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Singapore Budget 2020 Feedback

Creating the future, together

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Tax & Legal

With multilateralism under threat and its attendant effects on the global economy, Singapore should continue building our fundamentals and pushing ahead with our economic transformation.

Foreword

A unique and distinct Singapore

Budget 2020 is expected to be announced amidst an unprecedented global retreat from multilateralism and its attendant effects on the global economy, which is anticipated to contract further. Singapore's 2019 growth forecast has also been slashed to 0.6 percent, down from an earlier estimate of 2.1 percent in June, based on a recent report.

Even so, the Government's readiness to help businesses and workers should the economy take a turn for the worse is reassuring. This does not mean that businesses should rest on their laurels as we continue with our economic transformation and adapt to global changes. The challenge lies in how will businesses plan and prepare ahead.

Developing and deepening workers' capabilities remain one of the clear themes of our economic transformation. Extensive resources have been dedicated to ensure that workers, being the core of Singapore's economy, could continue to succeed in their jobs. Human capital can no longer be perceived as how much revenue a person could generate for the business, but how much value a person could bring to a business in his entire career. Different value propositions could be brought in by an individual at different stages of his career—some values are tangible, while many are intangible.

"Tax certainty" has also started to diminish over time. Whilst businesses are still adjusting to the aftermath of the Base Erosion and Profit Shifting project, ongoing international developments on a unified tax framework to address challenges arising from the digitisation of the economy, coupled with interim unilateral measures, has further created uncertainty for businesses.

We echo the Prime Minister's sentiments in the recent United Nations General Assembly that "a rules-based multilateral system is still far preferable to any other way to secure peace and prosperity, and to solve global problems". Nevertheless, Singapore must be nimble and carve a niche for itself by offering businesses a safe harbour amidst such volatile times by reinforcing tax certainty on certain domestic provisions, in order to continue promoting investments and innovation in Singapore.

Singapore has always prided itself on, among others, a strong rule of law, well-trained high quality workforce and excellent infrastructure. These fundamentals have distinguished Singapore and served it well for many years and we must continue to build on them. In doing so, Singapore should remain well-positioned within the global community.

Deloitte Singapore is pleased to share our recommendations as we look forward to creating the future, together.

The topics covered

- Shaping Singapore's competitiveness
- Reimagining human capital
- Re-evaluating the "now" and pushing ahead with globalisation
- Goods and Services Tax
- Personal Tax
- Immigration

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Abbreviations

B2C	Business-to-Consumer
BEPS	Base Erosion and Profit Shifting
CPF	Central Provident Fund
COR	Certificate of Residence
EDB	Economic Development Board
EP	Employment Pass
FRS	Financial Reporting Standards
GST	Goods and Services Tax
GTP	Global Trader Programme
IMF	International Monetary Fund
IPR	Intellectual Property Rights
IRAS	Inland Revenue Authority of Singapore
IRU	Indefeasible Right of Use
MAS	Monetary Authority of Singapore
M&A	Mergers and Acquisitions
MNC	Multi-National Corporation
NsMan	National Serviceman
OECD	Organisation for Economic Cooperation and Development
OVR	Overseas Vendor Registration
R&D	Research and Development
SME	Small and Medium-sized Enterprise
SITA	Singapore Income Tax Act
SPR	Singapore Permanent Resident
S$	Singapore Dollars
WDA	Writing Down Allowance
YA	Year of Assessment

1 Shaping Singapore's competitiveness

Tax certainty and clarity in relation to tax treatments could become competitive advantages for Singapore as tax policies across the world gravitate towards international standards and imposes limits on the ability of sovereign countries to shape domestic tax policy.

In a report issued by OECD/IMF[1], it is stated that "tax certainty for taxpayers is an important influence on investment and other commercial decisions that can have significant impact on economic growth."

Singapore has scored well in relation to predictability among the Asia Pacific region based on the Deloitte's 2017 Asia Pacific tax complexity survey. Predictability refers to the availability of information and resources that allow taxpayers to foresee the direction, and the potential changes in tax law. Nonetheless, we would like to propose the following recommendations to maintain our edge in this area:

- Providing certainty in the application of COR
- Enhancing WDA claims for the acquisition of qualifying IPRs
- Expanding the scope of qualifying IPRs to cater for the digital economy
- Considering if certain tax regimes could be made permanent
- Certainty on tax treatment for virtual currency
- Tax treatment arising from the adoption of various accounting standards

[1] IMF/OECD (2019), 2019 Progress Report on Tax Certainty, Paris. www.oecd.org/tax/tax-policy/g20-report-on-tax-certainty.htm

1.1 Providing certainty in the application of COR

Tax residency is a baseline requirement to access Singapore's tax treaties.

A company is a resident in Singapore when the control and management of the company is exercised in Singapore. IRAS has clarified that "control and management" is the making of decisions on strategic matters, such as those on company policy and strategy. Where the control and management of a company is exercised is a question of fact. Typically, the location of the company's Board of Directors meetings, during which strategic decisions are made, is a key factor in determining where the control and management is exercised.

In addition, the IRAS has imposed further conditions on foreign-owned investment holding companies before they could be considered to be a tax resident in Singapore for the purpose of obtaining a COR such as the following:

- Have related companies in Singapore that are tax residents of Singapore or have business activities in Singapore; or
- Receive support or administrative services from a related company in Singapore; or
- Have at least 1 director based in Singapore who holds an executive position and is not a nominee director; or
- Have at least one key employee (e.g., CEO, CFO, COO) based in Singapore.

The imposition of these extra-statutory conditions and the latitude accorded to the tax authorities in assessing whether those conditions are satisfied gives rise to uncertainty for taxpayers seeking to access Singapore's treaties.

Obligations to its treaty partners and international conformity are but some good reasons for Singapore to scrutinise the eligibility of taxpayers seeking to access its treaties. However, it should be noted that there are other anti-avoidance measures, such as the beneficial ownership test, or the recently introduced Principal Purpose Test, among others, that operate to deny treaty benefits in instances where it is inappropriate for such benefits to be granted.

As such, we propose that the Government could ease the burden for businesses in relation to tax residency, without diluting measures targeted at abuse of tax treaties, by:

- Reconsidering the discretionary conditions imposed on foreign-owned investment holding companies and provide safe harbours, such as having majority of directors attending meetings in Singapore or a certain level of business spending in Singapore;
- Providing specific guidelines on how certain criteria could be met if the criteria is merely regarded as minimum requirements; or
- Providing an avenue akin to an advance ruling equivalent mechanism so that companies, in particular foreign investors, which are looking to re-domicile or move their residency from offshore jurisdictions will be able to obtain certainty in how their proposed board practices may be viewed in relation to corporate tax residency.

Such certainty would be welcomed in light of companies looking to re-domicile or migrate their tax residency to Singapore.

1.2 Enhancing WDA claims for the acquisition of qualifying IPRs

Global tax changes have brought about considerations of whether IPs owned by MNCs should remain where they are.

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

To attract more IPRs to be located in Singapore, we propose that consideration be given to enhance or simplify the WDA claims on qualifying IPRs as follows:

- 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 above could also simplify the process of WDA claims for qualifying IPRs. The different rates of WDA claims on qualifying IPRs, depending on the ownership transferred to the Singapore acquiring company, would provide certainty to MNCs when deciding whether to relocate their IPs without the need to negotiate additional conditions required for a waiver application with the EDB if only economic ownership is to be transferred. As a start, this proposal may be considered for an initial period of 5 years, subject to a review.

1.3 Expanding the scope of qualifying IPRs to cater for the digital economy

The current definition of IPR excludes 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, 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 or materials or combination of both, or prescribed by the Minister.

We propose that consideration be given to expand the list of qualifying IPRs, to include information of customers of a trade or business in light of the importance of such information (i.e., customer insights) to the digital economy.

1.4 Considering if certain tax regimes could be made permanent

To provide certainty to potential investors, certain tax regimes should be made permanent. While we understand that a 5 year sunset clause is necessary to ensure that schemes are reviewed on a constant basis for their relevance, certain schemes are essential, for example:

1.4.1 Exemption of gains or profits from disposal of ordinary shares-Section 13Z of the SITA

Under this scheme, gains derived by a company from its disposal of ordinary shares in an investee company are exempt from tax if the divesting company holds at least 20% of such shares for a continuous period of at least 24 months immediately prior to the disposal.

Acquisitions of ordinary shares made on or after 2 June 2020 may not be able to enjoy the "safe harbour" provision, given that the scheme is applicable to disposals of ordinary shares in an investee company made during the period up to 31 May 2022. This would mean that these acquisitions of ordinary shares do not satisfy the 24 month continuous holding period condition. Any gains on disposal after the period would be subject to the normal badges of trade analysis, unless the scheme is extended.

We propose that consideration be given to make the scheme permanent, in an effort to provide certainty to any potential investors in or from Singapore.

1.4.2 R&D expenses—Sections 14D and 14DA of the SITA

Even though R&D enhanced deductions are set to expire after YA 2025, we propose that consideration be given to make the scheme permanent as this will provide certainty to potential investors in regard to their R&D investment spends.

Certain R&D projects may be conducted over the span of more than 5 years. In addition to businesses undertaking long-term R&D projects, MNCs may not view Singapore favourably when doing jurisdiction assessment analysis in view of a sunset date.

1.5 Certainty on tax treatment for virtual currency

Significant development and adoption of blockchain and other distributed ledger technologies over the past 2 to 3 years has, inter alia, led to the development of two new asset classes (viz. cryptocurrencies and utility tokens), and has also provided a means to easily tokenise traditional asset classes to bring the benefits of such technology to security issuances and transfers.

Asset managers and funds in Singapore have expressed interest in establishing and managing funds that invest in a mix of both traditional asset classes and utility tokens and/or cryptocurrencies, and/or in establishing specialist funds, which invest in just the latter types of assets. However, the undertaking of such activities are not covered under the current sections 13CA, 13R, 13X and 13Y tax exemptions (the "Funds Exemptions").

To ensure that (i) the Funds Exemptions take account of recent technological developments and global developments; (ii) the Funds Exemptions remain well-tailored and relevant to market progressions; and (iii) Singapore continues to maintain her position as a regional centre for innovation, technology financing and fund management. We propose that consideration be given to add each of the following as a discrete category to the list of Designated Investments appended to the Income Tax (Exemption of Income of Prescribed Persons Arising from Funds Managed by Fund Manager in Singapore) Regulations 2010:

a. Digital representations of other categories of Designated Investments(s), including but not limited to digital tokens secured over or which otherwise derive their value and/or appurtenant rights from another category of Designated Investment(s).
b. Digital Payment Tokens, as defined in the (Payment Services Act/Goods and Services Tax Act).
c. Cryptocurrencies other than Digital Payment Tokens, with no inherent use other than to act as a medium of exchange.
d. Digital tokens other than (a), (b) and (c) which are listed on one or more exchange platforms.

Incorporating these asset classes into the list of Designated Investments (or in the case of a. and b. only, clarifying whether such asset classes fall into the Designated Investments) could ensure that qualifying/ approved funds investing in such assets may benefit from exemption from income taxation and qualify for GST remission in the same manner as funds investing in more traditional assets.

Applications of Funds Exemptions requiring MAS approval could be granted subject to other conditions as the MAS deems fit to ensure that the exemptions remain aligned with their regulatory approach.

1.6 Tax treatment arising from the adoption of various accounting standards

Whilst there may be good reasons for aligning tax with accounting for some standards (FRS 115, 109) and for not doing so for others (FRS 116), the intent behind the divergence in policy choices could be better articulated to taxpayers to maintain the predictability of Singapore's tax regime.

Given that accounting and tax have different objectives in mind, where the former runs counter to the principles of the latter, we propose that taxpayers be given the option to have their taxable income determined based on tax principles. This will reduce inconsistencies in tax legislation that could potentially arise due to departures from tax principles. For example, the certainty of non-taxation for gains arising from the disposal of ordinary shares as prescribed under section 13Z of the SITA is incompatible with section 34AA, which prescribes the tax treatment under FRS 109. This is because section 13Z is applicable only to qualifying realised gains arising from a disposal of ordinary shares, whereas section 34AA mandates gains arising from revenue financial instruments to be taxed, by reference to the amount recognised in the taxpayer's financial statements (i.e., unrealised gains are taxable) and significantly depart from established tax principles of paying taxes on realised profits (i.e., when income is earned). The mandatory taxation of unrealised gains is also inequitable with provisions governing the utilisation of losses, given that such losses may be carried forward indefinitely (subject to conditions) but there are significant restrictions when carrying back losses.

2 Reimagining human capital

Human capital and R&D are some of the key drivers for economic growth. With limited natural resources to depend on, the availability of quality human capital remains one of Singapore's key competitive edge when firms consider Singapore as a headquarter for strategic activities, whether for the Asia Pacific region or increasingly a location for global support activities.

Changing demographics and compatible skillsets are two areas that could affect Singapore's competitive advantage in light of the digital economy.

Demographics are rapidly changing in Singapore, with sexagenarians affected the most. Recent announcements of the statutory retirement age going up to 63 in 2022, and eventually to 65 by 2030. Re-employment age will also be increased from 67 now to 68 in 2022, and eventually to 70 by 2030. This may mean higher cost for the employers unless effective measures are put in place to increase innovation and productivity. Singapore needs to succeed in tapping on experienced employees to provide stability into the workforce, with the assistance of technology.

Skill sets are also rapidly evolving in Singapore due to the digital economy. The temporary shortage of talents in certain digital industries has highlighted the type of skills required for the future. Companies are also investing in training courses to re-skill their employees to be digital-ready.

There are inherent risks for firms investing in human capital as employees may leave before the firm has a chance to recoup its investment, even though this may not be a risk to the broader economy as skills learnt by the employees will be transferable and, in principle, be productive under their new employers. Larger companies may be able to mitigate the risk more as compared to smaller companies.

The following measures could be implemented to mitigate or address some of the issues raised:

Introducing of tax schemes as additional supplements

Topping up SkillsFuture Credit

2.1 Introducing of tax schemes as additional supplements

There may be certain types of important skill sets that we may want to cultivate in Singapore. Long periods of deliberate practice is required before an individual is able to master a skill. It also takes time for an individual to be equipped with a new skill set.

Extensive resources have been introduced and dedicated to this area. Workforce Singapore offers various grants for both employees and employers. For example, the Professional Conversion Programme provides cash grants to employers. Therefore, we propose that consideration be given to the implementation of the following schemes, to complement the capability grants currently available:

2.1.1 Double deduction for scholarship programmes awarded by employers to employees to further their studies

This will be a targeted approach as we should only incentivise courses that impart the skill sets that we wish to promote.

A double deduction could be accorded to employers who provide scholarship programmes to their employees, who wish to further their studies in specific courses that we wish to promote. This should be differentiated from normal day-to-day training courses which employers may send their employees to. Such scholarship programmes should, in principle, be seen as a long-term investment made by the employer.

Scholarship programmes are a good approach to retaining talents as well.

2.1.2 Introducing a human capital tax credit system

Similar to an R&D tax credit system, a human capital tax credit system could be implemented to assist employers that are not in a profitable position. This could be on top of the existing grants that are available for the employer.

For example, the Austrian tax system is one that incentivises firms to invest in human capital. Specifically, there is a full tax allowance for training expenses and a further 20% of actual expenses is deducted from taxable income. This implies a 120% tax allowance in real terms. Firms that do not make enough profit to benefit from this tax allowance can instead claim a tax credit of 6% (i.e., akin to a cash-payout) of the actual training expenses[2].

2.1.3 Introducing an "unrealised investment in human capital" tax credit/allowance[3]

Businesses, in particular SMEs, may face the issue of not recouping its investment in training their employees, if those employees decides to leave after the firm has incurred the cost of training the employees. This means that such businesses may be less inclined to incur costs on training its employees. Larger companies may be able to restrict job movements for a period of time (e.g., imposing a bond or period of service on the employee) if it were to incur costs to send its employees to specific training programmes, but this may not be practical for SMEs.

A grant of a tax credit/allowance for such "unrealised/unsuccessful" investment may be considered in the event of employees' move from one employer to another employer as employers may consider this a public/private "joint venture" in training employees. Employers would not want to bear the full cost of training should it not realise its training investment due to the employee leaving for another job. Doing so could incentivise the employers and it

[2] Investing in People: The case for Human Capital Tax Credits by Rui Costa, Nikhil Datta, Stephen Machin and Sandra McNally.

[3] Ibid

would meet the objectives if the employees move to a better-paying jobs after their training.

Further studies on the mechanics and conditions if such a tax credit/allowance were to be considered would need to be undertaken.

2.2 Topping up SkillsFuture Credit

The SkillsFuture Credit was introduced in Budget 2015, which aims to encourage individuals to take ownership of their skills development and lifelong learning. All Singaporeans aged 25 and above were eligible to receive an opening credit of S$500 from January 2016.

It may be timely to top up the SkillsFuture Credit so that Singaporeans may continue to upgrade themselves and remain relevant.

3 Re-evaluating the "now" and pushing ahead with globalisation

Singapore's tax policies are constantly being reviewed and refined for their relevance. Most of the tax schemes have been streamlined or rationalised in recent years to ensure that the schemes are kept in line with the current economic climate or business environment. With another set of tax schemes that are due to expire, we would like to propose the following:

3.1 Extending and enhancing the M&A tax allowance

The M&A allowance, which is set to expire on 31 March 2020, should be extended for another five years till 31 March 2025 to support SMEs to grow through acquisitions.

Currently, M&A allowance is not available to a Singapore company in respect of the initial subscription of shares in a newly set-up joint venture investment company as the subscription is not considered a qualifying share acquisition. The scope of the M&A allowance could be enhanced to cover initial subscription of shares in newly set-up joint venture investments with unrelated joint venture partners, as the issuance of shares would have the same commercial effect as that of an acquisition.

The scope of the M&A tax allowance could also be expanded, or a separate standalone M&A tax allowance, to cover goodwill payments made by Singapore companies in an asset deal situation. As a start, 20% of the goodwill capitalised could be eligible for the M&A tax allowance. This will allow flexibility for Singapore companies to grow through either a share or an asset acquisition.

- Extending and enhancing the M&A tax allowance
- Extending and enhancing GTP incentives
- Extending the tax incentives for venture capital funds and venture capital fund management companies
- Extending WDA on payment for IRU
- Extending double tax deduction for Internationalisation scheme
- Enhancing Section 13Z of the SITA
- Extending and enhancing the corporate income tax rebate
- Enhancing the R&D regime

3.2 Extending and enhancing GTP incentives

The GTP incentive will be expiring on 31 March 2021. As such, we propose to extend the scheme for another 5 years.

We would also suggest to expand the scope of qualifying income to cover, for example, profit share/ profit splits and management fees. Trading companies may enter into profit split arrangements with other traders and potentially such income may not fall squarely into the current scope of physical trading income/paper trade income or commission. Also, as Singapore develops into a global trading hub, many trading companies headquartered in Singapore are taking on regional/global management roles, and have significant management and control/oversight over the group's regional operations. It is expected that some of the companies are required to recover the management overheads through management fees. It may also be in the interest of Singapore to promote the right regional/ global platform for these global trading companies to expand its management footprint and capabilities from Singapore as this may mean the relocation of C-suite level roles in Singapore.

3.3 Extending the tax incentives for venture capital funds and venture capital fund management companies

Currently, subject to certain conditions, approved venture capital funds may be granted tax exemption under section 13H of the SITA on the following income:

- Gains arising from the divestment of approved portfolio holdings;
- Dividend income from approved foreign portfolio companies; and
- Interest income arising from approved foreign convertible loan stock.

A 5% concessionary tax rate will also be accorded to approved venture capital fund management companies managing section 13H funds on their specified income.

Both schemes are set to expire on 31 March 2020. To continue promoting investments into potential start-ups, the schemes should be extended for another five years.

3.4 Extending WDA on payment for IRU

Expenditure for IRU incurred after 31 December 2020 will not qualify for WDA claims. Without this scheme, Singapore-based telecommunication businesses will be at a disadvantage compared to foreign competitors that are able to claim tax deductions expenditures on IRU.

To encourage telecommunications operators to provide international connectivity, we would propose that WDA claims for IRU expenditure be extended for another 5 years, until 31 December 2025.

3.5 Extending double tax deduction for Internationalisation scheme

As Singapore continues to encourage local firms to internationalise, the scheme should be extended to cover the following qualifying periods:

- Automatic double tax deduction of S$150,000 per YA to cover from YA 2019 to 31 March 2025 (instead of YA 2019 to 31 March 2020); and
- Approval window for qualifying expenditure incurred in excess of specified expenditure cap and on other qualifying activities to cover the period up to 31 March 2025 (instead of 31 March 2020).

3.6 Enhancing Section 13Z of the SITA

We understand that one of the reasons for the imposition of a 20% ordinary shareholding threshold could be to prevent portfolio investors from benefitting from the exemption under section 13Z of SITA. However, this 20% ordinary shareholding condition may be difficult to satisfy, in the case of companies who wish to invest in the stock market. In order to spur our stock exchange in light of current economic environment, the Government could consider exempting gains derived from the divestment of shares listed on the Singapore stock exchange or lowering the ordinary shareholding threshold to 5% for such shares, or any other reasonable percentage threshold based on a survey/study.

3.7 Extending and enhancing the corporate income tax rebate

Companies were granted a corporate income tax rebate on 20% of tax payable, capped at S$10,000 for YA 2019. As a corporate income tax rebate will not be available for YA 2020 and the changes to the partial and full tax exemption will take effect from YA 2020, it is likely that companies, particularly SMEs, may face a higher effective tax rate in YA 2020.

Coupled with the economic slowdown, the Government could consider extending the corporate income tax rebate for another year and enhancing the corporate income tax rebate for YA 2020 by increasing the cap. This should ease the cost of doing business particularly for the SMEs.

3.8 Enhancing the R&D regime

Innovation continues to be a key driver in Singapore's ongoing journey to transform herself. Singapore's R&D tax measures incentivises eligible R&D activities carried out in Singapore, performed in-house or outsourced or as part of any cost-sharing agreement, as long as the taxpayer is the beneficiary of the R&D activities. Under the current R&D tax incentive regime, enhanced deductions of 250% will be given for every dollar of qualifying expenditure spent on qualifying R&D activities. We appreciate the rationale to encourage and anchor R&D activities in Singapore and recognise the importance of value creation.

We propose to further enhance the scheme as follows:

3.8.1 Increase the deduction benefits from 250% to 300% to ensure competitiveness

Some countries within the region appear to have a more attractive R&D regime as compared to Singapore. Examples are as follows:

Countries	R&D tax incentives
Thailand	Maximum of 300% deduction on R&D expenses paid to authorised R&D services providers. Accelerated depreciation rate of 40% for qualifying machinery and equipment used in qualifying R&D projects.
Indonesia	300% R&D deduction for certain R&D activities carried out in Indonesia (e.g., to produce invention, innovation, mastery of new technology, and/or transfer of technology for industrial development to increase the competitiveness of national industry).
Hong Kong	Qualifying R&D expenditure incurred on a qualifying R&D activity will be eligible for a 300% deduction for the first HK$2 million, and the remaining is deductible at 200% without limitation. R&D expenditure that does not qualify for the above deduction will continue to be eligible for the normal 100% deduction.

As such, we would suggest that consideration be given to increase our enhanced deduction on qualifying R&D expenditure from 250% to 300%.

3.8.2 Incentivising outsourced R&D activities carried out overseas

Currently, R&D conducted overseas, whether related to the company's trade, is not entitled to enhanced tax deduction.

Singapore is short of R&D talent but we also understand that it is important that Singapore develops her capabilities on R&D. Having our local R&D team work with their overseas counterparts will promote skills, knowledge and technical transfer.

We propose that consideration be given to enhance tax deductions on expenses incurred on outsourced R&D activities carried out overseas, if at least 20% of the activities in the same R&D project is carried out in Singapore.

3.8.3 Expanding the scope of qualifying R&D expenses

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

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

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

3.8.4 Varying the scope and support level of R&D activities

We support the call that our help schemes should be "company-centric", not "scheme-centric"[4]. Singapore's R&D regime has been introduced a decade ago and it is timely to recognise that the level of support required by SMEs and MNCs are different, where R&D activities are concerned.

We propose that consideration be given to a separate R&D regime for SMEs as follows:

a. We reiterate our call to broaden the definition of what qualifies as R&D for tax purposes or for a separate incentive category, to be set up for spending incurred on "lower tier" R&D activities or activities that are deemed less innovative because they fall outside the ambit of R&D as defined in the SITA. These include activities that lead to the creation of new and improved products or services such as the integration of two (or more) existing technologies, as in the archetypal case of Uber, or the complex integration of numerous disparate systems operating on vastly different technologies.

   The benefit for such a category could be watered down, to commensurate with the perceived reduced risks such activities carry. For example, a further tax deduction of 25% (compared to the current 50% further tax deduction for R&D activities) could be granted.

b. As an alternative to granting additional tax deductions on qualifying R&D expenditure, the Government could consider granting R&D tax credits. This could be calculated based on the R&D expenditure incurred and would achieve the same objective of decoupling the R&D regime from Singapore's tax rate to ensure that Singapore remains attractive to R&D investments, as well as to encourage spending on qualifying R&D activities. A benefit of the R&D tax credit is that it would not disadvantage businesses that have income taxed at a concessionary tax rate to undertake R&D.

[4] Govt help schemes to be more 'company-centric': Chan Chun Sing. Straits Times Article: https://www.straitstimes.com/business/economy/almost-40-of-businesses-expect-revenue-fall-amid-economic-slowdown-survey

Greater benefits could also be offered to SMEs since R&D investments, by definition, are inherently risky (a qualifying R&D project should, amongst others, be either novel or involve technical risk). Higher R&D tax credits could be granted to SMEs or businesses with lower revenue. In addition, businesses with unused tax credits (due to insufficient taxable profits or losses) could be allowed a refund/pay-out of those tax credits. SMEs may be more willing to undertake R&D activities if the financial risks of doing so are lower.

4 Goods and Services Tax

As overseas suppliers of digital services are assessing whether they are liable to register for GST in Singapore under the new OVR regime, we propose the following measures that could help ease any potential financial burden on affected companies.

4.1 Granting amnesty on any possible penalties and/or fines for errors made in the first year of the implementation of the GST OVR regime

To level the GST treatment for digital services consumed in Singapore, the OVR regime for B2C supplies[5] of imported digital services will be implemented from 1 January 2020 to tax imported digital services. Overseas suppliers of digital services are required to register for and charge GST under the OVR regime if they exceed the prescribed GST registration thresholds[6].

Affected overseas suppliers may not be familiar with the new OVR regime and fully understand their GST obligations under the new regime. The Government could consider granting amnesty on any penalties and/or fines for errors made in the first year of implementation of the OVR regime to affected overseas suppliers. This will, in our view, "encourage" them to come forward to register for GST without having to worry about potential penalties and/or fines that may be imposed on late notification of GST registration liability, late payment of GST, and incorrect filing of their GST returns.

Granting amnesty on any possible penalties and/or fines for errors made in the first year of the implementation of the GST OVR regime

Recovering import GST on importation of in-warranty parts

Refining GST registration liability for suppliers of qualifying ships/aircraft in Singapore

Providing guidelines on GST treatment for "rebates/incentives"

[5] Business-to-Consumer (B2C) supplies refer to supplies made to non-GST registered persons, which include individuals and businesses that are not registered for GST.
[6] Any supplier belonging outside Singapore that has a global annual turnover exceeding S$1 million and makes B2C supplies of digital services to non-GST registered customers in Singapore exceeding S$100,000 per annum.

4.2 Recovering import GST on importation of in-warranty parts

A local repairer may provide repair services to Singapore customers of overseas manufacturers, who have originally supplied goods to their Singapore customers. The repairer is often required to also assist with the importation of the in-warranty parts into Singapore on behalf of the overseas manufacturers and the parts (which belong to the overseas manufacturers) will be used to carry out in-warranty repair services for their Singapore customers at no additional charges.

As there is no subsequent supply of the in-warranty parts imported into Singapore, the local repairer will not qualify as a section 33(2)[7] agent. If the parts are consumed locally and not re-exported, the local repairer also cannot qualify as a section 33A[8] agent. We understand that the current IRAS' position is that the repairer is also not allowed in its own business capacity to recover the import GST on the importation of the parts because the parts do not belong to it. Therefore, the repairer is unable to recover the import GST at all.

To support the Singapore repair industry in the above instance, we would propose that the Government considers granting a special remission of the irrecoverable import GST to Singapore repairers. Otherwise, the repairers may need to pass on the irrecoverable import GST cost to their overseas customers, which will result in them being less competitive internationally.

4.3 Refining GST registration liability for suppliers of qualifying ships/aircraft in Singapore

The supply of a qualifying ship and aircraft is a supply of international services under section 21(3)(o) of the GST Act. Section 21(5) of the GST Act provides that where a description referred to in section 21(3) is a transaction which would otherwise be a supply of services, the transaction shall, for the purposes of this Act, be treated as a supply of services in Singapore.

Applying the above provisions, it would mean that an overseas supplier who does not belong in Singapore should not be liable for GST registration if it sells a qualifying ship or aircraft situated in Singapore because it would be an out-of-scope supply of services. However, we understand that the current IRAS' position is that the above provisions do not apply when determining whether an overseas supplier is liable for GST registration. This should therefore mean that an overseas supplier would be treated as making a taxable supply of goods in Singapore if it sells a qualifying ship or aircraft in Singapore. Hence, the overseas supplier would be liable for GST registration in Singapore.

Even if the IRAS considers such overseas suppliers as liable for Singapore GST registration, they would similarly be eligible to apply for exemption from GST registration because the supply of a qualifying ship or aircraft is a zero-rated supply. We therefore request the IRAS to consider either treating the supplies of qualifying ships or aircraft as out-of-scope supplies of services based on section 21(5) or granting the overseas suppliers automatic exemption from GST registration. Otherwise, it will result in unnecessary administrative hassle for the overseas suppliers who have to complete and submit the application form for exemption from GST registration.

[7] For the purposes of this Act, where goods are imported by a taxable person and supplied by him as agent for a person that is not a taxable person or is a taxable (Seventh Schedule) person other than a registered (Seventh Schedule – full) person, then the goods are treated as imported and supplied by the taxable person as principal.

[8] The Minister may by Regulations provide for the repayment, to persons carrying on business in countries other than Singapore, not being any registered (Seventh Schedule – full) person, of tax on importation of goods by them which would be their input tax if they had been taxable persons in Singapore.

4.4 Providing guidelines on GST treatment for "rebates/incentives"

In certain industries, GST taxpayers provide "rebates/ incentives" to boost their sales. Some of the "rebates/ incentives" are provided directly to customers but some are provided via their distributors to the end customers or in some cases are provided to the end customers (who have contractually purchased the goods from the distributors) directly. Some of the "rebates/incentives" are volume driven (i.e., if a certain volume of purchases is made) whilst some rebates/ incentives are provided if certain conditions are met.

As there are so many different forms of "rebates/ incentives", taxpayers may not always be clear what types of rebates/ incentives should be treated as a reduction to their original sales and what types of rebates/ incentives should be treated as a supply of services made by the recipients to them. Especially with the latter, the recipients of the "rebates/incentives" are often caught off-guard and they would only learn that they have actually made a taxable supply of services after being notified by the IRAS, usually in the course of an audit. As a result, they would have to pay huge amounts of GST arrears (in cases where they are unable to recover the GST from the providers of the "rebates/ incentives") and penalties.

More guidelines on this area would be helpful for businesses.

5 Personal Tax

As living standards have improved over the years, we would like to propose the following recommendations to ensure that personal reliefs reflect current living standards.

5.1 Recalibrating 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.

5.2 Providing 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; however it increases the burden for individuals who pay the premiums on the same for their elderly parents and dependent children.

The Government may wish to consider providing a tax relief for individuals who pay the MediShield Life premiums for their elderly parents and dependent children.

- Recalibrating the earned income relief
- Providing relief for MediShield Life premiums
- Reviewing the tax deduction relief on life insurance premiums and medical insurance premiums
- Introducing a child care/infant care relief
- Introducing a special tax deduction/rebate for home caregiver expenses
- Refining tax rules for employee share scheme
- Reviewing and increasing the quantum of NsMan relief
- Recalibrating the spouse relief
- Providing relief for working parent (both male and female)

5.3 Reviewing 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, relief for life insurance premium 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). This is to ensure that a large part or the full hospital bills can be covered by insurance to minimise the financial burden and stress to the individual and his/her family.

Based on the above, the Government may wish to consider the following changes:

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

To prevent any potential abuse, there could be a cap to limit the amount of relief claimable.

5.4 Introducing a child care/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 child care/infant care centres while they are at work.

Although raising a child is a personal decision, introducing a child care/infant care relief will add on to the many initiatives undertaken by the Government to support families to have more children, especially for those who can afford them.

5.5 Introducing 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.

Providing 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 would help in defraying 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.

5.6 Refining tax rules for employee share scheme

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

5.6.1 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 5 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 any 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 3 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 SPRs, the abovementioned benefits could be limited to this group of taxpayers.

5.6.2 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 help 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 when the "income realisation event" of the foreign event occurs and report the relevant gains to the IRAS at that juncture.

However, as it may be very difficult to fulfil all the qualifying conditions of the scheme, the Government could consider revisiting the qualifying conditions for the tracking option[9], especially the capital requirement condition. This would allow more employers and taxpayers to be able to enjoy the scheme.

[9] 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.

5.6.3 Managing double taxation

Currently, gains from employee share plans are fully taxable in Singapore if the grant is made during the Singapore employment, without considering the source of income during the vesting period of the grant. In addition, no foreign tax credit is allowed for tax paid outside of Singapore on the same stock option/share gains subject to tax in both Singapore and another country.

This results in a misalignment of individual tax treatment compared to other countries, which may adopt the OECD model of sourcing for stock option/share gains[10]. Thus resulting in a genuine double taxation since no foreign tax credit is allowed in Singapore on such gains.

As such, we propose that the Government considers reviewing the basis of taxation of stock options and shares in Singapore to be aligned with the OECD model of sourcing, or consider to grant foreign tax credits in situations where there is double taxation.

5.7 Reviewing and increasing 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 the nation, the Government may wish to consider increasing the quantum of NsMan relief.

5.8 Recalibrating the spouse relief

The spouse relief has remained unchanged for decades and may not be reflective of current economy and cost of living. Both the annual income threshold of S$4,000 (average of S$333 per month) to claim for spouse relief and the actual quantum of the relief should be reviewed to ensure that it is in line with the current market conditions and cost of living in Singapore.

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

5.9 Providing relief for working parent (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 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).

6 Immigration

As Singapore continues to draw top talent, the Government could tailor certain measures to ease the administrative requirements to promote international mobility. We propose the following measures:

6.1 Extending the exemption to advertise with Jobs Bank from 30 days to 90 days

Currently, an exception is given where no advertisement is required on the National Jobs Bank if the job is necessary for short-term contingencies (i.e., period of employment in Singapore for not more than 30 days).

To reduce the administrative burden of advertising and promote international mobility within MNCs, we propose that the exception could be extended to 90 days to cover short-term assignments.

6.2 Expanding the qualifying requirements to be treated as Intra Company Transferees (ICTs)

We propose to enhance the EP application under ICTs to be opened to both long term and short term foreign assignees, instead of limiting them to 2 to 3 years. The requirements for ICT should be viewed as a support programme and not limit to specialised skill sets that are not easily available in Singapore. This is in view that it has become a common practice for foreign employees to be transferred to Singapore as part of a global mobility programme to facilitate employees' career development.

Extending the exemption to advertise with Jobs Bank from 30 days to 90 days

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

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

Enhancing the Dependant's Pass scheme

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

The Government could consider expanding the Work Pass Exempt Activities (such as work activity that is carried out in less than 1 month) as there may be urgent business needs and applying EP may not be practical due to the processing time. A wider scope of WPEA will reduce the administrative burden for companies as it reduces the need to apply for a work pass.

6.4 Enhancing the Dependant's Pass scheme

Currently, dependant pass (DP) holders require a Letter of Consent (LOC) before they are allowed to work for registered Singapore entities except for objectionable occupations. In addition, DP holders are not allowed to set up their own businesses; they will have to apply for EntrePass or EP if they wish to do so.

The Government could consider the following to enhance the DP scheme:

- Removing the need for a LOC for DP holders (i.e., a DP can work without consent similar to Hong Kong's DPs). This could reduce the need to apply for LOC and ease the administrative burden for DP holders; or
- Expanding the LOC privileges to allow DP holders to set up their own businesses and work under LOC, instead of applying for EntrePass or EP. This would encourage more DP holders to start small businesses in Singapore which could have the potential upside effect of boosting Singapore's economy.

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