Singapore Budget 2021

Budget highlights

Building a better working world

Introduction

In the midst of an unprecedented crisis, the natural instinct is to double down on the now. When survival and livelihoods are at stake, responding to immediate threats takes on significant importance. Beyond providing temporary reliefs to weather through the storm, it is also critical to keep an eye on the beyond, for the simple reason that large crises reshape the long-term competitive landscape. A post-crisis world may look very different, with different norms, rules, competitors and value propositions.

Against this backdrop, Budget 2021, which was unveiled by Deputy Prime Minister and Finance Minister Heng Swee Keat on 16 February 2021 seeks to help workers and businesses adapt, innovate, grow and emerge from the COVID-19 pandemic stronger as an economy, and together as one people.

Budget 2021 is expansionary, with an expected deficit of S$11b (or 2.2% of Singapore's gross domestic product), which is necessary to overcome the extraordinary challenges that the COVID-19 pandemic continues to pose.

This alert highlights the key tax and non-tax measures impacting businesses across three time horizons:

- Now, to provide relief in the immediate term
- Next, to invest strategically for growth and press on with the economic transformation in the medium term
- Beyond, to build a caring and sustainable home for generations to come

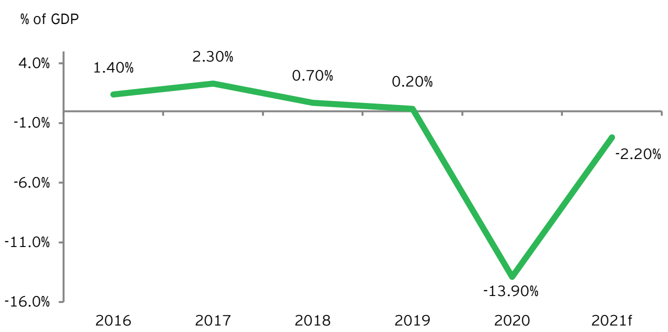
For further details on the tax measures, please refer to the EY Singapore Budget Synopsis 2021.

Soh Pui Ming
Head of Tax
17 February 2021

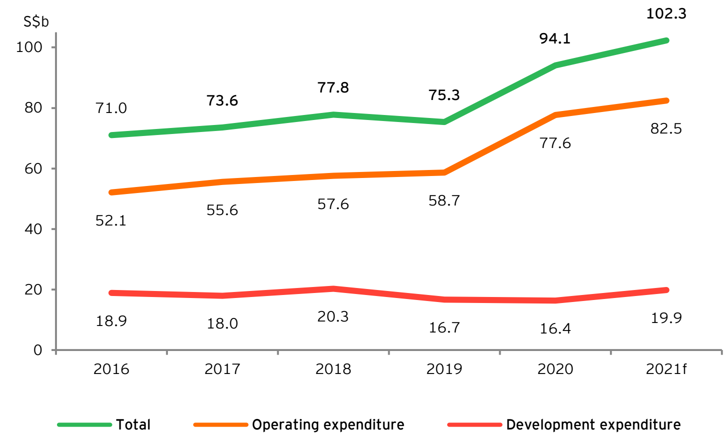
For more insights on the new proposed Budget measures, please go to
www.ey.com/sg/budget

Economic indicators

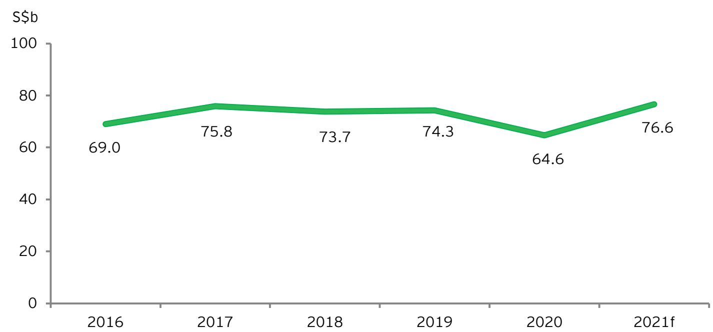
Budget surplus or deficit



Government expenditure



Government operating revenue



Notes:
- f = forecast

Source:
- Analysis of Revenue and Expenditure distributed by MOF on Budget Day 16 February 2021

The overall budget deficit for financial year (FY) 2020 is the largest since Singapore's independence at S$64.9b or 13.9% of gross domestic product (GDP). The Government approved several broad-based COVID-19 economic support packages, which materially impacted its budget deficit in FY 2020 but was needed to avoid a worse recession, avert job losses and mitigate inequality.

Similar to FY 2020, Budget 2021 is an expansionary budget with an overall projected deficit of S$11b, equating to 2.2% of GDP.

Operating expenditure is estimated to be S$82.5b – S$4.8b or 6.2% higher than the revised FY 2020 estimate. Development expenditure is estimated to be S$19.9b – S$3.5b or 21.1% higher than the revised FY 2020 estimate.

The Government expects an increase in its operating revenue after a significant decrease in FY 2020. The operating revenue is estimated to be S$76.6b, thus S$12.0b (or 18.6%) higher than the revised FY 2020 estimate. This is mainly due to a projected overall increase in tax collections. The FY 2021 revenue is estimated to be S$2.3b or 3.1% higher than FY 2019 actual revenue, reflecting a rebound towards pre-COVID levels.

Key proposals

Now — Relief in the immediate term

Tax measures

- Enhancements to the carry-back relief scheme will be extended to Year of Assessment (YA) 2021, with the same parameters (i.e., YA 2021 qualifying deductions can be carried back up to three immediate preceding YAs, capped at S$100,000 of qualifying deductions, subject to conditions).
- The following tax measures have been extended to YA 2022:
  - Option to accelerate the write-off of the cost of plant and machinery acquired in the basis period for YA 2022 over two years (i.e., 75% of the cost in YA 2022 and remaining 25% in YA 2023).
  - Option to accelerate the deduction of qualifying expenditure incurred on renovation and refurbishment in YA 2022 over one YA, instead of over three consecutive YAs. The qualifying cap of S$300,000 for every relevant period of three consecutive YAs remains unchanged.
- GST rate increase would not take effect in 2021 and will remain at 7% for now.

Non-tax measures

- Extending the Wage Credit Scheme for a year, at a co-funding level of 15%.
- Deferral of foreign worker levy rate increase for the marine shipyard and process sectors by another year.
- Budget 2021 sets aside S$11b for the COVID-19 Resilience Package. This covers the extension of the Jobs Support Scheme (JSS) and various schemes within the SGUnited Jobs and Skills Package, which includes the Jobs Growth Incentive (JGI), as well as targeted support for specific sectors.
- Extension of the JGI : S$5.2b will be allocated to the JGI to extend the hiring window by seven months, up to end September 2021.
- Support for specific sectors
  - Extend cost assistance measures for aviation sector, amounting to S$870m.
  - Continuation of COVID-19 Driver Relief Fund for land transport sector to support taxi and private hire car drivers. S$133m will be set aside for this Fund.
  - Extension of the Arts and Culture Resilience Package and Sports Resilience Package to support businesses and self-employed persons in these sectors. These packages will also be enhanced to support capability development and sector transformation, and to encourage the community to deepen skills, go digital, and transform business models. S$45m will be set aside for the extension and enhancements.

Key proposals

Now — Relief in the immediate term

Non-tax measures

- Extension of the JSS
  - Support under the JSS will be tapered for recovering sectors and extended for harder-hit sectors.
  - The list of sectors in JSS support tiers are classified as follows:

Tier 1	Tier 2	Tier 3A	Tier 3B
‣ Aviation and aerospace ‣ Tourism, hospitality, conventions and exhibitions ‣ Built environment (only for June to October 2020); Tier 2 support for November 2020 to March 2021	‣ Food services ‣ Retail (excludes supermarkets) ‣ Arts and entertainment ‣ Land transport ‣ Marine and offshore	‣ All others	‣ Biomedical sciences ‣ Precision engineering ‣ Electronics ‣ Financial services ‣ Information and communications technology and media ‣ Retail – supermarkets, convenience stores and online retail

  - The JSS will be extended to cover wages for firms in Tier 1 and 2 sectors by up to six months and three months respectively, subject to sector-specific qualifying conditions.

<table>
<tr><th rowspan="2">JSS</th><th rowspan="2">Month of payout</th><th rowspan="2">Payout based on wages paid in</th><th>Tier 1</th><th>Tier 2</th><th>Tier 3A</th><th>Tier 3B</th></tr>
<tr><th colspan="4">(% of wage support)</th></tr>
<tr><td rowspan="5">2020 Budgets</td><td>Apr 2020</td><td>Oct - Dec 2019</td><td rowspan="3">75%</td><td rowspan="3">50%</td><td colspan="2" rowspan="3">25%</td></tr>
<tr><td>Jul 2020</td><td>Feb - Apr 2020</td></tr>
<tr><td>Oct 2020</td><td>May - Aug 2020</td></tr>
<tr><td>Mar 2021</td><td>Sep - Dec 2020</td><td rowspan="2">50%</td><td rowspan="2">30%</td><td colspan="2">10%</td></tr>
<tr><td>Jun 2021</td><td>Jan - Mar 2021</td><td>10%</td><td>0%</td></tr>
<tr><td rowspan="2">2021 Budget</td><td>Sep 2021</td><td>Apr - Jun 2021 [Extended]</td><td>30%</td><td>10%</td><td colspan="2" rowspan="2">0%</td></tr>
<tr><td>Dec 2021</td><td>Jul - Sep 2021 [Extended]</td><td>10%</td><td>0%</td></tr>
</table>

Key proposals

Next — Growth and transformation in the medium term

Tax measures

- Singapore's corporate tax system may be adjusted in the future, if and when changes are made to international tax rules under the Base Erosion and Profit Shifting (BEPS) 2.0 project.
- With effect from 1 January 2023, GST will be extended to :
  a. Low-value goods that are imported via air or post
  b. Business-to-consumer imported non-digital services such as live interaction with overseas providers of education learning, fitness training, counselling and telemedicine.
- For supply of media sales on or after 1 January 2022, the basis for determining whether zero-rating applies to such supply will be based on the place where the customer (i.e., the contractual customer) and direct beneficiary of the service belong. This is to reflect the developments in digital technologies and growth in online advertising.
- The scope of the Double Tax Deduction for Internationalisation (DTDi) scheme will be enhanced with effect from 17 February 2021 to include:
  - Certain specified expenses incurred to participate in approved virtual trade fairs;
  - Logistics costs to transport materials and samples used during overseas investment study trips; and
  - Additional qualifying activities that do not require prior approval from Enterprise Singapore or Singapore Tourism Board.
- The Automation Support Package (ASP) will lapse after 31 March 2021 but the 100% Investment Allowance (IA) scheme to support automation will be extended by two years until 31 March 2023. Other schemes including the Enterprise Development Grant, IA scheme and the Enterprise Financing Scheme will continue to be available.
- The Investment Allowance (Energy Efficiency) (IA-EE) scheme has been renamed to Investment Allowance for Emissions Reduction scheme and the scope has been expanded to include projects involving a reduction of greenhouse gas emissions. Eligibility condition will also be streamlined and updated. The revised conditions will apply to projects approved by the Economic Development Board from 1 April 2021 to 31 December 2026.
- The Accelerated Depreciation Allowance for Highly Efficient Pollution Control Equipment scheme has been withdrawn from 17 February 2021.
- To continue attracting Not-for-Profit Organisation (NPOs) into Singapore, the NPO tax incentive will be extended until 31 December 2027.

Key proposals

Next Growth and transformation in the medium term

Tax measures

- To promote rated retail bond issuances, the double tax deduction for qualifying upfront cost attributable to retail bonds issued under the Monetary Authority of Singapore (MAS) Seasoning Framework and Exempt Bond Issuer Framework will only be extended for qualifying upfront costs incurred on or after 19 May 2021 that is attributable to rated retail bonds (instead of all retail bonds) issued during the period from 19 May 2021 to 31 December 2026.

- To support Singapore's value proposition and competitiveness of our financial sector, certain withholding tax exemptions will be extended for payments made by financial institutions or specified entities to non-resident persons.

- The Insurance Business Development-Specialised Insurance (IBD-SI) scheme will lapse after 31 August 2021 to streamline the IBD umbrella scheme. Insurers engaging in the specialised insurance and reinsurance business can apply for the IBD scheme.

Key proposals

Next — Growth and transformation in the medium term

Non-tax measures

- Launch of Corporate Venture Launchpad: to provide co-funding for corporate to build new ventures through pre-qualified venture studios.
- Enhancing the Open Innovation Platform, a virtual crowd-sourcing platform that bridges business needs and digital solutions, with new features such as a cloud-based Digital Bench for accelerated virtual prototyping and testing.
- Enhancing the Global Innovation Alliance, which serves to catalyse cross-border collaboration between Singapore and major innovation hubs globally, with the inclusion of the Co-Innovation Programme, which will support up to 70% of qualifying costs for cross-border innovation and partnership projects.
- Extending and enhancing the Enterprise Financing Scheme – Venture Debt Programme, where the Government shares up to 70% of the risk on eligible loans with Participating Financial Institutions, by increasing the cap on loan quantum supported from S$5m to S$8m.
- S$1b is being set aside for the following schemes:
    - Launch of Emerging Technology Programme: to co-fund the costs of trials and adoption of frontier technologies like 5G, artificial intelligence and trust technologies.
    - Launch of Chief-Technology-Officer-as-a-Service initiative: to help firms to identify and adopt digital solutions by providing access to professional IT consultancies.
    - Launch of Digital Leaders Programme: to support promising firms in hiring a core digital team and in developing and implementing digital transformation roadmap.
    - Extending the enhanced support levels of up to 80% for existing enterprise schemes such as the Scale-up SG Programme, Productivity Solutions Grant, Market Readiness Assistance, and Enterprise Development Grant, to end March 2022.
- Setting aside S$500m to be co-invested with Temasek in a Local Enterprises Funding Platform, to be managed commercially.
- National Research Foundation will be supporting about 500 fellowships under the new Innovation and Enterprise Fellowship Programme over the next five years, to meet needs in areas such as cybersecurity, artificial intelligence and health tech.
- Reducing the S Pass Sub-Dependency Ratio Ceiling for Manufacturing in two steps, to 18% from 1 January 2022, and to 15% from 1 January 2023.
- Increasing the budget allocation for the Senior Worker Early Adopter Grant and the Part-Time Re-employment Grant by over S$200m.

Key proposals

Beyond Caring and sustainable home for future generations

Tax measures

- Extending the 250% tax deduction for qualifying donations made from 1 January 2022 to 31 December 2023 to encourage Singaporeans to give back to the community.
- Business and Institute of Public Character Partnership Scheme will be extended until 31 December 2023 to continue supporting corporate volunteering.
- Enhancing the Electric Vehicle Early Adoption Incentive by removing the Additional Registration Fee (ARF) floor of S$5,000 from January 2022 to December 2023. All other parameters of the incentive remain the same (i.e., 45% rebate off the ARF at a cap of S$20,000 for electric cars and taxis).
- Increasing petrol duty rates by S$0.10 and S$0.15 per litre for intermediate and premium grade petrol respectively. The revised duty rates are S$0.66 and S$0.79 per litre respectively.
- To ease the transition to the revised petrol duty rates, the following transitional offset measures for vehicles using petrol are introduced:
    - Road tax rebate of between 15% to 100% (depending on vehicle type) for one year from 1 August 2021 to 31 July 2022; and
    - Additional Petrol Duty Rebate of up to S$360 will be given to taxi and private hire car drivers and individual motorcycle owners.

Key proposals

Beyond Caring and sustainable home for future generations

Non-tax measures

- Setting aside S$20m for a new Change for Charity Grant, which will match donations made by consumers on businesses' payment platforms that incorporate giving opportunities into consumer transactions.
- Setting aside S$60m for a new Agri-Food Cluster Transformation Fund to continue supporting technology adoption in the agri-food sector.
- Setting aside S$30m over the next five years for Electric Vehicles-related initiatives to catalyse partnership between the public and private sectors.
- Revising the road tax treatment for electric cars by adjusting the road tax bands so that a mass-market electric car will have road tax comparable to an internal combustion engine vehicle equivalent.
- Issuing green bonds on select public infrastructure projects, with up to S$19b of public sector green projects identified as a start.
- Maintaining the carbon tax level at S$5 per tonne of greenhouse gas emissions up until 2023 as previously announced. The trajectory and level of the carbon tax will be reviewed in consultation with industry and expert groups post-2023.
- Launching the Enterprise Sustainability Programme to help enterprises, especially small and medium enterprises, use resources more efficiently and develop new green products and solutions.

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