DENTONS RODYK

Budget 2023 Tax Developments

17 February 2023

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“Mr Speaker, this Budget is about moving forward in a new era – a period of great uncertainty and troubles in the external environment, which will pose formidable challenges for all of us”

A. Introduction

On 14 February 2023, Deputy Prime Minister Lawrence Wong delivered Singapore’s 2023 Budget Statement. He observed that the world has moved into a new era, an era of “zero-sum thinking” as coined by the Minister himself, plagued with uncertainties caused by challenges from rising inflation, ongoing conflicts and increasing geopolitical rivalry between Great Powers. Taxation has been no stranger to uncertainty either, particularly in recent times with the introduction of the Base Erosion and Profit Shifting (BEPS) 2.0 Framework.

In this client alert, we seek to highlight the key tax changes that were introduced in Budget 2023 that are most relevant for our clients.

B. Key Highlights for Businesses and Multinational Enterprises (MNES)

1. Implementation of Minimum Effective Tax Rate under Pillar 2 of BEPS 2.0 slated for 2025

On 8 October 2021, the OECD released the statement reflecting the consensus arrived by the OECD/G20 Inclusive Framework on the two-pillar solution to address the tax challenges arising from the digitalization of the economy:

a. Pillar One aims to make 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.

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It was announced in last year's Budget that Singapore would be exploring the feasibility of a top-up tax, to top up the effective tax rate of multinational enterprises to 15%. In Budget 2023, the Minister of Finance has confirmed that Singapore plans to implement the Global Anti-Base Erosion Rules (namely, the IIR and UTPR) as well as a Domestic Top-Up Tax from businesses' financial year starting on or after 1 January 2025 to meet its Pillar Two commitments, in line with jurisdictions such as the European Union, United Kingdom, and Switzerland.

It was emphasized during the Minister's speech however, that international developments regarding BEPS 2.0 are fluid at the moment, and should there be additional delays, implementation timelines will be adjusted with sufficient notice being given to companies well ahead of the implementation of the policies mentioned above.

To offset the impact of this top-up tax, the Ministry of Finance will consider updating industry development schemes to ensure that Singapore remains competitive in attracting and retaining investments. In his speech, the Minister acknowledged that with BEPS 2.0 on the horizon, Singapore has less scope to use tax incentives to attract investments, which is a clear recognition in parliament that the government is moving away from tax incentives when BEPS fully kicks into action.

Based on the Minister's comments on the timeline for implementation of Pillar Two in Singapore, it is possible that other countries may implement IIR and UTPR ahead of Singapore in their domestic legislation. There are also other countries which may also delay the implementation of Pillar Two, the most significant of these countries for Singapore being the USA. The inconsistencies in the effective date for implementation across the different countries may result in companies having to deal with significant changes in their tax filings from year to year. We foresee that the corporate tax compliance and planning landscape will be turbulent in the coming years as we enter into unchartered waters. The uncertainty in an already turbulent global taxation landscape would be exacerbated if the US chooses not to implement Pillar Two of BEPS, particularly so for Singapore given that it is a major recipient of US investment.

2. Extension and Refinement of Various Tax Incentive Schemes

Various tax incentive schemes have been extended and/or refined, including the following:

- Investment Allowance (IA) Scheme has been extended till 31 December 2028, and the IA-100% scheme for Automation Projects has been extended till 31 March 2026;
- The Pioneer Certificate Incentive (PC) and Development and Expansion Incentive (DEI) have both been extended till 31 December 2028; and
- The IP Development Incentive (IDI) has been extended till 31 December 2028.

The global minimum tax rate under Pillar Two applies to MNEs with annual global revenues of €750 million or more. For MNEs with revenues under this threshold however, tax incentives continue to be relevant since the minimum tax rate of 15% will not apply to them, and this would be in line with the government continuing to extend the various tax incentives in Budget 2023.

For the financial sector, the following tax schemes have been extended and/or refined:

- The Qualifying Debt Securities (QDS) Scheme has been extended till 31 December 2028 with some modifications. The scope of qualifying income under the QDS scheme will be streamlined and clarified such that it includes all payments in relation to early redemption of a QDS. Details have also been provided regarding the requirement that the QDS has to be substantially arranged in Singapore;

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- The Financial Sector Incentive (FSI) Scheme has been extended till 31 December 2028. The existing concessionary tax rates have also been streamlined to two tiers of 10% and 13.5% for new and renewal awards approved on or after 1 January 2024, as follows:

  a. FSI-Capital Market, FSI-Derivatives Market and FSI-Credit Facilities Syndication: From 5% to 10%;
  b. FSI-Fund Management and FSI-Headquarter Services: Remains at 10%;
  c. FSI-Trustee Companies: From 12% to 13.5%;
  d. FSI-Standard Tier – Remains at 13.5%.

3. Introduction of the Enterprise Innovation Scheme

The Minister has also introduced the Enterprise Innovation Scheme (EIS) to encourage innovation. Under this scheme, tax deductions of up to 400% for the first SGD$400,000 of the following expenditures per year of assessment (YA) will apply for YA 2024 to 2028:

- Staff Costs and Consumables incurred on qualifying R&D projects conducted in Singapore;
- Qualifying IP Registration Costs;
- Qualifying expenditure incurred on the acquisition and licensing of IP rights;
- Qualifying training expenditure incurred on qualifying courses; and
- Qualifying innovation expenditure on qualifying innovation projects carried out with qualified partners (limited to first SGD$50,000)

There would also be an option to convert 20% of total qualifying expenditure per Year of Assessment across qualifying activities in lieu of tax deductions or allowances, into a cash payout of up to SGD$20,000.

Given the deduction cap of SGD$400,000, the EIS is likely to be more relevant for small to medium-sized enterprises in Singapore.

4. Other Tax Changes

Other notable tax changes include:

- Extension of sunset dates for deductions under s14A, s14C, s14D, s14U and s19B of the ITA till YA 2028;
- The option to accelerate write-off of the cost of acquiring plant and machinery; and
- The option to accelerate the deduction for renovation or refurbishment expenditure.

C. Key Highlights for High-Net-Worth Individuals

1. Raising of Buyer’s Stamp Duty (BSD)

For properties acquired on or after 15 February 2023, higher marginal BSD rates will apply for higher-value residential and non-residential properties. Additional conveyance duties for buyers, which applies to qualifying acquisitions of equity interest in property holding entities would also be adjusted in line with these amendments.

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<table>
<tr><th rowspan="2">Property Value (SGD)</th><th colspan="2">Marginal BSD Rates on <u>Residential Properties</u></th></tr>
<tr><th>On or Before 1 Feb 2023</th><th>On or After 15 Feb 2023</th></tr>
<tr><td>First $180,000</td><td>1%</td><td>1%</td></tr>
<tr><td>Next $180,000</td><td>2%</td><td>2%</td></tr>
<tr><td>Next $640,000</td><td>3%</td><td>3%</td></tr>
<tr><td>Next $500,000</td><td rowspan="3">4%</td><td>4%</td></tr>
<tr><td>Next $1.5million</td><td>5% (new)</td></tr>
<tr><td>In excess of $3million</td><td>6% (new)</td></tr>
</table>

<table>
<tr><th rowspan="2">Property Value (SGD)</th><th colspan="2">Marginal BSD Rates on <u>Non-Residential Properties</u></th></tr>
<tr><th>On or Before 1 Feb 2023</th><th>On or After 15 Feb 2023</th></tr>
<tr><td>First $180,000</td><td>1%</td><td>1%</td></tr>
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<tr><td>Next $500,000</td><td>4% (new)</td></tr>
<tr><td>In excess of $1.5million</td><td>5% (new)</td></tr>
</table>

To provide for a smoother transition, BSD rates on or before 14 February 2023 will apply for cases that meet the conditions below:

i. The Option to Purchase (OTP) was granted by sellers to potential buyers on or before 14 February 2023
ii. This OTP is exercised on or before 7 March 2023, or within the OTP validity period, whichever is earlier; and
iii. This OTP has not been varied on or after 15 February 2023

As the increase in BSD only affect higher-value properties, the tax impact will mostly be felt by the top few percent of property owners.

2. Ongoing Tax Developments from Budget 2022

In Budget 2022, several tax changes were introduced to achieve a more progressive tax system. The following tax changes are notable:

- From YA 2024 onwards, the top marginal personal income tax rate will be increased to 24%, which applies to chargeable income in excess of SGDS$1,000,000.
- The GST rate is currently 8% and will be increased to 9% starting from 1 January 2024.
- Property tax rates have been increased on 1 January 2023, and is slated to increase once more on 1 January 2024 with the top marginal tax rate being 32% for owner-occupier residential properties and 36% for non-owner-occupier residential properties.

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3. Extension of the 250% Tax deduction for qualifying donations to IPCs and Eligible Institutions

The trend towards philanthropy is not unique to Singapore. At its heart, philanthropy counterbalances global inequality, and governments around the world have encouraged philanthropy in different ways, with the wealthy becoming more conscious of philanthropy as a result.

In Singapore, when qualifying donations are made to Institutions of Public Character (IPCs) and other eligible institutions, donors are eligible for a 250% tax deduction. This tax deduction has been extended to qualifying donations made from 1 January 2024 to 31 December 2026, to encourage Singaporeans to continue giving back to the community.

4. Introduction of a Philanthropy Tax Incentive Scheme for Family Offices

With more and more family offices being set up in Singapore, we have seen greater interest in philanthropy and charitable giving amongst high-net-worth clients. It is thus unsurprising that Budget 2023 introduced a new Philanthropy Tax Incentive Scheme for qualifying donors with Family Offices operating in Singapore. To qualify for this scheme, donors must have a fund under the Monetary Authority of Singapore's (MAS) section 13O or 13U schemes and meet eligibility conditions such as incremental business spending of SGD$200,000.

Under this scheme, qualifying donors would be able to claim a 100% tax deduction for overseas donations made through qualifying local intermediaries. This tax deduction is capped at 40% of the donor's statutory income. Providing a tax deduction for overseas donations is an interesting development given that it reflects a fundamental departure from the traditional position that Singapore has taken, namely, that tax deductions are only for donations applied locally.

As of now, there are many uncertainties as to how the Philanthropy Tax Incentive Scheme would work. For example, the requirement of "incremental business spending of SGD$200,000" is vague, and it remains to be seen whether this requires the family office to incur an additional SGD$200,000 on top of its existing minimum annual spending requirement. The MAS has announced that it will provide further details by 30 June 2023.

5. Increased Taxes for Higher-End and Luxury Cars

In last year's Budget, the government introduced an additional registration fee (ARF) tier of 220% for vehicles with an open market value (OMV) above SGD$80,000. In this year's Budget, the marginal ARF rate has once again been increased. Higher-end cars with an OMV over SGD$80,000 will now incur an ARF of 320%.

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D. Conclusion

Budget 2023 has introduced several tax developments impacting both businesses as well as High-Net-Worth Individuals. We would observe that these developments do not come as a surprise and are largely a continuation of the trends in the past few years.

To date, the government has stuck to the usual levers of income tax, property-related taxes and GST to raise its revenue. However, there are other alternatives, such as the possible reintroduction of estate duty, as well as the introduction of capital gains tax. Nonetheless, we believe that the government is likely to hesitate before rushing to implement these alternatives as it is in their best interests to maintain the delicate balance between raising enough revenue and maintaining Singapore's status as a leading wealth management and financial hub.

Please feel free to get in touch with any of our key contacts should you have any questions.

Dentons Rodyk thanks and acknowledges Practice Trainee Zachary Goh for his contributions to this article.

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