DENTONS RODYK

Budget 2022 Tax Developments

28 February 2022

Introduction

On 18th February 2022, Minister for Finance Lawrence Wong delivered Singapore's 2022 Budget Statement. As the world enters its third year in dealing with the COVID-19 pandemic, governments around the world have been running large budget deficits to cope with the pandemic's economic ramifications. Singapore is no different – close to S$100 billion has been committed to support Singaporeans and businesses through the uncertainties of COVID-19. Therefore, in our previous budget alert, we had predicted that many countries, Singapore included, would be expected to increase tax rates or to introduce new taxes to collect more tax revenue to cover the deficits of the last few years.

However, as a global financial hub whose light-touch tax regime has for decades been a key competitive advantage in attracting foreign capital, the introduction of new taxes in Singapore is easier said than done. This exercise requires a careful balancing of competing interests, and Singapore must ensure that it continues to be attractive to foreign investment and maintain its status as a leading wealth management hub. In this article, we introduce the tax changes announced in this year's Budget Statement, and discuss local tax developments that has happened over the past year.

A. Summary of Budget 2022 Tax changes

1. Building a Fairer and More Resilient Tax System

a. Increase in personal income tax for tax-resident individual taxpayers

b. Increase in property taxes for residential properties

c. Introduction of a new Additional Registration Fee tier for vehicles

d. Increase in the GST rate

2. Maintaining the Competitiveness and Resilience of the Tax System

a. Introduction of the Minimum Effective Tax Rate Regime

b. Enhancement and/or extension of schemes specific to various industries

3. Facilitating Disclosure of Company-related Information by IRAS

a. Pending amendments to the Income Tax Act 1947 and Goods and Services Tax Act 1993

4. Local Tax Developments in 2021-2022

a. Increase in the Additional Buyer's Stamp Duty

b. Statute Law Reform Bill and the amendments to the Income Tax Act 1947

B. Building a Fairer and more Resilient Tax System

Wealth Taxes in Singapore

With rising social inequality exacerbated by the COVID-19 pandemic, many countries began exploring the feasibility of a net wealth tax. In our article on wealth taxes earlier this year, we noted that Member of Parliament Jamus Lim proposed that Singapore impose a wealth tax of 0.5% to 2% on the wealthiest individuals to reduce wealth inequality and to diversify Singapore's revenue sources. However, we observed that such a tax is administratively inefficient and cumbersome to implement, and a tax on net worth might also undermine Singapore's attractiveness to foreign investors and high net-worth families. This sentiment was echoed by the Minister of Finance in the 2022 Budget Statement, who stated that "*many forms of wealth are mobile, and if there are differences in wealth taxes across jurisdictions, such wealth can and will move*". Therefore, instead of introducing a new wealth tax, the government will be enhancing the current system of taxes with a focus on making these taxes more progressive.

Personal Income Tax

The personal income tax regime in Singapore is progressively-structured, as individuals earning a higher income are taxed at a higher rate compared to those earning a lower income. This accords with the notion of vertical equity – those who earn more should contribute more in taxes. However, with a top marginal tax rate of 22% that has remained unchanged since 2017, it was announced that there is greater room for progressivity, especially for those at the upper income tax brackets.

Therefore, with effect from the Year of Assessment 2024, chargeable income in excess of S$500,000 and up to S$1 million will be taxed at 23%, and chargeable income in excess of S$1 million will be taxed at 24%. This change is represented in the last two rows of the table below, and is expected to affect the top 1.2% of personal income taxpayers.

Chargeable income (S$)		Tax Rate (%)	Gross Tax Payable (S$)
On the first	20,000	0	0
On the next	10,000	2	200
On the first	30,000	-	200
On the next	10,000	3.5	350
On the first	40,000	-	550
On the next	40,000	7	2,800
On the first	80,000	-	3,350
On the next	40,000	11.5	4,600
On the first	120,000	-	7,950
On the next	40,000	15	6,000
On the first	160,000	-	13,950
On the next	40,000	18	7,200
On the first	200,000	-	21,150
On the next	40,000	19	7,600
On the first	240,000	-	28,750
On the next	40,000	19.5	7,800
On the first	280,000	-	36,550
On the next	40,000	20	8,000

On the first	320,000	-	44,550
On the next	180,000	22	39,600
On the first	***500,000***	***-***	***84,150***
On the next	***500,000***	***23***	***115,000***
On the first	***1,000,000***	***-***	***199,150***
In excess of	***1,000,000***	***24***	

As Singapore does not tax capital gains, the distinction between what is capital and what is income is critical, as the latter is taxed whereas the former is not. Therefore, while this increase in the top marginal tax rate would not affect taxpayers enjoying capital gains, it is likely that the Inland Revenue of Singapore (IRAS) would be incentivised to categorise receipts as income rather than as capital.

In addition, corporations in Singapore are taxed at a flat corporate tax rate of 17%, which is not progressively-structured. Therefore, given the increase in the gap between the headline rate for personal and corporate income tax, we would not be surprised if sole proprietors are spurred into corporatising their businesses to enjoy a lower tax rate. However, such arrangements might fall foul of the anti-avoidance provisions under the Income Tax Act 1947 (ITA), and we expect that IRAS will strengthen enforcement measures to weed out arrangements that are conducted solely for a tax avoidance purpose.

Property Tax

Owners of property in Singapore are required to pay property tax annually, which is calculated by multiplying the annual value of the property by the corresponding property tax rate. Annual value is based on the estimated gross annual rent of the property if it were to be rented out. Given that wealth is often stored in real estate, property tax remains to be Singapore's principal means of taxing wealth. As such, it was announced that property tax rates for owner-occupied residential properties will be increased for the portion of annual value in excess of S$30,000. This increase will be phased in over two years, starting from 1 January 2023:

Annual Value (S$)	Effective 1 Jan 2023	Effective 1 Jan 2024
First $8,000	0%	0%
Next $22,000	4%	4%
Next $10,000	5%	6%
Next $15,000	7%	10%
Next $15,000	10%	14%
Next $15,000	14%	20%
Next $15,000	18%	26%
Above $100,000	23%	32%

Moreover, property tax rates for non-owner-occupied residential properties will also be increased over two years, starting from 1 January 2023:

Annual Value (S$)	Current Rate	Effective 1 Jan 2023	Effective 1 Jan 2024
First $30,000	10%	11%	12%
Next $15,000	12%	16%	20%
Next $15,000	14%	21%	28%
Next $15,000	16%	NA	NA
Next $15,000	18%	NA	NA
Above $60,000	18%	27%	36%
Above $90,000	20%	NA	NA

While property tax rates have been increased across the board for all annual value brackets, the tax impact is expected to be felt most acutely by the top few percent of residential property owners. For example, for owner-occupied properties, there is little impact on the man on the street. Assuming he lives in a property with an annual value below S$30,000 (e.g. most HDBs and some suburban condominiums), there will not be a change in the amount of property tax payable. However, for a wealthier person who lives in a property with an annual value of S$150,000 (e.g. larger landed property), he would need to pay an additional S$15,400 in property tax in 2024.

Annual Value (S$)	Expected change in Property tax payable in 2024
$30,000 (e.g., most HDBs and some suburban condominiums)	**No change**
$150,000 (e.g., larger landed properties)	**+$15,400**

In addition, where a person owns a property for investment purposes (non-owner-occupier) with an annual value of S$40,000 (e.g. a condominium in a central location), they are expected to pay an additional S$1,400 in property taxes in 2024. Therefore, in line with the recurring theme of this year's budget, property tax rates are now even more progressive than before.

Annual Value (S$)	Expected change in Property tax payable in 2024
$40,000 (e.g. condominiums in a central location)	**+$1,400**

When fully implemented, such revisions to the property tax regime would raise tax revenues collected by an estimated S$380 million. Such an amount is considerable when compared to revenues raised from the changes to the personal income tax (S$170 million) and Additional Registration Fee for vehicles (approximately S$50 million) regimes. This observation further underscores Singapore's propensity in utilizing real estate taxes to strengthen its tax base and reduce wealth inequality, given that it is administratively easy to implement and that a large proportion of the wealthy in Singapore store their wealth in real estate.

New tier in the Additional Registration Fee regime

In our article on wealth taxes, we observed that Singapore does not distinguish between households based on the number of vehicles they own. As such, we predicted that a tax could be levied on households with multiple vehicles, and if not, a higher tax rate be levied on more expensive luxury cars to reflect the degree of progressivity in motor vehicle taxes. While the former prediction did not materialise, the government will be introducing a new Additional Registration Fee tier at a rate of 220% for cars with an open market value in excess of S80,000.

Open Market Value (OMV) (S$)	Additional Registration Fee rate
First $20,000	100% of OMV
Next $30,000	140% of OMV
Next $30,000	180% of OMV
In excess of $80,000	220% of OMV

Goods and Services Tax (GST) increased to meet recurrent spending needs

While initially announced in the 2018 Budget, the GST hike was delayed in the 2020 Budget due to the COVID-19 pandemic. Nevertheless, to meet Singapore's recurrent spending needs, the GST rate increase will take place in two tranches:

a) From 7% to 8% with effect from 1 January 2023; and
b) From 8% to 9% with effect from 1 January 2024.

It should be noted that while GST is fundamentally a regressive tax, its regressive nature is mitigated by the various measures introduced by the government, such as the GST voucher scheme and U-Save rebates. Therefore, although GST is imposed on all consumers, those who are less wealthy would benefit from these schemes that are unavailable to wealthier consumers.

C. Maintaining the Competitiveness and Resilience of the Tax System

Base Erosion and Profit Shifting (BEPS) 2.0 Initiative and the study of the Minimum Effective Tax Rate (METR) Regime

The OECD's BEPS 2.0 initiative consists of two pillars:

a) **Pillar One** aims to make Multi-National Enterprises (MNEs) pay taxes in the countries where consumers are located.
b) **Pillar Two** on the other hand, introduces two sets of interlocking rules, the Income Inclusion Rule (IIR) and the Undertaxed Payment Rule (UTPR), to set a global minimum tax rate of 15% for MNEs with annual global revenues of €750 million or more. There is also a separate Subject to Tax Rule (STTR) which requires paying jurisdictions to levy a top-up charge on certain intercompany payments where the payment is regarded to be undertaxed in the recipient jurisdiction.

Due to Singapore's relatively small domestic market and the extent of activities conducted by MNEs, it was conceded during the Budget that Singapore is likely to lose tax revenue under Pillar One.

In relation to Pillar Two, the OECD recently released Model Rules for Pillar Two on 20 December 2021, which sets out detailed rules for the implementation of the IIR and the UTPR. Under the operation of these rules, if the effective tax rate of the prescribed income of an entity in Singapore falls below the minimum tax rate of 15%, other jurisdictions where the group is based in (e.g., the home jurisdiction) can tax the difference under the IIR or the UTPR. This would mean that Singapore would be conceding tax revenues to other jurisdictions unnecessarily. However, certain groups such as investment funds and real estate investment vehicles are excluded from the scope of the IIR and the UTPR.

As such, it is of no surprise that in this year's Budget, it was announced that Singapore will be exploring the feasibility of a METR, which will top up the MNE group's effective tax rate in Singapore to 15% if the MNE is not already paying taxes in Singapore at 15%. However, this endeavour is not as easy as it seems, particularly due to the complexities of the rules and the difficulties of addressing the interactions between the new tax regime and Singapore's existing domestic legal framework. Governments around the world face similar challenges in pushing through the required changes to their laws. Regardless, the introduction of the METR will be a huge reform of the Singapore tax framework. Due to the manner in which the IIR and the UTPR are designed to compute the income in scope, the introduction of the METR as per the Model Rules for Pillar Two is anticipated to have a significant impact on the competitiveness and attractiveness of the Singapore tax system, including its tax incentive schemes, non-taxation of capital gains, and the quasi-territorial nature of its tax system where foreign-sourced income is not taxed unless remitted. Other questions remain unanswered, such as how would the award of "green" tax reliefs interact with Pillar Two – would it erode the benefit of such tax reliefs?

The OECD has set an ambitious timeframe for the Pillar Two rules to be implemented in 2023, with the UTPR coming into effect in 2024. However, there is still uncertainty as to whether countries (including countries that are major trading partners of Singapore and major sources of foreign investment) are able to meet this deadline. It is likely that Singapore will continue to monitor international developments before making any substantive decisions on the implementation of the METR. Companies would also have to wait and see what new changes will be brought to Singapore's existing suite of tax incentives.

This tsunami wave of changes which is set to come will significantly alter international corporate tax planning as we know it. Companies impacted by Pillar Two would have to invest significant time and resources to understand the rules and implement changes to their tax compliance / data collection processes. Apart from dealing with compliance requirements, companies looking to be better prepared for Pillar Two should also aim to review their structures to identify and simplify such intercompany arrangements and holding structures that are no longer efficient in a post-Pillar Two world.

Enhancement and/or extension of schemes specific to various industries

We note that various measures have been announced that are specific to their respective industries, including:

a) Extension of the withholding tax exemption for container lease payments made to non-tax-resident lessors under operating lease agreements;
b) Extension of the withholding tax exemption for ship and container lease payments under finance lease agreements for the Maritime Sector Incentive recipients;
c) Extension of the Aircraft Leasing Scheme;
d) Extension and enhancement of the Approved Royalties Incentive;
e) Extension of the Approved Foreign Loan scheme;
f) Extension of the tax framework for facilitating corporate amalgamations under Section 34A of the ITA to Licensed Insurers;
g) Extension of the withholding tax exemption for the financial sector;
h) Extension of the tax incentives for Project and Infrastructure Finance;
i) Updating of the GST treatment for travel arranging services; and
j) Extension of withholding tax exemptions for non-tax-resident arbitrators and mediators.

For clients who are involved in these industries and are interested to know how these measures would affect them, please feel free to contact us.

D. Facilitating Disclosure of company-related information by IRAS

Pending amendments to the Income Tax Act and the Goods and Services Act

Currently, pursuant to Section 6 of the ITA and Goods and Services Tax Act 1993 (GST Act), information submitted by taxpayers under the ITA and GST Act are confidential, and can only be shared in prescribed circumstances. For example, where the consent of the taxpayer has been obtained, IRAS can disclose that information to a public officer for the performance of his official duties. On the other hand, where taxpayers' consent has not been obtained, IRAS can only disclose taxpayers' information to public agencies in certain circumstances (e.g. to the Department of Statistics for the census).

Pending amendments to the ITA and GST Act will allow IRAS to disclose a prescribed list of identifiable information on companies to public sector agencies for the performance of official duties, even if the taxpayer's consent has not been obtained. As an example, the amendments will allow for the disclosure of the sales revenue band an identified company belongs to, but not its exact sales revenue.

One implication that we foresee is that whatever that is disclosed in the taxpayer's tax return must be consistent with what is disclosed to other governmental agencies. For example, when companies employ foreigners in Singapore, the income stated in the application for an employment pass must be consistent with the income that is reported in the Form IR8A. Otherwise, it is likely that this inconsistency will be easily discovered, and consequences will ensue. We note that the sales revenue band is the only example that was provided in the Budget Statement, and it remains to be seen what other information will be included in the prescribed list.

E. Local Tax Developments in 2021 – 2022

Additional Buyer's Stamp Duty raised

On 16 December 2021, the Additional Buyer's Stamp Duty (ABSD) was raised:

Types of Buyers	Purchasing # residential property	Rates before 15 December 2021	Rates on or after 16 December 2021
Singapore Citizens	First	0%	0%
	Second	12%	17%
	Third & Subsequent	15%	25%
Permanent Residents	First	5%	5%
	Second	15%	25%
	Third & Subsequent	15%	30%
Foreigners	Any number	20%	30%

While these changes were first presented as property-cooling measures, seen in the light of the 2022 Budget, it is likely that the ABSD hike was in effect, another form of wealth tax. This is because the hike clearly targets wealthier homeowners in the private housing market as it only applies to purchasers who acquire additional properties. In addition, it should be noted that the ABSD hike on foreigners is in line with the government's policy on property, which is to ensure that Singaporeans are able to purchase properties for home ownership, rather than for properties to be purchased for investment purposes.

Statute Law Reform Bill and the amendments to the Income Tax Act

As a result of the Statute Law Reform Bill which aimed to make legislation easier to understand, some provisions in the ITA were also renumbered. For practitioners familiar with the exemptions under Section 13 of the ITA, the renumbering would have caught them by surprised as the oft-cited 13X or 13R Fund Incentive is now the 13U or 13O Fund Incentive. Here, we list out some of the more common exemptions and their updated suffixes:

Previous	Current	Type of exemption
13X	13U	Exemption of income arising from funds managed by fund manager in Singapore
13R	13O	Exemption of income of company incorporated and resident in Singapore arising from funds managed by fund manager in Singapore
13CA	13D	Exemption of income of prescribed persons arising from funds managed by fund manager in Singapore
13Q	13N	Exemption of relevant income of prescribed locally administered trust
13G	13F	Exemption of income of foreign trust

Also, although there has been speculation that the qualifying conditions of the exemptions would be made stricter, no change has been announced this year. We note that approval for the more common exemptions will cease to be granted after 31 December 2024. Therefore, it remains to be seen if the qualifying conditions will be made stricter, or if the exemptions will continue to be granted in light of the proposed METR as discussed above.

Conclusion

The wide-ranging tax measures announced in this year's budget came as no surprise. After dipping into the reserves for the past two years to fund various support measures such as the COVID-19 Resilience Package, it was imperative that the government explore new ways to increase Singapore's tax revenue. However, preparing Singapore's budget is a careful balance of competing objectives. Singapore must ensure that it continues to be attractive to foreign investors and maintain its status as a leading wealth management and financial hub. Otherwise, any increase in tax revenue might be short-lived if businesses and high-net-worth individuals choose to relocate to another jurisdiction. Overall, we think that these increased tax measures will not deter foreign investment or high-net-worth families from coming to Singapore to set up family offices. However, it remains to be seen how Singapore will adapt in light of international tax developments that challenge the status quo such as the BEPS 2.0 Initiative.

Dentons Rodyk thanks and acknowledges Practice Trainee Sam Cho Joo for his contributions to this article.

Key contacts

Edmund Leow, SC
Senior Partner
Corporate

D +65 6885 3613
E edmund.leow@dentons.com

Chun Ying Ng
Partner
Corporate

D +65 6885 3655
E chunying.ng@dentons.com

Jeremy Goh
Senior Associate
Corporate

D +65 6885 3863
E jeremy.goh@dentons.com

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