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Singapore Budget 2024 Feedback
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Foreword

Trusted. Transformational. Together.

The economic forecast for Singapore in 2024 carries a tone of cautious optimism. The government forecasts a gradual improvement in Singapore's GDP growth in the latter half of 2024, expecting it to approach its potential rate of about 1-3% for the whole year. However, this positive outlook is not without its potential disruptions, including new COVID-19 strains and rising geopolitical tensions.

As we navigate these changes, 2024 will be hailed as a landmark year in international tax reform, with the OECD's BEPS 2.0 initiatives taking effect. Singapore is proactively finalising its domestic legislation aligned with Pillar 2 and plans to implement such legislation from 1 January 2025, while keeping a close watch on the international tax arena to ensure that our economic and tax policies remain competitive and conducive to investment.

2024 also commemorates the 30th anniversary of the introduction of GST in Singapore, which has tripled from the initial 3% to 9%. Considering the higher GST amidst inflationary pressures, we anticipate that Budget 2024 will prioritise sustaining economic competitiveness and easing the cost of living.

Singapore has consistently ranked highly in the Global Innovation Index prepared by the World Intellectual Property Organisation. The government's unwavering endorsement of innovation through a suite of incentives underscores Singapore's belief that innovation is important for driving competitiveness and economic progress. We suggest refining the R&D incentive structures to further catalyse the relocation of R&D activities to our shores.

In the realm of sustainability, Singapore remains dedicated to tackling climate change and fulfilling its commitments under the Paris Agreement. The increase in carbon tax rates from 2024, coupled with financial support for businesses to undertake decarbonisation initiatives will help accelerate Singapore's transition to a green economy.

Our report extends beyond industry-specific insights, proposing broad reforms for the corporate tax system, incentives and personal tax regimes. For a detailed exploration of our recommendations, please refer to the subsequent sections.

Content

Abbreviations

BEPS	Base Erosion and Profit Shifting
CPF	Central Provident Fund
DEI	Development and Expansion Incentive
EDB	Economic Development Board
EEIA	Economic and Expansion Incentives (Relief from Income) Tax Act
ESG	Environmental, Social and Governance
GloBE	Global Anti-Base Erosion
GST	Goods and Services Tax
IP	Intellectual Property
IPR	Intellectual Property Rights
IRAS	Inland Revenue Authority of Singapore
MNE	Multinational Enterprise
NsMan	National Serviceman
OECD	Organisation for Economic Cooperation and Development
ITA	Singapore Income Tax Act 1947
QRTC	Qualified Refundable Tax Credits
R&D	Research and Development
SPR	Singapore Permanent Resident
WDA	Writing-Down Allowance
WHT	Withholding Tax
YA	Year of Assessment

1. Strengthening tax measures

1.1 Taxation of gains from the sale of foreign assets from 1 January 2024

The introduction of Section 10L in the ITA aims to align Singapore's taxation of profits from the sale of foreign assets with the guidelines set by the EU Code of Conduct Group (COCG) and is a significant change in Singapore's corporate taxation regime. These guidelines stress the importance of economic substance requirements (ESR) to combat international tax avoidance and harmful tax competition.

Section 10L brings gains from the sale of movable or immovable properties with situs outside Singapore (i.e. foreign assets) into the scope of taxation under Section 10(1)(g) of the ITA if these gains are repatriated to Singapore by an affected entity lacking economic substance in Singapore.

As is the case with new tax measures in general, there will typically be additional clarity needed during the implementation phase including ways to refine the rules going forward. Some of our suggestions are:

a. **Providing relief from taxation under Section 10L for foreign asset transfers between group entities**

   We urge consideration for deferring tax on the sale of foreign assets among related Singapore entities to minimise unnecessary tax leakages during internal group restructurings. The gain on sale could be recaptured if the affected entities cease to be associated or if the foreign asset is sold to an unrelated party. It may be relevant to note that Hong Kong has implemented similar deferral rules in its recent foreign-sourced income exemption (FSIE) regime refinements.

b. **Letting fulfilment of ESR itself be an alternative pathway to exempt certain types of foreign income**

   In further embracing the concept of ESR as a pre-requisite for exemption of foreign income, it may be useful to complement our existing tax exemption framework for certain types of foreign-sourced income under Sections 13(8) and 13(12) of the ITA.

   The aforementioned Sections 13(8) and 13(12) tax exemptions are conditional and additionally for the latter, scenario-based. Allowing the satisfaction of ESR as an additional pathway to complement the exemption of certain types of foreign-sourced income widens a taxpayer's alternatives and importantly, should not contradict Singapore's general focus on anchoring real economic activities in Singapore.

c. Liberalising our foreign tax credit relief system

It is our understanding that foreign tax credit is available based on current tax rules if the disposal gains under Section 10L are also subject to tax in the foreign jurisdiction. In this context, presumably income taxable under Section 10L should not be precluded from being pooled with other income streams if the taxpayer chooses to pool foreign tax credits.

In light of a widened tax base for foreign income or gains, it may not be unreasonable to request extending the availability of foreign tax credits to include taxes paid by indirectly-owned (i.e. below first-tier) overseas subsidiaries. Currently, foreign tax credit is still ring-fenced to foreign taxes paid by the overseas company remitting the dividends back to Singapore; it is not available for foreign taxes paid beyond the first-tier overseas company even though income from these companies are eventually remitted to Singapore via the first-tier company. This recommendation to extend the availability of foreign tax credits to lower-tier subsidiaries is not necessarily new but may merit re-consideration especially as it does appear to also pass muster in the present environment of substance-based FSIE regimes (e.g. Hong Kong recently allowing a "look-through" approach up to 5 tiers of ownership for foreign tax credit purposes).

1.2 Re-evaluation of substance requirements for Certificate of Residence (COR) purposes

Currently, foreign-owned investment holding companies that generate passive income from foreign sources may not qualify for a COR to claim tax benefits under Singapore's tax treaties unless they also meet certain conditions, which revolve around demonstrating tangible economic presence in Singapore. Specifically an applicant company must:

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

The non-issuance of COR to applicants who do not meet the above substance requirements effectively represents the IRAS' "gatekeeping" role for treaty partners. Laudable as it may be, the continued efficacy of this substance "gatekeeper" role might need to re-evaluated given the broader economic substance requirements which will shortly be entrenched into our domestic legislation with the enactment of Section 10L.

Even if the status quo for issuing COR based on fulfilment of at least the aforesaid substance requirements is to be maintained, the IRAS should consider to provide explicit messaging that substance for COR purposes should not be conflated with ESR under Section 10L.

1.3 Increase medical expense cap

In view of the continued inflationary environment, we continue to put forth that the medical expense cap of 1-2% should be increased.

Please refer to our Singapore Budget 2023 Feedback for more details on this recommendation.

1.4 Tax deductions on carbon credit purchases

In alignment with Singapore's commitment to the Paris Agreement and in an effort to foster sustainable development, we suggest the introduction of tax deductions for businesses that purchase carbon credits. This initiative aims to encourage more companies to participate in carbon offset schemes, effectively reducing their environmental impact. The rationale behind this proposal is multi-fold: it serves to incentivise carbon offsetting among businesses, aligns Singapore's fiscal policies with its environmental commitments, and creates a harmonious balance between economic growth and ecological sustainability. The proposal entails establishing clear eligibility criteria for businesses, suggesting necessary legislative amendments for the implementation of these deductions, and setting up robust mechanisms for monitoring and compliance. By adopting these measures, we anticipate an increased involvement of the business community in carbon credit schemes, a significant step towards meeting Singapore's climate goals. The implementation of this policy would not only contribute to the global fight against climate change but also reinforce Singapore's position as a leader in environmental sustainability.

2. Navigating the nuances of Pillar 2 of the BEPS Framework

Acknowledging the global uncertainty with major economies like the US and China still undecided on Pillar 2, Singapore is nevertheless advancing its tax policies on this front. With the 2022 and 2023 Budgets, Singapore has indicated a phased approach to implementing the GloBE rules, targeting the financial year beginning on or after 1 January 2025 (although implementation of these rules could be delayed depending on international developments) and exploring a minimum effective tax rate of 15%.

As Singapore implements the Pillar 2 rules, it is essential to tailor existing tax incentives to ensure they do not conflict with the new global tax framework. We would look forward to the GloBE rules to be complemented by guidelines for QDMTT Safe Harbour and the handling of Qualified Refundable Tax Credits (QRTCs). This approach ensures that Singapore's tax incentive regime continues to offer tangible benefits without undermining the integrity of the Pillar 2 objectives. The careful recalibration of tax incentives, in consultation with the business sector and through a methodical, phased approach, will be key to maintaining Singapore's competitive edge while adhering to international tax standards.

The QDMTT Safe Harbour is a provision designed to streamline compliance for MNEs operating in jurisdictions that have implemented a QDMTT. When a QDMTT is enforced, the Safe Harbour provision eliminates the need for an additional top-up tax. In practical terms, this means that MNEs are not required to perform two separate calculations for the GloBE rules and the QDMTT. This simplification aims to ease the compliance burden for MNEs and promote clarity and consistency in tax obligations.

2.1 Qualified Refundable Tax Credits (QRTCs)

QRTCs are increasingly favored in the global tax landscape, particularly under the GloBE rules proposed by the OECD to ensure MNEs pay a minimum level of tax. Conventional tax incentives that are tied to profitability, such as concessionary tax rates or enhanced deductions, are expected to have a negative impact on a company's ETR as such incentives directly reduce the amount of taxes paid. QRTCs operate differently; the refundability feature results in QRTCs being treated as akin to a subsidy or a grant where a taxpayer can obtain a benefit regardless of whether they are profitable. As such, the benefit provided by a QRTC is treated as an increase to income rather than a reduction to tax payable. This characteristic makes QRTCs a more neutral scheme with respect to ETR calculations, providing a benefit to companies without disproportionately affecting their ETR.

We are aware that the government has been conducting a comprehensive study on the design and execution of QRTCs. We anticipate the announcement of the implementation of QRTCs in Budget 2024, providing clear guidelines for companies to conduct meaningful impact assessments. This clarity is essential for companies to engage with relevant authorities if their tax incentives in Singapore are impacted by Pillar 2.

Companies are seeking clarification on various aspects, including the qualifying activities (e.g., manufacturing, specific service sectors), eligible projects (e.g., R&D, sustainability initiatives, digital transformation) and the quantum of support offered. We hope the government can introduce flexibility into the QRTCs, enabling a combination of tax incentives with QRTCs and awarding both volume-based and expenditure-based QRTCs. This flexibility would cater to a broader range of potential investors, accommodating their specific circumstances and business models.

For existing investors in Singapore, understanding how QRTCs align with existing tax incentives is critical. Additionally, it is important to incentivize these investors not only to maintain their current activities but also to encourage them to expand their operations in Singapore. This synergy and growth potential will be key factors in Singapore's economic landscape.

2.2 Expand the scope of withholding tax incentives

Budget 2022 saw enhancements to various tax incentives including the Approved Royalties Incentive and the Approved Foreign Loan scheme. These incentives reduce or exempt withholding taxes on interest and royalties and are designed not to negatively impact the Effective Tax Rate (ETR) under Pillar Two rules by being non-Covered Taxes.

Despite their effectiveness in attracting foreign investments even after Pillar Two, access to these incentives is limited to entities performing specific activities. For instance, the Approved Royalty Incentive often goes to those meeting investment thresholds akin to those for Pioneer Incentive and DEI status, with particular headcount and spending requirements. Meanwhile, the Approved Foreign Loan scheme targets manufacturing entities.

We suggest broadening the eligibility for these withholding tax incentives, making them more broadly available to support a diverse range of businesses, including those without DEI/Pioneer status. We also propose removing activity-specific limitations, like manufacturing, to make these incentives universally accessible, thus enhancing Singapore's appeal in the global market.

2.3 New incentive rate of 15% combined with QRTCs/ grants

Tax incentives offering reduced rates may not be as advantageous for MNEs subject to Pillar Two, as they lower Covered Taxes, potentially triggering a Top Up tax on excess profits. To keep MNE investments flowing into Singapore, we propose a new incentive rate of 15%, to be used in conjunction with QRTCs and/or grants. This gives MNEs greater flexibility and could better align with Pillar Two regulations, ensuring continued investment. Moreover, opting for a 15% tax rate might mitigate double taxation risks if the credibility of Pillar Two taxes is questioned.

2.4 Transition from concessionary tax rates to Pillar Two compliant incentives

MNEs enjoying concessionary tax rates should be offered the choice to transition to Pillar Two compliant incentives such as QRTCs or cash grants, adjusting their economic commitments accordingly. This shift aims to help MNEs adapt in collaboration with Singapore's Economic Agencies, minimising adverse financial impacts from the new Pillar Two tax framework.

2.5 Allow option for tax amortisation to mirror the prescribed accounting rules

As outlined in our Singapore Budget 2023 Feedback, we continue to emphasise the need for our tax amortisation rules to be aligned with prescribed accounting rules.

For more details of this suggestion, please refer to our Singapore Budget 2023 Feedback.

3. Evaluating and refining tax and IP incentives in light of international tax developments

In designing and evaluating tax incentives within Singapore, it is crucial to consider the rapidly evolving landscape of international tax developments. Singapore has long been recognised for its attractive tax policies, but global tax standards are shifting. Therefore, crafting tax incentives should align with international best practices and adhere to emerging regulations, such as the OECD's BEPS framework. Striking a balance between promoting economic growth and ensuring tax fairness on a global scale is paramount. Singapore's budgetary decisions should focus on fostering innovation, attracting investment, and enhancing competitiveness while remaining compliant with international tax norms, ultimately contributing to sustainable economic growth.

3.1 Expanding grant programmes

With the implementation of QDMTT, grants will play a crucial role in attracting potential investors to Singapore. Currently, the available grants for foreign investors are limited to a narrow range of qualifying activities, such as training, sustainability, R&D, and innovation. To enhance their effectiveness, we propose expanding the scope of eligible activities to include areas like headquarters operations or trading. Additionally, we recommend revising the definitions of R&D and innovation to encompass a broader range of activities. This would enable more potential investors to access grants, especially in a context where tax incentives may have reduced impact.

To ensure that grants have a significant impact on potential investors' decisions to establish or relocate their operations in Singapore, it is imperative to streamline grant mechanisms. We suggest simplifying the current grant process further, making it more user-friendly and efficient. Moreover, increasing the support rate for qualifying costs, possibly through the utilisation of QRTCs, will better align with investors' needs.

Regarding the Research & Innovation Scheme for Companies (RISC) Grant, we propose expanding its coverage beyond manpower and equipment expenses. This extension should include professional service fees, relocation expenses, and other project-related costs significant for the success of the project.

Instead of providing tax allowances or super deductions, more thought could be put into converting incentives like R&D super deductions, investment allowances, and land intensification allowances into grants. Such approaches would have a more direct and potentially lesser impact on the effective tax rate for businesses.

3.2 Other incentives/grants

a. **Extending Energy Efficiency Grant**
Sustainability is undeniably a pivotal factor in the growth and success of modern businesses, hence we strongly recommend extending the Energy Efficiency Grant beyond its current application deadline of March 2024. This extension would provide businesses with continued support in their pursuit of energy-efficient practices, aligning with broader sustainability goals.

b. **Introducing a new targeted low-waste packaging design grant to supplement EPR scheme**
In addressing the pressing issue of packaging waste, which constitutes approximately one-third of domestic waste in Singapore, we recognise the urgency of effective measures in line with the Zero Waste Masterplan. The implementation of an Extended Producer Responsibility (EPR) approach with the first EPR framework which was introduced for e-waste back in July 2021 now includes the Mandatory Packaging Reporting (MPR) scheme, beverage container return scheme, and the Packaging Partnership Programme (PPP).

Commencing with the introduction of the MPR scheme, which emphasises corporate responsibility for packaging waste, Singapore has taken substantial strides. The PPP, established as a partnership between the Singapore Manufacturing Federation (SMF) and National Environment Agency, plays a pivotal role in supporting companies in their journey towards sustainable packaging waste management and regulatory compliance. To complement these efforts, we propose the introduction of a targeted low-waste packaging design grant. This grant would incentivise companies to embark on innovative design ventures aimed at achieving low-waste packaging while upholding form and function requirements, such as a 10% reduction in packaging waste mass/volume. This proposed grant, mirroring the structure and criteria of the current EDG grant supporting product development, holds the potential to significantly advance sustainable packaging practices and contribute to waste reduction, aligning with the objectives outlined in Technical Reference 109 and our Zero Waste Masterplan. We encourage the prompt rollout of such sustainability-focused grants to further enhance our sustainability efforts.

c. **Expand the scope of funding for environmental projects**

Currently, resource support tends to be limited to projects based on a narrow definition of sustainability. R&D funding for environmental projects is available under schemes such as the:

- Built Environment Accelerate to Market Programme;
- Cities of Tomorrow R&D Programme (CoT);
- Low Carbon Energy Research Funding Initiative; and
- Waste to Energy (WTE) Test-bedding & Demonstration Funding Initiative.

These schemes are however narrowly defined in its scope of research areas, and support from such schemes are often contingent on projects achieving tangible milestones and deliverables, when the impact of many sustainability projects cannot be directly quantified. To allow for a diverse range of environmental projects that can contribute towards the Singapore Green Plan 2030 targets, we propose an expansion in scope with respect to the forms of environmental projects, as well as the qualifying criteria and key performance indicators (KPIs).

d. **Refining grant of Land intensification Allowances (LIA)**

In September 2021, EDB had introduced a requirement that mandates prospective applicants receiving their “URA Grant of Written Permission” or “JTC Consent as Landowner” on or after 1 April 2021, to express their intention to apply for the LIA within a strict 3-month window from the date of receiving the written permission.

We recommend reconsidering the necessity of this rule, as it appears to be overly restrictive. The combination of this requirement with the existing application deadline, which is also set at 3 months from the final Temporary Occupation Permit (TOP) date, places a significant burden on potential applicants. Managing multiple deadlines concurrently, especially during the planning and construction/ renovation phases, has proven challenging for many companies. Consequently, some eligible entities find themselves unable to benefit from this valuable incentive due to difficulty meeting these stringent deadlines. A review of this rule could streamline the application process and ensure that deserving applicants are not excluded simply due to administrative constraints.

e. Updating the Enterprise Innovation Scheme (EIS)
The EIS is a vital component of Singapore's innovation ecosystem, designed to incentivise companies to invest in research and development. Our following recommendations serve to further strengthen the EIS by considering adjustments to specific caps associated with the program.

- **Raising the cap on 400% enhanced deduction**
  It is proposed that the existing cap of S$400,000 on the 400% enhanced deduction be increased substantially, potentially to a minimum of $1.5 million. This adjustment aims to enhance the attractiveness of the EIS, particularly for larger enterprises engaged in ambitious innovation projects. By raising the cap, Singapore can incentivise greater investment in innovation and bolster its competitiveness in the global innovation landscape.

- **Increasing qualifying expenditure cap for multi- institution partnerships**
  Currently, the EIS places a cap of S$50,000 on qualifying expenditure for innovation projects carried out with qualified partners, irrespective of the number of partnerships. We recommend a significant increase in the qualifying expenditure cap to S$200,000 per partner institution or aligning it with the standard cap of S$400,000. This recommendation stems from several critical factors:

  - **Fostering cross-pollination of ideas and expertise:**
    Collaboration across diverse fields is pivotal to addressing complex challenges. By increasing the qualifying expenditure cap, this is expected to encourage cross-disciplinary collaboration.

For instance, consider an agri-food company collaborating with both the Urban Agriculture Centre of Innovation (UACOI) and the Environment and Water Technology Centre of Innovation (EWT-COI). This partnership holds the potential to yield transformative outcomes. UACOI may contribute insights to enhance crop health, while EWT-COI could address water quality management, thus aligning with Singapore's '30-by-30' goal of food self-sufficiency. Similarly, collaborations between institutions in the construction sector could revolutionise the industry, paving the way for labor-efficient and environmentally sustainable construction practices.

For instance, a taxpayer in the construction sector partnering with the Centre of Innovation for Built Environment (CIBE-COI) and the Precision Engineering Centre of Innovation (PE-COI) could conceive innovative solutions that revolutionise construction practices. These partnerships may lead to the development of novel building materials and precision engineering techniques, ultimately transforming the way we construct buildings while advancing the nation's goals of sustainability and reduced carbon footprint.

f. Enhancing the Global Traders Programme (GTP)
The GTP plays a crucial role in attracting international trading companies to Singapore. However, certain aspects of the program's requirements have raised concerns among applicants and industry stakeholders. We propose recommendations to enhance the GTP by addressing specific challenges related to the 50-20 rule, manufacturing activities, and tiered awards:

- **Re-evaluation of the 50-20 rule**
  Currently, GTP applicants are required to adhere to the 50-20 rule, where a minimum of 50% of the Group turnover must be attributed to trading activities, and manufacturing activities should not exceed 20% of the Group's turnover. We have received feedback on the difficulties in determining the turnover for manufacturing at the Group level. Consequently, we suggest that the program consider shifting the focus towards assessing the principal business activities of the Singapore applicant, particularly for larger companies. This shift in perspective would streamline the evaluation process and better reflect the nature of modern trading companies, which may engage in some form of manufacturing through overseas related parties or up in the value chain to maintain competitiveness and quality.

- **Revisiting the manufacturing threshold**
  Given the evolving landscape for trading companies, some of which now engage in manufacturing activities to some extent (e.g., chemicals, oil & gas, and consumer products), it is recommended that the threshold of 20% for manufacturing activities be reviewed. A more nuanced approach that considers the specific industry and value addition could be explored, allowing for greater flexibility while ensuring the integrity of the GTP's objectives.

- **Introducing Tier 2 eligibility for new applicants**
  New companies seeking to join the GTP program currently have the option to apply for a Tier 3 award (3 years). However, in anticipation of the implementation of the QDMTT, planning and committing investments for a mere 3-year award can be challenging. To address this issue, it is proposed that new GTP applicants be given the opportunity to apply for Tier 2 (5 years) in the first instance, provided they meet specific conditions. This change would align the GTP program more closely with the evolving needs of trading companies, offering greater flexibility and stability for long-term planning.

3.3 Proposed initiatives to bolster the IP framework and landscape

We reiterate the following tax proposals intended to complement the aforementioned initiatives by strengthening the IP and innovation ecosystems in Singapore and leveraging them to promote future economic development:

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

b. Removing the claw-back provision

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

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

e. Allowing affected MNEs to make a one-off election/re-election to claim WDA over a specified number of years based on prescribed accounting standards

f. Incentivising 'evolutionary' innovation activities

g. Making Singapore's R&D tax regime (sections 14C and 14D) permanent

h. Expanding the scope of qualifying R&D expenses to include a proportion of overheads

i. Allowing a limited range of outsourced R&D activities carried out overseas to be claimed

For more details on (a) to (i), please refer to our Singapore Budget 2023 Feedback.

4. Climate and sustainability

The impetus for climate action in Singapore

In May 2023, Singapore faced a stark reminder of the impacts of climate change when temperatures soared to a record-breaking 37 degree Celsius. This event underscored the urgent need for decisive climate action. In response, the Singapore government is taking significant steps to reduce carbon emissions. One key strategy is the substantial increase in the carbon tax. Set to rise from S$5 to S$25 per tonne of emission by 2024, this hike is expected to cover 80% of national emissions, reflecting Singapore's commitment to a more sustainable future. The increased tax is projected to generate over S$1 billion annually by 2025, contributing significantly to the national budget.

Singapore's long-term environmental strategy includes the possibility of capping annual emissions at 60 megatonnes by the end of the decade. Further increases in the carbon tax could raise additional revenue, potentially amounting to S$3-5 billion annually after 2030. These measures are part of a broader effort to promote sustainable practices and reduce the country's carbon footprint, demonstrating Singapore's proactive approach to addressing global climate challenges.

4.1 Incentivising adaptation investments

We recommend directing a portion of the carbon tax revenue to support the transition towards decarbonisation and a circular economy. Currently, the shift is hindered by the lack of a widespread "repair culture," leading to a preference for discarding and replacing items over repairing them. While the benefits of reusing and recycling are evident, the initial costs for businesses to modify processes and adopt new technologies are significant.

To encourage this transition, it is suggested that financial incentives be provided. These could include accelerating the deployment of new technologies and offering tax deductions for businesses actively adopting circular economy practices. Such strategic investments are essential for mitigating climate-related risks and fostering a more sustainable economic model.

4.2 Advancing collaborative climate agreements

We propose enhancing the role of trade agreements in addressing climate change. Singapore's recent MOUs with countries like Costa Rica and Senegal demonstrate this commitment. Beyond economic ties, these agreements can significantly influence global environmental efforts.

We recommend a stronger focus on the trade of clean energy from renewable sources. Projects like the Lao PDR-Thailand-Malaysia-Singapore Power Integration and the forthcoming Singapore-Vietnam deal, set for 2033, serve as models. Such collaborations are more than trade agreements; they represent a collective dedication to a low-carbon future.

By prioritising clean energy imports, Singapore aims to import 4 gigawatts of low-carbon electricity by 2035, fostering economic growth and benefiting the supply chain. This approach not only reinforces Singapore's leadership in ASEAN's climate action but also opens up business opportunities and deepens international cooperation. Integrating clean energy trade into our agreements is a strategic move towards sustainable and collaborative global climate solutions.

4.3 Administration of transition credits: Recommendations with Timelines

We recommend refining the International Carbon Credit (ICC) framework, introduced in October 2023, in anticipation of Singapore's carbon tax increase to S$25 per tonne in 2024. It is also suggested that carbon credits be priced affordably, especially for projects with significant environmental impact, such as mangrove reforestation, which are likely to exceed the new tax rate.

A pivotal recommendation is for MAS to develop 'transition credits', as proposed in September 2023. These credits should assist in phasing out coal-fired power plants, encouraging a shift towards cleaner energy sources. We urge MAS to expedite the detailing of these 'transition credits', providing clear guidelines and implementation strategies to align with the 2024 tax hike. This approach will be crucial for the effective integration of transition credits into Singapore's evolving carbon market.

4.4 Assessing the EU’s Carbon Border Adjustment Mechanism (CBAM) and its relevance

We recommend closely examining the EU’s CBAM, initiated in October 2023 with full implementation by January 2026. CBAM aims to level the playing field between EU and non-EU manufacturers by targeting carbon emissions from specific imports. This mechanism is designed to prevent "carbon leakage," where businesses might shift operations to countries with less stringent emission controls.

While CBAM is a significant step in addressing climate change, it has raised some concerns, particularly among developing economies. These concerns are centered around the challenges they might face in adapting to the mechanism's requirements due to differing stages of sustainable development.

Recognising these complexities, the WTO has initiated efforts towards a more uniform global carbon pricing system, which could offer a balanced solution. This approach is seen as a way to maintain fair trade practices while advancing environmental goals.

For Singapore, it is essential to understand the implications of CBAM, especially in the context of our own environmental initiatives and carbon tax policies. Ensuring that these global measures complement rather than contradict our efforts is crucial in maintaining the integrity of our climate actions and emission accounting.

4.5 Upskilling for a sustainable future

We emphasise the importance of supporting workers in the shift towards a sustainable and circular economy. Providing comprehensive training is key to preparing them for new roles in this changing environment. The success of a green economy hinges on the adaptability and ambition of our workforce.

We acknowledge and appreciate the government's efforts in offering specialised courses that maximise our human capital and promote the growth of green businesses. However, skill development needs to extend beyond understanding technical aspects like decarbonisation strategies and carbon accounting. It is equally important to focus on effectively communicating these concepts to stakeholders and the public, preventing issues like greenwashing and misinformation.

Therefore, we advocate for an increased focus on sustainability courses that emphasise communication skills, applicable even in roles not traditionally considered 'green'. This approach will significantly support companies in their transition towards sustainable and circular business models.

5. Financial services industry

As we move into 2024, Singapore's financial services industry continues to demonstrate agility and resilience, successfully navigating an environment of heightened uncertainty and volatility. This enduring strength is a testament to the industry's adaptability and the proactive support from the Government, especially as Singapore cements its position in the digital economy.

As the global landscape evolves, it is crucial for the Government to intensify its support and guidance in the area of tax policies, particularly in the realms of fund management and banking. These sectors are pivotal in driving Singapore's ambition to be a leading financial center in Asia and an asset management hub.

5.1 Fund management industry

a. Clarification and expansion of the "Designated Investments" list

b. Enhancements to section 13D

c. Enhancements to section 13U

d. Enhancements that affect both sections 13D and 13O

e. Enhancements that affect both sections 13O and 13U

f. Enhancements that affect both sections 13D and 13U

g. Enhancements that affect sections 13D, 13O and 13U

h. GST and WHT exemption

For more details of (a) to (h), please refer to our Singapore Budget 2023 Feedback.

5.2 Banking industry—extension of the temporary lifting of section 14G tax deduction caps for banks and finance companies

For details on the above, please refer to our Singapore Budget 2023 Feedback.

6. Personal tax

The measures proposed below aim to strategically refine and optimise our progressive personal tax system, aligning it more effectively to the evolving economic landscape. Through a thoughtful recalibration of tax reliefs and incentives, we hope that the system will be more responsive and relevant to the needs of our society.

6.1 Adjusting tax exemption threshold for benefits-in-kind

Considering the persistent inflationary pressures and the recent hike in the GST from 7% to 8%, with a further increase to 9% scheduled for 1 January 2024, the static S$200 threshold for tax exemption under the administrative concession for benefits in kind appears increasingly misaligned with the actual cost of living. To address this, a revision of the current threshold is advisable. Elevating the exemption limit to S$350 would not only reflect the current economic climate more accurately but also provide a more equitable tax relief for individuals receiving such benefits. An updated threshold would ensure that the tax exemption retains its intended value and continues to serve as a meaningful concession in light of economic changes.

6.2 Mortgage Interest Relief for Owner-Occupied Homes

Amidst escalating housing costs and rising mortgage interest rates, introducing a tax relief for mortgage interest on owner-occupied homes could provide significant respite, particularly for the middle class who shoulder a considerable tax burden. To implement this relief effectively and prevent exploitation, the following conditions are proposed:

- instituting a relief cap, potentially set at S$10,000 annually, reflective of the median mortgage interest for middle-income households;
- restricting eligibility to Singapore citizens and SPRs; and
- limiting the relief to individuals without investment or rental property ownership within Singapore.

The introduction of such a tax relief would not only alleviate financial pressures associated with homeownership but also reinforce the government's encouragement of home ownership.

6.3 Enhancing the Progressive Nature of Singapore's Tax System

As Singapore grapples with the dual demographic challenges of an aging population and lower birthrate, there is an increasing need for the tax system to offer targeted relief to taxpayers. The current economic climate, characterised by a rising cost of living, calls for a reassessment of personal tax reliefs to ensure they fulfill their intended purpose. The government's consideration of the following proposals could serve to alleviate the financial pressures on individuals and households while simultaneously incentivising population growth and supporting elder care.

The existing limit on personal tax reliefs, set at S$80,000 per Year of Assessment (YA), ensures that the advantages for high-income earners are bounded. Adjusting the relief structure could disproportionately benefit lower and middle-income earners, thereby fostering a more equitable and progressive tax framework.

In this regard, we propose to:

a. **Establish permanent tax-deductible donations**
   To promote lasting philanthropy and contributions to societal improvement, the Government may want to reevaluate and enhance the tax deductions for donations. Increasing the deduction from 2.5 times to, for example, 3 times the donation amount could encourage more substantial contributions. Additionally, making this tax deduction permanent, beyond the current end date of 31 December 2026, would provide greater assurance and stability for philanthropic endeavors.

b. **Recalibrate the earned income relief**

c. **Recalibrate the spouse relief**

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

e. **Introduce a childcare/infant care relief**

f. **Shared parental leave**

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

h. **Provide relief for MediShield Life premiums**

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

j. **Review and increase the quantum of NsMan relief**

k. **Supplementary Retirement Scheme (SRS) contribution top-ups**

For more details of (b) to (k), please refer to our Singapore Budget 2022 Feedback.

6.4 Other recommendations

We would like to bring forward the following recommendations once again, with a hopeful outlook for their potential acceptance by the government:

a. **Refine tax rules for employee share schemes**

b. **Introduce standardised deductions for employees who work from home**

c. **Remove or increase current cap of S$5,500 for course fee relief**

d. **Expedite the expansion of the SkillsFuture Credit**

For more details of (a) to (d), please refer to our Singapore Budget 2023 Feedback.

7. Immigration

As the 'future of work' continues to evolve, attracting highly skilled individuals to Singapore has become a key priority. This intensifies global competition in acquiring, developing, and retaining talent. To enhance Singapore's appeal as a work destination for inbound talent and to address talent shortages, we propose the following initiatives:

7.1 Qualifying salary requirements for Employment Pass (EP)

Currently, EP candidates are subject to EP qualifying salary requirement which increases progressively with age. Whilst the EP qualifying salary is higher for financial services, it is consistent for other sectors. Having said that, we are of the view that this overlooks the variations in the market conditions across different sectors. Therefore, in line with the sector-specific salary benchmarks under the COMPASS Framework, we propose that the EP qualifying salary requirements be differentiated across various sectors rather than just distinguishing between financial and non-financial sectors.

Furthermore, we recommend the MOM to consider initiating a tiered approach to EP qualifying salaries, contingent upon the size of the sponsoring company. Such an approach would aid small and medium-sized enterprises in meeting EP eligibility requirements as they might not be able to offer a competitive salary.

7.2 COMPASS Qualification points

Under COMPASS, EP applicants can earn 10 points for degree-equivalent qualifications that are assessed to be comparable to a bachelor's degree in the UK system, with reference to international recognition bodies. More points are awarded for qualifications from top-tier institutions. However, based on our observations since the launch of COMPASS on 1 September 2023, we note a lack of clarity on the eligibility to earn points under the Qualification criterion. Some applications meeting the bachelor's degree requirement did not receive COMPASS points whilst others lacking such qualifications did. Hence, greater transparency in the MOM's criterion for academic qualifications is needed for employers in their selection for the most suitable candidate.

7.3 Other recommendations

We would like to reiterate the following recommendations, remaining hopeful that the government will give them due consideration:

a. **COVID-19 Vaccination Requirements**

b. **Availability of Letter of Consent (LOC) for Dependent's Pass types other than the Overseas Networks & Expertise Pass (ONE Pass)**

c. **Training Employment Pass (TEP)**

d. **Intra-Corporate Transferee (ICT)**

e. **Entry Visa to Singapore or Business Travel Pass**

For more details of (a) to (e), please refer to our Singapore Budget 2023 Feedback.