



Singapore Budget 2018 Feedback

Confidence to lead

4 January 2018

Tax ●

The challenge is shaping Singapore's fiscal policies after taking into account both domestic and international developments.

Foreword

The lead up to Budget 2018 has been dominated by speculation on whether taxes would be raised to meet future spending requirements, and if so, which tax (hopefully this stays in the singular!), as well as the magnitude of the increase.

If past Budgets are any indication to go by, announcements of tax hikes are generally reserved to the tail end of the Finance Minister's Budget speech. This certainly heightens the drama of Budget 2018, but as tax professionals, we would be keenly awaiting measures introduced by the Finance Minister to maintain Singapore's edge amidst stiff tax competition from developed countries.

In the main, our proposals for Budget 2018 are shaped by twin requirements of maintaining competitiveness in a fiscally sustainable manner. Given the emphasis on fiscal sustainability, our Budget 2018 proposal kicks-off with our recommendations on achieving that goal, with a key focus on ensuring that Singapore's tax base is not eroded by structural shifts in the economy.

Let us not forget that 2018 marks the first year that spending on activities along the innovation value-chain would no longer be supported by the Productivity and Innovation Credit (PIC) Scheme. Although the Government has indicated that not all businesses will survive the transition into the 'future economy', businesses should not be left bereft of support in the post-PIC era. Our proposals seek to enhance the current broad-based R&D regime as our neighbouring countries continue to introduce and enhance their R&D tax incentive offerings, to enable Singapore to remain competitive.

In line with the shift away from broad-based initiatives, we have also called for targeted measures in a bid to lower compliance costs and to ease cash flow for SMEs.

In light of the tax reform in the United States, there is a risk that a 'race to the bottom' will develop in a bid to retain foreign investments. Our proposal calls for a review of a transit from tax incentives, which benefits a select group of taxpayers, to an overall reduction in tax rates that is enjoyed by all taxpayers.

Lastly, we believe that people are our greatest assets and have made proposals to complement the existing tax measures to ensure that no one gets left behind as Singapore continues her transition into the 'future economy'.

Our proposals for Budget 2018 include recommendations on:

- **Enhancing Singapore's broad-based R&D regime to keep pace with regional developments**
- **Lowering compliance costs by simplifying certain tax provisions for SMEs**
- **Fostering an inclusive society by providing enhanced deductions for hiring and integrating persons with special needs into the workforce**
- **Reviewing Singapore's corporate income tax rate in view of international tax developments**
- **Moving towards a more progressive and gender-neutral individual taxation system**

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Abbreviations

ACAP	Assisted Compliance Assurance Programme	OECD	Organisation for Economic Cooperation and Development
ACRA	Accounting and Corporate Regulatory Authority	PIC	Productivity and Innovation Credit
AEC	ASEAN Economic Community	QDS	Qualifying Debt Securities
AIS	Approved Shipping International Enterprise	R&D	Research and Development
ASEAN	Association of Southeast Asia Nations	R&R	Renovation and Refurbishment
ASPV	Approved Special-Purpose Vehicle	RM	Malaysian Ringgit
BEPS	Base Erosion and Profit Shifting	ROV	Remotely Operated Vehicle
CPF	Central Provident Fund	S\$	Singapore Dollars
FRS	Financial Reporting Standards	SEC	Special Employment Credit
FSI	Financial Sector Incentive	SGX	Singapore Exchange
GST	Goods and Services Tax	SIATP	Singapore Institute of Accredited Tax Professionals
IPC	Institution of Public Character	SITA	Singapore Income Tax Act
IPO	Initial Public Offering	SME	Small and Medium-sized Enterprise
IRAS	Inland Revenue Authority of Singapore	SPR	Singapore Permanent Resident
M&A	Mergers and Acquisitions	SPV	Special Purpose Vehicle
MAS	Monetary Authority of Singapore	SRS	Singapore Registry of Ships
MNC	Multi-National Corporation	US	United States
MOF	Ministry of Finance	VAT	Value-Added Tax
MPA	Maritime and Port Authority of Singapore	WMCR	Working Mother Child Relief
MSI	Maritime Sector Incentive	YA	Year of Assessment
NOR	Not Ordinarily Resident		

Confidence to lead



Ensuring a sustainable revenue base



Adopting a multi-faceted approach towards innovation



Enhancing the tax regime for small and medium enterprises



Building an inclusive society



Keeping pace with international tax developments



Tax Incentives/Industry-specific matters

1 Ensuring a sustainable revenue base



Amongst others, where GST is to be increased as many predicted, our proposals call for the increase in the GST rate to be phased, with the increase ameliorated to a certain extent by introducing zero-rating for certain basic necessities.

1.1 GST measures

1.1.1 Increase GST rate

Following Prime Minister Lee's speech that Singapore would need to increase taxes so as to fund its escalating expenditure, a number of economists and tax experts have predicted that the Government is likely to raise the current GST rate of 7%. Many predicted that GST rate would be raised by one to two percent with perhaps a potential ceiling at 10%, which is the average GST/VAT rate in this region.

Firstly, if the GST rate were to be increased by 2%, we propose that this is phased such that each increase is 1%. This would hopefully lessen the financial impact to the lower income group in Singapore.

Secondly, the Government may wish to consider expanding the scope of GST zero-rating to cover certain prescribed basic necessities, e.g. children's clothing, basic foodstuffs such as rice, vegetables, certain prescription medicines to the elderly, so that such items will not attract GST. This, together with the usual GST vouchers, would help to ease the financial impact on the lower income group. Zero-rating such items should not have an impact on the suppliers from a GST perspective as they should still be allowed to fully recover any input tax incurred in making such taxable supplies.

As an alternative to increasing the GST rate, the Government may wish to consider reducing the GST registration threshold instead. It is noted that many countries in Asia Pacific have a low GST registration threshold so that most businesses are registered for and account for GST on their local sales. For policy reasons, Singapore's threshold is the highest in the world. Even if the threshold was reduced to S\$500,000 (from the current S\$1 million), the threshold will still be comparatively high and therefore would still exclude many SMEs, which make up a considerable number of the active businesses in Singapore.

1.1.2 Consider increasing GST filing frequency for larger GST taxpayers

Most GST registered taxpayers file their GST returns on a quarterly basis and the payment of the net GST payable is due one month from the end of

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the quarter. If the GST taxpayers are making payments via inter-bank GIRO, the tax will be automatically deducted from the designated GIRO bank account on the 15th of the following month in which the return is due for submission.

Based on the IRAS' financial statements for the year ended 31 March 2017, total GST collection was S\$11.1 billion and GST is also the second biggest tax revenue contributor after corporate income tax. Given the quantum and significance of the tax, it is important for the Government that GST is collected promptly. Therefore, in line with many other countries in the region, IRAS may wish to consider requiring GST registered taxpayers with turnover above a certain revenue threshold (e.g. S\$100 million per annum) to file their GST returns on a monthly basis. For example, Malaysia requires GST registered taxpayers above a revenue threshold of RM500,000 to file GST returns on a monthly basis. This would help to improve the GST cash flow position for the Government.

1.2 Corporate tax measures

1.2.1 Review efficacy of full tax exemption scheme

In view that certain proposed tax benefits or schemes would require government funding, we propose that the Government reviews the efficacy of the start-up full tax exemption scheme.

The full tax exemption scheme¹, which provides for 100% tax exemption on the 1st S\$100,000 of chargeable income and 50% tax exemption for the remaining chargeable income up to a total S\$300,000 derived by qualifying start-up companies during its first three consecutive years of assessment, was introduced to encourage entrepreneurship and the formation of 'start-ups'.

It was expected that more taxpayers would enjoy this exemption in line with the Government's push for more entrepreneurial activity. Whilst abuse of this scheme through the establishment of shell companies may be punishable under the law, the authorities could consider reviewing the full tax exemption scheme holistically and ensure that the personal income tax base is not eroded by new businesses that have little economic impact and/or generate little employment or value.

In practice, start-ups may not be able to fully benefit from the scheme as they would likely be having tax losses in the initial years. The Government has moved towards targeted assistance for businesses and it is timely to

¹ Section 43(6A) of the SITA.

conduct a study on whether the full tax exemption scheme had the effect of encouraging entrepreneurship.

1.2.2 Study impact of the 'gig' economy

The number of people who 'work for themselves' is set to rise. The internet has made matching service providers with potential customers more efficient; more recently, the mushrooming of online 'gig economy' platforms such as Uber and Deliveroo have also increased the number of self-employed individuals. We call on the Government to study the long-term impact of this phenomenon.

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 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 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.

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.

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2 Adopting a multi-faceted approach towards innovation

Finance Minister Heng Swee Keat noted earlier this year that investments in R&D by businesses in Singapore continued to see an encouraging growth of eight percent year-on-year from 2010 to 2015.

While the latest statistics may paint a rosy R&D landscape, there may be a risk that the innovative mindset and the momentum Singapore has so painstakingly built up for the country's R&D ecosystem may potentially be disrupted when the PIC scheme expired in 2017.

This is especially so when countries in the region, such as Malaysia, Thailand and the Philippines, have started ramping up R&D tax incentive offerings, our perennial competitor Hong Kong has most recently decided to take a leaf out of the Singapore playbook by introducing R&D initiatives similar to what Singapore currently offers under the PIC scheme.

2.1 Enhance the existing broad-based R&D taxation regime to encourage more R&D activities

To stay competitive vis-à-vis regional economies, we propose the following enhancements to our existing broad-based R&D taxation regime to encourage more innovation and R&D activities.

2.1.1 Increase the amount of tax deduction for R&D activities

With the PIC scheme being phased out at the end of 2017, the enhanced deduction for qualifying expenditure on R&D would be reduced from 300% to 50% (albeit without a cap)². We note that quantitative impact of enhanced deductions is diminished by Singapore's low corporate headline tax and further eroded by tax incentives, the latter commonly enjoyed by bigger MNCs or big Singapore-headquartered companies that may have a bigger R&D spending budget.

Accordingly, we propose that the Government considers increasing the amount of enhanced tax deduction for qualifying R&D expenditure under Section 14DA of the SITA, from the current 50% to 200%, to ensure that the effective tax savings per dollar of investment in R&D activities conducted in Singapore remains competitive on a global scale. This will also keep Singapore close to the R&D tax incentives newly introduced by Hong



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² Section 14DA of the SITA, without taking into account further deductions under Section 14E which requires prior approval.

Kong and potentially on the radar of global business communities and organisations seeking a more attractive location for their R&D activities.

2.1.2 Implement an R&D tax credit system

As an alternative to granting additional tax deductions on qualifying R&D expenditure, the Government could consider granting R&D tax credits. This could be calculated based on the R&D expenditure incurred and would achieve the same objective of decoupling the R&D regime from Singapore's tax rate to ensure that Singapore remains attractive to R&D investments, as well as encourage spending on qualifying R&D activities. A benefit of the R&D tax credit is that it would not disadvantage businesses that have income taxed at a concessionary tax rate to undertake R&D.

Greater benefits could also be offered to SMEs since R&D investment is, by definition, inherently risky (a qualifying R&D project should, amongst others, be either novel or involve technical risk). Higher R&D tax credits could be granted to SMEs or businesses with lower revenue. In addition, businesses with unused tax credits (due to insufficient taxable profits or losses) could be allowed a refund/cash-back of those tax credits. It is hoped that SMEs may be more willing to undertake R&D if the financial risks of doing so are lower.

2.2 Incentivise 'evolutionary' innovative activities

We reiterate our call to broaden the definition of what qualifies as R&D for tax purposes or for a separate incentive category to be set up for spending incurred on "lower tier" R&D or activities that are deemed less innovative because they fall outside the ambit of R&D as defined in the SITA. These include activities that lead to the creation of new and improved products or services such as the integration of two (or more) existing technologies, as in the archetypal case of Uber, or the complex integration of numerous disparate systems operating on vastly different technologies. The benefit for such a category could be watered down, to commensurate with the perceived reduced risks such activities carry. For example, a further tax deduction of 25% (compared to the current 50% further tax deduction for R&D activities) could be granted.

2.3 Introduce super deductions to encourage digitisation

In line with the Smart Nation initiative, we propose that the Government consider introducing super deductions to encourage digitisation, such as e-billing systems or workflow systems.

The implementation of such systems would likely involve external vendors and consultants and we propose to introduce a super deduction of 200% on such expenditure as digitisation directly result in productivity savings and empower companies to take the leap in digitising/automating their work processes.

...we propose that the Government consider introducing super deductions to encourage digitisation...

To keep administrative costs down, this scheme could be administered on a self-assessment basis, subject to an annual deduction cap of S\$100,000 so that benefits under the scheme accrue mainly to SMEs.



3 Enhancing the tax regime for small and medium enterprises

The days of broad-based tax schemes to drive productivity and innovation has come to an end with the expiry of the PIC scheme.

With this in mind, our proposals call primarily for the simplification of the tax system for SMEs as a cost reduction measure, as well as ways to ease cash-flow for SMEs.

3.1 Simplify the tax system for SMEs

A simple and efficient tax system seeks to maximise the collection of taxes whilst reducing the compliance costs associated with the collection. Whilst the benefits of an efficient tax system should accrue to all companies, it may be argued that SMEs stand to benefit the most, as, *ceteris paribus*, SMEs generally face a disproportionately higher tax compliance cost vis-à-vis bigger companies (as a percentage of sales).

We propose the following recommendations to supplement existing measures³ to ease the tax compliance burden for SMEs:

3.1.1 Simplification of tax provisions for SMEs

In determining their tax liability for each assessment year, SMEs typically need to review their business expenditure for non-deductible items as well as to ensure that expenses are deducted in the correct period (such as in the case where provisions are made). SMEs are also required to determine whether expenditure on fixed assets qualify for capital allowances, although we observe that comparatively more time is spent on quantifying deductible business expenditure than on determining what qualifies as plant or machinery for capital allowance purposes. This being the case, consideration could be given to simplify certain tax provisions that result in tax adjustments for SMEs.

The quantification of deductible business expenses may be simplified by deeming a certain proportion of business expenses as deductible. The proportion of expenses deemed deductible could be set by after a statistical analysis of SMEs tax returns, and set at an appropriate 'discount' such that SMEs are given the choice to opt-in to this scheme.



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³ Such as the Form C-S, exemption from filing estimated chargeable income, one-year write-off for small assets, etc.

In relation to the claim for capital allowances, as an alternative to writing-off small assets over one year, SMEs may instead be allowed deductions based on the accounting classification and consequently allocation of expenditure incurred on fixed assets (i.e. depreciation), with the exception of expenditure incurred on immovable property. For example, SMEs may opt to claim a pre-determined percentage (say 50%⁴) of annual depreciation costs arising from leasehold improvement costs.

To enhance the integrity of such a regime, taxpayers may be required to opt-in to the simplified regime for a period of three to five years.

3.1.2 Consider better use of technology

Perhaps the greatest scope for simplification would be to intensify the use of technology to automate the tax compliance process for SMEs.

A company's accounting net profit before tax forms the starting point in computing its tax liabilities. Such information already exists in digital format within a central depository since it is mandatory for companies to file their financial statements electronically with ACRA. A logical step would be to develop a software that is able to compute the tax liabilities of companies based either on accounting information submitted to ACRA and, where necessary, to require companies to submit more granular financial accounting data such that their tax liabilities can be computed with the necessary degree of precision.

The development of such software may need to be funded by the Government as it is generally not cost-effective for SMEs to either invest in commercial off-the-shelf software or to fund the development of such software.

3.2 Ease cash-flow for SMEs by allowing symmetrical treatment of profit and losses

A finding of the 2017 SME Development Survey⁵ revealed that delayed payment from customers is a significant finance-related issue faced by SMEs. Whilst the survey did not indicate whether the receivables were eventually recovered, the delay in payment increases the risk of cash flow and working capital problems.

In this regard, the loss carry-back feature was introduced in YA 2006 to alleviate cash-flow issues (to a certain extent) faced by businesses during periods of downturn.

⁴ In lieu of claims under Section 14Q

⁵ By DP Information Group

We note that the asymmetric treatment of profit and losses has been a long-standing feature in our income tax system, in that profits are taxed when they accrue but losses are refunded (effectively) when there are taxable profits in future assessment years⁶. In short, the efficacy of both loss carry-forward and loss carry-back provisions rests on the taxpayer having taxable profits at some point in time.

This being the case, consideration could be given for SMEs to obtain a refund for current-year losses, the operation of which can be modelled after the 'cash-back' regime under PIC.

3.3 Provide tax credit for qualifying training costs incurred by businesses

Training and upgrading of skills are ever more important to prepare our workforce for the future economy. In addition to specific grants, training expenditure was generously supported under the PIC scheme.

Post-PIC, we propose that SMEs continue to be supported in their efforts to upgrade and upskill their employees via the grant of tax credits on expenditure incurred on training. The grant of tax credits is preferred in view that the effective tax rate of SMEs is generally low; the tax credit rate could be set slightly above the average effective tax rate of SMEs. Consideration could also be given to allow these credits to be encashed should metrics (such as productivity) exceed industry benchmarks.

3.4 Provide a more conducive environment for entrepreneurs/start-ups

3.4.1 Enhance the Angel Investor Tax Deduction (AITD) scheme

Alternative sources of capital for such businesses generally start with friends and family, before moving on to angel investors/venture capital firms. We propose enhancing existing tax incentives for early-stage investors. These incentives include the Angel Investor Tax Deduction Scheme, which provides enhanced deductions based on the amount of capital invested in a qualifying start-up company, against the angel investor's total taxable income. However, the enhanced deductions are clawed back if the gains derived by the angel investor from the subsequent disposal of his investment are considered to be taxable. In this regard, we propose that upfront certainty on the non-taxation of such investments could be granted to such angel investors.

⁶ And to a limited extent, profits in the previous assessment year.

3.4.2 Enhance capital gains safe harbour provisions for disposals of investments in start-ups

On a broader note, the SITA currently provides for the certainty of non-taxation of gains derived from the disposal of share investments up to 31 May 2022⁷. Briefly, gains or profits derived by corporate investors from the disposal of ordinary shares in another company is exempt from tax if the investor company owns a minimum of 20% of the ordinary shares of the investee company for a continuous period of at least 24 months immediately prior to the sale.

With a view to encouraging a greater pool of equity financing for start-ups, the following enhancements could be considered:

- (a) Reduce the minimum shareholding percentage (currently 20%) if the investment is made in start-ups to allow equity financiers to spread the risk;
- (b) Expand the scope of the safe-harbour rule to include individual investors if the investment is made in start-ups; and
- (c) Expand the scope of the rule to include quasi-equity instruments such as convertible bonds, redeemable preference shares etc., if the investment is made in start-ups, as start-up owners may prefer to retain majority equity control at the outset.

3.4.3 Reduce financial risk of entrepreneurship by increasing certainty on the utilisation of brought forward tax losses

Generally, companies with unutilised capital allowances, losses and donations (loss items) cannot utilise them if the relevant substantial shareholding test is not met⁸, unless a waiver of the substantial shareholding test is obtained⁹. For a company to be granted the waiver, the Comptroller of Income Tax has to be satisfied that the substantial change in shareholders is not for the purpose of deriving any tax benefit or obtaining any tax advantage. This creates uncertainty in an M&A context for the acquirer or if the loss-making company intends to raise equity from venture capitalists or private equity funds, and leads to increased costs as a separate waiver application will need to be submitted. Furthermore, once

⁷ Section 13Z of the SITA.

⁸ Sections 23(4) and 37(12) of the SITA. Broadly, unutilised loss items (capital allowances, losses and donations) of a company cannot be set-off against its future taxable income if there is a substantial (>50%) change in the ultimate beneficial shareholders of the company.

⁹ Sections 23(5) and 37(16) of the SITA.

the waiver is obtained, the unutilised loss items can only be set-off against profits from the same trade or business from which the losses arose.

While there are guidelines on what will generally be regarded as a substantial change in shareholders that is not for the purpose of deriving any tax benefit or obtaining any tax advantage, the Government may nevertheless wish to consider granting an automatic waiver on the substantial shareholding test for unutilised loss items below a certain cap (say S\$500,000). This will help provide more certainty for small businesses and hopefully encourage entrepreneurship and facilitate more small businesses to grow through mergers and acquisitions, without such businesses losing out on the tax benefit of their brought forward loss items. Also, as part of providing certainty on the ability to carry-forward such loss items, the requirement that they are set-off against profits from the same trade or business could be lifted.

As an alternative, the substantial shareholding test in relation to utilisation of brought forward loss items could be relaxed or reduced to a lower threshold for start-ups so that equity investors can be introduced to secure new funds for the business without impacting the ability of start-up companies to carry forward such tax loss items.



4 Building an inclusive society

Given the propensity of tax to influence behaviour, our proposals are intended to complement existing assistance programmes and spending on social safety nets, such as enhancing the employability of persons with special needs by providing double deductions for salaries and integration costs as well as making enhanced deductions for charitable giving a permanent feature of the Singapore income tax regime.



4.1 Increase the tax deduction on medical expenses

The cap¹⁰ on tax deductibility of expenses on medical benefits by employers at a percentage of total employees' remuneration was introduced in YA 1994 with the aim to pre-empt over-consumption of medical services, but at the same time not deprive workers of existing medical benefits.

With today's ageing population and escalating healthcare costs, it has become more expensive for employers to provide medical benefits for their employees. It is timely for the Government to relook its objectives of the cap on medical expense deductibility and determine whether the current cap has impaired the provision of medical benefits to employees due to healthcare costs rising much faster than wages. Perhaps this should be given a higher priority than a worry on the over-consumption of medical services in the long run.

We propose three suggestions for the Government to consider.

4.1.1 Increase the cap on tax deductibility with a targeted approach aimed at encouraging employment of older workers

In tandem with the Government's aim to increase the employability of older workers, we suggest that the cap on tax deductibility of expenses be increased from 1%/2% to 2%/4% for companies employing older Singaporean workers.

One way this can be administered is through a threshold aligned to the businesses' SEC which provides support to employers hiring older Singaporean workers. For example, if at least 10% of a business' headcount

With today's ageing population and escalating healthcare costs, it has become more expensive for employers to provide medical benefits for their employees.

¹⁰ Limits prescribed under Sections 14(6A) and 14(6B) of the SITA. Briefly, the deduction of medical expenses incurred by an employer is restricted to 1% of total employee remuneration, unless the employer implements certain portable medical benefits schemes, in which case the cap is increased to 2% of total employee remuneration.

is receiving SEC, the business would enjoy an increased medical restriction deduction cap of 2/4%.

4.1.2 Exclude certain expenses from the definition of medical expenses

With Singapore's ageing population and the adoption of unhealthy lifestyles, one in four Singaporeans over the age of 40 now has at least one chronic disease(s) (diabetes, high blood pressure, high blood cholesterol & stroke)¹¹. Such chronic conditions can be better managed or even prevented with early health screening.

As an alternative to raising the cap on tax deductibility of medical expenses, we propose that the Government considers excluding expenses relating to preventive health screening and/or the management of chronic diseases from the definition of medical expenses in Section 14(8) of the SITA, such that these expenses are excluded from the tax deduction capping for medical expenses. Introducing such exceptions may, in the long run, be a revenue neutral exercise on the premise that preventive health screening/management of chronic diseases should lower the overall costs to employers on the provision of health care, while simultaneously improving productivity and promoting a healthier lifestyle.

4.1.3 Allow a double deduction on Medisave contribution to CPF for older workers

In tandem with the Government's aim to increase the employability of older workers, it is suggested that the Government considers giving a double tax deduction on employer's Medisave CPF contribution for employees above the retirement age.

4.2 Introduce a double deduction on salaries and integration costs incurred in hiring and integrating employees with special needs into the workplace

A study¹² by the National Council of Social Service in 2016 found that more than 60% of persons with disabilities felt that they could not achieve their hopes and dreams. A recommendation put forth by the study to improve

¹¹ Health Promotion Board website - Chronic Disease Management. Available online at http://www.hpb.gov.sg/HOPPortal/health-article/HPBSUEXTAPP1_4022097

¹² Quality of Life Study by the National Council of Social Service. Media release on overall findings available online at <https://www.ncss.gov.sg/Press-Room/National-Council-of-Social-Service/Press-Releases/Detail-Page?id=Social-Inclusion-Participation-Have-Greatest-Imp>

the quality of life this group of persons is to promote social inclusion in the community through, amongst others, employment.

To continue our work in building an inclusive society, we propose that the Government could introduce a double deduction on salaries and integration costs (e.g. training, job redesign, counselling expenditure) incurred in hiring and integrating employees with special needs into the workplace.

4.3 Extend the 2.5 times deduction for approved donations

After 31 December 2018, approved donations are only allowed two times deduction instead of 2.5 times. To continue encouraging philanthropic activities in Singapore, we propose that the 2.5 times deduction for approved donations should become a permanent feature in the tax system.

4.4 Extend the Business and IPC Partnership Scheme (BIPS)

BIPS was introduced in Budget 2016 to encourage employee volunteerism through businesses. Businesses will be able to enjoy up to 250% on the qualifying expenditure incurred when sending their employees to volunteer and provide services to IPCs, subject to receiving agreement from the IPC. A qualifying expenditure cap of \$50,000 is imposed on each IPC per calendar year. The scheme is set to expire on 31 December 2018.

Arguably, in view of the deduction caps, businesses will likely continue their corporate social responsibility efforts with or without BIPS. Nevertheless, it is important to recognise the contributions of both businesses and their employees. As such, we call for BIPS to be extended for two years.

4.5 Expand volunteerism relief to individuals

In view of BIPS, and to further enhance the Government's initiative and encourage the public to volunteer at the personal level, we recommend introducing an additional tax relief. This relief will recognize individuals who have sacrificed their personal time and expended their efforts (e.g. during weekends or taking their annual leave) to partake in such activities, over and above activities organised at the corporate level.

5 Keeping pace with international tax developments



Aside from US tax reforms, other noteworthy international tax developments include the notification that the majority of Singapore's tax incentives meets international standards on countering BEPS' activities, although in the process certain tax incentives had to be tweaked whilst others were withdrawn.

5.1 Monitor attractiveness of Singapore's headline corporate tax rate

There is concern that the reduction of tax rates in developed countries may spark a 'race to the bottom' amongst countries in the region in a bid to retain foreign investments. There is probably little room for Singapore to further reduce its corporate income tax rate in a manner that is sustainable in the long-term.

Historically, the Government has utilised tax incentives to attract and retain foreign investments in various sectors and we do not foresee a change in direction in the near future. Nevertheless, the scope of incentivised activities appear to have narrowed¹³ and in some instances, the tax rate of certain incentives have had to be adjusted upwards¹⁴ in order to remain a revenue-neutral stance.

In light of these developments, we call on the Government to review whether Singapore should rationalise its tax incentives regime in the medium to longer term to allow Singapore to reduce its headline corporate income tax rate below 17% in a fiscally sustainable manner.

5.2 Expand tax treaty network

We note with cautious optimism that Singapore and the United States would continue discussions on whether to negotiate a comprehensive tax treaty in the future. 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 more competitive terms. In particular, some of Singapore's older treaties (e.g. with Australia and Taiwan) do not include any preferential tax treatment for service fees. Other treaties (such as with Indonesia) do not

... reduction of tax rates in developed countries may spark a 'race to the bottom' amongst countries in the region in a bid to retain foreign investments.

¹³ Such as in the case of IP income

¹⁴ New or renewal FSI-ST award holders on or after 1 July 2017

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.

5.3 Enhance foreign-sourced income exemption and foreign tax credit schemes

We would like to propose further tweaks to the existing tax regime surrounding the taxation of foreign-sourced income so that companies would continue to invest and derive income from overseas markets and to fully enjoy the fruits of internationalisation.

Briefly, Singapore does not tax income sourced outside Singapore unless such income is remitted or deemed remitted into Singapore. Where foreign income derived by corporate entities is remitted or deemed remitted into Singapore:

- Exemption¹⁵ from Singapore income tax may apply for foreign-sourced dividends, service income and branch profits under the foreign-sourced income exemption scheme, subject to certain conditions being met; or
- Where foreign income is taxable in both the foreign country as well as in Singapore, a tax credit may be granted by Singapore for the foreign tax suffered by the corporate taxpayer. The amount of tax credit is normally restricted¹⁶ to the lower of the tax paid/ payable in the foreign country and the Singapore tax payable on that foreign income. Foreign tax credit pooling is also available to allow foreign tax credits to be computed on a pooled basis (and hence potentially reduce the amount of excess foreign tax credits which will be disregarded) as opposed to a source-by-source, country-by-country basis.

5.3.1 Foreign-sourced income exemption

With the establishment of AEC and with Singapore becoming the chairman of ASEAN, consideration could be given to grant full exemption of foreign-sourced income derived from markets within the AEC. This should help entrench Singapore as a headquarters location and a nerve centre for investments into the ASEAN region, which is expected to be a key growth engine in the world economy in the coming years.

¹⁵ Section 13(8) of the SITA.

¹⁶ Sections 50(3) and 50A(1) of the SITA.

5.3.2 Allow unutilised foreign tax credits to be carried forward and carried back

Currently, any excess foreign tax credit is not available for carry-forward, regardless of whether the foreign tax credit is pooled or otherwise. The foreign tax credit scheme could be tweaked to allow excess credits to be:

- Carried forward for offset against future Singapore tax payable on foreign-sourced income; and
- Carried back for offset against foreign-sourced income taxed in the immediate preceding year.

This is to encourage companies to continue deriving and remitting foreign income in order to utilise the excess foreign tax credit.



6 Tax Incentives/Industry-specific matters



Some incentives are due to expire in 2018 but nevertheless remain relevant today. We propose that such incentives be extended by another five years. They include:

- The Financial Sector Incentive Scheme
- Qualifying Debt Securities Scheme
- Insurance broking business

6.1 Financial sector

In recent years, Financial Technology or FinTech is transforming financial services. Alternative ways to raise funds and obtain financial advice are gaining traction, with FinTech firms, crowdfunding, robo advisors and peer-to-peer lenders now seen as alternatives to traditional banking.

With the above in mind, our proposals for the financial sector are as follows:

6.1.1 Introduce incentives to support 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.

Also, our earlier comments in Point 2 on Singapore's R&D regime are similarly relevant. Specifically, in terms of enhanced deductions for R&D expenditure, the qualifying criteria could be defined such that there is certainty of application for qualifying projects.

6.1.2 Renew the Financial Sector Incentive (FSI) scheme

In May 2017, the scheme was streamlined to remove currency, counterparty and investment instrument restrictions with a view to alleviating the administrative and compliance burden faced by FSI award holders.

Later in October the same year, the FSI scheme, amongst other tax incentives offered by Singapore, was declared as 'not harmful' in the 2017 Progress Report on Preferential Regimes published by the OECD.

With these developments in mind, the FSI scheme, which is set to expire on 31 December 2018, should be extended for another five (5) years till 31 December 2023.

6.1.3 Introduce incentive to spur crowdfunding

Separately, crowdfunding arrangements have been gaining traction as an alternative source of financing compared to traditional financing, and this is of particular interest for start-ups and SMEs.

In June 2016, the MAS made it easier, subject to conditions, for start-ups and SMEs to access securities-based crowdfunding. This has resulted in the emergence of several crowdfunding companies that act as an intermediary to connect investors with local SMEs.

In view of these developments, it may be timely to introduce a new tax incentive for the service offering to further spur crowdfunding activities. This may increase the accessibility and variety of funding options for start-ups and SMEs.

... crowdfunding arrangements have been gaining traction as an alternative source of financing compared to traditional financing, and this is of particular interest for start-ups and SMEs.

6.1.4 Renew and refine the qualifying debt securities (QDS) and QDS+ scheme

The QDS and QDS+ scheme is set to expire on 31 December 2018. To continue further promoting the debt markets in Singapore, the QDS and QDS+ scheme should be renewed for another five years until 31 December 2023.

In line with the emergence of various funding options available, we propose to refine one of the qualifying conditions for QDS+ scheme by lowering the current maturity date of at least ten years to eight years. This will increase the attractiveness of the QDS+ scheme.

6.1.5 Create a publicly available database for QDS and QDS+ scheme

Interest income derived by an investor from a QDS or QDS+ debt instrument may qualify for exemption from Singapore income tax, or be subject to a concessionary rate of tax.

Whilst the determination of the status of the debt security (whether it is QDS, QDS+ or otherwise) should generally not be an issue for investors that acquired such securities at its primarily launch, secondary investors of such instruments may find it difficult to ascertain this information as there is currently no publicly available database containing such information.

Instead, investors, or their tax advisors, would need to seek clarification from the MAS on whether the security purchased is QDS or QDS+. It may be less administratively cumbersome for the relevant parties if MAS creates and maintains a publicly available database for QDS and QDS+ schemes.

6.1.6 Renew and enhance tax incentive scheme for approved special purpose vehicle (ASPV) engaged in securitisation transactions

The ASPV scheme was previously launched in 2004 and is set to expire on 31 December 2018.

Broadly, the scheme is to develop the asset securitisation market to complement the existing package of measures put in place to grow the Singapore debt market since 1998 (which also saw the introduction of QDS regime).

In view of the latter purpose, the ASPV scheme was designed such that asset-backed securities issued by the ASPV must, amongst other conditions, comprise wholly debt securities that qualify as QDS.

We propose that the ASPV scheme to be extended for another five (5) years till 31 December 2023 to continue to allow for asset securitisations in Singapore. ASPVs could also be allowed to structure a proportion of their asset-backed securities as loans. Banks and other financial institutions are often major investors in asset securitisation programs and we believe that relaxing this condition in the ASPV scheme will increase the attractiveness of this incentive for financial institutions that prefer investment on loans due to regulatory considerations.

6.2 Shipping and marine industry

The shipping industry is another key area of economic focus because of Singapore's strategic location and her status as an international maritime centre. However, as the industry continues to grapple with the not so optimistic economic outlook and supply glut due to low demand, it remains

a difficult climate for the shipping and marine players to manoeuvre. This is on top of the disruptions that the industry might be, or is, facing in the near term.

Nonetheless, all is not lost as Singapore's shipping industry continues to deliver stellar performance by clinching top spot as leading maritime capital of the world for the third consecutive time in 2017¹⁷. Despite unfavourable conditions, Singapore managed to rank number one in the following three categories: Shipping, Ports and Logistics and Attractiveness and Competitiveness. In particular, Singapore has improved significantly in the Maritime Technology category. With this backdrop in mind, we propose the following:

6.2.1 Enhance and expand the scope for automatic withholding tax exemption on interest and related payments under Maritime Sector Incentive (MSI) scheme

At present, in order to qualify for the automatic withholding tax exemption, there are numerous conditions in the self-declaration form to be satisfied. For example, one of the conditions requires shipping companies to provide one reason, out of four pre-filled choices, on why the financing arrangement was not obtained totally from Singapore-based lenders or Singapore entities. The withholding tax exemption will not be applicable if the reason is not within the pre-filled choices.

We propose that the Government re-examine the relevancy of the conditions imposed in the self-declaration form in view of the dynamic economic conditions facing the shipping industry. Some of the measures could include expanding the types of qualifying financing arrangements to include other forms such as Islamic financing or dispensing with certain requirements such as proving why competitive financing arrangements from Singapore-based lenders or Singapore entities are not available as in some cases this requires commercial judgement which may not be straightforward.

In addition, the automatic withholding tax exemption regime was enhanced to include finance leases, hire-purchase arrangements, and loans used to finance equity injection into wholly-owned SPVs or intercompany loans to wholly owned SPVs for the SPVs' purchase/construction of vessels, containers and intermodal equipment. Following the enhancement, the Government may consider expanding the scope of lease payments for equipment used by MSI-SRS/ AIS companies in certain sectors of the shipping industry (e.g. ROV equipment commonly used in offshore

¹⁷ Third edition of Menon's Leading Maritime Capitals of the World Report by Menon Economics

exploration or marine works). This is to alleviate business costs for such players and continue to attract them to be based in Singapore and create employment opportunities for Singaporeans, especially as the sector recovers.

6.2.2 Rationalise the concessionary tax rate of ship management activities and other shipping support services (MSI-SSS scheme)

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 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, consideration could 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 it on par with concessionary tax rates available under the Development and Expansion Incentive scheme.

6.2.3 Provide certainty for income derived from operations carried out by foreign flagged vessels in overseas territorial waters to qualify as foreign service income

Shipping players based in Singapore but operating foreign flagged vessels in overseas territorial waters (e.g. Indonesia) may face uncertainty as to whether their contract or time charter income is considered to be rendered through a fixed place of operations overseas and hence qualify as foreign sourced service income.

As such, clarity or certainty would be welcome on whether such income derived from vessel operations performed overseas would qualify to be foreign sourced service income and therefore exempt from tax, subject to meeting the requisite conditions.

6.3 Insurance industry

6.3.1 Rationalise the IBD scheme

Due to the recent revision to IBD scheme, there are different sunset dates for the various incentives under the scheme as follow:

IBD schemes						
Category of Award	IBD-Standard Tier				IBD-Enhanced Tier	
Tax Incentive	IBD	IBD-MHL	IBD-CI	IBD-IBB	IBD-SI	IBD-SIBB
Sunset date	31 March 2020			31 March 2018	31 August 2021	31 March 2018

In view that the tax incentives are under the IBD umbrella, their sunset date could be aligned to avoid any confusion. For this, we propose that the sunset date could be 31 August 2021.

Currently, the various tax incentive schemes are governed by different regulations in the subsidiary legislation. We propose that all the tax incentives under the IBD scheme could be governed by one regulation similar to the Financial Sector Incentive scheme. In addition, as the approved insurance brokers scheme has been subsumed under the IBD scheme, we also proposed that section 43C “exemption and concessionary rate of tax for insurance and reinsurance business” and 43ZC “concessionary rate of tax for approved insurance brokers” could be combined into a single broad umbrella incentive.

6.3.2 Extend insurance broking business

As part of Government’s periodic review of tax incentives, the Insurance Business Development (IBD) scheme was rationalised by subsuming the offshore insurance broking business (IBB) and offshore specialised insurance broking business (SIBB) (collectively known as the “approved insurance brokers scheme”) under the IBD umbrella. The qualifying activities for IBD-IBB and IBD-SIBB were further revised for new or renewal awards approved on or after 1 June 2017.

As the sunset date for IBD-IBB and IBD-SIBB scheme is 31 March 2018, we propose that both schemes could be extended to continue supporting Singapore’s position as major insurance and reinsurance hub. Also, the IBD-SIBB was first introduced in Budget 2013 to accelerate the

development of speciality insurance cluster in Singapore, it is premature to determine its effectiveness by phasing out this incentive after five years.



7 Other proposals

7.1 Business tax

7.1.1 Accelerate the writing-down of renovation and refurbishment (R&R) expenses¹⁸ and increase the cap on R&R expenditure

With the rise of e-commerce, there is a pressing need for bricks and mortar retail businesses to re-invent themselves in light of the competition. One of the possible ways of re-inventing is through renovation and refurbishment of their new or existing outlets in order to attract customers. This is not only to cater to the locals but also for the tourists as Singapore is a well-known destination for tourists.

To encourage these establishments to renovate and refurbish their outlets, we hope the Government can consider:

- (a) Accelerating the write-down of R&R expenses to one year (from the current three); and
- (b) Increasing the current three-year expenditure cap from S\$300,000 to S\$500,000.

Such a move would not be new; we note that the Government has, in the past, provided the hospitality industry impetus to refurbish their premises¹⁹ when the outbreak of the severe acute respiratory syndrome in 2003 caused visitors arrivals to slow down.

7.1.2 Enhance group relief scheme²⁰

Subject to qualifying conditions, under the group relief system, only current year unutilised capital allowances, current year unutilised trade losses and current year loss items (collectively known as "loss items") of one company could be deducted against the assessable income of other companies of the same group.

To allow more flexibility for businesses in the usage of their loss items, we propose to enhance the group relief system by allowing the usage of the unabsorbed losses from the immediate prior year. The other qualifying conditions should continue to remain unchanged.



With the rise of e-commerce, there is a pressing need for bricks and mortar retail businesses to re-invent themselves in light of the competition.

¹⁸ Section 14Q of the SITA.

¹⁹ Section 14M of the SITA.

²⁰ Section 37C of the SITA.

7.1.3 Enhance loss carry-back relief

With the adoption on 1 January 2018 of new accounting standards for revenue recognition and financial instruments (FRS 115 and FRS 109 respectively), the loss carry-back relief could be expanded to mitigate adverse tax implications arising from possible mismatches of taxable income and deductible expenses that the new accounting standards may bring about.

An example of a potential permanent difference brought about by the new accounting standard (FRS 109) would be a case where a revenue financial asset is classified as fair value through profit and loss account (FVTPL). Due to market movements, the asset may experience large fair value gains in early years (which are taxed), only to be sold at a loss or near cost in the later years. Although the losses are deductible, *ceteris paribus*, the loss incurred may not have a deduction value if the taxpayer has no future taxable income (such as in the case of single-asset SPVs).

The loss carry-back regime could be tweaked to allow for unlimited loss carry-back (in terms of number of YAs as well as the quantum of losses) in such instances.

Alternatively, we propose that the existing loss carry-back relief system be enhanced, similar to those made in YA 2009 and YA 2010. This would help businesses with their cash-flow as more of them make losses during the downturn. For instance, the authorities could consider 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. Such enhancements allow businesses to get a cash refund on taxes paid in previous years and would be helpful in alleviating their cash flows.

7.2 Personal tax

7.2.1 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. The Government could relook and consider recalibrating the relief to be in line with current income levels and cost of living.

7.2.2 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 increases the burden for individuals who pay the premiums on the same for their elderly parents and dependent children.

The Government could consider providing a tax relief for individuals who pay the MediShield Life premiums for their elderly parents and dependent children.

7.2.3 Review the tax deduction relief on life insurance premiums

Currently, if CPF relief (employee's mandatory contribution) of more than S\$5,000 has been claimed by the taxpayer in his tax return, any premiums paid on the life insurance policies will be disregarded and cannot be claimed as a relief. Only individuals whose mandatory CPF contributions are below S\$5,000 per annum can claim the relief for life insurance premiums, which disqualifies a large majority of working Singapore citizens and SPRs.

In addition, life insurance premium relief is currently only available for premiums paid on the individual taxpayer's life and/or his wife'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.

In view of the above, the Government may wish to consider the following changes:

- a) Granting a separate relief for life insurance as a supplement to the current mandatory employee CPF relief. This would encourage individuals to take up life insurance policies in order to provide coverage for their loved ones in the event of unfortunate circumstances;
- 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 (as well as for dependent children and elderly parents as per (b) above).

7.2.4 Extend the Working Mother's Child Relief (WMCR) to working spouses

Currently, the WMCR is granted to encourage married women to remain in the workforce after having children. Accordingly, only working mothers are eligible to claim the WMCR. In recent years, it has been noted that there is an increasing trend for married men to leave the workforce to care for their children at home instead. In this regard, to recognise that both spouses need encouragement to stay in the workforce, the Government may consider extending the WMCR to working spouses. Both parents may share the WMCR based on their mutually agreed proportion.

7.2.5 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.

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.

7.2.6 Introduce a 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.

7.2.7 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 talent, 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 could 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.

7.2.8 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 “income realisation event” of the foreign employee occurs and report 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, the Government could consider revisiting the qualifying conditions for the tracking option²¹, 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 of 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 gains²², thus resulting in a genuine double tax exposure since no foreign tax credit is allowed in Singapore on such gains.

As such, the Government could consider relooking at 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.

²¹ 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.

²² Under the OECD model, stock option and other equity gains are generally sourced over the period from grant to vest of the options/shares.

7.2.9 Introduce personal relief for medical insurance premiums or medical expenses

Due to increasing 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) so that a large part or the full hospital bills can be fully covered by insurance to minimise the financial burden and stress to the individual and his/her family.

In this regard, consideration could be given to allow a tax relief to individuals for medical insurance premiums paid for himself/herself, spouse, dependent children and elderly parents.

This would help to promote individual responsibility for healthcare needs and alleviate the financial burden on individuals in view of the rising medical and healthcare costs in Singapore.

As a further enhancement to the above, the Government could also consider allowing taxpayers to claim a relief for any actual medical expenses incurred for themselves, their dependent children and elderly parents which are not covered by their personal medical insurance policies or medical coverage provided by their employers. This would help to reduce the financial impact on individuals who may find themselves burdened by hefty unforeseen medical bills in the event they are not covered by an insurance policy.

Due to increasing medical costs, individuals should be encouraged to take on a more comprehensive medical coverage for themselves...

7.3 Goods and services tax

7.3.1 Consider remitting GST incurred on expenses by SGX-listed Holding Companies

Many SGX-listed holding companies derive only dividend income which is out-of-scope for GST purposes. Therefore, they are not able to register for GST. However, they usually incur a significant amount of IPO expenses as well as on-going listing expenses. The GST incurred on such expenses would be an additional cost to them as they are not allowed to recover the GST since they are not registered for GST.

We applaud the current GST concession given to SGX-listed Real Estate Investment Trusts and Registered Business Trusts where they are allowed to recover GST incurred on IPO as well as on-going listing expenses via the filing of periodic GST statements of claims. To promote Singapore as a preferred IPO destination, the Government may wish to consider granting a similar GST concession to SGX-listed holding companies to allow them to recover GST incurred on IPOs as well as on-going listing expenses via the filing of periodic GST statements of claims. This will put Singapore on equal footing at least from a GST recovery perspective as compared to our nearest IPO rival Hong Kong which does not have a GST regime.

7.3.2 Extend benefits conferred under the GST Assisted Compliance Assurance Programme (ACAP)

GST ACAP, launched on 5 April 2011 by the IRAS, provides a holistic framework for businesses to proactively self-manage their GST risks and treat tax risk management as part of their corporate governance framework. Businesses may, on a voluntary basis, conduct a holistic risk-based review to endorse the effectiveness of their GST controls. As at 30 September 2017, there are, according to IRAS, 350 GST taxpayers which have attained ACAP status.

To signal support for businesses that have implemented effective GST Control Framework and sought independent verification that the controls work well, IRAS also offers a one-time waiver of penalties for voluntary disclosure of the past non-fraudulent GST errors under ACAP for ACAP applications made and accepted by 31 March 2019.

To continue to entice businesses to embark on ACAP, we recommend that the IRAS consider extending the various benefits, including the one-time full waiver of non-fraudulent errors, beyond 31 March 2019 by another five years. If the IRAS has already decided that they do not want to extend, we would hope they could issue a statement to inform the GST taxpayers so that they can decide whether or not to embark on ACAP by 31 March 2019.

7.3.3 Introduce incentives to drive adoption of healthier food options

As highlighted during the National Day Rally speech, 1 in 9 Singaporeans has diabetes. This is one of the long-term problems due to Singapore's ageing population. In order to tackle this problem, this should be a joint collaboration between the various stakeholders such as Government, vendors and consumers. There has always been a preconceived notion that healthier food generally cost more. In order to entice people into choosing healthy dietary options, the Government could consider giving some form of incentives in the form of zero-rating healthy food options to the vendors to change the behavioural style of people.

7.4 Others

7.4.1 Provide stand-over of tax raised by protective assessments

Assessors may raise protective assessments due to the statutory time limit; in some instances, the delay in raising assessments within the time limit is not due to the fault of the taxpayer. The Comptroller is empowered under the SITA to extend the time limit for payment of taxes and it would be equitable in such instances to automatically grant the taxpayer a stand over to pay the outstanding income tax without the imposition of late payment interest pending the resolution of the issue.

7.4.2 Review efficacy of Vehicular Emission Scheme (VES)

It was announced in Budget 2017 that VES would replace the Carbon Emissions-Based Vehicle Scheme (CEVS) from 1 January 2018, and would run for two years until 31 December 2019. Unlike CEVS which focuses on carbon-based emissions, VES takes into account four additional pollutants in the criterion, namely hydrocarbons, carbon monoxide, nitrogen oxides and particulate matter. The introduction of VES covering other pollutants is in line with Singapore's commitment to the Paris Agreement to reduce emissions intensity by 36% by 2030, and complements a number of other measures to tackle environmental pollution.

The banding under VES will be based on emissions of the worst performing pollutant, and a carbon dioxide emissions factor to include carbon dioxide 'emitted' (at the point of power generation) through electricity consumption of hybrid and electric cars. Whilst most hybrid cars have been enjoying the high rebates under the CEVS scheme (up to S\$30,000) because of their low carbon emissions, under the new scheme, hybrid and even electric car models in Singapore may now fall into the neutral or surcharge band (up to S\$20,000).

Whilst maintaining the need for any vehicle emission scheme to be fair and transparent across all types of vehicles, we propose to have periodic reviews of the emissions banding(s) and the rebates and surcharges applied under VES, to ensure that green vehicles (both existing and new upcoming vehicles) are not unnecessarily penalised.

7.4.3 Introduce incentives for import/sale/use of electric vehicles

Separately, in tandem with the Government's efforts overall to reduce Singapore's greenhouse emissions (in line with the Paris Agreement and upcoming Carbon Pricing Bill), any additional encouragement in the form of incentives (whether through excise duty reductions, additional rebates to Additional Registration Fee or otherwise) to would-be buyers of electric vehicles will be very much welcomed.

This, coupled with the planned installation of additional charging infrastructure, could help contribute to a 'Green' Singapore through replacement of existing petrol or diesel-powered cars on the road (especially with 0% vehicle growth policy from 2018 onwards) with electrical vehicles.



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