Complete Corporate Services

SINGAPORE BUDGET 2022

1 GLOBAL TAX DEVELOPMENTS

Minimum Effective Tax Rate ("METR") Regime

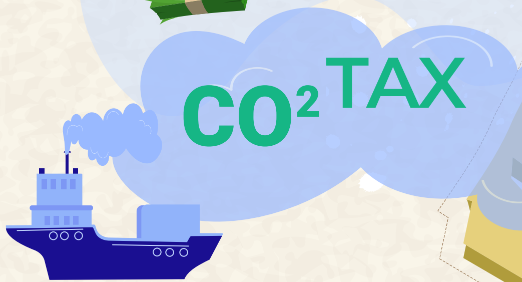
Singapore will study the introduction of METR at 15% for multinational corporations ("MNCs") with consolidated group revenue of at least EUR750 million operating in Singapore.

2 SINGAPORE GREEN PLAN

Increased Carbon Tax to Accelerate Net-Zero Emissions

2024 – S$25/tonne
2026 – S$45/tonne
2030 – S$50 – S$80/tonne

Allow use of carbon credits for up to 5% of taxable emissions by 2024.



3 BUSINESS CASH FLOW NEEDS

Temporary Bridging Loan Programme ("TBLP") and the Enterprise Financing Scheme - Trade Loan ("EFS-TL")

Extended for another 6 months to 30 September 2022.

Enterprise Financing Scheme - Project Loan ("EFS-PL")

Extended till 1 March 2023 to support construction enterprises.

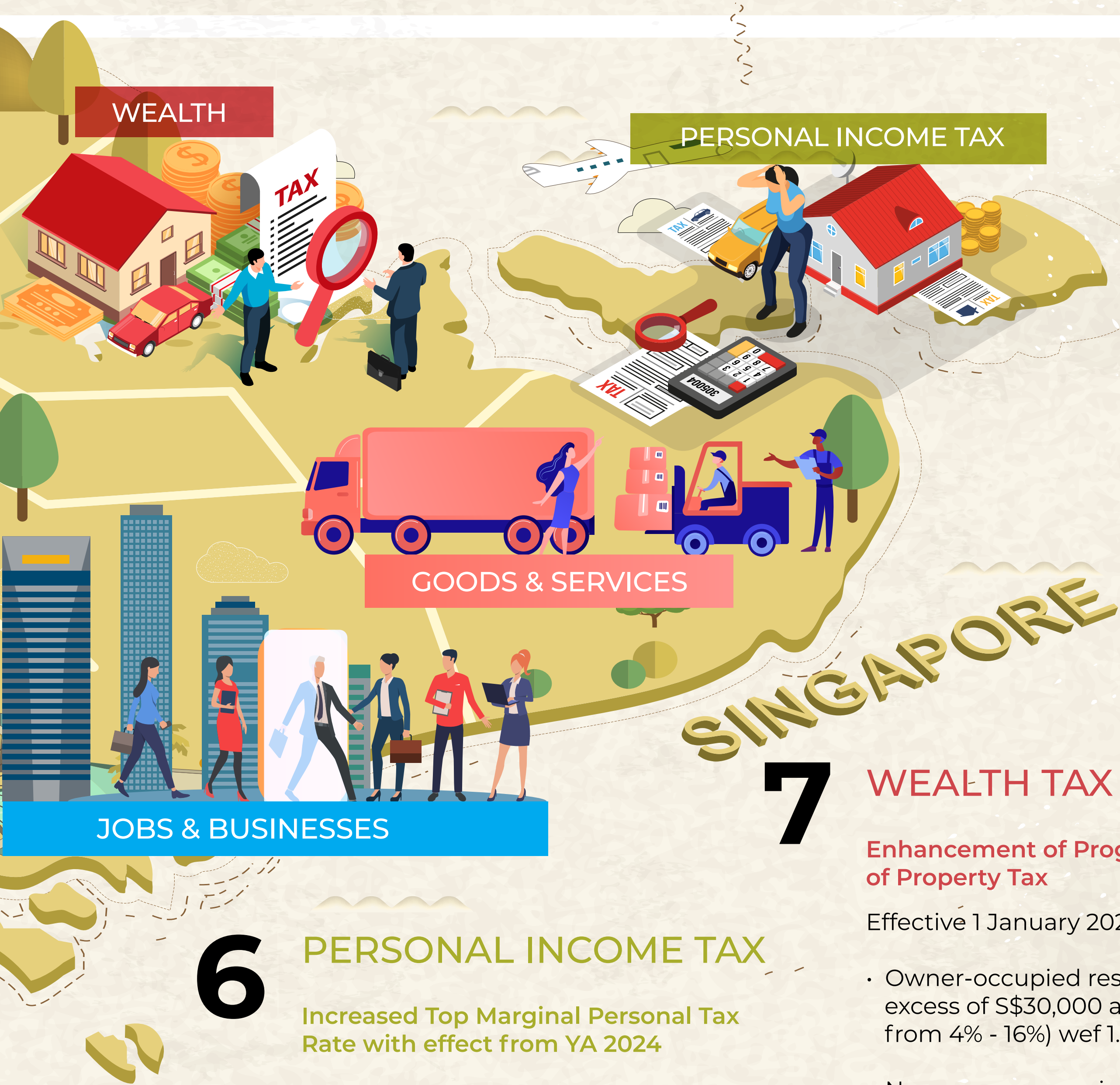
Enterprise Financing Scheme - Merger & Acquisition Loan ("EFS-M&A")

Enhanced for 4 years, from 1 April 2022 to 31 March 2026, to include domestic M&A activities. This will support enterprises to expand through M&A.

4 EXTENSION & ENHANCEMENT OF TAX SCHEMES FOR BUSINESSES

The following ongoing tax schemes have been extended and/or enhanced in Budget 2022:

a) Withholding Tax Exemption Schemes
b) Aircraft Leasing Scheme
c) Approved Royalties Incentive
d) Approved Foreign Loan Scheme
e) Including Licensed Insurer to the Tax Framework
f) Tax incentives for Project and Infrastructure Finance



5 JOBS AND BUSINESS SUPPORT

These schemes include the following:

Small Business Recovery Grant

- S$1,000 per local employee, up to a cap of S$10,000 per eligible SMEs in affected sectors (such as the F&B, retail, tourism and hospitality)
- S$1,000 flat payout for eligible sole proprietorships and partnerships that do not hire local employees

Job Growth Incentive (JGI)

- Extended to September 2022 to support the hiring of mature works aged 40 and above, as well as vulnerable workers

Progressive Wage Credit Scheme ("PWCS")

- Government to co-fund wage increases from 2022 to 2026 to support affected employers

- **Workfare Income Supplement Scheme**

- Government to co-fund wage increases from 2022 to 2026 to support affected employers

6 PERSONAL INCOME TAX

Increased Top Marginal Personal Tax Rate with effect from YA 2024

The marginal personal tax rate for chargeable income in excess of S$500,000 up to S$1 million is 23%. The marginal personal tax rate for chargeable income in excess of S$1 million is 24%.

7 WEALTH TAX

Enhancement of Progressivity of Property Tax

Effective 1 January 2023,

- Owner-occupied residential properties in excess of S$30,000 annual value: 5% - 23% (up from 4% - 16%) wef 1.1.23, and 6% - 32% wef 1.1.24
- Non-owner-occupied residential properties: 11% - 27% (up from 10% - 20%) wef 1.1.23, and 12% - 36% wef 1.1.24

Additional Registration Fee ("ARF") for Cars

220% tax for cars with OMV in excess of S$80,000.

8 GOODS AND SERVICES TAX ("GST")

GST Rate Hike

- From January 2023 - 8%
- From January 2024 - 9%

SINGAPORE BUDGET 2022

The Minister for Finance, Mr Lawrence Wong, delivered his Budget 2022 speech in Parliament on 18 February 2022.

This year's S$109 billion Budget focuses on charting a new way forward together as a nation – building resilience and boosting confidence while on the road to recovery. It highlights Singapore's strategic directions towards the path of growth in a post-pandemic world; with investments in new capabilities, advancements in green transition, renewing and strengthening our social compact, and a vision for a fairer, more sustainable, and more inclusive Singapore. This will better position our nation to weather global economic challenges.

Further recovery of the economy is expected as businesses and workers are expected to ride on the wave, while Singapore continues to maintain a progressive and robust tax system.

In this commentary, we highlight the key tax changes and support schemes announced in the Budget 2022 below.

1. GLOBAL TAX DEVELOPMENTS

Minimum Effective Tax Rate ("METR") Regime

Singapore will study the introduction of the METR to top up the effective tax rate to 15% for MNCs with consolidated group revenue of EUR 750 million. Further details on the income carve-outs aligned with what has been considered under the Base Erosion and Profit Shifting ("BEPS") inclusive framework is expected to be in the study.

The Inland Revenue Authority of Singapore ("IRAS") will study the METR, in consultation with industry stakeholders on the design, while the Ministry of Finance ("MOF") closely monitors developments at a global level before making any METR decisions.

2. SINGAPORE GREEN PLAN

Increase in Carbon Tax

As part of Singapore's commitment to reduce carbon footprints and achieve net-zero emissions, carbon taxes will be increased from the existing S$5/tonne to S$25/tonne in 2024, and subsequently S$45/tonne in 2026, with a larger view of reaching S$50 to S$80/tonne by 2030.

From 2024, Singapore will allow businesses to use high-quality, international carbon credits to offset up to 5% of their taxable emissions, in lieu of paying carbon tax. More support will be provided to companies, especially Small and Medium-sized Enterprises ("SMEs"), to invest in energy-efficient equipment and decarbonisation solutions.

3. BUSINESS CASH FLOW NEEDS

Extension of Temporary Bridging Loan Programme ("TBLP") and the Enterprise Financing Scheme - Trade Loan ("EFS-TL")

The TBLP was introduced in March 2020 to provide enterprises with access to working capital during the COVID-19 pandemic, while the EFS-TL supports Singapore-based enterprises with trade financing needs.

In view of the risk of rising inflation and cost of doing business in Singapore, the TBLP and the EFS-TL will be extended, with revised parameters, for a further 6 months to 30 September 2022.

Extension of Enterprise Financing Scheme - Project Loan ("EFS-PL")

The EFS-PL was first introduced in January 2021 to support Singapore-based enterprises with overseas project financing needs. The EFS-PL will be extended for another year, to 31 March 2023, to support construction enterprises in fulfilling domestic projects amidst rising costs and tightened cashflow.

Enhancement to Enterprise Financing Scheme - Merger & Acquisition Loan ("EFS-M&A")

The EFS-M&A will be enhanced for 4 years, from 1 April 2022 to 31 March 2026, to include domestic M&A activities. This will support enterprises to expand through M&A, including venturing into complementary businesses and emerging sectors.

4. EXTENSION & ENHANCEMENT OF TAX SCHEMES FOR BUSINESSES

While the Integrated Investment Allowance scheme has been allowed to lapse after 31 December 2022, a few ongoing tax schemes have been extended and/or enhanced in Budget 2022, as follows:

a) **Withholding Tax Exemption Schemes** for
(i) container lease payments made to non-tax resident lessors under operating lease agreements,
(ii) ship and container lease payments under finance lease agreements for Maritime Sector Incentive recipients and
(iii) qualifying financial institutions in the financial sector;

b) **Aircraft Leasing Scheme;**

c) **Approved Royalties Incentive;**

d) **Approved Foreign Loan Scheme;**

e) **Including Licensed Insurer to the Tax Framework** for facilitating corporate amalgamations under Section 34C of the Singapore Income Tax Act;

f) **Tax incentive for funds** managed by Singapore-based fund managers; and

g) **Tax incentives for Project and Infrastructure Finance.**

As in all Budgets, all tax schemes goes through a series of review by the relevant authorities on its relevance and particularly, the sign-up rates by businesses. The extension and/or enhancements of the above schemes are pertinent to Singapore's "path of growth", and will continue to support businesses in the various sectors. Further details on the same will be announced by the relevant authorities shortly.

5. JOBS AND BUSINESS SUPPORT

As Singapore's economy rebounds from the pandemic, some sectors may face notably slower recoveries than others. Therefore, a variation of new schemes has been devised with the reintroduction of previous schemes to aid in the cashflow of these businesses. These schemes include the following:

- **Small Business Recovery Grant** for businesses in critically affected sectors such as the F&B, retail, tourism and hospitality, where eligible SMEs will receive cash payout of S$1,000 for each local employee with mandatory Central Provident Fund contributions in the period from 1 November 2021 to 31 December 2021, up to a cap of S$10,000 per business. Eligible sole proprietorships and partnerships that do not hire local employees will receive a flat payout of S$1,000.
- **Jobs Growth Incentive ("JGI")** provides varying support to businesses who expand local hiring and increase their overall local workforce from September 2020 to 31 March 2022. A further extension of the JGI till September 2022 will be applicable for a specific group of local workers (i.e. mature workers aged 40 and above who have not been employed for at least 6 months, persons with disabilities and ex-offenders).
- **Progressive Wage Credit Scheme ("PWCS")** provides

transitional wage support to the affected employers to adjust to the increased cost, by co-funding the wage increases between 2022 and 2026.

- **Workfare Income Supplement Scheme** will also be enhanced to supplement the income and CPF savings of lower-wage Singaporean workers.

6. PERSONAL INCOME TAX

Increased Top Marginal Personal Tax Rate with effect from YA 2024

Continuing the trend in enhancing the progressivity of personal income tax, the top marginal tax rate will be increased by 2%, to 24%, with two new tax brackets to be applied for income earned by tax resident individuals from 2023 onwards:

- Chargeable income in excess of S$500,000 to S$1 million will be taxed at 23%
- Chargeable income in excess of S$1 million will be taxed at 24%

Notably, the stepped tax rates for chargeable income up to S$500,000 remains unchanged. At present state, it appears that having individuals who earn more to contribute more income tax, is and will remain as one of the primary alternative forms of wealth tax collection in Singapore.

For non-resident individual taxpayers, there will also be a corresponding increase in the personal tax rates to 24%, which will apply to income such as director's fees and professional fees, which are collected via the withholding tax mechanism.

Apart from taxing high-income earners, the possibility of Singapore introducing other forms of wealth tax in the future still exists as the Government explores options to levy tax on individuals' net wealth effectively and in ways that will not undermine Singapore's overall competitiveness to attract capital inflow and maintain fairness in the tax system. With the many considerations in mind, implementing any new way to impose wealth tax will be no easy feat, and will remain a debated topic.

7. WEALTH TAX

Enhancement of Progressivity of Property Tax

Owner-occupied residential properties in excess of S$30,000 annual value have been taxed at a concessionary progressive property tax rate of between 4% to 16%. The aforementioned property tax rate will be raised to 5% to 23% effective 1 January 2023; and 6% to 32% effective 1 January 2024.

Non-owner-occupied residential properties, on the other hand, have been taxed at a progressive property tax rate of between 10% to 20%. The aforementioned property tax rates will be raised to 11% to 27% effective 1 January 2023; and 12% to 36% effective 1 January 2024.

Additional Registration Fee ("ARF") for Cars

ARF is currently tiered based on the cars' open market value ("OMV"). The current ARF rate is between 100% to 180% of the OMV. Going forward, the portion of OMV in excess of $80,000 for cars will be taxed at 220%.

8. GOODS AND SERVICES TAX ("GST")

GST Rate Hike

The timing of the long-planned GST hike has been announced in Budget 2022. In view of the ongoing pandemic and the outlook for inflation, the increase in GST rate will be delayed to Year 2023 and will be staggered over 2 years, beginning with a rise to 8% on 1 January 2023, and then to 9% on 1 January 2024.

It has been more than a decade since Singapore raised its GST rate. Even with the increase, it still places Singapore's GST rate below Asia's average GST rate of 12%. Nonetheless, GST will likely become the next largest contributor to our tax coffers, after corporate income tax, in the near future.

The GST hike may be the well-needed impetus for businesses to take a closer look at the state of their GST compliance, since any future penalty on underpaid GST will be costlier. Further, with the staggered rate increases, the implementation and compliance procedures will be complicated as GST-registered businesses will need to deal with two rate changes over a short period. GST-registered businesses may consider the following transitional measures:

- Introduce additional controls to manage GST risks arising from the transitional rules. Details on the transitional rules are detailed in the IRAS e-Tax Guide: 2023 GST Rate Change: A Guide for GST-registered Businesses.

- Conduct GST health-check to identify existing errors and avoid costly penalties.

While most GST-registered businesses are able to recover their GST incurred on their expenses, this is not the case for non-GST registered businesses. The GST incurred on purchases are added business expenses and an increase in the GST rate would translate directly into higher business costs. To alleviate such an impact, non-GST registered businesses can consider applying for GST registration on a voluntary basis even if they are not liable to do so under the GST registration rules. However, this is not a silver bullet as businesses need to weigh the benefits of claiming back such input taxes against the compliance cost of being a GST-registered business.

MOVING FORWARD

Singapore has navigated the challenges of the ongoing COVID-19 pandemic with great success. However, the road to recovery is still filled with much uncertainties. The evolving global developments under both pillars of BEPS 2.0 initiative have also drawn many stress points for Singapore, with anticipated loss of tax revenues.

While Budget 2022 has placed a strong emphasis on long-term measures for both businesses and Singaporean workers, the importance of putting in place a fairer and more resilient progressive tax system has been highlighted throughout the budget delivery. This is apparent from the impending GST hike to an eventual 9% by 2024, as well as related wealth tax measures. While Singapore continues to chart its path of growth, it has not left its green transition plans behind; environmental related measures such as carbon taxes have been revisited so as to tackle climate changes.

The measures announced this year may only be the start to Singapore's long-term plans to rebuild its workforce and community post-pandemic, as well as finally embarking on its green transition plans. It remains to be seen if more aggressive changes will be required to expedite these plans, but one thing is for sure – Singapore will continue to strive and reposition itself in crises and be ready to confront these challenges as they may come.

COMPLETE CORPORATE SERVICES

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