DENTONS RODYK

Budget 2024 Tax Developments

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A. Introduction

On 17 February 2024, Deputy Prime Minister and Finance Minister Lawrence Wong delivered Singapore's 2024 Budget Statement. He observed that the past year posed significant challenges, marked by the troubled international environment and a subdued global economy. While adopting a cautiously optimistic outlook for 2024, he noted that geopolitical risks continue to loom large as Singapore moves into a more fragmented world where the major powers prioritise national security over economic interdependence. In the realm of international taxation, this is evident in many countries' implementation of the Base Erosion and Profit Shifting (BEPS) 2.0 Framework which has dramatically changed the international tax landscape and has implications for Singapore as an investment and wealth management hub.

In this client alert, we introduce the pertinent tax changes introduced in this year's Budget Statement and their implications.

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

1. Implementation of the Income Inclusion Rule and Domestic Top-up Tax under Pillar Two of BEPS 2.0

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

a. **Pillar One** aims to re-allocate profits such that multinational enterprises (MNEs) pay taxes where its consumers are located.

b. **Pillar Two** introduces a minimum effective tax rate of 15% for MNEs with annual group revenues of 750 million euros or more, irrespective of where the income is earned. This is achieved through the Global Anti-Base Erosion (GloBE) Model Rules (referred to as the "Pillar Two Rules") introduced in October 2021 which apply a system of top-up taxes – the Income Inclusion Rule (IIR) and the Undertaxed Payment Rule (UTPR) – that brings the total amount of taxes paid on an MNE's profits in a jurisdiction up to the minimum rate. Pillar Two also includes the Subject to Tax Rule (STTR), a treaty-based rule which allows a jurisdiction to impose a top-up tax of up to 9% on certain intercompany payments made from an entity in its jurisdiction to its related entities in another jurisdiction, if that payment is regarded as undertaxed in the recipient jurisdiction.

Last year, Singapore announced its plans to implement Pillar Two from 2025, in line with international developments. The timeline for implementation is slightly behind some countries, such as those in the EU, United Kingdom and Australia. In Asia, most countries that have announced their adoption of the IIR have set for it to be implemented from 2025. These include Hong Kong, Malaysia, and Thailand. In this year's Budget Statement, the Minister confirmed that Singapore will move ahead with the implementation of the IIR and a domestic top-up tax (DTT) under Pillar Two as planned, which will introduce a minimum effective tax rate of 15% on qualifying MNEs' profits. The IIR and DTT will come into effect for financial years starting from 1 January 2025. The qualifying MNE groups are those with annual group revenue of 750 million euros or more in at least two of the four preceding financial years (in-scope MNE groups). The Minister also confirmed that the UTPR, which is the other component of Pillar Two, will not be implemented yet. The UTPR is a secondary mechanism which operates as a backstop to the IIR, which will allow Singapore to collect a share of the top-up tax on any MNE with operations here, that would otherwise not be collected by another country under the IIR.

Both the IIR and DTT will be implemented by way of domestic legislation. As of today, the draft legislation has not been released for public consultation. The Minister has confirmed that the IIR will apply to in-scope MNE groups that are parented in Singapore, in respect of the profits of their group entities that are operating outside Singapore. The DTT will apply to in-scope MNE groups in respect of the profits of their group entities that are operating in Singapore. Without the DTT, such MNE groups would have to pay their parent jurisdictions the effective tax rate of 15% on their Singapore profits. Thus, the introduction of a DTT comes as no surprise, as it ensures that Singapore will not concede tax revenues to other jurisdictions unnecessarily.

2. Introduction of the Refundable Investment Credit Scheme

The Refundable Investment Credit (RIC) scheme was introduced at this year's Budget. This scheme is intended to be treated as Qualified Refundable Tax Credits (QRTCs) under the Pillar Two Rules and will augment Singapore's policy toolkit for attracting foreign investments as well as bolster Singapore's fiscal competitiveness in a post-BEPS world. This change is particularly welcome in a post-Pillar Two world where many companies will no longer benefit from Singapore's existing incentives schemes. As a general note, we anticipate that in the post-Pillar Two world, many countries will shift their focus from tax-based incentives to cash-based grants in their policy to attract foreign investments. The reliability and predictability of a country's fiscal strength would be a significant factor to MNCs in such a world.

Overview of the RIC scheme

The RIC scheme will support up to 50% of qualifying expenditure in "high-value and substantive economic activities", including investment in new productive capacity, expansion of headquarter activities, commodity trading, research and development (R&D), and projects with decarbonization objectives.

The credits under the RIC scheme are to be offset against corporate income tax payable, and any unutilised tax credits will be refunded to the company as cash within 4 years from when the company qualifies for receiving the credits. Each RIC award will have a qualifying period of up to 10 years.

The quantum of RIC awarded will depend on predetermined rates for qualifying expenditure categories, which include capital expenditure, manpower costs, training costs, and intangible asset costs, amongst others. From the categories of qualifying expenditure, it can be seen that the RIC scheme may potentially extend beyond capital-intensive industries such as manufacturing to encompass sectors with high value-added activities involving significant intangible asset costs. However, as the quantum of RIC is calculated based on companies' expenditure and not profit, businesses with high profit margins and minimal capital expenditure may not reap as much substantial benefits under the conditions of the RIC scheme.

Other questions remain unanswered, such as how the RIC scheme will interact with existing rules governing capital allowances or deduction of expenses. It has not been published how the quantum of capital allowances or deductible expenses will be adjusted where the RIC is awarded. The EDB and EnterpriseSG will provide further details by 3Q 2024.

The RIC scheme is consistent with QRTCs under Pillar Two Rules

The key benefit of the RIC scheme lies in its treatment as QRTCs as opposed to non-QRTCs under the Pillar Two Rules. According to the OECD Pillar Two Rules, a QRTC is a "refundable tax credit designed in a way such that it must be paid as cash or available as cash equivalents within four years from when a constituent entity satisfies the conditions for receiving the credit under the laws of the jurisdiction granting the credit". Under the OECD's accounting rules, QRTCs are treated as income for the purposes of calculating the effective tax rate that an MNE is subject to (referred to as the "GloBE ETR"), and not a reduction in covered taxes. This is similar to the accounting treatment for government grants.

As such, QRTCs will lead to a smaller reduction in the GloBE ETR as compared to a non-qualifying tax credit. This will likely be attractive to MNEs as a QRTC will minimise the incidence of top-up tax incurred under the Pillar Two Rules.

So far, a few other jurisdictions have also introduced new tax incentives structured to qualify as QRTCs or made amendments to existing incentives to qualify as QRTCs. Just recently, Belgium amended its refundable R&D tax credit regime by reducing the reimbursement period of the unutilised R&D tax credit from 5 to 4 years, to comply with the definition of a QRTC under the Pillar Two Rules. Hungary also introduced a new refundable R&D tax credit in 2023, calculated as 10% of R&D costs incurred in qualifying projects, whereby the taxpayer may request cash reimbursement for unused credits after a four-year period. At first glance, Singapore's RIC scheme appears broader in scope than Hungary and Belgium's schemes, as it extends beyond R&D tax credits.

Singapore is likely the first country in Asia to introduce a refundable tax credit scheme that is compatible with the QRTC under the Pillar Two Rules. Given its many advantages, we expect more jurisdictions to follow suit in aligning their tax credit schemes with the QRTC scheme. However, given the long timeline of 4 years for receiving the cash refund from when the company first qualifies for receiving the credit, there may be concerns about whether governments offering the QRTC incentive will be able to follow through with the reimbursement of the credits, as it involves a significant cash outlay. In this respect, MNEs are likely to have confidence in Singapore's RIC regime, given Singapore's strong fiscal reputation and healthy reserves.

Historically, traditional tax incentives have been a longstanding component of Singapore's fiscal strategy to attract foreign direct investments. With the imposition of a global minimum tax rate under Pillar Two, traditional tax incentives have become less meaningful as these lower the GloBE ETR and consequently affected MNEs would have to pay a higher top-up tax. The RIC scheme demonstrates Singapore's commitment to refreshing its investment promotion tools to ensure that there is little to no negative impact on the Pillar Two Rules on global minimum taxation so that MNEs continue to receive the most favourable tax outcome. At the same time, Singapore must continue to enhance its non-tax advantages to secure its fiscal position in a post-BEPS world. In this respect, the Minister stated that whatever additional revenues obtained from Pillar Two will be reinvested for Singapore to stay competitive in a post BEPS-world, and that Singapore does not expect the new measures to generate net revenue gains on a sustained basis.

3. Introduction of new tiers of Concessionary Tax Rates

Additional tiers of concessionary tax rates (CTR tiers) have been announced for the following tax incentive schemes, with effect from 17 February 2024:

Name of Incentive	Additional CTR Tier
Development and Expansion Incentive	15%
Intellectual Property Development Incentive	15%
Global Trader Programme	15%
Finance and Treasure Centre Incentive	10%
Aircraft Leasing Scheme	10%

The EDB and/or EnterpriseSG will provide further details by 2Q 2024.

We believe the introduction of these additional CTR tiers would provide the Government with more flexibility to provide targeted incentives that could maximise Singapore's tax base under the Pillar Two regime and also ease MNEs' compliance burden. For instance, under the Subject to Tax Rule (STTR), the payor jurisdiction can impose up to 9% tax on intra-group payments of certain income (e.g. interest and royalties, as well as intra-group service payments) in instances where the recipient of such payments is subject to a nominal corporate income tax rate below 9%. If MNEs in Singapore avail themselves of the 10% CTR tier under the relevant incentives, they would not be caught by the STTR, which will help to ease their compliance burden under Pillar Two.

4. Other Tax Changes

Other notable tax changes include:

- **Shipping Industry – Alternative basis of tax for Maritime Sector Incentive (MSI):** Under the current MSI regimes, qualifying income of qualifying shipping entities are exempted from tax. It was announced that an alternative basis of tax will be introduced from YA 2024 where the qualifying income of qualifying shipping entities will be taxed by reference to the net tonnage of their ships. The Maritime and Port Authority of Singapore will provide further details by 3Q 2024.

- **Housing Developers – Revision of ABSD remission clawback rates:** Presently, housing developers that purchase residential land are subject to 40% ABSD, 35% of which is an upfront remittable component which will be clawed back with interest if a licensed housing developer fails to sell all their residential units within 5 years from acquiring the residential land, regardless of the number of unsold units. At this year's Budget, it was announced that projects with at least 90% of units sold at the 5-year sale timeline will be subject to a lower ABSD remission clawback rate. The ABSD remission clawback rate will be reduced by 1% to 10% depending on the proportion of units sold at the 5-year mark, provided that the commencement and completion works criteria are also fulfilled. This applies only for projects where the residential land was acquired on or after 6 July 2018.

- **Corporate income tax rebate:** To help businesses manage rising costs, a corporate income tax rebate of 50% of tax payable will be granted for Year of Assessment 2024, capped at $40,000. Further, there will be a minimum benefit of $2,000 in the form of a cash payout for companies that hired at least 1 local employee in 2023.

- **Withdrawal of royalty income tax concession:** The income tax concession on royalty income accorded to authors, composers and choreographers will be withdrawn in phases with effect from YA 2027.

C. Key Highlights for High-Net-Worth Individuals

1. Revision of the s 13D / s 13O / s 13U Tax Incentive Schemes

To recap, the main tax incentive schemes for funds managed by Singapore-based fund managers (Qualifying Funds) are listed below:

Name of scheme	Type of exemption
13D	Exemption of income of prescribed persons arising from funds managed by fund manager in Singapore
13O	Exemption of income of company incorporated and resident in Singapore arising from funds managed by fund manager in Singapore
13U	Exemption of income arising from funds managed by fund manager in Singapore

It was announced in this year's Budget that the tax incentive schemes under s 13D, 13O and 13U of the Income Tax Act will be extended till 31 December 2029. The economic criteria for Qualifying Funds under all 3 schemes will also be revised. The key changes will take effect from 1 January 2025. The MAS will announce further details by 3Q 2024.

In addition, the s 13O scheme will be enhanced to include limited partnerships registered in Singapore. We observe that the limited partnership is a popular fund vehicle amongst high-net-worth individuals from Europe and the US. This enhancement to the s 13O scheme is thus likely to appeal to high-net-worth clients from these regions who are more accustomed to the limited partnership structure for fund management.

2. Overseas Humanitarian Assistance Tax Deduction Scheme

It was announced in this year's Budget that the Overseas Humanitarian Tax Deduction Scheme (OHAS) will be piloted for 4 years from 1 January 2025 to 31 December 2028. The OHAS will provide individual and corporate donors with 100% tax deduction for qualifying overseas cash donations and will be administered by IRAS. To qualify, the overseas cash donation must be made through a designated charity and towards a fund-raiser for emergency humanitarian assistance with a permit from the Commissioner of Charities.

From the qualifying conditions, it is clear that the OHAS is targeted at emergency humanitarian and/or disaster relief efforts. This is a strong show of goodwill and support which reflects Singaporeans' compassion and commitment to aiding vulnerable populations affected by crises in recent times. Along with the Philanthropy Tax Incentive Scheme administered by the Monetary Authority of Singapore, the introduction of the OHAS is encouraging as it signals a growing desire to support worthy causes, even those beyond Singapore's borders.

3. Raising of Annual Value Bands for Property Tax

In Budget 2022, the Minister announced an increase in property tax rates for residential properties, meant as a wealth tax targeted at investment properties as well as the higher-end segment of owner-occupied properties. However, as the Minister acknowledged in this year's Budget Statement, the significant rise in market rents in 2022 had caused the Annual Value of residential properties to also increase sharply. This caused the property tax hike to affect a larger proportion of owner-occupied properties than was originally intended.

As such, to uphold the intent of the property tax changes and to keep in line with market trends, it was announced that the Annual Value bands for owner-occupier residential property tax rates will be raised as follows from 1 January 2025:

Marginal Property Tax Rate	**Portion of Annual Value**	
	From 1 Jan 2024 to 31 Dec 2024	**From 1 Jan 2025 (i.e. from 2025 property tax bills)**
0%	$0 - $8,000	$0 - $12,000
4%	>$8,000 - $30,000	>$12,000 - $40,000
6%	>$30,000 - $40,000	>$40,000 - $50,000
10%	>$40,000 - $55,000	>$50,000 - $75,000
14%	>$55,000 - $70,000	>$75,000 - $85,000
20%	>$70,000 - $85,000	>$85,000 - $100,000
26%	>$85,000 - $100,000	>$100,000 - $140,000
32%	>$100,000	>$140,000

The adjustment to the AV bands of owner-occupied residential property tax rates will help to ease homeowners' tax burden arising from rent increases in recent years. Additionally, the Government's transparency as to the unintended consequences of the property tax hike and its response in raising the Annual Value bands to be in line with prevailing market conditions should be commended.

D. Conclusion

The tax developments introduced in Budget 2024 can be described as incremental changes in response to the current international geopolitical and business environment. In the BEPS 2.0 space, the tax measures announced are reflective of Singapore's readiness to move in tandem with international developments. Singapore must continuously adapt to the shifting global taxation landscape, which is a fragmented one as countries become increasingly assertive of their taxing rights. Given that there is a shift away from tax competition to non-tax comparative advantages in attracting foreign investment, there is a need to refresh and enhance Singapore's investment promotion policy toolkit to maintain its status as a hub for foreign investment and wealth management. Further, given the multitude of high-net-worth individuals which have set up family offices and investment holding vehicles in Singapore, it is important that tax incentive schemes here are tailored to their investment and charitable objectives. In this respect, the recent incentives for charitable giving and humanitarian assistance are an encouraging trend.

If you are interested to know how the above measures will affect you, please feel free to get in touch with our key contacts.

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