

Robert Tan Partners PAC

Chartered Accountants, Singapore

陳萬勝會計有限公司

61 Club Street Singapore 069436
Tel: (65) 6586 9339 Fax: (65) 6227 7205
email: ca@rtanppac.com
www.rtanppac.com
Co. Reg. No. 201525158E
Incorporated with Limited Liability

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Dear Clients

2023 SINGAPORE BUDGET COMMENTARY

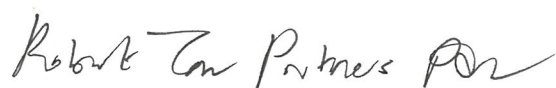
We are pleased to enclose our synopsis on the recent Budget announced by the Finance Minister for your information.

These notes have been summarised to highlight the Budget changes and serve as general information only and are not exhaustive treatment of such subjects. They do not purport nor are they intended to be specific advice or services. The information is also not intended to be relied upon as the sole basis for any decision which may affect you or your business. For more detailed information or specific application of such information to your business circumstances, please contact us.

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Yours faithfully

Robert Tan Partners PAC



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BUSINESS TAX

Corporate Income Tax Rate, Tax Exemptions & Tax Rebate

There is no change in the Singapore corporate income tax rate of 17% and the partial tax exemption. The partial tax exemption on the first \$200,000 normal chargeable income is as follows:

Chargeable Income		Percentage exempted	Amount exempted	Amount assessable
	\$		\$	\$
For every \$ of the first	10,000	75%	7,500	2,500
For every \$ of the next	190,000	50%	95,000	95,000
	200,000		102,500	97,500

The partial tax exemption is given to SMEs. Hence, it is unlikely that the Government will make changes to this scheme even with the impending global minimum effective tax rate regime of a 15% minimum tax rate which is applicable to large MNEs as discussed below.

Similarly, the Start-Up Tax Exemption (“SUTE”) scheme which is applicable for the first 3 consecutive years of assessment continues to apply as follows:

Chargeable Income		Percentage exempted	Amount exempted	Amount assessable
	\$		\$	\$
For every \$ of the first	100,000	75%	75,000	25,000
For every \$ of the next	100,000	50%	50,000	50,000
	200,000		125,000	75,000

As before, in order to enjoy the SUTE scheme, the company must have at least an individual beneficially holding 10% of the company’s share capital. Property developers and investment holding companies do not qualify for this SUTE scheme.

No corporate income tax rebate was announced for YA 2023. To recapitulate, the last corporate income tax rebate given by the Government was in YA 2020.

Implementation of the Global Anti-Base Erosion (GloBE) Rules (i.e., Income Inclusion Rule and Undertaxed Profits Rule) and Domestic Top-up Tax (DTT)

In response to Pillar 2 of the Base Erosion and Profit Sharing (BEPS) 2.0 project, Singapore plans to implement the GloBE rules and DTT of 15% from businesses' financial year starting on or after 1 January 2025. The Government will continue to monitor the international tax developments and adjust the implementation timeline as needed if there are delays.

The Government will also continue to engage businesses and provide them with sufficient notice ahead of any rules becoming effective.

Enhancement of the Double Tax Deduction for Internationalisation (DTD_i) Scheme

Under the current DTD_i Scheme, businesses are allowed a tax deduction of 200% on qualifying market expansion and investment development expenses, subject to prior approval from Enterprise Singapore or the Singapore Tourism Board.

E-commerce is an increasingly important and relevant mode of overseas expansion for businesses. To support businesses in their efforts to overcome initial challenges and build up capabilities in internationalising via e-commerce, the scope of the DTD_i scheme will be enhanced to include a new qualifying activity "e-commerce campaign" and cover the following e-commerce campaign startup expenses paid to e-commerce platform/service providers:

- a) Business advisory: Advisory on market promotion and execution plans (e.g., choice of suitable e-commerce platforms);
- b) Account creation: Assistance with setting up accounts on e-commerce platforms, and the right to sell on e-commerce platforms;
- c) Content creation: Design of e-commerce campaign publicity materials (e.g. e-store banners, online product images); and
- d) Product listing and placement: Uploading content on products/services to e-commerce platforms, and selection of suitable frequency and timing to display content on products/services.

Prior approval is required from Enterprise Singapore to enjoy DTD_i on the new qualifying activity. For each business, Enterprise Singapore will only approve DTD_i support for e-commerce campaigns for a maximum period of one year applied on a per country basis. The above enhancement will take effect for qualifying e-commerce campaign startup expenses incurred on or after 15 February 2023. Enterprise Singapore will provide further details of the changes by 28 February 2023.

Introduction of the Enterprise Innovation Scheme (EIS)

To encourage businesses to engage in R&D, innovation and capability development activities, the following suite of tax measures will be enhanced or introduced under the EIS:

- a) Enhance the tax deduction to 400% for the first \$400,000 of staff costs and consumables incurred on qualifying R&D projects conducted in Singapore for each YA from YA 2024 to YA 2028.
- b) Enhance the tax deduction to 400% for the first \$400,000 of qualifying IP registration costs incurred per YA from YA 2024 to YA 2028.
- c) Enhance the tax allowance/deduction to 400% for the first \$400,000 (combined cap) of qualifying expenditure incurred on the acquisition and licensing of IP rights per YA from YA 2024 to YA 2028. This enhancement will only be available to businesses that generate less than \$500 million in revenue in the relevant YA.
- d) Enhance the tax deduction to 400% for the first \$400,000 of qualifying training expenditure incurred on qualifying courses (i.e. courses that are eligible for SkillsFuture Singapore (SSG) funding and aligned with the Skills Framework) per YA from YA 2024 to YA 2028.
- e) Introduce a 400% tax deduction for up to \$50,000 of qualifying innovation expenditure incurred on qualifying innovation projects carried out with polytechnics, the Institute of Technical Education, and other qualified partners per YA from YA 2024 to YA 2028.

Businesses that are not profitable, or not having sufficient profits to benefit from the tax deductions can opt for cash conversion and receive, in lieu of the tax deduction, a non-taxable cash payout of 20% of total qualifying expenditure across all the above mentioned 5 qualifying activities, up to a maximum of \$100,000. Therefore, the maximum cash payout is \$20,000 per year.

The cash payout option will be capped at S\$20,000 per YA and will only be available to businesses that have at least three full-time local employees (Singapore citizen or Permanent Residents with CPF contributions) earning a gross monthly salary of at least S\$1,400 in employment for six months or more in the basis period of the relevant YA.

The sunset dates for section 14A (Deduction for costs of protecting IP), section 14C (Deduction for qualifying expenditure on R&D), section 14D (Enhanced deduction for qualifying expenditure on R&D), section 14U (Enhanced deduction for expenditure on licensing IP rights) and section 19B (Writing-down allowance for capital expenditure on acquiring IP rights) of the Income Tax Act 1947 (ITA) will be extended till YA 2028, in line with the above enhancements.

All other conditions under sections 14A, 14C, 14D, 14U and 19B of the ITA remain the same. IRAS will also provide further details of the changes by 30 June 2023.

Option to Accelerate the Write-off of the Cost of Acquiring Plant and Machinery (P&M)

To provide temporary broad-based support to businesses during this period of restructuring, businesses that incur capital expenditure on the acquisition of P&M in the basis period for YA 2024 (i.e. financial year ending in 2023) will have an option to accelerate the write-off of the cost of acquiring such P&M over two years. This option, if exercised, is irrevocable.

The rates of accelerated CA allowed are as follows:

- a) 75% of the cost incurred to be written off in the first year (i.e. YA 2024); and
- b) 25% of the cost incurred to be written-off in the second year (i.e. YA 2025)

The above option will be in addition to the options currently available under sections 19 and 19A of the ITA. No deferment of CA claims is allowed under the above option. This means that if a business opts for the accelerated write-off option, it needs to claim the capital expenditure incurred for acquiring P&M based on the rates of 75% (in YA 2024) and 25% (in YA 2025) over the two consecutive YAs.

Option to Accelerate the Deduction for Renovation or Refurbishment (R&R) Expenditure

To provide temporary broad-based support to businesses during this period of restructuring, businesses that incur qualifying expenditure on R&R during the basis period for YA 2024 (i.e. financial year ending in 2023) will have an option to claim R&R deduction in one YA (i.e. accelerated R&R deduction). The cap of \$300,000 for every relevant period of three consecutive YAs will still apply. This option, if exercised, is irrevocable.

This option will be in addition to the existing option currently available under section 14N of the ITA.

Extension of the Investment Allowance (IA) Scheme

To continue encouraging businesses to make capital investments in plant and productive equipment in Singapore, the IA scheme will be extended till 31 December 2028.

Extension of the IA-100% Scheme for Automation Projects

To continue to encourage businesses to transform through automation, the IA 100% scheme will be extended till 31 March 2026, with the same parameters.

Extension of the Pioneer Certificate Incentive (PC) and Development and Expansion Incentive (DEI)

To continue encouraging companies to anchor and grow strategic high value-added manufacturing and services activities in Singapore, the PC and DEI will be extended till 31 December 2028.

Extension of the IP Development Incentive (IDI)

To continue supporting the use and commercialisation of IP rights arising from R&D activities in Singapore, the IDI will be extended till 31 December 2028.

Extension of Three Tax Measures Relating to Submarine Cable Systems

Currently, there are three tax measures relating to submarine cable systems:

- a) Withholding Tax exemption on payments made to non-residents for use of international telecommunications submarine cable capacity under indefeasible right to use (IRU) agreements. This is scheduled to lapse after 31 December 2023.
- b) Writing-down allowance for the acquisition of an IRU over their useful life. This is scheduled to lapse after 31 December 2025.
- c) IA for the construction and operation of submarine cable systems in Singapore. This is scheduled to lapse after 31 December 2023.

To maintain and enhance Singapore's international connectivity, all three tax measures will be extended till 31 December 2028, with the same parameters.

Withdrawal of the Tax Deduction for Expenditure Incurred on Building Modifications for Benefit of Disabled Employees

The scheme will be withdrawn from 15 February 2023.

Introduced in Budget 1989, the scheme has become less relevant over the years. Since then, other support schemes (e.g. the Open Door Programme Job Redesign Grant) have been introduced to help employers recruit and retain disabled employees, or to support employers for accommodations beyond (and including) physical modifications of the workplace.

Section 14N on tax deductions for Renovation and Refurbishment, introduced in Budget 2008, can also be tapped upon for workplace modifications without the need for prior approval from government agencies.

PERSONAL INCOME TAX

Personal Income Tax Resident Rates

The top marginal Personal Income Tax (PIT) rates will be increased by the introduction of 2 new top PIT rate brackets with effect from YA 2024. Chargeable income in excess of \$500,000 to \$1,000,000 will be taxed at 23% while chargeable income above \$1,000,000 will be taxed at 24%.

The new PIT rate structure for Singapore tax-resident individual taxpayers will be as follows:

Chargeable Income	Income Tax Rate (%)	Gross Tax Payable (\$)	Effective Tax Rate
First \$20,000	0	0	
Next \$10,000	2	200	
First \$30,000	-	200	0.67%
Next \$10,000	3.5	350	
First \$40,000	-	550	1.38%
Next \$40,000	7	2,800	
First \$80,000	-	3,350	4.19%
Next \$40,000	11.5	4,600	
First \$120,000	-	7,950	6.63%
Next \$40,000	15	6,000	
First \$160,000	-	13,950	8.72%
Next \$40,000	18	7,200	
First \$200,000	-	21,150	10.58%
Next \$40,000	19	7,600	
First \$240,000	-	28,750	11.98%
Next \$40,000	19.5	7,800	
First \$280,000	-	36,550	13.05%
Next \$40,000	20	8,000	
First \$320,000	-	44,550	13.92%
Next \$180,000	22	39,600	
First \$500,000	-	84,150	16.83%
Next \$500,000	23	115,000	
First \$1,000,000	-	199,150	19.92%
In excess of \$1,000,000	24		

The non-Singapore tax resident individual PIT rate will accordingly, be increased to 24% come YA 2024.

For comparison, the current top marginal Personal Income Tax (PIT) rate is at 22% for chargeable income in excess of \$320,000 and the PIT rate structure for YA 2022 and 2023 is as follows:

Chargeable Income	Income Tax Rate (%)	Gross Tax Payable (\$)	Effective Tax Rate
First \$20,000	0	0	
Next \$10,000	2	200	
First \$30,000	-	200	0.67%
Next \$10,000	3.5	350	
First \$40,000	-	550	1.38%
Next \$40,000	7	2,800	
First \$80,000	-	3,350	4.19%
Next \$40,000	11.5	4,600	
First \$120,000	-	7,950	6.63%
Next \$40,000	15	6,000	
First \$160,000	-	13,950	8.72%
Next \$40,000	18	7,200	
First \$200,000	-	21,150	10.58%
Next \$40,000	19	7,600	
First \$240,000	-	28,750	11.98%
Next \$40,000	19.5	7,800	
First \$280,000	-	36,550	13.05%
Next \$40,000	20	8,000	
First \$320,000	-	44,550	13.92%
In excess of \$320,000	22		

The current non-Singapore tax resident individual PIT rate is at 22%.

Grandparent Caregiver Relief

To give caregivers the flexibility to do some incidental work, working mothers will be able to claim Grandparent Caregiver Relief in respect of caregivers who have trade, business, profession, vocation or/and employment income, as long as the caregivers' total income from these activities does not exceed \$4,000 in the year preceding the YA of claim, if they have met all other conditions.

This change will take effect from YA 2024.

Working Mother's Child Relief

As part of the review of the Government's support for Marriage & Parenthood, the Working Mother's Child Relief ("WMCR") will be changed to a fixed dollar tax relief for eligible working mothers in respect of qualifying children who are Singapore citizens born or adopted on or after 1 January 2024.

There is no change to the WMCR that eligible working mothers can claim in respect of their qualifying Singapore citizen children born or adopted before 1 January 2024.

Child order	WMCR for a qualifying Singaporean child born/adopted <u>before</u> 1 January 2024	WMCR for a qualifying Singaporean child born/adopted <u>on or after</u> 1 January 2024
1 st	15% of mother's earned income	\$8,000
2 nd	20% of mother's earned income	\$10,000
3 rd and beyond	25% of mother's earned income	\$12,000

The change will take effect from YA 2025. Further details can also be found at www.go.gov.sg/wmcr.

Foreign Domestic Worker Levy Relief

The Foreign Domestic Worker Levy Relief ("FDWLR") was introduced in 1989 to support working married women who needed the help of a migrant domestic worker.

Since then, the Government has introduced numerous schemes to directly support working mothers. In particular, those living with children below 16 years old, elderly or persons with disabilities who require the help of a migrant domestic worker enjoy a concessionary levy of \$60 per month, instead of the usual levy of \$300 or \$450 per month for the first and subsequent helper respectively. This concessionary levy directly benefits all families who need help with caring for their dependents, including those who do not pay income tax.

Due to the existence of the above migrant domestic worker concessionary levy, FDWLR will lapse for all taxpayers with effect from YA 2025.

CPF Relief

As announced in Budget 2023, the current CPF monthly salary ceiling of \$6,000 will be increased to \$8,000 in four phases starting from 1 September 2023.

Period	CPF monthly salary ceiling
1 January 2016 to 31 August 2023	\$6,000
1 September 2023 to 31 December 2023	\$6,300
1 January 2024 to 31 December 2024	\$6,800
1 January 2025 to 31 December 2025	\$7,400
On or after 1 January 2026	\$8,000

Notwithstanding the increases to the CPF monthly salary ceiling starting from 1 September 2023, the CPF annual salary ceiling will remain at \$102,000. The additional wage ceiling will also remain at \$102,000 less total ordinary wages subject to CPF for the year.

For example, the ordinary and additional wages ceilings for the year 2023 are as follows:

Ordinary wages ceiling:

1 January 2023 to 31 August 2023 =	\$6,000 x 8 =	\$48,000
1 September 2023 to 31 December 2023 =	\$6,300 x 4 =	\$25,200
		<u>\$73,200</u>
CPF annual salary ceiling		\$102,000
Additional wages ceiling		<u>\$28,800</u>

Based on the above, the CPF relief for YA 2024 is computed as follows:

Ordinary wages	\$73,200 x 20%	\$14,640
Additional wages	\$28,800 x 20%	\$5,760
Total CPF relief allowable		<u>\$20,400</u>

GOODS & SERVICES TAX

Goods & Services Tax Rate

As planned, the Government announced that the GST rate will be increased from 8% to 9% with effect from 1 January 2024.

The rate change affects any GST-registered business that sells or purchases goods or services that are subject to the standard rate of GST.

GST-registered businesses are encouraged to have early identification of transactions that may be impacted by the transitional time of supply rules and initiating client conversations to communicate the applicable GST rates of 8% or 9% respectively on these transactions.

MISCELLANEOUS

Extension Of The 250% Tax Deduction For Qualifying Donations To IPCS And Eligible Institutions

To continue encouraging Singaporeans to give back to the community, the 250% tax deduction for qualifying donations will be extended to 31 December 2026. All other conditions of the scheme remain the same.

Extension And Enhance The Corporate Volunteer Scheme

To continue supporting corporate volunteering, the 250% tax deduction on qualifying expenditure incurred under the Corporate Volunteer Scheme (“CVS”) will be extended to 31 December 2026.

The scope of qualifying volunteering activities will be expanded to include activities which are conducted virtually (e.g. online mentoring and tuition support for youths/children) or outside of the IPCs’ premises (e.g. refurbishment of rental flats).

The cap on qualifying expenditure per IPC per calendar year has been doubled to \$100,000.

All other conditions of the scheme remain the same.

The above enhancements will take effect from 1 January 2024.

Philanthropy Tax Incentive Scheme For Family Offices

The Philanthropy Tax Incentive (“PTI”) scheme will be introduced for qualifying donors with family offices operating in Singapore. To qualify, donors must have a fund under MAS’ section 13O or 13U schemes and meet eligibility conditions, such as incremental business spending of \$200,000.

Under the PTI scheme, qualifying donors can claim 100% tax deduction for overseas donations made through qualifying local intermediaries. The tax deduction is capped at 40% of the donor’s statutory income.

Further details will be provided by MAS by 30 June 2023.

Uplifting Employment Credit

The Uplifting Employment Credit is a hiring incentive that encourages firms to employ ex-offenders, so as to support their reintegration into society.

Ministry of Manpower will share more details at their Committee of Supply 2023.

Senior Employment Credit

The Senior Employment Credit will be extended from 2023 to 2035, by providing wage offsets to support employers in hiring senior workers.

Ministry of Manpower will share more details at their Committee of Supply 2023.

Enabling Employment Credit

To encourage more employers to hire persons with disabilities (“PwDs”), the Enabling Employment Credit (“EEC”) will be enhanced to cover a larger proportion of wages and a longer duration for PwDs who have not been working for at least six months.

Ministry of Manpower will share more details at their Committee of Supply 2023.

Progressive Wage Credit Scheme

The Progressive Wage Credit Scheme (“PWCS”) for qualifying year 2023 will be enhanced by increasing the Government’s co-funding share from 50% to 75% for employees with gross monthly wages of up to \$2,500, and from 30% to 45% for employees with gross monthly wages more than \$2,500 and up to \$3,000.

CPF Transition Offset

The CPF Transition Offset will be provided to employers to alleviate the increase of business cost arising from the 2024 increase in senior workers' CPF contribution rates. The offset provided will be equivalent to half of the 2024 increase in employer CPF contribution rates.

Buyer's Stamp Duty

To enhance the progressivity of the Buyer's Stamp Duty ("BSD") regime, higher marginal BSD rates will be introduced for higher-value residential and non-residential properties.

For residential properties, the portion of property value:

- a) In excess of \$1.5 million and up to \$3 million will be taxed at 5% (up from 4%); and
- b) In excess of \$3 million will be taxed at 6% (up from 4%).

For non-residential properties, the portion of property value:

- a) In excess of \$1 million and up to \$1.5 million will be taxed at 4% (up from 3%).
- b) In excess of \$1.5 million will be taxed at 5% (up from 3%).

Higher of purchase price or market value of property	Marginal BSD rate	
	Residential property	Non-residential property
First \$180,000	1%	1%
Next \$180,000	2%	2%
Next \$640,000	3%	3%
Next \$500,000	4%	4% <i>New</i>
Next \$1,500,000	5% <i>New</i>	5% <i>New</i>
More than \$3,000,000	6% <i>New</i>	

There will be a transitional provision, where the BSD rates on or before 14 February 2023 will apply for cases that meet all the conditions below:

- a) The Option to Purchase ("OTP") was granted by sellers to potential buyers on or before 14 February 2023;
- b) This OTP is exercised on or before 7 March 2023, or within the OTP validity period, whichever is earlier; and
- c) This OTP has not been varied on or after 15 February 2023.

The Additional Conveyance Duties for Buyers ("ACDB") rates, which apply to qualifying acquisitions of equity interest in property holding entities, will also be adjusted accordingly, from up to 44% to up to 46%. The revised ACDB rate comprises:

- a) Revised BSD at 1% to 6%; and
- b) Additional Buyer's Stamp Duty ("ABSD") at 40% (flat rate).

The revised rates will apply to all properties acquired on or after 15 February 2023.