1]. Simultaneously, the time it takes for a company to reach a US$1 billion valuation has shrunk significantly. Slack is the fastest-growing enterprise, taking only 1.25 years to hit a US$1 billion valuation, while Groupon, Akamai Technologies, Xiaomi, Calient Technologies, Yello Mobile, Twitter, and Didi Kuaidi took 1.5 to 2.5 years. These businesses all have one thing in common: innovation and intangible assets. In contrast, it took Starbucks 24 years, Wendy's 37 years, and Harley-Davidson 86 years to reach a US$1 billion valuation.

Evidently, the digitisation of businesses has resulted in the rise of intangible assets. Intangible assets, such as IP, are important drivers of Singapore's economic growth because they do not require land, are infinitely scalable, and offer a plethora of new financial instrument opportunities.
However, becoming a global IP hub entails more than just moving IP to Singapore; it also entails leveraging IP to promote innovation and create value.

The Research, Innovation, and Enterprise (RIE) 2025 Plan, which was launched on 11 December 2020, seeks to anchor Singapore as a Global-Asian node of technology, innovation, and enterprise. On the other hand, the Singapore IP Strategy (SIPS) 2030, which was launched on 26 April 2021, aims to strengthen Singapore's position as a global hub for intangible assets and IP. The following tax proposals were intended to complement the aforementioned initiatives by strengthening the IP and innovation ecosystems in Singapore and leveraging them to promote future economic development.

[1] https://markets.businessinsider.com/news/stocks/the-soaring-value-of-intangible-assets-in-the-sp-500-1029798803

3.1 Proposals to strengthen the IP ecosystem

Generally, under section 19B of the Income Tax Act (ITA), companies can claim WDA on capital expenditure incurred to acquire qualifying IPR for use in their trade or business up to the last day of the basis period for YA 2025. Companies will be allowed to make an irrevocable election to claim the WDA over a 5-year, 10-year, or 15-year period (on a straight-line basis) commencing from the YA of the basis period in which the capital expenditure is incurred to acquire the qualifying IPR. The election is irrevocable.

To enhance Singapore's attractiveness as a global IP hub and become competitive in the digital economy, we propose the following:

a. Simplifying the requirement on transfer of ownership for qualifying IPRs

Currently, a Singapore company would need to acquire both the legal and economic ownership of qualifying IPRs before it is eligible to claim the WDA on the capital expenditure incurred to acquire qualifying IPRs unless it obtains a waiver from legal ownership from the EDB. As the approval for a waiver from legal ownership often requires additional economic commitments in Singapore, it may be onerous for the Singapore acquiring company to meet the conditions for the waiver.

We propose that an automatic waiver of legal ownership be granted as economic ownership is as effective for companies to commercialise and manage IPRs in Singapore leading to substantive economic activities in Singapore, which will generate economic spin-offs.

In addition, to simplify the requirement and process on the transfer of ownership of qualifying IPRs, we propose the following enhancements to the WDA claims:

- 100% WDA claims on capital expenditure incurred to acquire qualifying IPRs where only economic ownership is transferred to the Singapore acquiring company.
- 150% WDA claims for qualifying IPRs where both legal and economic ownership are transferred to the Singapore acquiring company. There is no difference from the current regime except that a higher amount of WDA claim is available to attract bringing legal ownership to Singapore.

The different rates of WDA claims on qualifying IPRs, depending on the nature of ownership transferred to the Singapore acquiring company, will also provide certainty to MNEs when deciding whether to move their IPs without the need to seek approval and negotiate additional conditions for a waiver with the EDB if only economic ownership is to be transferred—this could also save time and effort in making decisions to migrate IP.

b. Removing the claw-back provision

Generally, WDAs on qualifying IPRs can also be claimed by companies with tax incentives, where their income from qualifying activities is taxed at a concessionary tax rate.

Where the company sells, transfers, or assigns all or any part of the IPRs, the company may need to make tax adjustments in the year in which the event occurs. A balancing charge will arise if the sales proceeds from the disposal of IPRs exceed the tax written down value (TWDV). Such balancing charge would be brought to tax in the year of disposal. No balancing allowance is granted if the proceeds from disposal of IPRs are less than the TWDV.

The balancing charge would be brought to tax at the prevailing corporate tax rate in the year of disposal if the tax incentives expire and/or the concessionary tax rates cease to apply. Even if the tax incentive has not expired, it often raises the question of whether the balancing charge is considered "income from qualifying activities" subject to tax at the concessionary rate. This could potentially lead to a situation where companies may be unduly penalised if the WDA was claimed at the concessionary tax rate while the claw-back may be at the prevailing corporate tax rate.

As such, we propose to remove the claw-back provision under section 19B so that any WDA previously claimed should not be deemed as income chargeable to tax in the year of disposal if the company has held the qualifying IPRs for more than five years. Alternatively, consideration may be given to change the rules such that the claw-back is taxed at the same tax rate at which the WDA was previously claimed. For example, where the approved company's qualifying income was taxed at a concessionary tax rate of 5% when the WDA was previously claimed, the claw-back shall be brought to charge as income subject to the same concessionary tax rate in the year of disposal of the IPRs, notwithstanding that the tax incentive may have expired.

c. Using Transfer Pricing (TP) documentation to determine the value of IPR in a related party transaction

Companies claiming the WDA are required to file a third-party independent valuation report on the value of the IPRs acquired where the capital expenditure incurred in acquiring the IPR is equal to or greater than S$0.5 million for a related party transaction. However, the valuation of IPR raises potentially difficult questions, most notably the underlying assumptions used to calculate the arm's length return. In practice, the IRAS may question the underlying assumptions and adjust the valuation of the IPR if they do not agree with the underlying assumptions, which are frequently judicious yet subjective. IRAS's differing stance can sometimes have a significant tax impact on the amount of WDA that may be claimed.

To provide upfront tax certainty, we propose that the transfer price valuation can be relied on for tax amortisation and that the IRAS should not need to query the valuation's assumptions as long as the valuation meets the arm's length principle and is supported by contemporaneous TP documentation prepared in the YA relating to the basis period in which the IPR is acquired.

d. Broadening the scope of section 19B to include customer list and show-how

Generally, the definition of the IPRs includes trade secrets and information that has commercial value, but specifically excludes the following:

i. Information of customers of a trade or business, such as a list of those customers and requirements of those customers, gathered in the course of carrying on that trade or business; and

ii. Information on work processes (such as standard operating procedures), other than industrial information, or technique, that is likely to assist in the manufacture or processing of goods and materials.

COVID-19 has accelerated digital channel growth and digital sales growth is expected to remain higher than brick-and-mortar sales in the future. To remain competitive, many businesses are investing in advanced data analytics and cognitive technologies to help them gain deeper insights about individual consumer's behaviours, actions, and preferences. The aim is to enhance customer loyalty and engagement, which are driving businesses' profitability and growth. To this end, we propose broadening the scope of IPRs to include the information of customers of a trade or business. IP is not merely about the law, there is, of course, a business angle and increasingly a technological one too.

3.2 Proposals to strengthen the innovation ecosystem

Innovation remains a key driver in Singapore's ongoing transformation and strengthening of its economy post-COVID-19. While Singapore has always been a part of the global competition, many other countries are following suit, making it increasingly difficult for Singapore to keep its Research & Development (R&D) tax regime competitive. In light of the impact of Pillar Two on Singapore's R&D tax incentives, the following tax proposals attempt to address the needs of two types of companies: those that are not subject to the Pillar Two rules and can continue to benefit from the existing R&D tax incentives and/or the additional tax proposals in this wish list, and those that are subject to the Pillar Two rules and will benefit from other concessions such as tax credits, grants, etc. Collectively, we believe that the tax proposals will foster a culture of pervasive innovation, and we hope that they will be considered favourably.

a. Incentivising 'evolutionary' innovation activities

The current Singapore R&D tax regime is over a decade old, and it is time to make it more "sophisticated" and relevant to claimants. The levels of support required by SMEs and larger companies differ; hence, we propose different tiered schemes or benefits be made available to support companies engaged in R&D, based on the size of the company. Using the R&D tax relief scheme in the United Kingdom (UK) as a model, our R&D tax regime could be divided into an R&D tax credit scheme for large companies and an enhanced R&D tax deduction scheme for SMEs. Companies that incur losses should be allowed to claim a tax credit.

Notably, the UK government recently concluded a consultation on the UK R&D tax regime to ensure that the UK remains an internationally competitive location for R&D activities. Following this consultation, the UK government has announced its intention to reform the UK R&D tax regime, including broadening the definition of qualifying expenditure to include data and cloud computing costs.

Singapore must understand and address the gaps in its R&D regime to remain competitive. Some of our clients expressed concern that the authorities' administration of the definition of R&D is arguably restrictive, making it difficult for companies to benefit from the R&D regime, particularly where innovation is incremental and any discoveries are more evolutionary than revolutionary. We propose that the authorities consider reassessing their administration of the current R&D definition to benefit a larger group of companies to the extent not otherwise eligible under the current practice or introduce a hybrid approach of both targeted and broad-based R&D tax incentives.

b. Making Singapore's R&D tax regime (section 14D/section 14DA) permanent

The deduction for qualifying R&D expenditure is given under one or more of the following sections:

- Normal deduction under section 14 for R&D expenditure incurred wholly and exclusively in the production of income; or
- Special deduction under section 14D for R&D expenditure incurred by a taxpayer or on behalf of a taxpayer that is related to the taxpayer's trade or business; and
- Enhanced deduction of 150% for specified R&D expenditure.

The section 14D/section 14DA deduction scheme is currently scheduled to expire after YA 2025. We understand that the short timeframe is intended to allow the Ministry of Finance (MOF) to review and improve the scheme as appropriate. However, this would not be viewed favorably by potential investors looking to undertake and/or relocate R&D to Singapore. To provide certainty to companies undertaking location studies for their R&D activities in the region, we propose making the R&D tax regime permanent. Many countries in the region, such as Thailand, Indonesia, and Hong Kong, are now introducing R&D tax schemes that provide up to 300% tax deductions. We believe that the tax proposal will make Singapore's R&D tax regime more appealing in an increasingly competitive environment.

c. Expanding the scope of qualifying R&D expenses

Currently, the qualifying R&D expenses that are eligible for enhanced tax deduction are as follows:

- Staff costs (excluding directors' fees);
- Consumables (excluding utilities); or
- Fees paid to an outsourced R&D provider.

We propose that the scope of qualifying R&D expenses be expanded to cover a proportion of overheads, in connection with the qualifying R&D projects conducted in Singapore.

d. Incentivising outsourced R&D activities carried out overseas

Currently, R&D conducted overseas, regardless of whether it is related to the company's trade, is not eligible for enhanced tax deduction.

Singapore is short on R&D talent, but we also recognise the importance of Singapore developing its R&D capabilities. Having our local R&D teams work with their overseas counterparts may promote skills, technical knowledge, and technology transfer.

To achieve the dual goals of promoting cross-border R&D transfer and fostering local R&D growth, we propose that enhanced tax deductions be extended to expenses incurred on outsourced R&D activities carried out overseas, but that the amount of overseas R&D expenses claimable be limited to 25% of R&D activities/expenses undertaken in Singapore.

e. Accord priority to companies undertaking R&D to tackle the pandemic and/or environmental issues

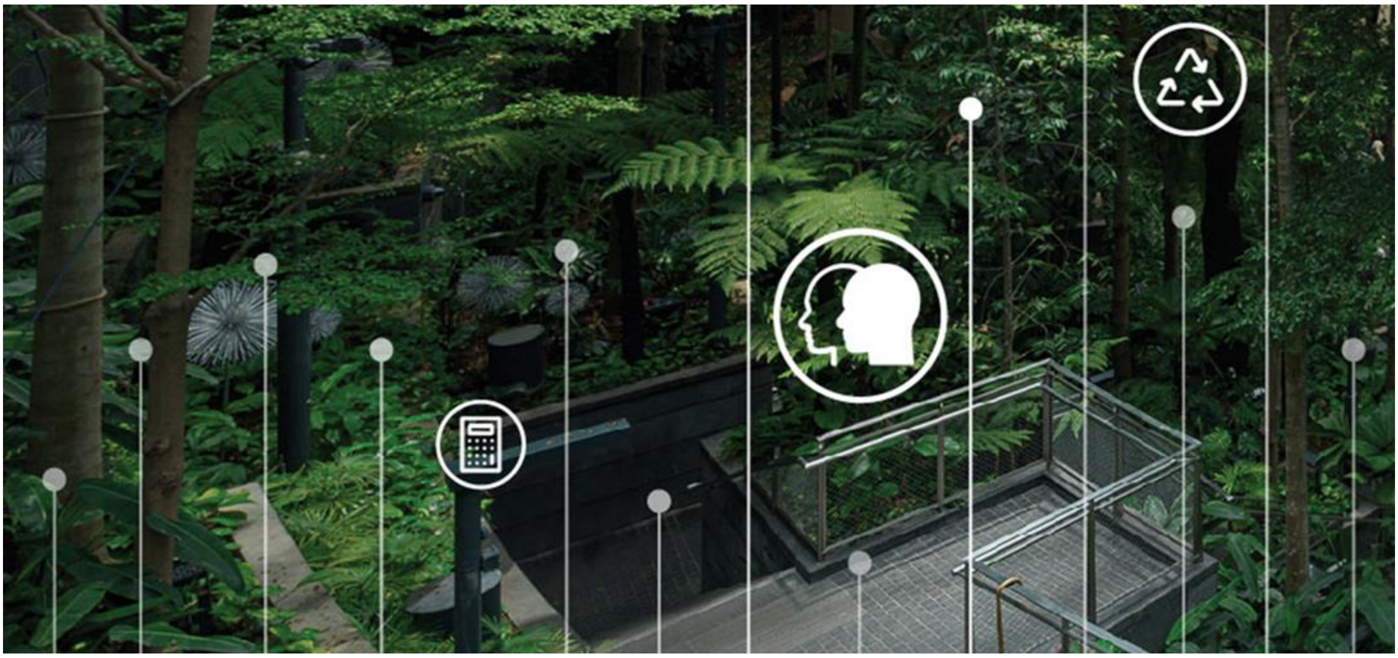
The development of cutting-edge low-carbon technologies, as well as human infectious disease vaccines for deployment in Singapore and export overseas, will position Singapore well to capitalise on global and regional demand for such solutions and/or cures.

Amongst the many measures introduced to encourage pervasive R&D in Singapore is the implementation of a pre-claim evaluation scheme for R&D projects with estimated R&D costs exceeding S$15 million to provide taxpayers with upfront certainty for R&D claims. This is a structured evaluation process for R&D projects and applications are submitted to the IRAS before the commencement or during the conduct of the projects. We propose that the quantitative threshold of S$15 million be lowered or removed for R&D projects undertaken to tackle the pandemic and/or environmental issues. The IRAS could also accord priority in the assessment of such projects. This will potentially spur R&D activities in virology, vaccine research, climate and sustainability, and any other fields that the Government wishes to promote.

f. Introducing an incremental premium/rewarding R&D intensity

Borrowing from Australia's R&D Tax Incentive (RDTI), we propose introducing an incremental premium to reward taxpayers that continue to invest in qualifying R&D. Using R&D intensity (calculated as R&D expenses/total company expenses) as an indicator, we suggest rewarding companies with a minimum R&D intensity of (say) 2% by providing them with an additional 50% enhanced deduction on top of the additional 150% deduction. This will encourage companies to continue investing in R&D and Innovation.

4. Tax Incentives and Grants and their interactions with International Tax Developments



4.1 Relevance and effectiveness of Singapore's tax incentive regime in the post-BEPS 2.0 world

Pillar Two provides for a global minimum corporate tax rate of 15%, calculated on a jurisdiction-by-jurisdiction basis, for MNE groups with global revenues of €750 million, in whichever jurisdiction that they operate. While the proposed global minimum corporate tax rate of 15% is lower than Singapore's headline tax rate of 17%, we expect that certain MNE groups in Singapore may have an effective tax rate (ETR) below this rate either due to the current tax regime or tax incentives offered. Accordingly, Singapore may be relinquishing its taxing rights to a foreign parent jurisdiction that has implemented the global anti-base erosion (GloBE) rules, as these MNE groups may have to pay a top-up tax elsewhere.

Therefore, Singapore will have to consider how best to adjust its tax system, particularly the effectiveness and relevance of tax incentive awards post-BEPS 2.0, to ensure that Singapore remains an attractive inbound destination for foreign-headquartered MNEs while safeguarding its taxing rights.

This may also mean that when considering the impact of global developments on tax incentives offered by Singapore, Singapore may have to address the needs of two types of investors: existing investors who are already benefiting from Singapore's current incentives, and new investors who will be looking out for how these incentives may shift as a result of these developments. Given that different types of investors may have different priorities, Singapore will have to consider how the GloBE rules will impact each group differently.

We propose retaining Singapore's tax incentive framework to continue attracting new investors that are not subject to the GloBE rules, as well as allowing for the extension of current incentives that are about to expire, such as the Aircraft Leasing Scheme (ALS), etc.

We also propose reviewing our current tax incentives to see if they may need to be recalibrated in view of the impending implementation of the GloBE rules. As an example, whether consideration could be given to reduce the Global Trader Programme (GTP) turnover requirements to a lower threshold to allow more companies to be eligible to apply for the incentive, particularly if they are not subject to the GloBE rules.

On a related note, given that tax certainty is one of the primary concerns of businesses, it would be helpful if the MOF and the adjacent agencies could engage or consult with affected MNE groups early on potential changes to the tax system and current tax incentives that have been awarded. This will allow affected MNE groups to assess the potential impact on their businesses, model the available options, and plan ahead.

We expect non-tax incentives or support, rather than preferential tax rates, to play a larger role in maintaining Singapore's competitiveness in attracting capital-intensive projects in the future. As different companies/industries may require different types and levels of support including non-monetary support, these non-tax incentive schemes could be customised based on a company's needs rather than standardised programmes.

The Research and Innovation Scheme for Companies and the Training Grant for Companies are programmes that support businesses in activities like innovation, R&D, and capability development. We propose that these existing grant programmes be expanded to support activities other than R&D and training, such as productivity, sustainability or ESG projects. While the GloBE rules present a challenge, there are many other areas where Singapore can improve its overall competitiveness. More industry consultations will be useful in determining what can truly matter to businesses that intend to grow their presence in Singapore.

Last but not least, the implementation of the Two-Pillar Solutions is likely to result in an increase in tax arbitration, given the complexity of the proposed rules. To strengthen Singapore's position as one of the world's leading dispute resolution hubs, we propose extending the WHT exemption for non-resident arbitrators.

4.2 Extension of the Aircraft leasing scheme (ALS)

The ALS is aimed at encouraging companies to develop aircraft leasing capabilities and grow the aircraft leasing industry in Singapore.

Under the ALS, an approved aircraft leasing company is eligible for the following:

- Concessionary tax rate of 8% on income derived from the leasing of aircraft or aircraft engine and qualifying ancillary activities; and
- WHT exemption on interest and qualifying related payments on loans obtained for the purchase of aircraft or aircraft engines.

The ALS is scheduled to lapse on 31 December 2022 and we suggest that it be renewed.

4.3 Extension of grant support for SMEs

SMEs are particularly hard hit during the COVID-19 pandemic. We hope that the Government will continue to assist SMEs in transitioning from responding to COVID-19 disruption to thriving in endemic environments, thus positively contributing to Singapore's economy and creating good jobs for Singaporeans.

a. Productivity Solutions Grant (PSG)

The PSG was launched in April 2018 to assist businesses in their transformation journey. PSG supports the adoption of pre-scoped Information Technology solutions, equipment, and consultancy services that improve productivity, aligned to industry roadmaps such as the Industry Transformation Maps (ITMs) and Industry Digital Plans (IDPs). As announced at Budget 2021, the enhanced maximum support level of up to 80% will be extended from 30 September 2021 to 31 March 2022.

To encourage businesses to continue their efforts to digitalise and improve their productivity, we propose extending the enhanced support of up to 80% for another year, from 1 April 2022 to 31 March 2023.

b. Enterprise Development Grant (EDG)

The Enterprise Development Grant (EDG) supports projects that help businesses to upgrade, innovate or venture overseas, under three pillars: Core Capabilities, Innovation & Productivity, and Market Access.

As announced at Budget 2021, the enhanced maximum support level of up to 80% will be extended from 30 September 2021 to 31 March 2022.

To encourage businesses to continue to undertake projects that strengthen their capabilities, improve operational efficiencies, and internationalise, we propose extending the enhanced support of up to 80% for another year, from 1 April 2022 to 31 March 2023.

c. Scale-up SG

Scale-up SG helps selected high-growth potential local companies scale effectively, become leaders in their fields, and be groomed into future global champions. As announced at Budget 2021, Scale-up SG is enhanced to support up to 80% of the programme participation costs from 14 September 2020 to 31 March 2022.

To support high-growth potential local companies to innovate, grow, and internationalise, we propose extending the enhanced support of up to 80% for another year, from 1 April 2022 to 31 March 2023.

d. Enterprise Financing Scheme-Project Loan (EFS-PL)

The EFS-PL aims to support enterprises in their internationalisation efforts by assisting them in financing the fulfillment of their overseas projects.

The EFS-PL was enhanced to extend support to construction companies to finance the fulfilment of secured domestic projects, from 1 Jan 2021 to 31 Mar 2022, in addition to overseas projects. The government will provide risk-share for loans made by Participating Financial Institutions (PFIs) to finance the fulfilment of secured domestic projects. The risk-share support extended to PFIs will be at 50%, with the risk-share increasing to 70% for young companies. The maximum loan quantum is S$30 million.

In view of the ongoing challenges faced by the construction sector, we propose to extend the enhanced EFS-PL to support domestic projects through the PFIs for another year, from 1 April 2022 to 31 March 2023.

4.4 Extension of the WHT exemption for non-resident arbitrators

Income derived by a non-resident arbitrator for arbitration work carried out in Singapore for the period from 3 May 2002 to 31 March 2022 will be exempt from tax, subject to qualifying conditions.

The tax exemption is applicable to all non-resident arbitrators who are appointed for any arbitration which is governed by the Arbitration Act or the International Arbitration Act or would have been governed by either of those Acts had the place of arbitration been in Singapore.

We propose that the WHT exemption for non-resident arbitrators be renewed, especially given the likely expanded scope of arbitration post-BEPS. In addition to the existing strong demand for commercial arbitration, we also expect potential growth in tax arbitration, given the OECD BEPS project and the increasing number of jurisdictions adopting mandatory binding arbitration for the resolution of tax treaty disputes. The extension of the WHT exemption for non-resident arbitrators is important in maintaining Singapore’s attractiveness as a place for the conduct of arbitration, and an important pillar for Singapore’s broader strategy to be a dispute resolution hub in Asia.

5. Industry specific matters

5.1 Fund Management Industry

a. Expand the scope of section 13CA to cover other entity types

Non-Singapore fund vehicles such as companies and trusts, as well as individuals, may qualify for the section 13CA offshore fund tax exemption scheme if they meet all qualifying conditions. Other types of non-Singapore vehicle may not qualify. Particular uncertainty exists in respect of application of section 13CA to funds constituted as overseas vehicles which may be transparent under local law.

Funds are often formed using vehicles other than companies and trusts, and to ensure that the exemption is sufficiently flexible to accommodate common fund structures, we propose that section 13CA be extended so that it may be applicable to offshore funds that use other forms of vehicle (much like section 13X currently does).

b. Expand the list of "Designated Investments" to cover partnerships and other types of foreign vehicles

A qualifying fund for the purposes of section 13CA and an approved fund for the purposes of section 13R and section 13X which fulfils its award conditions benefits from income tax exemption in respect of specified income derived from Designated Investments. The list of Designated Investments applicable to those fund exemptions do not include partnership interests. This is believed to be due to partnerships being tax transparent, but the lack of inclusion of partnership interests as a Designated Investment creates uncertainty as regards the application of section 13CA, 13R, and 13X tax exemptions to income and gains derived through such vehicles. We recommend that the list of Designated Investments be updated, or guidance otherwise be issued, to specifically clarify whether income from partnerships is intended to benefit from the exemption.

c. Expand the list of "Designated Investments" to cover digital assets

Digital assets, including but not limited to cryptocurrencies, are increasingly attracting investment from large institutional and accredited investors, and an increasing number of digital asset managers are being established and are operating. We recommend that the list of Designated Investments be extended to ensure that section 13CA, 13R, and 13X tax exemptions take account of technological development and are available to digital asset funds, and that the FSI incentive also be extended to incorporate similar updates. Such changes would enable Singapore to expand its role as a digital asset management location and contribute to the further expansion of the financial sector.

d. Enhanced deduction for VCC promotion costs

The VCC corporate form has been met with strong interest and since its launch, a large number of new funds have been incorporated as VCCs or VCC sub-funds; a good number of offshore segregated portfolio companies have also been redomiciled as Singapore VCCs. To encourage further use of the VCC vehicle and further growth of Singapore's role as a regional and global asset management hub, measures like enhanced tax deductions for VCC promotion costs could be considered.

5.2 Insurance Industry

a. Expand the scope of qualifying investment income under the Insurance Business Development (IBD) scheme

The current definition of qualifying investment income under the IBD scheme is relatively limited and includes only:

i. Any stock or share of a company;
ii. Securities (other than stocks and shares) issued by a government, bank, or company and includes bonds, notes, certificates of deposits, and treasury bills that are issued by such government, bank, or company (as the case may be);
iii. Any futures contract made in any future exchange.

As noted in the 2020 Blackrock Global Insurance Report[2], insurers continue to combine a focus on quality with higher diversification in order to promote resilience. Accordingly, their exposure to multi-alternatives continues to increase and we would recommend aligning the scope of qualifying investment income under the IBD scheme with the Singapore fund incentive schemes under which "Specified Income" from "Designated Investments" is exempt from tax.

b. Expand the scope of section 34C of the ITA to cover business transfers under the Insurance Act

In order to amalgamate two insurance companies, a separate Court approved process under the Insurance Act needs to take place prior to any amalgamation under the Companies Act.

Accordingly, there is currently a question as to whether it is possible for insurers to qualify as a "qualifying amalgamation" under section 34C of the ITA, unlike banks where mergers under the Banking Act do qualify. There is continued consolidation in the insurance market globally and we would recommend that it is made clear that entire business transfers under the Insurance Act that result in the dissolution of the transferor are clearly brought into the scope of section 34C in order to support Singapore's continued growth as a regional hub for the insurance industry.

2.3 Financial Industry

a. Extension of current incentives that are about to expire, with a renewed emphasis on green finance and ESG projects

i. Qualifying Debt Securities (QDS) scheme

Under the QDS scheme, a series of tax incentives and a WHT exemption apply to interest income on public debt securities issued by the Singapore Government, certain other Singapore public institutions and private debt securities arranged by qualifying Singapore financial institutions. Aspects of the QDS scheme are due to lapse on 31 December 2023, and we propose that the QDS scheme not only be renewed, but that it also be promoted to highlight its relevance to green finance and ESG projects.

With an increasing focus on environmental and sustainability initiatives partly driven by climate change, the demand for green financing is expected to increase as companies and businesses seek to embark on, or transform to, ESG friendly products and practices. Promoting the use of the QDS Scheme with respect to green finance and ESG could be considered; particularly given synergies between that and benefits arising from Singapore's active role in helping shape key sustainable finance enablers, including taxonomy, data, and disclosure.

ii. Section 43ZD concessionary rate of tax for income derived from managing qualifying registered business trust or company

Under section 43ZD of the ITA, a concessionary income tax rate of 10% is granted in respect of income derived from managing approved qualifying registered business trusts or companies between 1 April 2008 and 31 December 2022 (both dates inclusive). We propose that the tax incentive be renewed as Singapore seeks to be a hub for offshore infrastructure assets/projects and financing of such assets/projects.

The tax incentive should be expanded to include green financing and ESG projects.

[2] https://www.blackrock.com/institutions/en-gb/insights/investment-actions/global-insurance-report-2020

b. Extension of WHT exemption

i. Extend the WHT exemption on interest rate and currency swap payments

With effect from 25 February 2000, under para 3 of the Income Tax (Exemption of Interest and Other Payments for Economic and Technological Development) Notification 2000, the WHT exemption on swap payments was extended to all bona fide interest rate and currency swap payments made by financial institutions besides Asian Currency Units. A review date of 31 December 2022 was introduced and legislated for this WHT exemption in Budget 2018.

Financial institution means an institution licensed or approved by the MAS and includes an institution approved as an approved Fund Manager or a Finance and Treasury Centre, which would not fall under section 45I. We propose that the WHT exemption on interest rate and currency swap payments be extended to strengthen Singapore’s position as a regional financial and wealth management hub.

ii. Extend the WHT on payments made under a securities lending or repurchase arrangement

Paragraph 3(2) of the Income Tax (Exemption of Interest and other Payments for Economic and Technological Development) (No 3) Notification 2003 exempts from withholding tax the following payments made under a securities lending or repurchase agreement (subject to certain conditions being met):

- Borrowing fees;
- Loan rebate fees;
- Price differentials;
- Interest payments; and
- Compensatory payments.

This exemption does not apply to any agreements which take effect or is extended or renewed after 31 December 2022. Given that securities lending and repurchase agreements are vital components of the financial system by enhancing price discovery and market liquidity in the trading of fixed-income securities and equities, we propose that the WHT exemption be extended. This will maintain Singapore's attractiveness to global investors and is a key part of Singapore's ambition to be the leading global financial centre in Asia.

c. Stamp duty

i. Extend the stamp duty remission to all dematerialised/tokenised shares listed on private marketplaces

A number of private marketplaces exist in Singapore, which provide for tokenisation and/or listing of private equity. Such private marketplaces have the potential to significantly contribute to the growth and technological resilience of the financial sector, through the expansion of local capital markets (and specifically access to capital for SMEs) and through facilitating regional private businesses' access to capital. To help reduce the costs of investment, to maximise liquidity and to strengthen the position of Singapore's private marketplaces, stamp duty remission in respect of book-entry securities listed on Singapore Exchange (SGX) could be extended to dematerialised and tokenised (book-entry) securities listed on other Singapore-based marketplaces. Such change could also have other beneficial applications, such as considered in a recent industry proof of concept concerning an electronic-VCC.

6. Goods and Services Tax (GST)

The Government's current priority is to repair the public finances and stimulate economic growth. Following the economic downturn triggered by the COVID-19 pandemic and changes in the global tax environment, GST has become a more prominent source of revenue for Singapore. A tax system that is efficient and cost-effective is important because it contributes to the creation of an environment conducive to economic growth. As a result, our proposals are primarily aimed at increasing tax certainty and improving tax cooperation between businesses and the IRAS, with the goal of reducing administrative burden and improving tax compliance. We believe that these proposals, along with proposals to promote specific industries, will help to improve the overall economic climate and the opportunities available to Singapore businesses.

6.1 Clarity on the proposed GST rate change

The Minister for Finance has confirmed that the GST standard rate will be increased from 7% to 9% sometime before the next General Election (due in 2025). However, there is no firm indication yet as to when the increase will take place. With only three years left, it would be very helpful for the Government to give a clear indication of the expected date of implementation so that businesses can plan effectively. There are other system changes that will be required of business, for example, Enterprise Resource Planning (ERP) implementations and changes in respect of Low-Value Goods import rules for Business-to-Business (B2B) buyers. Giving businesses sufficient lead time to be able to secure Information Technology budget and capacity is key to ensuring that businesses are ready for this change.

6.2 Clarity on any intended changes to the current Assisted Compliance Assurance Programme (ACAP) regime

The current ACAP regime will expire on 31 March 2024. However, the IRAS has yet to indicate whether the ACAP regime will be continued or modified. Given that any changes to the current ACAP regime could have a significant impact on cash flow and administrative burden, it would be helpful if the IRAS could inform affected businesses of any intended changes early so that they have sufficient lead time to understand the costs and benefits, and set aside resources to make changes to their current systems, if necessary.

6.3 Expand the scope of the Fourth Schedule of the GST Act to include the supply of a limited partnership (LP) interest

The supply of a LP interest does not currently comprise an exempt supply pursuant to the Fourth Schedule to the GST Act. We propose that the Fourth Schedule be updated to provide that the transfer of a partnership interest that represents an undivided interest in underlying assets comprises an exempt supply, in a similar way to a supply of equity.

7. Personal Tax

Work is changing as a result of increasing connectivity, new talent models, and cognitive tools. Businesses must reconsider how they attract talent, train their employees for future growth, embrace new forms of working arrangement and understand the tax implications. Our proposals, therefore, address how the existing tax rules can be refined to assist businesses in attracting new talents, including accessing talent virtually, and to support employees in life-long learning and work-from-home arrangements.

7.1 Refine tax rules for employee share scheme

Singapore could refine the tax rules for employee share schemes to make them more attractive to start-up companies or SMEs in hiring and retaining staff (given the importance of stock option and share awards to such companies). These include:

a. Tax deferral scheme

Gains arising from the exercise of stock options/vesting of the share awards are generally taxed in the year of exercise/vesting (unless there is a moratorium imposed). As the individual may not sell the shares in the same year and realise the gains, it may create a cash flow challenge for the individual if the tax arising from the share gains is substantial, especially if the said individual is bearing his/her own Singapore tax liability.

Currently, under the Qualified Employee Equity-Based Remuneration (QEEBR) scheme, payment of tax arising from stock option or share gains that arise during the relevant YA can be deferred up to five years, subject to an interest charge (linked to the “average of the prime rate” offered by the Big Three local banks in Singapore). In view that an interest charge is applicable on the tax deferral, it is not common for individuals to apply for this scheme.

To assist employees to manage cash flow issues with regard to the settlement of their tax liabilities due to the exercise of the stock options or vesting of the share awards, consideration may be given to remove the interest charge for the first three years of the tax deferral (i.e., interest charge to apply from the fourth year of the tax deferral). Alternatively, the Government may wish to consider granting preferential or discounted interest rates when calculating the said interest charge, which is lower than the average prime rate. To make the scheme more favourable for Singapore citizens and Singapore Permanent Residents (SPRs), the abovementioned benefits could be limited to this group of taxpayers.

b. Tracking option

When a non-Singapore citizen or SPR ceases employment in Singapore, any unexercised stock options or unvested share awards as at the date of cessation of Singapore employment are deemed to be exercised or vested one month prior to the date of cessation of Singapore employment and the deemed gains are reportable for tax in the tax clearance return (Form IR21). This is known as the deemed exercise rule. Tax arising from these deemed gains would have to be settled immediately prior to the said person leaving Singapore. As the share gains have not been realised, this generally creates a cash flow challenge for the departing employees.

To manage the above challenge, the tracking option in lieu of the deemed exercise rule has been made available to employers who have applied for the scheme and obtained approval from the IRAS. Under this scheme, the employers are allowed to track and report the income to the IRAS at that juncture when the relevant gains are realised.

However, it is generally challenging to fulfill all the qualifying conditions of the scheme, especially with regards to the capital requirement condition although we note that in certain cases, the IRAS may allow Banker's Guarantees to be provided if the capital requirement condition cannot be met. The Government could consider revisiting the qualifying conditions for the tracking option[3], especially the capital requirement condition, so as to allow more employers to qualify for the scheme and more taxpayers to benefit from the scheme.

c. Managing double tax exposure

Currently, gains from employee share plans are fully taxable in Singapore if the grant is made during the Singapore employment, without consideration of sourcing of income during the vesting period of the grant. In addition, although in principle we understand that the IRAS may consider granting a foreign tax credit for tax suffered outside of Singapore on stock option/share gains subject to tax in both Singapore and another country or grant a partial tax exemption on the income (where the other country is a treaty country with Singapore), in practice such claims are subject to scrutiny by the IRAS on a case-by-case basis and the claim process can be protracted. There is also no guarantee of a favourable outcome, and it could result in a genuine situation of double taxation.

This results in a misalignment of individual tax treatment compared to other countries which may adopt the OECD model[4] of sourcing for stock option/share gains, thus resulting in a genuine double tax exposure. The current COVID-19 macro environment has additionally created further inequity specifically in respect of stock options. Due to the dismal economic environment, the stock options of many companies are currently 'underwater' (i.e., current market price lower than exercise price) and it makes no economic sense for employees to exercise them even though the options may have vested. Where such options have been subject to the "deemed exercise" rule at the time of the non-Singapore citizen's cessation of Singapore employment, the individual has up to four years from the YA in which the deemed gains were assessed to make a claim for reassessment, where the actual gains are lower than the deemed gains or where the options have been cancelled, forfeited, or expired.

Reassessment is not available if the options are 'underwater' due to the current economic climate. Due to the generally lengthy exercise periods for stock options (up to 10 years), individuals may miss the opportunity to seek a reassessment within the current four-year time limitation for such claims.

As such, the Government should review the basis of taxation of stock options and shares in Singapore to be aligned with the OECD model of sourcing.

[3] In order to be considered for the Tracking Option, an employer:

1. Should be a Singapore incorporated company or a branch of a foreign incorporated company registered in Singapore under the Companies Act and carrying on business activities in Singapore; and
2. Must have robust HR and computer systems that are able to track the status of stock plans; and
3. Must meet adequate capital requirements (i.e., within the top 25% of market capitalisation in the STI Index for Singapore-incorporated companies and within the top 25% of market capitalisation in one of the leading stock index in the parent company's country of incorporation for a branch of a foreign company registered in Singapore); and
4. Must have an excellent taxpaying record for the past three years.

[4] Under the OECD model, stock option and other equity gains are generally sourced over the period from grant to vest of the options/shares.

7.2 Clarify tax rules for remote work

As the world recovers from the pandemic and as we move towards hybrid working arrangements as a new future of work, more employers are introducing flexible work arrangements and may look to make remote working arrangements a permanent option given the potential cost efficiencies as well as increased benefits from higher productivity and talent retention. Due to the uncertainty of border restrictions, some companies may also start to provide the flexibility of allowing their employees to work remotely from their home countries for Singapore employment/business.

This increases the possibility of the home country tax authorities imposing individual taxation on the employees, notwithstanding that they might be on a remote work arrangement as an employee of the Singapore entity and not working for the home country entity.

If the IRAS imposes Singapore individual taxation on these employees despite their continued physical presence in their home countries, the employees may face double taxation unless their employment income is exempt under a treaty or the IRAS allows a foreign tax credit to be claimed on the foreign tax suffered (which we note would generally be limited to the lower of the Singapore tax attributable to the income subject to double taxation and the actual foreign tax paid on the same income). Hence, we would like to request the IRAS to provide more clarity around its position with regards to the Singapore individual taxation of employees who are working remotely outside of Singapore for Singapore employment, especially in situations where double taxation will arise as a result.

In practice, employees are typically taxed based on the location where the work is performed, according to the terms of their employment contracts. If the employees are exercising employment for the Singapore company under a Singapore employment contract, under Singapore current tax rules, they would prima facie still be considered to be deriving employment income incidental to their Singapore employment even though they may be physically working from outside Singapore, as such time spent outside Singapore for work purposes would be regarded as incidental to the Singapore employment. In which event, the employment income attributable to Singapore employment should be considered Singapore sourced and should be fully taxable in Singapore.

However, if the terms of the employment contract with the Singapore company indicate the location of work to be outside Singapore, with proper documentation in place to support such an arrangement, there may be a basis to take the position that they are exercising employment outside Singapore. If so, the income derived by them from employment exercised outside Singapore could be treated as foreign-sourced (and not Singapore sourced) and thus not taxable in Singapore, unless they travel to Singapore for business purposes. We note that this position is subject to the IRAS' agreement.

There is currently limited guidance from the IRAS on income derived from the work scenarios as described above. Hence, we would request that the IRAS provides more clarity regarding their position on Singapore individual taxation of employees who work remotely outside of Singapore for Singapore employers, particularly in situations where double taxation will occur as a result.

7.3 Remove current cap of S$5,500 for course fee reliefs

COVID-19 has also shown how quickly work itself can change. Many of us are now working and collaborating remotely and the new hybrid way of working is here to stay. All of us will be building our careers in this post-COVID-19 world. Adaptability, flexibility, and more importantly a commitment to lifelong learning will be vital, especially as companies and entire industries reposition themselves in a highly digital, data-driven new world and search for the talent that will help them succeed. It is time for companies and individuals to embrace the upskilling imperative. For companies, upskilling employees enables them to build a future-ready workforce; for individuals, it is a way to keep their skills relevant and stay future-ready themselves.

In view that training will certainly address the needs and/ or interests of individuals if it is self-initiated, and thus more beneficial, our proposals are targeted at individuals rather than companies. To encourage individuals to make deliberate and significant investments in learning to equip themselves with the knowledge, skills, and capabilities needed to work effectively in a digitised, automated world, we propose removing the cap of S$5,500 for course fee reliefs for Singaporeans, or alternatively increasing the cap from S$5,500 to S$10,000.

7.4 Introduce standardised deductions for employees who work from home

The COVID-19 pandemic has forced many companies to adopt remote working arrangements as an emergency measure to continue operating. As the world recovers from the pandemic, many companies may look to make remote working arrangements a permanent option given the potential cost, productivity and talent attraction benefits. Companies and policy makers who lead this transition will have an opportunity to shape the future of how and where we work, and create and capture value from it. Many companies also recognise that the first and foremost condition required for productive work is to have a suitable work environment. To this end, some companies have been giving financial support to their employees to set up appropriate workspaces at home during the COVID-19 crisis. Even with the financial assistance from companies, the additional expenditures incurred by individuals from working from home can be significant. To support the transition to "working from home" during COVID-19 and to continue encouraging individuals to embrace the "new normal" for future workplace, we propose introducing standardised deductions for individuals who work from home (WFH).

Currently, employees working from home are allowed to claim the incremental costs in home expenses such as electricity and telecommunication charges as deductions against their employment income, provided that these expenses are incurred for work purposes and are not reimbursed by employer. However, it may be difficult to calculate the additional expenses incurred as a result of working from home. Even though the IRAS is prepared to accept proxies based on comparison of bills before and after working from home and apportionment of shared expenses, it is a hassle having to keep track of monthly bills and subscription fees.

To simplify WFH tax deduction, we suggest introducing an option for individuals to claim tax deduction on WFH expenses based on a prescribed % of gross employment income (for e.g., 1.5% of gross employment income, capped at S$100 per month) or alternatively a fixed amount multiplied by the number of days worked from home (e.g., S$5 for each day worked from home). This approach would also help drive efficiency for the IRAS in assessing such claims. Given that the IRAS has already introduced a similar simplified approach for the claiming of rental expenses against rental income and also introduced the Fixed Expense Deduction Ratio (FEDR) for certain groups of self-employed persons to deduct a deemed amount of expenses based on a percentage of their gross income to simplify tax filing and ease the burden of record keeping, it would make sense to adopt a similar approach for WFH expenses.

7.5 Providing for a progressive tax system

To provide support to current challenges faced by individual taxpayers in respect of caring for both aged parents and young children as well as coping with the increasing cost of living, the Government may wish to consider introducing additional personal reliefs as mentioned below or amending the current quantum amounts of relief. These additional reliefs would have the added benefit of helping to boost Singapore's population growth and go towards providing support for care required for our increasingly aging population.

Currently, there is a cap on the total amount of personal tax relief that an individual can claim, which is S$80,000 per YA. Therefore, the benefits to the high-income earners would be capped and any of the proposed changes to the tax reliefs should have a greater impact on the lower- and middle-income earners, resulting in a more progressive tax system.

a. Recalibrate the Earned Income Relief

The Earned Income Relief for the general population aged 55 years old and below has remained unchanged for decades and is no longer reflective of the income levels and cost of living today. The Government should review the quantum of the relief to be in line with current income levels and cost of living.

b. Recalibrate the spouse relief

The spouse relief has remained unchanged for decades and is not a true reflection of current economy and cost of living. Both the annual income threshold of $4,000 (average of $333 per month) to claim for spouse relief and the actual quantum of the relief should be reviewed by the IRAS taking into account the current market conditions and cost of living in Singapore.

c. Provide relief for working parents (both male and female)

Currently, female taxpayers in the workforce can qualify for working mother child relief (WMCR), which is a relief based on the percentage of their earned income, subject to meeting the specified conditions. With the move towards greater gender equality, inclusion and diversity, and the rise in stay-at-home fathers, it may be timely to introduce a similar relief for working fathers who also have after-work child-raising responsibilities.

In this regard, the IRAS may wish to consider a gender-neutral Working Parent Child Relief instead, which may be claimed by both female and male taxpayers alike. In line with the IRAS' move to grant spouse relief to female taxpayers a few years ago, the same principles should also apply for the WMCR (or the proposed Working Parent Child Relief) and Grandparent Caregiver Relief (GCR).

d. Introduce a childcare/infant care relief

Due to the increased cost of living, the costs for maintaining a child in Singapore has substantially increased and both parents may decide to remain in the workforce (i.e., dual income family) in order to meet the rising costs and financial demands of the family. In this regard, parents would generally leave their children with childcare/infant care centres while they are at work.

Although raising a child is a personal decision, we propose to introduce a childcare/infant care relief, in addition to the one-time payment, which will add to the many initiatives undertaken by the Government to support families to have more children, especially for those who can afford them.

e. Shared parental leave

Although not specific to individual tax, this is an area where the Government could consider, more from a policy standpoint. Currently, working fathers can apply to share up to four weeks of their spouse's Government-Paid Maternity Leave.

Given the rise of families where the mother is the main income earner in the family and subject to the existing eligibility and spousal approval requirements, we propose that the authorities consider increasing the amount of leave that can be shared from four to six weeks.

f. Introduce a special tax deduction/rebate for home caregiver expenses

In line with the ageing population and dual income families, it is becoming more common for families to employ professional caregivers to assist with the caregiving of their aged parents/parents-in-law/grandparents/grandparents-in-law.

We propose to introduce a special tax deduction or rebate on costs associated with employing specialised caregivers at home (e.g., home nurses, nursing aides, and other trained professionals) for the elderly/disabled to help defray the overall costs of caring for the elderly.
This could also help to maintain the family nucleus as it may encourage more families to opt for home care instead of sending the elderly to nursing homes.

g. Provide relief for MediShield Life premiums

All Singapore Citizens and SPRs are automatically included in MediShield Life. With better coverage, the premiums payable on MediShield Life have been increased accordingly which increases the burden for individuals who pay the premiums on the same for their elderly parents and dependent children. We propose that the Government considers providing a tax relief for individuals who pay the MediShield Life premiums for their elderly parents and dependent children.

h. Review the tax deduction relief on life insurance premiums and medical insurance premiums

Currently, where the relief for CPF (employee's mandatory contribution) is more than S$5,000, any premiums paid on the life insurance policies will not be eligible for tax relief. Only individuals whose mandatory CPF contributions are below S$5,000 per annum can claim the relief for life insurance premiums.

This will result in the majority of working Singapore citizens and SPRs not being able to claim relief for insurance premium relief although foreign employees who are not participating in the CPF will be eligible for such reliefs.

In addition, life insurance premium relief is currently only available for premiums paid on the individual taxpayer's life and/or his spouse's life.

For a female taxpayer, life insurance premium relief is available only for premiums paid on her own life and the relief does not extend to policies purchased on her spouse's life.

With the aging population and rising medical costs, individuals should be encouraged to take on a more comprehensive medical coverage for themselves (i.e., on top of the coverage provided under MediShield Life) so that a large part or the full hospital bills can be fully covered by insurance to minimise the financial burden and stress to the individual and his/her family.

Based on the above, we propose that the Government consider the following changes:

(i) Granting a separate relief for premium paid for life and medical insurance. This would encourage individuals to take up life and medical insurance policies to provide coverage for themselves and their loved ones;

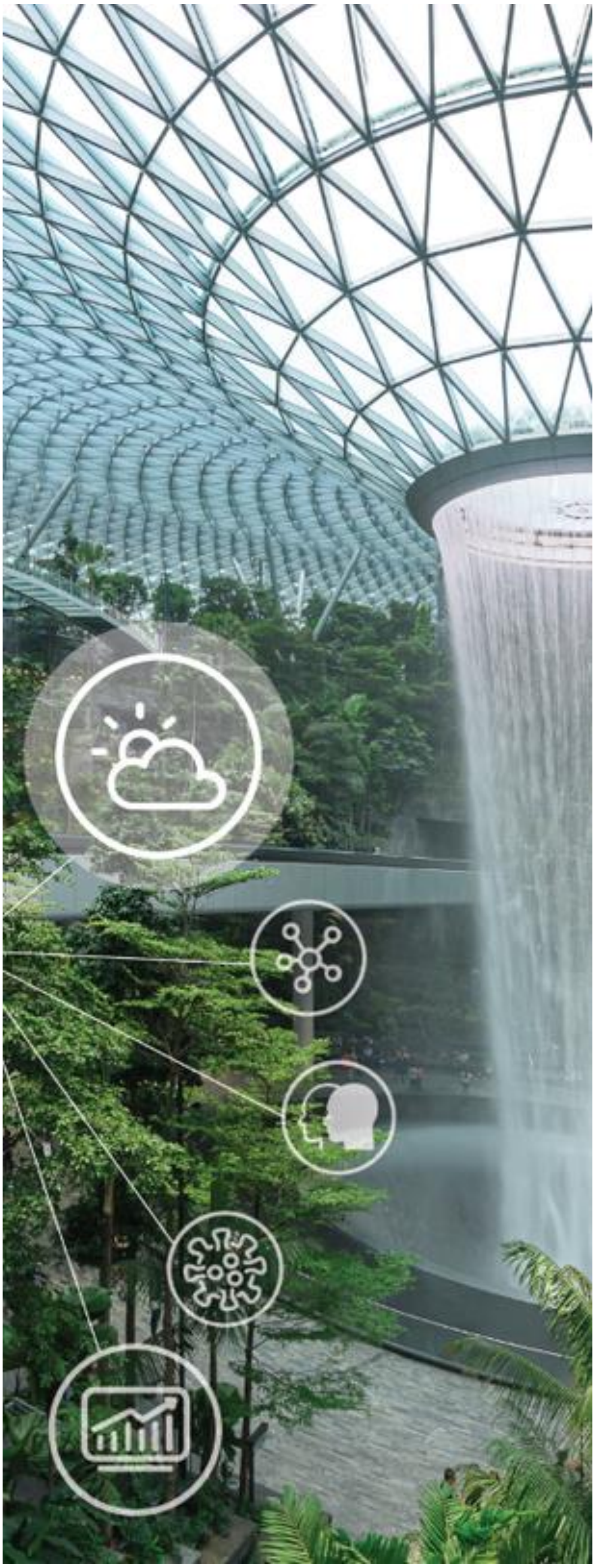
(ii) Extending the relief to life insurance premiums paid on policies for dependent children and elderly parents; and

(iii) Extending the relief to female taxpayers for life insurance premiums paid on policies for spouse (spouse's dependent children and elderly parents as per (ii) above).

To prevent any potential abuse, there could be a cap to limit the amount of relief claimable. The relief could also be limited to Singapore citizens and SPRs, to benefit the local population.

i. Review and increase the quantum of NsMan relief

The NsMan relief has remained the same over the years. To better recognise NsMan and their spouses for their contributions to National Service, the Government may wish to consider increasing the quantum of NsMan relief.



8. Immigration

A mobile approach to workforce is now being seen as the 'future of work' where highly skilled individuals can 'work from anywhere', resulting in the tougher global competition for acquiring, developing, and retaining talent.

We propose the following to enhance the attractiveness of Singapore as a work destination for inbound talent, as well as to assist businesses to overcome talent shortage caused by the COVID-19 travel restriction and transition towards recovery.

8.1 Vaccinated Travel Lanes (VTL)

We propose that VTLs be reviewed on a regular basis and be expanded to other jurisdictions to help boost tourism in a measured way.

8.2 Extending the exemption to advertise from 30 days to 90 days

Currently, the exemption from advertising on MyCareersFuture is available if the job is necessary for short-term contingencies (i.e., the period of employment in Singapore is not more than 30 days).

To reduce the administrative burden of advertising and to promote international mobility within MNEs, we propose that the exception could be extended to 90 days or as a separate 90-days option (available up to twice in a calendar year) to cover short-term assignments.

This will allow short-term business travellers to return for a second trip to complete the short-term assignment based on need. The Government may wish to consider charging a higher application fee for these short-term options. "Short-term" should not be considered as "foreign" employees in terms of the foreign-to-local ratio.

8.3 Expanding the qualifying requirement to be treated as Intra Company Transferees (ICTs)

An exemption from advertising a job placement may be available if the position will be filled by an ICT. However, to be exempted, the EP candidate would have to meet the stringent definition of ICTs under the World Trade Organisation's (WTO) General Agreement on Trade in Services (GATS), or any applicable Free Trade Agreement (FTA) to which Singapore is a party. Under the WTO GATS, an ICT:

- Must be in a managerial, executive, or specialist role.
- Must have worked for the company outside Singapore for at least one year before being posted to the branch, affiliate, or subsidiary in Singapore.

- Is limited to a three-year term, that may be extended for up to two additional years, for a total term not exceeding five years.

In view that rotating global employees to Singapore as part of a global mobility programme has become a common practice among MNCs, we propose expanding the ICT scheme to cover employment terms of more than three years.

Furthermore, candidates coming in as an overseas ICT under the WTO GATS or an applicable FTA are subject to the following conditions:

- Family members of overseas ICTs are not eligible for Dependant's Passes or Long-Term Visit Passes, except where they are specifically covered by an applicable FTA and meet the prevailing criteria for consideration; and
- An overseas ICT is allowed entry into Singapore on a temporary basis, for a period strictly limited to the provision under the applicable trade agreement. An overseas ICT is also generally not eligible for future employment in Singapore after the expiry/termination of their work pass, or for permanent residency.

We would like to call for a review of the above conditions, particularly the ineligibility for future employment in Singapore, which is highly restrictive for multinational corporations operating in an international market.

8.4 Reviewing the qualifying activities for Work Pass Exempt Activities (WPEA)

We propose that the Government considers expanding the WPEA (such as work activity that is carried out in Singapore for less than one month) to meet urgent business needs where applying for an Employment Pass (EP) may not be practical due to the processing time. With a wider scope of WPEA, there would not be a need to apply for a work pass on a short-term basis, thereby reducing administration costs.

8.5 Entry Visa to Singapore

Singapore currently has only one entry visa for Singapore, i.e., the entry visa is not divided into different categories for personal (i.e., tourism) or business. In addition, the entry visa does not indicate the scope of eligible activities in Singapore. We propose to separate the entry visa into two categories—personal and business entry visas, with the business entry visa having a defined scope of permissible business activities in Singapore. We propose that business entry visas can be sponsored directly by the Singapore entity for an additional fee and allow for a wider scope of permissible activities in Singapore as compared to the personal entry visa.

8.6 Extending the Business Travel Pass to all Professionals, Managers, Executives, and Technicians (PMETs)

The Business Travel Pass scheme was introduced in June 2020 to facilitate essential business travel for senior executives based in Singapore with regional or international responsibilities who need to travel regularly for work. We propose that the Business Travel Pass scheme be extended to all PMETs whose jobs necessitate frequent travel to oversee regional and international operations.

8.7 Shortage Occupation List

We propose to consider publishing a Shortage Occupation List. If a job is on the Shortage Occupation List, this will mean there are insufficient Singapore resident workers to fill the positions available in that sector, and that foreign talent may be required to fill the vacancy.

Consequently, for jobs on the Shortage Occupation List, employers should not be required to demonstrate that they have applied the resident labour market test in order to bring in foreign talent, thereby simplifying the administrative requirements and costs of doing so.

8.8 MOM Standard Occupations

When submitting work pass applications, sponsors must select the closest match from the MOM's standard occupations list to the role that the foreign national will be performing. However, the standard occupations do not provide visibility and clarity on the job scope and salary bands expected for the role. This presents difficulties for the sponsor because internal job titles may differ from the role being performed.

We would like to request greater transparency in the MOM's occupation list, which would assist employers in selecting the most appropriate occupation from the standard list while also allowing the MOM to more closely monitor the types of roles filled by foreign nationals.

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