Grant Thornton

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Singapore Budget 2022 and Beyond

Following the Singapore Budget 2022 announcement by Minister for Finance Mr Lawrence Wong on 18 February 2022, tax specialists from Grant Thornton Singapore share their observations and provide analysis on the impact of the Budget.

Contents

The current and proposed regulations, and our observations relating to:

Base Erosion and Profit Shifting Project 2.0

Potential introduction of the Minimum Effective Tax Rate regime

Operation of Pillar Two of Base Erosion and Profits Shifting (BEPS)

Illustrated with XYZ, a company resident in country X with a global turnover of EUR 750 million

- XYZ has a subsidiary in Singapore that earned accounting profits of EUR 100 million in Singapore for accounting year 2021.
- It paid EUR 10 million of taxes in Singapore on those accounting profits.
- The effective corporate tax rate of XYZ for accounting year 2021 = 10% (EUR 10 million / EUR 100 million).
- The difference of 5% (15% less 10%) of EUR 5 million is the top-up tax that will be paid over to the tax authority in country X.

Proposed

Given the fundamental impact this could have on Singapore's whole tax environment, the Inland Revenue Authority of Singapore (IRAS) will study the Minimum Effective Tax Rate (METR) regime further and consult industry stakeholders on the design of the METR. Let us hope that they do.

Our observations

- Could there be a shift away from Singapore's territorial basis of taxation, if Singapore itself decides to implement its own version of a global minimum tax, to collect tax from its overseas subsidiaries?
- May discourage multinational enterprises (MNEs) from remaining in Singapore if it undermines the benefits of tax incentives
- May also present an opportunity for Singapore to collect more taxes if MNEs do not move away by eliminating tax incentives

Funds

Incentive enhancement

Current

Physical commodities are included in the designated investments (DI) list, subject to the following conditions:

- The trading of the physical commodity must be incidental to the trading of a commodity derivative ("incidental condition").
- The trade volume of physical commodities must not exceed 15% of the total trade volume of those physical commodities and related commodity derivatives traded in the basis period ("the cap").

Being included in the list means that transactions in them spin off exempt income for funds managed in Singapore.

Proposed

With effect from 19 February 2022:

- The incidental condition will be removed; and
- The cap will be revised to 5% of the qualifying fund's total investment portfolio.

Our observations

The policy intent of the funds incentives under sections 13D, 13O and 13U (formerly sections 13CA, 13R and 13X respectively) is to encourage investments in financial instruments. Hence, there was a cap imposed on the trading of physical commodities.

During the pandemic, financial instruments have proven to be very volatile and hence some funds have since looked towards investing in physical precious metals for stability.

The removal of the "incidental condition" and revision of the cap will be welcomed by the funds industry, although the 5% cap is still rather low.

Goods and Services Tax

Goods and Services Tax rate hike

Current

The standard rate of Goods and Services Tax (GST) is currently 7%.

Proposed

The standard rate of GST will increase to 8% from 1 January 2023, and will be increased further to 9% from 1 January 2024.

Our observations

The announcement on the staggered method and the timing of the GST hike gives businesses the much needed clarification after four years of uncertainty.

However, a change in tax rate cannot be made without additional one-off costs for those affected. In the case of GST, the one-off costs are likely to include making changes to finance and invoicing systems, reviewing contract terms, and updating pricing and displays. Another factor that is often overlooked is the need to implement effective transitional provisions, which may also result in further one-off costs.

The downside of transitional provisions is that they can be complex and may result in further one-off increases in the compliance costs for businesses. Therefore, staggering the increase in the rate of GST will result in additional operational and transitional costs for GST-registered businesses. Some businesses may even seek to recoup these costs from their customers.

Changes to zero-rating

Current

The GST treatment of travel arrangement services was determined based on the use and enjoyment of the underlying travel (i.e. location of hotel or transport service to which they related).

Proposed

From 1 January 2023, the GST treatment of travel arrangement services will be updated in accordance with the default zero-rating provision (i.e. location of the customer enjoying the service).

Our observations

Following the recent change for media related sales (effective 1 January 2022), the IRAS has continued down the path of reassessing and streamlining its zero-rating provisions.

It also feeds into the rhetoric of “levelling the playing field between local and overseas suppliers”.

Wealth-related taxes

Net wealth tax

Our observations

As anticipated, the government did not introduce a tax on an individual's net wealth. This is a welcome move as it is a difficult tax to implement and it is something that can be planned around, e.g. many assets can be moved overseas to avoid the tax. Then there is the question of valuation. However, some tweaks were made in relation to specific assets.

Property tax

Owner-occupied residential properties

Current

- Progressive from 0-16% on property annual values
- Top rate applied to properties with an annual value > SGD 130,000
- Prior to 2015, rates were tiered from 0-6%

Annual value	**Rate from January 2015 (%)**
First $8,000	0
Next $47,000	4
Next $15,000	6
Next $15,000	8
Next $15,000	10
Next $15,000	12
Next $15,000	14
Above $130,000	16

Proposed

The property tax rates for owner-occupied properties with an annual value above SGD 30,000 will "enjoy" a phased increase in the property tax rates as follows.

Annual value	**Rate effective from 1 January 2023 (%)**	**Rate effective from 1 January 2024 (%)**
First $8,000	0	0
Next $22,000	4	4
Next $10,000	5	6
Next $15,000	7	10
Next $15,000	10	14
Next $15,000	14	20
Next $15,000	18	26
Above $100,000	23	32

Non-owner-occupied residential properties

Current

Prior to 2015, rates were a flat 10% on annual value.

From 2015, progressive rates from 10-20% on property annual values were introduced.

The top rate applied to properties with an annual value over SGD 90,000.

Annual value	Rate from January 2015 (%)
First $30,000	10
Next $15,000	12
Next $15,000	14
Next $15,000	16
Next $15,000	18
Above $90,000	20

Proposed

The property tax rate for non-owner-occupied property will be increased progressively over two years, as follows:

Annual value	Rate effective from 1 January 2023 (%)	Rate effective from 1 January 2024 (%)
First $30,000	11	12
Next $15,000	16	20
Next $15,000	21	28
Above $60,000	27	36

Our observations

The lowest-hanging fruit for a tax on wealth is immoveable property. It remains the easiest way to tax the wealth of individuals. It is difficult to plan around, and is an extension of existing taxes which makes it easy to implement and inexpensive to collect.

Property tax is also a recurring source of revenue for the government, on top of the recent increase to stamp duty.

We feel that the government could have gone further in this area. We had recommended that property tax increases could be used to target unproductive properties to either encourage their rental or occupation. This would potentially help reduce rents – and by extension property prices - for local Singaporeans.

The government could also have introduced taxes on property to specifically target foreign nationals looking to park their wealth in Singapore. Such measures could have included capital gains tax for non-resident individuals. This would also help reduce rampant property prices.

Additional Registration Fee tier for cars

Current

3 tiers of Open Market Value (OMV) exist for calculating the Additional Registration Fee (ARF)

- Progressive rates up to an OMV of SGD 50,000
- 180% where OMV > SGD 50,000

Proposed

Additional 4th tier of OMV for calulating ARF

For cars with an OMV above SGD 80,000, a new ARF rate of 220% is to be applied from 19 February 2022 to improve the progressiveness in the vehicle tax system.

The new ARF structure will apply to all cars, including imported used vehicles, registered with certificates of entitlement (COEs) obtained from the second bidding exercise in February 2022 onwards.

Our observations

The government is continuing to target wealthy individuals through their spending on specific luxury goods such as cars and property. It isn't surprising to see them increase rates rather than to add new taxes as this is easier to roll out and collect.

Personal income tax and related changes

Personal income tax changes

Top marginal personal income tax (PIT) rates

Current

- Progressive PIT rates from 0%-22%
- Chargeable income in excess of S$320,000 taxed at the highest 22%

Chargeable income	Income tax rate since calendar year 2016 (Year of Assessment (YA) 2017) (%)	Gross tax payable ($)
On the first $320,000	-	44,550
In excess of $320,000	22	

Proposed

- Introduction of two new PIT rates of 23% and 24% on top of the existing progressive tax rates.
- A new rate of 23% for chargeable income from SGD 500,000 to SGD 1,000,000
- A new rate of 24% for chargeable income in excess of SGD 1,000,000

Chargeable income	Income tax rate effective calendar year 2023 (YA 2024) (%)	Gross tax payable ($)
On the first $320,000	-	44,550
On the next $180,000	22	39,600
On the first $500,000	-	84,150
On the next $500,000	23	115,000
On the first 1,000,000	-	199,150
In excess of $1,000,000	24	

Our observations

The announcement to include two new PIT rates of 23% and 24% aims to enhance the progressiveness of the PIT rates with minimal administrative costs.

The increase of the marginal income tax rates for income earned in calendar year 2023 onwards does not impact the majority of the workforce, therefore maintaining Singapore's position as a top work destination to attract foreign talent.

However, it would impact the top earners which could include business owners and decision makers and so incentives to encourage these people to relocate their businesses to Singapore would have been more welcomed. This would have brought in more employment and thus increased tax revenues.

All in all, however, a tax rate of just below 20% on income up to $1,000,000 is still low by international standards.

Immigration changes

Employment Pass (EP) and S Pass

Current

Sector	Minimum qualifying salary to apply for EP (SGD)	Minimum qualifying salary to apply for S Pass (SGD)
All except financial services	4,500	2,500
Financial services	5,000	3,000

Proposed

- The minimum salary requirements for EPs have been increased by S$500 in both sectors
- The minimum salary requirements for S Pass holders has been increased by $500 in both sectors
- These increases are applied to new applications from 1 September 2022 and for renewals from 1 September 2023.
- Further increases for S Passes will be announced for 1 September 2023 and 2025 and will be aligned with increases in wages for local Singaporeans.

Foreign worker levy (FWL)

Current

This is a pricing mechanism to regulate the number of foreigners coming to work in Singapore.

- Tier 1: S$330 per employee per month
- Tier 2: S$650 per employee per month

Proposed

The Tier 1 S Pass FWL rates will be progressively raised from $330 to

- $450 from 1 September 2022
- $550 from 1 September 2023
- $650 from 1 September 2025

No changes were announced for Tier 2 FWL rates.

Work Permit holders

Proposed

There were other adjustments to FWL rates and Dependency Ratio Ceilings for the Construction and Process sector Work Permit holders.

Our observations

Bringing foreign talent into Singapore remains an important goal to help improve the Singapore talent pool through the transfer of knowledge. However, to ensure fairness for the local workforce, increases to the minimum qualifying salary applicable to Work Passes has been introduced to ensure that the right level of foreign talent is being brought into Singapore.

This increase in the minimum qualifying salary follows recent salary trends in Singapore.

Environmental

Carbon tax changes

Current

In 2020, the government implemented an SGD 5 per tonne carbon tax on companies that produce at least 25,000 tonnes per year of taxable emissions.

Proposed

The carbon tax will be increased to:

- SGD 25 per tonne in 2024-2025;
- SGD 45 per tonne in 2026-2027

There is a long-term objective of raising the carbon tax rate to SGD 50-80 per tonne by 2030.

Carbon tax-liable businesses will be allowed to use carbon credits to offset up to 5% of taxable emissions from 2024.

Our observations

The increase in carbon tax further strengthens the Government's intention to encourage environmentally-friendly business practices, with the aim of achieving net zero emissions by 2050 in line with ambitious global goals.

While this may be "painful" for the energy-intensive sector in the short run, it may force them to rethink their current processes and hopefully achieve optimal cost savings in the long run. There may be a temptation to pass these costs onto consumers, however. So an interesting move in the context of spiking global energy prices and consumer price inflation.

Lapses, refinements and others

Lapses

Integrated Investment Allowance (IIA)

Current

The IIA scheme grants a qualifying company an additional allowance on fixed capital expenditure incurred for qualifying productive equipment placed overseas for approved projects.

Proposed

This scheme will lapse after 31 December 2022.

Refinements

Extension of the withholding tax (WHT) exemption for non-tax resident mediators and arbitrators

Current

Non-tax resident professionals are subject to a WHT rate of 15% on gross income. They may elect to be taxed at 22% on net income instead.

Income derived by a non-tax resident mediator or arbitrator from mediation or arbitration work carried out in Singapore is exempt from tax, subject to conditions.

The exemption is scheduled to lapse after 31 March 2022.

Proposed

The WHT exemption will be extended to 31 March 2023.

From 1 April 2023 to 31 December 2027, gross income derived by non-tax resident mediators and arbitrators from mediation or arbitration work performed in Singapore will be subject to a concessionary WHT rate of 10%, subject to conditions.

From YA 2024 onwards, non-resident mediators and arbitrators may elect to be taxed at 24% on net income.

Extension of the Aircraft Leasing Scheme (ALS)

Current

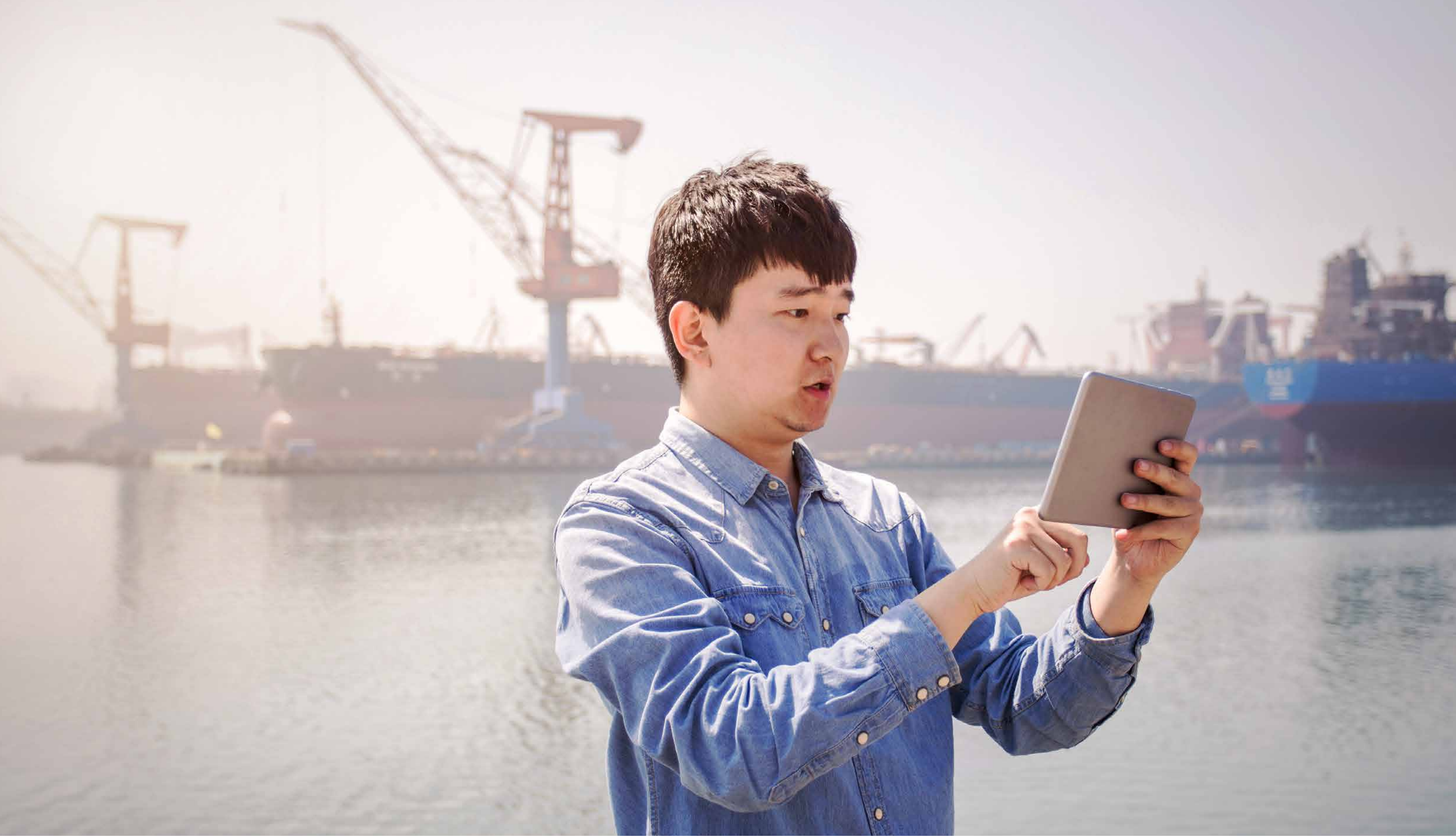
Under the ALS:

- Approved aircraft lessors enjoy a concessionary tax rate of 8% on income from leasing of aircraft or aircraft engines and qualifying ancillary activities (section 43N of SITA)
- Approved aircraft managers enjoy a concessionary tax rate of 10% on income from managing an approved aircraft lessor and qualifying activities (section 43O of SITA)
- WHT exemption is granted on qualifying payments made by approved aircraft lessors to non-tax residents on qualifying loans and finance leases to finance the purchase of aircraft and aircraft engines, subject to conditions

The ALS is scheduled to lapse after 31 December 2022.

Proposed

The ALS will be extended until 31 December 2027.



Extension of the WHT exemption for ship and container lease payments under finance leases

Current

WHT exemption is allowed on ship and container lease payments made to non-tax resident lessors under finance lease arrangements entered into on or before 31 December 2023, subject to conditions, for specified Maritime Sector Incentive recipients.

This exemption is scheduled to lapse after 31 December 2023.

Proposed

The WHT exemption will continue to apply to finance lease agreements entered into on or before 31 December 2028.

Extension of the WHT exemption for container lease payment under operating lease agreements

Current

WHT is allowed on container lease payments made to non-tax resident lessors under operating lease arrangements for agreements entered into on or before 31 December 2022 for the use of qualifying containers for the carriage of goods by sea, subject to conditions.

This exemption is scheduled to lapse after 31 December 2022.

Proposed

The WHT exemption will continue to apply to operating lease agreements entered into on or before 31 December 2027.

Extension of the Approved Foreign Loan (AFL) scheme

Current

Under the AFL scheme, a tax exemption or concessionary WHT rate may be granted on interest payments made to a non-tax resident for loans to purchase productive equipment for the purpose of conducting substantive activities in Singapore.

The scheme is scheduled to lapse after 31 December 2023.

Proposed

The AFL scheme will be extended to 31 December 2028.

Extension and enhancement of the Approved Royalties Incentive (ARI) scheme

Current

Under the ARI scheme, a tax exemption or concessionary WHT rate may be granted on approved royalties, technical assistance fees, or contributions to research and development costs made to a non-tax resident for providing cutting-edge technology and know-how to a local company for the purpose of its substantive activities in Singapore.

ARI is currently approved and granted on an agreement-based approach.

This scheme is scheduled to lapse after 31 December 2023.

Proposed

Extension

The ARI scheme will be extended to 31 December 2028.

Enhancement

The scheme will be simplified to cover classes of royalty agreements based on an activity-set-based approach.

The Economic Development Board (EDB) will release further details by 30 June 2022.

Others

Disclosure of company-related information for official duties

Current

The IRAS can disclose information collected under the Income Tax Act and the Goods and Services Tax Act to an authorised person (i.e. public officer, authorised person engaged by the Government or a statutory board, including a person outside the public sector who is engaged by the Government or a statutory board) for authorised use with the consent of the taxpayer.

In the absence of the taxpayers' consent, the IRAS can only disclose information on taxpayers to public agencies provided under specific legislative exemption.

Proposed

To facilitate the disclosure of information by the IRAS, they can now:

- Where the taxpayer has provided consent, provide information to the current list of recipients, as before
- Without the taxpayers' consent, disclose a prescribed list of identifiable information of a company (the list has not been provided) to an authorised person other than a person outside the public sector who is engaged by the Government or a statutory board

The IRAS has agreed to make the information disclosed less granular (to preserve the taxpayer's confidentiality) while maintaining the usefulness of the information to the authorised person at the same time.

Our observations

A positive development in light of the data-driven environment where data provided by the IRAS on a non-granular basis will help to facilitate policy making.

Making the prescribed list of identifiable information public will increase the transparency of the information sharing by IRAS.

Glossary

AFL	Approved Foreign Loan
ALS	Aircraft Leasing Scheme
ARF	Additional Registration Fee
ARI	Approved Royalties Incentive
BEPS	Base Erosion and Profit Shifting
COE	Certificate of Entitlement
DI	Designated investments
EP	Employment Pass
FWL	Foreign worker levy

GST	Goods and Services Tax
IIA	Integrated Investment Allowance
IRAS	Inland Revenue Authority of Singapore
MNE	Multinational enterprise
METR	Minimum Effective Tax Rate
PIT	Personal Income Tax
OMV	Open Market Value
WHT	Withholding Tax
YA	Year of Assessment

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