



Singapore Budget 2019 Feedback

Confidence to reshape the future

January 2019

At a time when everything defining the landscape of the past is shifting and yielding a fundamentally different future, Singapore continues reshaping its supporting structures to manage greater uncertainty and build a better resilient economy and nation.



Foreword

We expect Budget 2019 to be a case of 'steady as she goes'. Despite global uncertainty, Singapore's economy is holding a steady course, growing steadily at 3.3 percent in 2018. As the country continues to implement the bold strategies set in 2017 by the Committee for the Future Economy, no major mid-course corrections are anticipated.

On the homefront, Singapore's domestic concerns continue to be headlined by ageing demographics and healthcare issues. The fiscal impact caused by an ageing population will be keenly felt in the areas of income tax collections and rising spending on healthcare and welfare. Recent measures introduced to address these issues include the raising of the Goods and Services Tax rate some time between 2021 and 2025, as well as implementing more measures to tax wealth in view that an ageing population would arguably have accumulated significant capital over the years. Our budget proposals in this area, such as calling for an imposition of a tax on sweetened beverages are primarily pre-emptive in nature on the premise that an ounce of prevention is worth a pound of cure.

Climate change remains a key concern for Singapore. There is, at a global level, an urgent requirement to mitigate the emission of greenhouse gases which is a major contributor to climate change and rising sea levels. On its part, Singapore will be implementing a carbon tax regime in 2019. Our budget proposals includes tax measures aimed at incentivising the private sector eco-friendly ecosystem in Singapore, such as introducing enhanced capital allowances on purchases of clean energy equipment or electric vehicles.

In terms of international tax developments, an observe, connect and influence approach to shape global tax policy remains the optimum approach for a small country like Singapore. The dust from tax reforms brought about by the OECD's BEPS project has yet to settle and already various countries are scrambling for a slice of the digital economy tax pie. Amongst others, we call for Singapore to closely monitor the impact that interim unilateral measures taken by other countries in relation to the taxation of the digital economy could have on our country.

Other than the above, we have also included suggestions for specific sectors such as the financial services and the shipping and maritime sector, certain broad-based business tax recommendations, as well as personal tax and GST suggestions. Detailed recommendations can be found in the following pages.

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Abbreviations

ASEAN	Association of Southeast Asia Nations	MSI	Maritime Sector Incentive
B2B	Business-to-Business	MNC	Multi-National Corporation
BEPS	Base Erosion and Profit Shifting	NOR	Not Ordinarily Resident
CPF	Central Provident Fund	OECD	Organisation for Economic Cooperation and Development
CPI	Consumer Price Index	R&D	Research and Development
CTA	Covered Tax Agreement	S\$	Singapore Dollars
FRS	Financial Reporting Standard	SGS	Singapore Government Securities
GST	Goods and Services Tax	SITA	Singapore Income Tax Act
IPR	Intellectual Property Right	SME	Small and Medium-sized Enterprise
IRAS	Inland Revenue Authority of Singapore	SPR	Singapore Permanent Resident
LTA	Land Transport Authority	SRS	Singapore Registry of Ships
M&A	Mergers and Acquisitions	VCC	Variable Capital Company
MAS	Monetary Authority of Singapore	WDA	Writing Down Allowance
MLI	Multilateral Instrument	YA	Year of Assessment

Confidence to reshape the future



Improving our quality of life



Promoting investments and enhancing stability amidst a volatile business outlook



Enhancing mobility within Singapore's future of work



Tax incentives/industry specific matters



International Tax developments



Goods and Services Tax



Personal Tax



1. Improving our quality of life



1.1 Introduce “sugar tax” to combat diabetes

The Minister for Health first mooted a campaign known as the “War against Diabetes” in 2016¹. It was to rally the nation in creating a supportive environment to prevent diabetes, or for those living with diabetes, to live well through proper management of the disease.

The number of people having diabetes is huge and growing and the World Health Organisation has identified diabetes as amongst the leading causes of death and disability globally. In Singapore, there are about 440,000 diabetics in 2014 and the number is estimated to grow to 1,000,000 in 2050². Although diabetes is not fatal in the short term, non-detection or poorly controlled diabetes could eventually lead to dire consequences such as disabilities or diseases.

Many initiatives to combat diabetes were explored or introduced, ranging from the expansion of the National Step Challenge programme to encourage more people to exercise instead of leading a sedentary lifestyle to the installation of water dispensers in hawker centres to make plain water a readily accessible substitute for sugary drinks. In relation to the latter, results from the National Nutrition Survey 2018 conducted by the Health Promotion Board found that pre-packaged sugar-sweetened drinks remain the single largest source of sugar in the diet of Singaporeans and more needs to be done to reduce sugar consumption from this source.

Various countries have or are in the midst of introducing tax measures in the form of a tax on sweetened beverages (i.e., a “sugar tax”) so as to shape the behaviour of both drink manufacturers (to re-formulate their drinks with a lower sugar content) and consumers (to reduce the consumption of higher-priced sugary drinks).

Singapore is mulling over a range of measures to tackle sweetened beverages, including a possible outright ban on such drinks. The introduction of a sugar tax is amongst the proposed measures.

In our view, the design of a sugar tax could take into account the following:

- The authorities could consider treating any taxes imposed on sweetened beverages as a non-deductible expense in view that manufacturers/retailers may choose to absorb the tax hikes;
- To avoid creating different classes of beverages with high sugar content, a distinction should not be made between natural sugars (i.e., those found in fruit juices) and artificial sugars (i.e., those added into soda beverages); and
- The introduction of a “sugar tax” could be carefully timed in view of the impending increase in the rate of GST.

Similar to the implementation of carbon tax, revenue collected from the imposition of sugar tax could be channelled to subsidise healthier food options to ensure that healthier food options remains affordable and accessible to the general public or to subsidise medical expenses.

¹ Parliament: Health Minister Gan Kim Yong declares 'war on diabetes'; new task force set up dated 13 April 2016 <<https://www.straitstimes.com/singapore/health/moh-declares-war-against-diabetes>>

² <https://www.healthhub.sg/a-z/diseases-and-conditions/626/diabetes>

1.2 Encourage investment in clean energy equipment

1.2.1 Introduce enhanced capital allowances to encourage the investment in clean energy equipment

Singapore's climate action plan sets out four strategies to reduce its emission intensity, key amongst which is to improve energy efficiency across industry, transport, buildings, household, waste and water sectors. Government support has been identified as one of the measures to help Singapore achieve her climate action plan goals.

In this regard, the authorities could consider encouraging companies to invest in energy efficient equipment. Briefly, tax incentives were previously³ available to allow a one-year write-off for the acquisition of certified energy-saving or energy-efficient equipment. To encourage companies to invest in such equipment, we propose granting enhanced capital allowances of 200% on the cost of energy efficient and energy saving equipment. To encourage a more broad-based take-up of this scheme, the authorities may consider removing the requirement for taxpayers to substantiate that the equipment is more energy efficient than the equipment that it replaces or the need for the equipment to be certified by a professional. A cap on capital expenditure qualifying for enhanced allowances may be considered to ensure that the scheme is targeted towards SMEs. The ambit of such equipment should also be broadened to include electric vehicle charging infrastructure.

1.2.2 Introduce enhanced capital allowances on electric commercial vehicles

Recently, the LTA awarded tenders for 60 electric buses for public transport in its latest measure to introduce more green vehicles⁴. Though the adoption of electric buses for public transport is still in its early stages, the move is welcomed as the push for a more environmental friendly transport system is expected to gain traction in the foreseeable future.

The same traction of pushing for electric buses could also extend to private buses. Based on Singapore's Annual Vehicle Statistics 2017⁵, there were about 19,000 private buses plying the roads of Singapore. More could be done to encourage the adoption of electric buses within the private buses community.

To improve energy efficiency in the transport sector, we propose granting enhanced capital allowances of 200% on the acquisition of electric buses. The enhanced capital allowances could be granted in lieu of the Early Turnover Scheme, which is an initiative to encourage the early replacement of older and more pollutive commercial diesel vehicles to a more environmentally friendly model.

1.2.3 Accord priority to companies undertaking R&D to tackle environmental issues

Singapore's climate action plan also calls for the development of cutting-edge low carbon technologies as well as scale up low-carbon solutions for deployment in Singapore and export overseas. This will position Singapore well to tap on global and regional green growth opportunities.

Amongst the many measures introduced to encourage pervasive R&D in Singapore is the implementation of a pre-claim evaluation scheme for R&D projects with estimated R&D costs exceeding S\$15 million to provide taxpayers with upfront certainty for R&D claims. This is a structured evaluation process for R&D projects and applications are submitted to the IRAS before the commencement or during the conduct of the projects.

We propose that the quantitative threshold of S\$15 million be lowered or removed for R&D projects undertaken to tackle environmental issues. The IRAS could also accord priority in the assessment of such projects. This sends a clear signal by the Government that environmental issues require a 'whole-of-nation' effort to develop better solutions together.

1.2.4 Review accelerated capital allowance claim for various equipment

Currently, capital expenditure incurred for the installation of specialised equipment for efficient environmental pollution control or chemical hazard control device⁶ qualifies for accelerated capital allowances claim over a year, subject to certain conditions⁷. The provisions, with its accompanying rules, were legislated during the late 1990s and it is now timely to undertake a holistic review on whether the list of conditions for accelerated claims remain relevant in today's context and to consider the possibility of consolidating these provisions under a broad umbrella scheme.

3 Pursuant to Section 19A(6) of the Singapore Income Tax Act

4 3 firms clinch \$50m LTA deal for 60 electric buses <<https://www.straitstimes.com/singapore/transport/3-firms-clinch-50m-lta-deal-for-60-electric-buses>>

5 Annual Vehicle Statistics 2017 as obtained from the website of LTA https://www.lta.gov.sg/content/dam/ltaweb/corp/PublicationsResearch/files/FactsandFigures/MVP01-1_MVP_by_type.pdf

6 Section 19A(5), 19A(7), 19A(8) of the Singapore Income Tax Act

7 Income Tax (Efficient Pollution Control Equipment) Rules, Income Tax (Low-Decibel Machine, Equipment or System and Effective Noise Control Device or Engineering Noise Control Measure) Rules, Income Tax (Machine, Equipment or System which Reduces or Eliminates Exposure to Chemical Risk and Effective Chemical Hazard Control Device or Measures) Rules



2. Promoting investments and enhancing stability amidst a volatile business outlook

2.1 Enhance carry back relief

A loss carry-back relief regime acts as an automatic economic stabiliser for businesses by increasing cash flows for previously profitable businesses during economic downturns or periods of business shock.

With business cycles getting shorter and with uncertainty over whether protectionist trade measures will take root in the global economy, we encourage the authorities to consider permanently enhancing the cap for loss carry-back relief from the current S\$100,000 to S\$300,000 and allow businesses to claim losses against their preceding three years of taxable income.

An enhanced loss carry-back regime would also encourage businesses to take on riskier investments by providing more certainty that future losses carry a monetary value.

2.2 Effectiveness of tax measures targeted at start-ups and SMEs

Benefits under the partial tax exemption and start up tax exemption were revised downwards in Budget 2018 and we believe that the Government would continue to monitor the effectiveness of these schemes in providing assistance to start-ups and SMEs.

In previous Budget proposals, we pointed out that the provision of tax exemption schemes would not benefit companies that incur significant expenditure and derive only limited income in its initial years of operations. Start-up companies and companies seizing greenfield opportunities (such as those in developing countries within ASEAN) typically fall within this scenario.

We propose that the Government considers implementing measures to preserve the real value of tax losses as an alternative to the partial tax exemption and start-up tax exemption schemes.

The targeted recipient of the aforementioned tax exemption schemes typically incur tax losses during their early years of operations. Whilst our tax regime currently allows the indefinite carry forward of such losses (subject to conditions), the losses are carried forward at their nominal value, resulting in the erosion of their value over time.

A report⁸ produced by OECD's Centre for Tax Policy and Administration suggested that the real value of tax losses may be preserved by indexing these losses by a factor. These factors could include CPI or an appropriate yield on SGS.

Preserving the value of tax losses has several benefits to business, key of which would be an increase in the projected after-tax returns on their investments. This is especially important to start-ups as investing in these businesses is typically a long-term, multi-stage affair. As such, maintaining the real value of losses incurred by a start-up may allow it to attract more funding by increasing the attractiveness of the underlying business/investment to investors.

From a policy standpoint, preserving the value of losses is equitable to taxpayers as it achieves symmetry between the treatment of future taxable gains and carried forward losses.

2.3 Tax treatment arising from the adoption of various accounting standards

Predictability has been ranked as the most important factor in business decision making, followed by consistency and complexity in [Deloitte's 2017 Asia Pacific Tax Complexity Survey](http://www.deloitte.com/global/en/pages/tax/articles/asia-pacific-tax-complexity-survey.html) (www.deloitte.com/global/en/pages/tax/articles/asia-pacific-tax-complexity-survey.html).

Predictability refers to the availability of information and resources that allow taxpayers to foresee the direction and the potential changes in tax law. In this regard, the predictability of Singapore's tax regime may have been affected by recent policy pronouncements on the income tax treatment arising from changes in the revenue (FRS 115), financial instruments (FRS 109) and leasing (FRS 116) accounting standards.

Briefly, the income tax treatment arising from changes in the aforementioned accounting standards represents a trade-off between keeping compliance costs low for taxpayers and adhering to core tax principles. The former generally entails aligning the income tax treatment with accounting standards whilst the latter may result in tax adjustments as accounting standards yield to tax principles.

There may be good reasons for aligning tax with accounting for some standards (FRS 115, 109) and not doing so for others (FRS 116), but the reasons for the divergence in policy choices could be better articulated to taxpayers to maintain the predictability of Singapore's tax regime.

⁸ OECD (2018), Tax Policy Reforms 2018: OECD and Selected Partner Economies, OECD Publishing, Paris. <https://doi.org/10.1787/9789264304468-en>



Separately, given that accounting and tax have different objectives in mind, where the former runs counter to the principles of the latter, we propose that taxpayers be given the option to have their taxable income determined based on tax principles. This will reduce inconsistencies in tax legislation that potentially arises due to departures from tax principles. For example, the certainty of non-taxation for gains arising from the disposal of ordinary shares as prescribed under Section 13Z is incompatible with Section 34AA which prescribes the tax treatment under FRS 109. This is because Section 13Z is applicable only to qualifying gains arising from a disposal of ordinary shares, whereas Section 34AA mandates gains arising from revenue financial instruments to be taxed by reference to the amount recognised in the taxpayer's financial statements (i.e., unrealised gains are taxable). The taxation of unrealised gains may also give rise to an asymmetric tax treatment between taxation of gains and the utilisation of losses. Gains taxed in an earlier assessment year may not be relieved fully by losses incurred in a later assessment year as there are significant limitations to the carry back of losses.

2.4 Enhance capital allowances or deduction on qualifying capital expenditure or expenses incurred for Nationwide e-Invoicing Framework

The implementation of Nationwide e-Invoicing system was first announced in Budget 2018⁹. E-invoicing is the automated creation, exchange and processing of request for payments between suppliers and buyers using a standardised format. This will bring benefits to business such as cost reduction, faster payment cycles

via improved verification and validation, access to new financing options, leveraging data analytics and B2B benefits.

As the Nationwide e-Invoicing Framework starts to gain pace, the Government could consider providing 200% capital allowances or deduction claims for expenditure incurred to adopt digital technologies from authorised vendors identified by the Government.

2.5 Enhance the M&A tax allowance

Currently, M&A allowance at 25% of the value of acquisition, capped at S\$40 million, is available for a qualifying share acquisition. The share acquisition must result in the acquiring company's ownership of at least 20% of the ordinary shares of the target company if it owned less than 20% before the date of share acquisition, subject to additional conditions, or more than 50% of the ordinary shares of the target company if it owned less than or equal to 50% before the date of share acquisition.

M&A allowance is currently not available to a Singapore company in respect of the initial subscription of shares in newly set-up joint venture investments as the subscription is not considered a qualifying share acquisition for M&A allowance purposes. To encourage further M&A activity for Singapore-based enterprises, we propose to expand the scope to cover initial subscriptions of shares in newly set-up joint venture investments with unrelated joint venture partners, as the issuance of shares would have the same commercial effect as that of an acquisition.

⁹ Singapore adopts nationwide e-invoice system <<https://www.straitstimes.com/singapore/singapore-adopts-national-e-invoice-system>>



3. Enhancing mobility within Singapore's future of work

3.1 Study the tax impact that could arise from the "gig economy"

The Government has started to address the challenges faced by self-employed persons in the country's gig economy by offering better protections for gig economy workers¹⁰. However, we call on the Government to further study the long-term impact of this phenomenon such that our tax system is "future ready".

The gig economy is an environment in which temporary positions are common and organisations contract with independent workers for short-term or on-demand engagements. This will mean that an individual could carry out multiple stints of work or "gigs" by connecting to the public or other businesses through technology platforms. Time and geographical location will have no boundaries as work could be done from anywhere by any individual with the right skillset.

Research¹¹ conducted by the University of Oxford has found that there has been a rapid increase in online gig workers and this accentuates a number of tax issues for both gig economy workers and the tax authority.

Our preliminary observations include a potential reduction in Singapore's tax base. For a start, individuals in employer-employee arrangements in Singapore are generally taxed more than others in other work relationships. This is primarily due to the very limited expense deductions that employees may claim, vis-à-vis an individual who is regarded as carrying on a trade or business and derives the same gross revenue versus gross salary. This is notwithstanding that the tax rates applicable to employment income and trade/business income for individuals are the same.

Ceteris paribus, the potential for tax leakage may also rise in tandem with the increase in the number of "gig economy" workers. Whilst we have no doubt that the vast majority of taxpayers are law-abiding, the incidence of incomplete reporting looks set to rise as, unfortunately, there is no equivalent of an Auto-Inclusion Scheme for the reporting of income for self-employed individuals. There is also no independent party from the individual who is responsible for the tax reporting, unlike the

employer who is made responsible for reporting of remuneration income for an individual in an employer-employee relationship. For "gig economy" workers, the onus rests very much on the individual to ensure complete and accurate reporting. We cannot expect every individual to be tax savvy and continual taxpayer education should be prioritised to raise awareness of what constitutes complete and accurate reporting. This could include a well understood framework in which how the "gig economy" operates and an easy mean for such workers to fulfil their tax obligations.



As it is not mandatory for self-employed persons to contribute to their ordinary/special CPF accounts (although it is noted that mandatory contributions must be made to their Medisave accounts), we posit that such persons may not contribute (in percentage terms) as much as employees. If this is true, such self-employed individuals may not have sufficient savings in their CPF accounts to provide for their retirement needs if they have not set aside the additional cash from being exempted from mandatory CPF contributions, and may have to fall back on social safety nets. In this regard, the Government may wish to examine whether such a phenomenon may contribute to longer-term social issues as Singapore moves towards an ageing population.

¹⁰ Tripartite Standards: Contracting with Self-Employed Persons <https://www.tafep.sg/contracting-self-employed-persons>

¹¹ The iLabour Project by Oxford Internet Institute and University of Oxford <<https://ilabour.oii.ox.ac.uk/online-labour-index/>>. The Online Labour Index is the first economic indicator that provides an online gig economy equivalent of conventional labour market statistics.

3.2 Improve mobility by reducing barriers for MNCs that promote international mobility within the open economy

The Fair Consideration Framework represents part of the Government’s overall effort to strengthen the Singaporean core in the workforce. Generally, businesses are required to advertise job vacancies on the Jobs Bank before they submit employment pass applications to hire foreigners. There are currently limited exceptions to this rule to ensure fair competition among the locals and foreigners for job opportunities.

However, the Government could further tailor this “blanket rule” to ease the administrative burden of advertising for MNCs that promote international mobility as Singapore continues to attract top talent. We propose the following measures:

(a) Extending the exemption to advertise with Jobs Bank from 30 days to 90 days

Currently, an exception is given where no advertisement is required on the National Jobs Bank if the job is necessary for short-term contingencies (i.e., period of employment in Singapore for not more than 30 days).

To reduce the administrative burden of advertising and promote international mobility within MNCs, we propose that the exception could be expanded to 90 days to cover short-term assignments.

(b) Expanding the qualifying requirements to be treated as an Intra-Company Transferees (ICT)

There is a narrow definition on who qualifies to be an ICT currently. Under the World Trade Organisation’s General Agreement on Trade in Services, ICTs refer to those holding senior positions in the organisation or have an advanced level of expertise.

The requirements for ICT could be expanded to include 2 to 3 years secondment arrangement and viewed as a support programme not limited to specialised skill sets not easily available in Singapore. This is in view that the provision of global mobility is regarded as a competitive edge by international businesses.



3.3 Exempt individual income for qualified R&D personnel based in Singapore

To attract quality R&D researchers into Singapore and grow the R&D ecosystem, the Government could consider exempting a portion of the individual income on such individuals for a limited period of time. As an example, the following countries have adopted the following measures¹²:

Countries	Target	Years of relief	Tax relief	Condition
Canada	Researchers working in R&D	5	100% for the first two years, 75% for the third year, 50% for the fourth year, 25% for the fifth year	Not previously resident in Canada prior to taking up the position as an employee and settling in Quebec
Korea	Foreign technicians working in R&D	2	Exemption of personal income tax of 50%	None

12 OECD (2018), Tax Policy Reforms 2018: OECD and Selected Partner Economies, OECD Publishing, Paris. <https://doi.org/10.1787/9789264304468-en>



4. Tax incentives/industry specific matters

4.1 Fund Management Industry

4.1.1 Extend the various fund schemes

The following fund schemes are set to expire on 31 March 2019:

- (a) **Section 13CA**—Exemption of income of prescribed persons arising from funds managed by fund manager in Singapore;
- (b) **Section 13R**—Exemption of income of company incorporated and resident in Singapore arising from funds managed by fund manager in Singapore; and
- (c) **Section 13X**—Exemption of income arising from funds managed by fund manager in Singapore.

The schemes have helped anchor Singapore as a fund management hub and should be extended for another five years. In particular, the Section 13R and Section 13X fund exemption schemes will complement the recent introduction of a new corporate vehicle, VCC.

4.2 Private Wealth Industry

4.2.1 Extend the various trust schemes

The following trust schemes will not be applicable for trusts or companies that are constituted or incorporated on or after 1 April 2019:

- (a) **Section 13G**—Exemption of income of foreign trust;
- (b) **Section 13O**—Exemption of income of foreign account of philanthropic purpose trust; and
- (c) **Section 13Q**—Exemption of relevant income of prescribed locally administered trust.

These schemes continue to remain relevant as they were introduced to encourage individuals to set up trusts to be administered by a trustee company in Singapore.

We propose that the above schemes be extended for another five years as this would continue to boost the trust industry in Singapore and help retain Singapore's attractiveness as a wealth management hub.

4.3 Financial Industry

4.3.1 Extend the tax exemption scheme of certain income of prescribed sovereign fund entity and approved foreign government-owned entity

A tax exemption for certain income derived by prescribed sovereign fund entities and approved foreign government owned entities is provided under Section 13Y of the SITA. This is scheduled to lapse on 31 March 2019.

To continue encouraging sovereign fund investments as part of Singapore's financial sector incentive, we propose that the above scheme be extended for another five years.

4.3.2 Extend the Designated Unit Trust (DUT) scheme

The DUT scheme was introduced to foster the development of the domestic retail unit trust industry and was streamlined and rationalised in 2014. The scheme is scheduled to lapse on 31 March 2019.

Although the scheme has waned in popularity due to the introduction of Section 13X scheme, we propose that the scheme be extended for another five years as it continues to be of relevance to retail funds that do not meet the minimum fund size under Section 13X.

4.3.3 Introduce incentives to support the FinTech ecosystem

Research and technology are crucial to the development of financial services in Singapore; especially technologies that are transformative. Such technologies in financial services have been identified to include:

- Digital and mobile payments;
- Authentication and biometrics;
- Blockchains and distributed ledgers;
- Cloud computing;
- Big data; and
- Learning machines.

Underpinning the successful development of these technologies will be innovation, entrepreneurship and product commercialisation. Given the importance of transformative technologies in financial services, existing tax policies could be tweaked to encourage the undertaking of such activities by incumbent financial services companies.

4.4 Shipping Industry

4.4.1 Enhance the concessionary tax rate for ship management activities and other shipping support services (MSI-SSS scheme)

Countries are looking to introduce targeted tax measures to promote the development of certain industries and sectors and to remain competitive. In particular, Hong Kong is looking to revitalise the shipping industry amid fierce competition from the region and will be looking to develop the maritime leasing, maritime related support and management services and marine insurance sector. Singapore could also look to rationalise the shipping schemes available to remain competitive.

Under the MSI-SRS scheme, tax exemption is available, from 22 February 2010, for income derived from the provision of ship management services to any qualifying group company in respect of Singapore ships owned or operated by the qualifying company. In comparison, a concessionary tax rate of 10% applies to the incremental income derived from the provision of qualifying

approved supporting shipping services under the MSI-SSS scheme. There appears to be a disparity in the tax treatment for the same type of services rendered, depending on whether the services are rendered to group entities vis-à-vis 3rd parties.

To attract more ship management companies to grow their presence in Singapore and in view of the upcoming trend towards outsourcing, we propose that consideration be given to enhance the MSI-SSS scheme by lowering the concessionary tax rate to 5% on incremental income derived from the provision of qualifying ship management activities. This will put the scheme at par with concessionary tax rates available under the Development and Expansion Incentive. This might require additional economic commitments from shipping groups, but is worth considering as shipping groups are increasingly looking to restructure their holding and economic activities from low tax jurisdictions to shipping hubs like Singapore due to the focus on BEPS, transparency and alignment of taxation with value creation and economic substance.





5. International Tax developments

5.1 Extend and enhance the WDAs for IPRs

Currently, capital expenditure incurred by a company from 1 November 2003 to the last day of the basis period for YA 2020 in acquiring IPRs for use in its trade or business qualifies for WDA under Section 19B of the SITA.

IPRs are defined to include patents, copyrights, trademarks, registered designs, geographical indications, lay-out designs of integrated circuit, trade secret or information with commercial value and plant varieties but excludes information of customers of a trade or business, such as a list of those customers and requirements of those customers, gathered in the course of carrying on that trade or business; information on work processes (such as standard operating procedures), other than industrial information, or technique, that is likely to assist in the manufacture or processing of goods or materials; combination of both; and as prescribed by the Minister.

Both the legal and economic ownership of the IPRs must be acquired by the transferee. Approval from the Economic Development Board must be sought where only economic ownership of the IPR is transferred.

To maintain Singapore's attractiveness as a hub for creation, management and exploitation of IPRs, we propose the following:

- (a) Extend the WDA for IPRs for another five YAs (till YA 2025);
- (b) Extend the list of qualifying IPRs to include information of customers of a trade or business in light of the importance of such information (i.e., customer insights, etc) to the digital economy;
- (c) Consider waiving the requirements for legal ownership of IPRs in view that the claimant should have economic substance in Singapore as a pre-requisite. This is because writing down allowances are granted only if the claimant is utilising the IPR for the purposes of carrying on a trade or business. Alternatively, the authorities could consider making the requirements to qualify for the waiver of legal ownership more transparent to maintain Singapore's competitive advantage, which may have eroded in light of international developments that have levelled the playing field in relation to preferential tax regimes.



5.2 Clarity on the impact of MLI to our Avoidance of Double Taxation Agreements

The OECD has published guidance on the development of documents to help users of the MLI to understand its effect on CTAs.

The overarching idea of the OECD is the production of synthesised texts, which is a single document for each CTA covering:

- The text of a CTA, including the text of relevant amending instruments;
- The elements of the MLI that have an effect on the CTA as a result of the interaction of the MLI positions of its Contracting Jurisdictions; and
- Information on the dates on which the provisions of the MLI have effect in each Contracting Jurisdiction for the CTA.

The OECD has indicated that it is good administrative practice for Contracting Jurisdictions to consult each other in the development of synthesised texts, although there is neither a legal requirement to consult, nor to produce synthesised text.



Amongst others, Singapore's wide tax treaty network makes it an attractive location for trade and investment. Although the IRAS has yet to indicate its position with regards to the production of synthesised texts, we trust that the IRAS is actively looking into this issue as the efficacy of Singapore's tax treaties depends to a large extent on a consistent interpretation of the treaty provisions by Singapore and her treaty partners.

It would also be helpful for the IRAS to provide taxpayers and potential investors guidance on the operation of the Principal Purpose Test (PPT) and beneficial ownership rules in Singapore.

5.3 Expand Singapore's tax treaty network

The recent signing of the Tax Information Exchange Agreement and a reciprocal Foreign Account Tax Compliance Act Model 1 Intergovernmental Agreement between Singapore and the United States marks a significant development as Singapore continues the pursuit of a tax treaty with the United States. The United States is a key trading partner of Singapore and the conclusion of a comprehensive tax treaty with the former would undoubtedly be a key addition to Singapore's network of treaties.

New tax treaties should also be pursued, particularly in developing markets such as those in the African continent and old treaties re-negotiated to be on terms that are more competitive. In particular, some of Singapore's older treaties (e.g., Taiwan) do not include any preferential tax treatment for service fees. Other treaties (such as with Indonesia) do not include any exemption or reduced rates for capital gains, which may be a disadvantage for Singapore investors looking to expand into these countries and diminish Singapore's competitiveness as an international hub.

5.4 Improve the tax ecosystem within the ASEAN region

In a recent joint statement of the 4th ASEAN Finance Ministers' and Central Bank Governors' Meeting, it was announced, among other things, that to facilitate trade and investment, ASEAN will be looking forward to promote and improve:

- Best practices of dispute resolution mechanisms to provide for more efficient settlement of tax disputes; and
- Withholding tax structure within ASEAN member states, following the study on withholding tax practices within ASEAN.

This is a welcome development as ASEAN could seek to come to a consensus on how to improve the tax ecosystem within ASEAN region. Singapore could be proactive to lead the discussion within ASEAN given that Singapore is generally the gateway for investors to invest in the ASEAN region and a shift in global economic weight to Asia.

5.5 Taxation of highly digitalised businesses

Countries are taking unilateral tax measures in the form of direct taxation on highly digitalised businesses before a long term consensus-based solution is reached at the international level presumably by year 2020.

"Nexus" and "profit allocation" have always been the two key principles in the area of an international tax system. A number of salient features such as cross-jurisdictional activities without mass, heavy reliance on intangible assets, the importance of data and user participation and their synergies with intellectual property are observed in a highly digitalised business. The key challenge in arriving at a common ground is how each of the salient features in digitalised businesses, in particular data and user participation, could be integrated in the traditional fundamental principle.

Singapore adopted GST on imported services which is set to commence on 1 January 2020. Other than our current measures, Singapore should monitor or study the following:

- (a) The impact interim unilateral measures taken by other countries on the taxation of highly digitalised businesses may have on Singapore; and
- (b) Whether measures that seek to capture economic value associated with data and user participation could have an adverse impact on countries with a smaller population such as Singapore.



6. Goods and Services Tax

6.1 Extend and grant full GST remission for prescribed funds managed by prescribed fund managers in Singapore

The current GST remission allows prescribed funds managed by prescribed fund managers in Singapore to recover GST on expenses incurred without the funds having to register for GST. Qualifying funds will enjoy input tax recovery at an annual fixed rate¹³ determined by the MAS via the GST remission.

We note that our clients find the aforesaid GST remission very beneficial and the remission should also be applicable to the recently introduced corporate structure for investment funds, the VCC by MAS. We also understand that the introduction of the VCC structure is to position Singapore as a key fund domiciliation hub, and strengthen Singapore's position as a full-service international fund management centre.

However, we are of the view that more can be done to achieve the above objective. Firstly, we propose that the Government considers providing absolute certainty by announcing that the GST remission will be extended for an indefinite period of time. Secondly, although the qualifying funds are already benefitting from the GST remission through the recovery of input tax incurred at the annual fixed input tax recovery rate, they are still losing a percentage of their input tax incurred since the recovery rate is not 100%. Therefore, we propose that the Government considers granting full GST remission (i.e., 100%) on the input tax incurred by qualifying funds. This will also put Singapore on equal footing at least from a GST recovery perspective as compared to our closest rival Hong Kong—a key fund domiciliation hub and a full-service international fund management centre which does not have a GST regime.

6.2 Review the GST treatment currently adopted for cryptocurrencies

Currently, cryptocurrencies, such as Bitcoins are not considered as 'money', 'currency' or 'goods' for GST purposes. Instead, the supply of cryptocurrencies is treated as a supply of services, which would be subject to either standard-rate GST (currently at 7%) or zero-rate GST depending on the belonging status of the contractual party and direct beneficiary.

Cryptocurrency issuance is becoming increasingly common and Singapore, with its strong anti-money laundering rules is a favoured location. However, compared to other jurisdictions (for example, the European Union and Switzerland), Singapore's stance on the supply of cryptocurrency may prove to be a hindrance to the further development of an ecosystem around this technology.

We note that countries, like Australia and United Kingdom, have revised their positions on the GST/VAT treatment for cryptocurrencies such that the supply of cryptocurrencies have similar treatment as the supply of money.

We propose that the Government therefore considers reviewing its position on the GST treatment of cryptocurrencies, specifically as to whether such issuance can be treated as an exempt financial service so that no GST will be chargeable on cryptocurrencies issued to a Singapore buyer. The GST-registered issuers will then be required to apportion their input tax accordingly.



¹³ The current fixed input tax recovery rate for the period from 1 January 2018 to 1 December 2018 is at 88% but it will be reduced to 87% for the period 1 January 2019 to 31 March 2019.



6.3 Changes to the zero-rating provisions as a result of the introduction of the B2B reverse charge with effect from 1 January 2020

Currently, zero-rating of services to an overseas person under Sections 21(3)(j), 3(k) and 3(s) of the GST Act would require the directly beneficiary to also be a person who belongs outside Singapore and the direct beneficiary must also be outside Singapore at the time the services are performed. The policy intent as we understand is to avoid round-tripping so that no non-GST registered persons/non-fully taxable persons will enjoy GST-free consumption of services in Singapore.

With the introduction of the B2B reverse charge with effect from 1 January 2020, the “direct beneficiary” test as described above should be redundant and we also note that the law will

be amended such that zero-rating of services under these subsections will be allowed as long as the direct beneficiary who belongs in Singapore is registered for GST.

We hope that the IRAS will not impose certain requirements which are too onerous on the service providers for purpose of the above such that they have to assess and confirm that the direct beneficiaries are also fully taxable persons who are entitled to full input tax recovery. In addition, we hope that IRAS will accept that a one-time check on the GST-registration status of the direct beneficiaries during the commencement of the services will be sufficient and not require the service providers to perform subsequent regular checks.



7. Personal Tax



7.1 Recalibrate the earned income relief

The Earned Income Relief for the general population aged 55 years old and below has remained unchanged for decades and is no longer reflective of the income levels and cost of living today. We propose that the Government reviews the quantum of the relief to be in line with current income levels and cost of living.

7.2 Provide relief for MediShield Life premiums

All Singapore citizens and SPRs are automatically included in MediShield Life. With better coverage, the premiums payable on MediShield Life have been increased accordingly which adds to the burden of individuals who pay the premiums on the same for their elderly parents and dependent children.

We propose that the Government considers providing a tax relief for individuals who pay the MediShield Life premiums for their elderly parents and dependent children.

7.3 Review the tax deduction relief on life insurance premiums and medical insurance premiums

Currently, where the relief for CPF (employee's mandatory contribution) is more than S\$5,000, any premiums paid on the life insurance policies will not be eligible for tax relief. Only individuals whose mandatory CPF contributions are below S\$5,000 per annum can claim the relief for life insurance premiums. This will result in the majority of working Singapore citizens and SPRs not being able to claim relief for insurance premium although foreign employees who are not participating in the CPF will be eligible for such reliefs.

In addition, life insurance premium relief is currently only available for premiums paid on the individual taxpayer's life and/or his spouse's life. For a female taxpayer, life insurance premium relief is available only for premiums paid on her own life and the relief does not extend to policies purchased on her spouse's life.

With the ageing population and due to rising medical costs, individuals should be encouraged to take on a more comprehensive medical coverage for themselves (i.e., on top of the coverage provided under MediShield Life). This will hopefully allow a large part or the full hospital bill to be fully covered by insurance, minimising the financial burden and stress to the individual and his/her family.

Based on the above, we propose that the Government considers the following changes:

- a) Granting a separate relief for premium paid for life and medical insurance. This would encourage individuals to take up life and medical insurance policies to provide coverage for themselves and their loved ones;
- b) Extending the relief to life insurance premiums paid on policies for dependent children and elderly parents; and
- c) Extending the relief to female taxpayers for life insurance premiums paid on policies for spouse (spouse's dependent children and elderly parents as per (b) above).



7.4 Introduce a child care/infant care relief

Due to the increased cost of living, the costs for maintaining a child in Singapore has substantially increased and both parents may decide to remain in the workforce (i.e., dual income family) in order to meet the rising costs and financial demands of the family. In this regard, parents would generally leave their children with child care/infant care centres while they are at work.

We propose that a child care/infant care relief be introduced for both working parents. Although raising a child is a personal decision, introducing a child care/infant care relief will add on to the many initiatives undertaken by the Government to support families to have more children, especially for those who can afford them.

7.5 Introduce special tax deduction/rebate for home caregiver expenses

In line with the ageing population and dual income families, it is becoming more common for families to employ professional caregivers to assist with the caregiving of their aged parents/parents-in-law/grandparents/grandparents-in-law.

Providing a special tax deduction or rebate on costs associated with employing specialised caregivers at home (e.g., home nurses, nursing aides and other trained professionals) for the elderly/disabled would help in defraying the overall costs of caring for the elderly. This could also help to maintain the family nucleus as it may encourage more families to opt for home care instead of sending the elderly to nursing homes.

7.6 Relax the qualifying criteria for the Not Ordinarily Resident (NOR) scheme

The NOR scheme was introduced in the year 2002 with the objective of attracting foreign talent to relocate to Singapore and incentivise them for their regional or global roles. The primary benefit for an individual who is accorded the NOR status is that he enjoys time apportionment of employment income (i.e., income tax is paid only on that part of his employment income that corresponds with the number of days he spends in Singapore) for a period of five years.

Singapore citizens and SPRs may hold the same regional or global roles and responsibilities as foreigners working in Singapore and face similar significant business travel requirements. However, they would generally not be able to qualify for time apportionment of employment income under the NOR scheme due to the requirement to be a non-Singapore resident for the three YAs prior to the year in which the NOR status applies.

To level the playing field between overseas and Singapore talents, we propose that the requirement for NOR applicants to be a non-resident for the preceding three consecutive YAs prior to the YA of claim for Singapore citizens/SPRs to be removed or relaxed. This should make the scheme more equitable for all taxpayers instead of being skewed in favour of foreigners, and encourage more Singaporeans to take up such regional or global roles.

In addition, the Government may also consider extending the concession period to ten YAs (currently limited to five YAs) to enable eligible taxpayers to benefit from the NOR scheme for a longer period.



7.7 Refine tax rules for employee share scheme

Singapore could also refine the tax rules for employee share scheme to make them more attractive to start-up companies or SMEs in hiring and retaining staff (given the importance of stock option awards to such companies). These include:

(a) Tax deferral scheme

Gains arising from the exercise of stock options/vesting of the share awards are generally taxed in the year of exercise/ vesting (unless there is a moratorium imposed). As the individual may not sell the shares in the same year and realise the gains, it may create a cash flow challenge for the individual if the tax arising from the share gains is substantial, especially if the said individual is bearing his/her own Singapore tax liability.

Currently, under the Qualified Employee Equity-Based Remuneration (QEEBR) scheme, payment of tax arising from stock option or share gains that arise during the relevant

YA can be deferred up to five years, subject to an interest charge (linked to the “average of the prime rate” offered by the Big Three local banks in Singapore). In view that an interest charge is applicable on the tax deferral, it is not common for individuals to apply for this scheme.

To assist employees to mitigate any cash flow issues with regard to the settlement of their tax liabilities due to the exercise of the stock options or vesting of the share awards, consideration may be given to remove the interest charge for the first three years of the tax deferral (i.e., interest charge to apply from the fourth year of the tax deferral). Alternatively, the Government may wish to consider granting preferential or discounted interest rates when calculating the said interest charge, which is lower than the average prime rate. To make the scheme more favourable for Singapore citizens and SPRs, the abovementioned benefits could be limited to this group of taxpayers.

(b) Tracking option

When a non-Singapore citizen or SPR ceases employment in Singapore, any unexercised stock options or unvested share awards as at the date of cessation of Singapore employment, are deemed to be exercised or vested one month prior to the date of cessation of Singapore employment and the deemed gains are reportable for tax in the tax clearance return (Form IR21). This is known as the deemed exercise rule. Tax arising from these deemed gains would have to be settled immediately prior to the said person leaving Singapore. As the share gains have not been realised, this generally creates a cash flow challenge for the departing employees.

To provide mitigation for the above challenge, the tracking option in lieu of the deemed exercise rule has been made available to employers who have applied for the scheme and obtained approval from the IRAS. Under this scheme, the employers are allowed to track and report the income when the relevant gains to the IRAS at that juncture.

However, as it may be very difficult to fulfil all the qualifying conditions of the scheme, we propose that the Government considers revisiting the qualifying conditions for the tracking option¹⁴, especially the capital requirement condition. This would allow more employers to qualify for the scheme and more taxpayers to benefit from the scheme.

(c) Mitigation of double tax exposure

Currently, gains from employee share plans are fully taxable in Singapore if the grant is made during the Singapore employment, without consideration to the sourcing of income during the vesting period of the grant. In addition, no foreign tax credit is allowed for tax suffered outside of Singapore on the same stock option/share gains subject to tax in both Singapore and another country.

This results in a misalignment of individual tax treatment compared to other countries which may adopt the OECD model of sourcing for stock option/share gains¹⁵, thus resulting in a genuine double tax exposure since no foreign tax credit is allowed in Singapore on such gains.

As such, we propose that the Government reviews the basis of taxation of stock options and shares in Singapore to be aligned with the OECD model of sourcing, or consider to grant foreign tax credits in situations where there is double tax exposure.

7.8 Review and increase the quantum of NSMan relief

The NSMan relief has remained the same over the years. To better recognise NSMan and their spouses for their contributions to National Service, we propose that the Government considers increasing the quantum of NSMan relief.

14 In order to be considered for the Tracking Option, an employer:

- 1) Should be a Singapore incorporated company or a branch of a foreign incorporated company registered in Singapore under the Companies Act and carrying on business activities in Singapore; and
- 2) Must have robust HR and computer systems that are able to track the status of stock plans; and
- 3) Must meet adequate capital requirements (i.e., within the top 25% of market capitalisation in the STI Index for Singapore-incorporated companies and within the top 25% of market capitalisation in one of the leading stock index in the parent company's country of incorporation for a branch of a foreign company registered in Singapore); and
- 4) Must have an excellent taxpaying record for the past three years.

15 Under the OECD model, stock option and other equity gains are generally sourced over the period from grant to vest of the options/shares.



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