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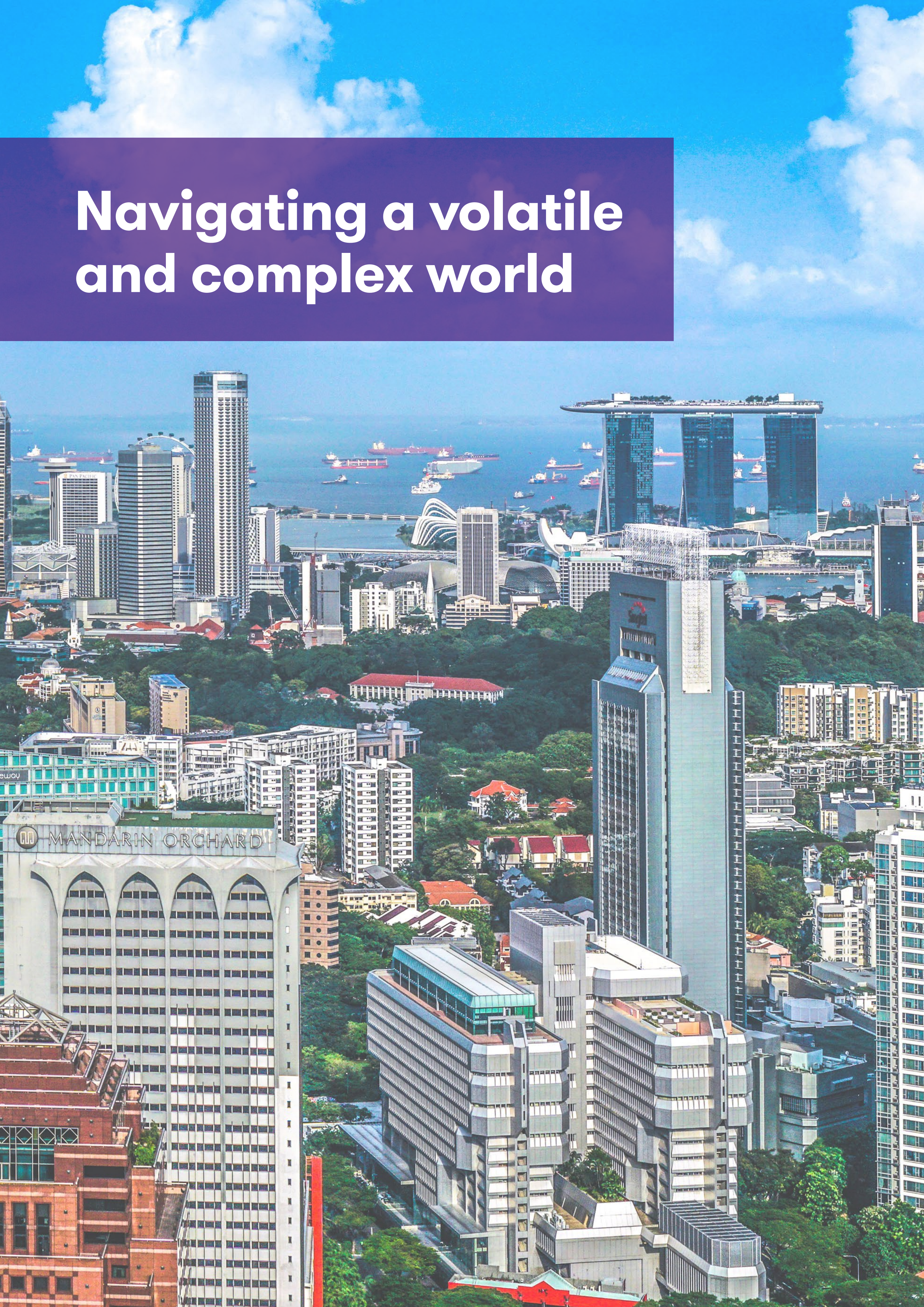
# Singapore Budget 2023 and beyond

This document highlights the feedback and proposals that Grant Thornton has submitted to the Ministry of Finance for the 2023 Singapore Budget.

The suggestions are aimed at navigating a volatile and complex world, strengthening our social compact, building a resilient nation, and simplifying and enhancing our tax system.

# Contents

# Navigating a volatile and complex world



# Global minimum corporate tax

## Incentives for financial services

We note that regulated financial services and pension funds are carved out from the 'two-pillar' solution to address the challenges of a digital economy. To encourage more banks to be based in or move back to Singapore, the financial sector incentive (FSI) tax rate should be made more attractive, such as lowering it to below 12%. In addition, the scope of the FSI should be expanded to include companies involved in financial technology (FinTech), such as blockchain and cryptocurrencies.

The trading of cryptocurrencies should also be included in the list of exempt qualifying activities for FSI incentives. In the same vein, further deductions could perhaps be allowed for expenses (for example, hiring of talent) incurred in generating FinTech income. These further deductions can be expanded beyond regulated banks but for any entity that is involved in FinTech activities.

### Benefits

- Incentivises financial institutions to be based in Singapore
- Although the proposal results in a reduction in tax rates, there should be an overall increase in tax revenues through an increase in the tax base
- Improves Singapore's overall competitiveness in the FinTech space

## Attracting international headquarters

Multinational enterprises (MNE) will be affected by the global minimum corporate tax rate if they are incorporated and tax resident in some countries.

Singapore can consider positioning itself as an attractive location for the holding company of the MNEs to be re-domiciled here or to be set up here. Amongst others, subject to meeting certain conditions, such companies will not be subject to the corporate minimum tax rate and may be granted certain tax and non-tax incentives.

### Benefits

- Incentivises companies to set up HQ in Singapore
- Larger tax base

### Considerations

Risk that Singapore may be categorised as a 'tax haven'

## Attracting key decision makers

With the advent of a global minimum tax rate, the granting of tax incentives to encourage MNEs to set up in Singapore may no longer be a viable option for certain MNEs.

In order to build Singapore's economy, we strongly believe that Singapore must widen its tax base by growing the number of companies and entrepreneurs in Singapore.

Attention should be directed (as it always should have) to attracting decision makers of MNEs to operate in Singapore, rather than necessarily the business itself, by offering alternative incentives.

Making Singapore an attractive place for decision makers personally, will encourage them to 'reverse engineer' a case for the business being brought into and maintained in Singapore. This can be done through attractive reduced personal tax rates or exemption of certain benefits in kind. It has been done to good effect in other countries.

The Not Ordinarily Resident (NOR) Scheme provided an attractive tool to bring regional roles to Singapore and it, or a similar scheme, should be reintroduced.

One idea is to allow all employees, including Singaporeans, with regional roles in Singapore to benefit from a time apportionment if they meet the qualifying conditions. For example, remove the requirement to be not resident for three complete years to qualify for the scheme.

As with corporate tax incentive schemes, conditions such as a certain level of business spending and capital expenditure in Singapore may be imposed.

### Benefits

- Incentivises companies to come to Singapore, in a way that side-steps the reach of the global minimum tax
- The more business activity in Singapore, the more tax collected without the need to introduce new taxes
- The effect is multiplied, as both the additional business and additional people (with more income) will increase spending on goods and services in Singapore
- Better use of existing infrastructure

### Considerations

The disparity of tax treatment between local and foreign business executives may be difficult to manage politically

# Digital tokens and crypto assets

## Recognition of digital tokens

Singapore prides itself as a mature yet cutting-edge international financial services centre that has embraced digital financial products more readily than other competing centres.

It should be clear that digital currencies – whether in the form of distributed or centralised ledgers – are here to stay, and are increasingly becoming part of mainstream financial products.

Singapore could take a great leap ahead in this area.

Currently, digital tokens such as Bitcoin, Ethereum and more are not an asset form recognised as 'designated investments' for the purposes of Singapore's fund management tax exemption incentive regime. They should be. Based on our experience, there are a large number of knowledgeable people in the industry who would readily set up and manage their 'crypto' funds from Singapore.

Arguably, one interpretation of the existing legislation does admit to digital tokens being designated investments. Rather than dwell on this, we would suggest that this status be formally recognised.

### Benefits

- Significant inflow of digital asset-backed funding into the fund management system in Singapore
- Substance and know-how added to the existing lead Singapore is taking in the digital payments and DeFi ecosystem
- Adds breadth to the range of asset classes offered by Singapore fund managers. Currently, these funds are either being run from places like Dubai, or through "digital nomads" elsewhere in Asia. This is an opportunity to attract that talent to Singapore.

### Considerations

Investor risk is a concern, but one way to manage this is to restrict it to accredited investors, as with traditional forms of investment.

## Digital tokens as remuneration

Employees and a growing body of consultants in the cryptocurrency space are often remunerated in tokens issued by their employers or clients, or in other standard forms such as Bitcoin/Ethereum.

There are two requests here:

The first is that there should be some clarity around whether a right to acquire digital tokens equates with a right to acquire shares which is governed by section 10(6) of the Income Tax Act. The second is that the tax treatment should equally apply to consultants.

The question would then be what the tax point should be. Quite often, there are no formal restrictions over the sale of these tokens, which means they would be taxed by reference to the market value at the time of receipt or entitlement. However, although there are no formal restrictions over the sale, such a disposal could be viewed dimly, as a violation of trust, by the employer or client. The issue is that, in such a volatile market as the cryptocurrency market currently is, the dealy could mean the tokens are worthless by the time they can actually be converted to fiat currency. This means that the employee or consultant has made no profit and yet has paid tax.

Our suggested solution to this would be to tax digital currencies earned in such a way, only at the point of disposal (including conversion to another digital currency). Further clarification would also be sought on the first point on which this analysis is based.

### Benefits

Certainty and equity

# Strengthening our social compact

# Wealth taxes

## Vacant property tax

Residential real estate is non-productive, particularly if vacant. High property prices benefit nobody.

Hence, we suggest the following:

- Introduce a 'capital gains tax' on transactions in residential property with a Principal Private Residence (PPR) exclusion. The payer must elect PPR where they own multiple residential properties and prove residence.
- Introduce a new withholding obligations for purchasers of property where the seller is a foreign owner, similar to the withholding rules when paying to non-residents in section 45D.
- Re-introduce deemed rental income for unoccupied residential property owned by individuals (local and foreign)
- Increase property tax even further for unoccupied residential property owned by non-residents. This would reduce the demand from non-residents looking to park their money in Singapore real estate and increase the availability of rental properties in the market.

### Benefits

- Stabilises prices for Singaporeans
- Foreigners pay for parking money in empty real estate
- Narrows wealth gap
- Enhances tax revenues
- Reduces capital versus revenue tax disputes
- Easy to collect as a tweak to income tax legislation, not a new tax

### Considerations

Is it politically acceptable in context of amounts raised?

# Personal reliefs

## Dynamic SGD 80,000 cap to personal reliefs other than from working parents with eligible kids

Personal reliefs reduce the taxable income at the individual's marginal rate of tax. This reduces the progressiveness of the tax system. It also means that personal reliefs are more valuable for taxpayers paying tax at the higher marginal rate. Therefore, personal relief such as for voluntary contributions to CPF/SRS, although intended to encourage all taxpayers to save for retirement, may not encourage those on lower incomes to follow suit.

For example, a 22% taxpayer making CPF contributions will receive a reduction of 22% in their taxes. On the other hand, a 0% taxpayer making CPF contributions will receive no tax benefit from making them.

With this in mind, we would suggest amending the current SGD 80,000 cap on personal reliefs from a flat cap for everyone to one based on the individual's taxable income. For example, for individuals earning over SGD 300,000, their SGD 80,000 cap could be reduced by SGD 1 for every SGD 2 over and above SGD 300,000. Therefore, individuals earning over SGD 460,000 would not be entitled to any personal reliefs.

### Benefits

Greater equality and increased progressiveness of the tax system

### Considerations

There may be a concern amongst tax payers that this proposal will reduce savings for their retirement. However, the current tax relief system for CPF and SRS encourages higher rate taxpayers to save more than it encourages lower rate taxpayers to save. Accordingly, the impact of this will be on the higher rate taxpayer and mandatory contribution rates could simply be increased.

## Working parents child relief and increase normal child relief

Currently, birth rates are low, especially in certain segments of the population. Given that fathers are increasingly involved in childcaring, the normal child relief amount set many years ago should be reviewed in light of the escalating cost of living, and to recognise their efforts.

### Benefits

- Incentivises Singaporeans to have children
- Equity in taxation for both fathers and mothers

### Considerations

The use of tax incentives to bolster birth rates might not necessarily work if reasons other than cost are the real reasons preventing couples from having more children.

## Caregiver support

In view of Singapore's aging population, more should be done to lighten the burden of paying for caregivers. Foreign domestic worker levy relief, which is currently granted to mothers with school-going children, should be extended to cover caregivers as well.

### Benefits

Support tax payers with elderly parents or older dependants

# Environmental, Social, and Governance (ESG)

## Growing Singapore as an ESG reporting hub

Enhanced or double deductions for ESG reporting costs should be made as long as the reporting is done in Singapore.

A reduced tax rate could also be considered for Singapore-based companies providing ESG reporting and advisory services.

**Benefits**

Establishes Singapore as an ESG reporting hub that also supports businesses that are keen to be more sustainable.

## Supporting companies in their ESG journey

Many companies want to give back to the community. This can be further encouraged by granting deductions for volunteering activities. For example, deductions can include the cost of chartering buses to the charity location and the staffs' time costs. We can also expand it such that deductions are available for charities that are not registered as an Institution of Public Character (IPC).

**Benefits**

Encourages corporate volunteering and giving back to the community

## Input tax claims for ESG costs

For qualifying ESG reporting or activities' costs, input tax claims should be allowed on the basis that these are to be recognised for the purpose of the business.

**Benefits**

Reduces costs for GST-registered businesses as well as furthers the ESG agenda for Singapore businesses.

# Workplace wellbeing

## Further deduction on mental health expenses

Singapore can consider allowing a further deduction on mental health expenses to businesses to increase their employees' accessibility to such services.

### Benefits

Encourages companies to care for their employees' mental health and wellbeing.

# Building a resilient nation

# Local talent development

## Enhanced deductions

Singapore can consider making enhanced or double deductions for businesses that employ local talent.

### Benefits

Encourages businesses to increase their focus on hiring Singapore talent, which improves the employment landscape for locals.

# Simplifying and enhancing our tax system

# Employee share schemes

## Corporate tax deductions

The current employee share options (ESOP) and employee share ownership (ESOW) rules create a mismatch between the income tax position for the employee (market value of the shares less cost to employee at the tax point) and the corporate tax deduction (broadly the cost to the Singapore company in acquiring or issuing the shares). We propose to align the corporate tax deductions with the individual income tax point, such that whenever income is taxed on the employee, the company obtains a corporate tax deduction.

### Benefits

Supports companies in remaining globally competitive when remunerating and securing the loyalty of key employees.

## Clarity on sale of shares by employees

The current ESOP and ESOW schemes leave some ambiguity in relation to when restrictions over the sale of shares are in place. It also poses challenges to new start-ups and growth companies trying to implement schemes to attract talent, as their shares are not readily tradeable. Therefore, even though no sales restrictions may exist, the individual may be stuck with an illiquid asset that they cannot sell. Despite this, tax will still have to be paid.

We would therefore welcome more clarity around what 'subject to any restriction on the sale of the shares' means, maybe with examples for privately held companies. We would also welcome a scheme that allows tax incentives for equity schemes for key management to attract management to Singapore. This could be limited to a certain value, i.e. tax-free ESOPs up to SGD 100,000 or limited to certain people (for example, up to five employees earning more than SGD 150,000).

### Benefits

As noted earlier, a business is usually located where their key people are living and working. Therefore, if we are able to attract key people to Singapore, this would lead to more businesses coming and more revenue being booked in Singapore which will ultimately mean more tax revenue.

### Considerations

None for the clarity around sales restrictions. Tax incentives for equity could be seen as giving tax incentives to the wealthy. However, the benefits that this will bring to the wider population should far outweigh the benefits provided to the ESOP holders.

# Legislation

## Simplify legislation

A progressive tendency towards complex drafting of legislation has not gone unnoticed. As examples, the productivity and innovation credit (PIC) legislation was largely incomprehensible, and sections such as section 34AA of the Income Tax Act (ITA) - a legislative change originally that was meant to help businesses - is long and rambling. In setting legislation, policy makers and draftsmen should be aware of the need for clarity and simplicity whereas the trend seems to be in the opposite direction - more in the vein of Organisation for Economic Co-operation and Development (OECD) style navel gazing.

**Benefits**

Reduces costs of compliance for businesses

## Legislative quick fixes

There are some low hanging fruit which could be accessed quickly with disproportionately large benefit.

Firstly, dispense with the medical expense claim restriction. The time spent on analysis and calculation is completely disproportionate to the amounts involved. Arguably, the original perceived need for it has also passed.

Secondly, make the application of section 34AA of the ITA voluntary. The purpose of the original legislation was to make life and compliance easier for non-banking businesses that dealt in large volumes of transactions in financial instruments (FI). This was because accessing historical cost information could be difficult and time-consuming. Companies that had few such transactions or owned few assets of this nature could continue, at their option, to be taxed under normal taxing principles (when a profit was realised). This noble cause has been totally undermined by the obligatory nature of the new legislation. Its application significantly complicates compliance for low FI volume companies, as well as, more often than not, accelerating their tax liabilities (particularly in a bull market). The legislation is also unnecessarily complex as noted above, even for those for whom it was supposed to be making life simpler.

# Computation and payment of taxes

## Aligning tax submission timelines to the financial year end of a company

Tax computation and return submission deadlines should be set by reference to the taxpayer company's year end, rather than a blanket 30 November filing deadline for all companies in the YA. We suggest that the standard period should be 11 months after the year end.

### Benefits

This is better for IRAS, Tax Agents and clients as it spreads the workload evenly and equitably. Tax agents are largely currently powerless to compel clients with inordinate amounts of time within which to prepare and submit computations to do anything other than wait until the last minute. Some formal legislative assistance would help ensure more orderly processes going forward.

### Considerations

IRAS will need to issue the Form C / Form C-S earlier.

## Risk-based approach to paying taxes

For both corporates and individuals, Singapore should consider finally moving income tax to a self-assessment system. With self-assessment, the penalties for errors can typically be set higher. However, a slicker advance ruling system would be a pre-requisite.

### Benefits

- Reduces costs of collection
- Increases compliance as the taxpayer has to calculate their own taxes and typically face higher penalties for non-compliance

### Considerations

Some transition time is needed for taxpayers to adapt

# Pay-as-you-earn system and estimated taxes

In order to boost Singapore's cashflow from the collection of taxes, as well as compliance, we would suggest introducing a pay-as-you-earn (PAYE) system whereby employers will have to withhold income tax from their employees' monthly earnings. Employers already have to withhold Central Provident Fund (CPF) contributions (and other amounts) through payroll, and therefore there should only be a small increase in administration for the employer. It will at the same time reduce the risk of employees forgetting to pay or not having the cash to pay income tax after the end of the year. It will therefore reduce the risk of non-collection of tax for tax clearance cases.

This should also be extended to ESOP and ESOW events to minimise the risk of employees underpaying tax at the appropriate time. It forces the employee to ensure that they have the liquidity to pay the tax at the point it arises. For example, employees may have to sell a portion of the shares so that they can cover the tax.

This minimises the chances of employees finding themselves in a position where they wait over a year for the notice of assessment only to find out then that they cannot afford the tax bill because they were relying on the share to hold its value and it has either fallen in value or the exchange rates have moved against them.

For those who have income that is not subject to PAYE, such as self-employment and rental income, we suggest having an estimated tax regime to collect taxes as the income is earned.

All of these ultimately encourage compliance, as taxpayers would be paying tax as they earn the income rather than over 12 months later. This could be combined with a harsher penalty regime for incorrect payroll, and desktop reviews could cover both PAYE and CPF obligations.

### Benefits

- Cash flow for government
- Increased compliance or reduce the risk of employees forgetting to pay or not having the cash to pay income tax at the end of the year
- Individuals do not have to continue paying once they retire or take a break from work, or have a catch up payment for tax clearance cases

### Considerations

Tighter cash flow for individuals in 1st year of implementation and so transitional rules would be required

# Contact us

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