Singapore Budget 2022

Budget news alert

Introduction

While reverberations from the COVID-19 pandemic continued throughout 2021, vaccines, new technologies and progress on climate change showed there are plenty to be positive about.

Against this backdrop, Budget 2022, which was unveiled by Finance Minister Lawrence Wong on 18 February 2022, seeks to help workers and businesses invest in new capabilities and advance our green transition. Significant enhancements were proposed to build a fairer and more resilient tax system, which include increasing the top marginal personal income tax rate from 22% to 24%.

Budget 2022 remains expansionary, with an expected overall deficit of S$3b (or 0.5% of Singapore's gross domestic product) for fiscal year 2022, which is slightly lower than the overall deficit of S$5b for fiscal year 2021.

This alert highlights the key tax and non-tax measures impacting businesses.

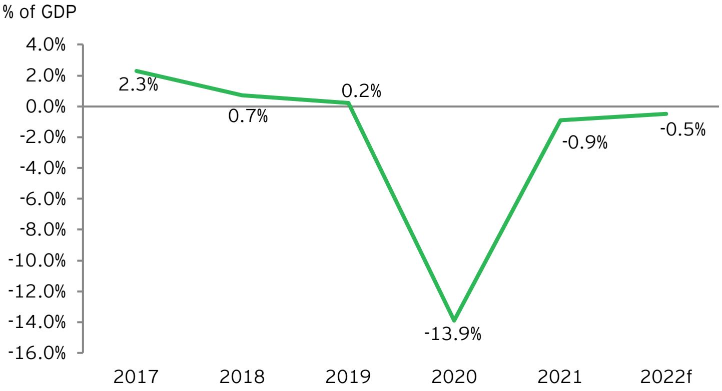
For further details on the tax measures, please refer to the EY Singapore Budget Synopsis 2022.

Soh Pui Ming
Head of Tax
18 February 2022

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

Economic indicators

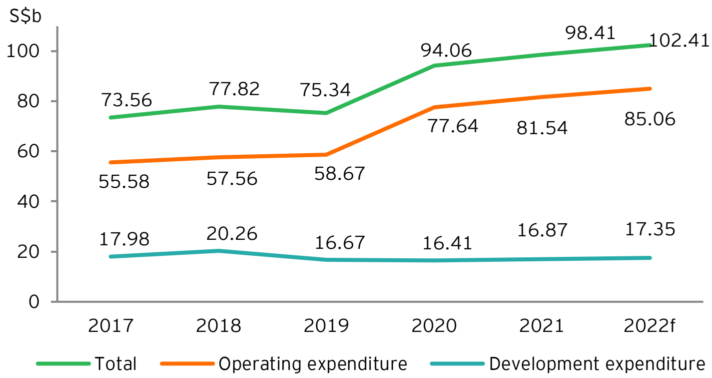
Budget surplus or deficit



For the financial year (FY) 2021, Singapore had an overall budget deficit of S$5b or 0.9% of gross domestic product (GDP).

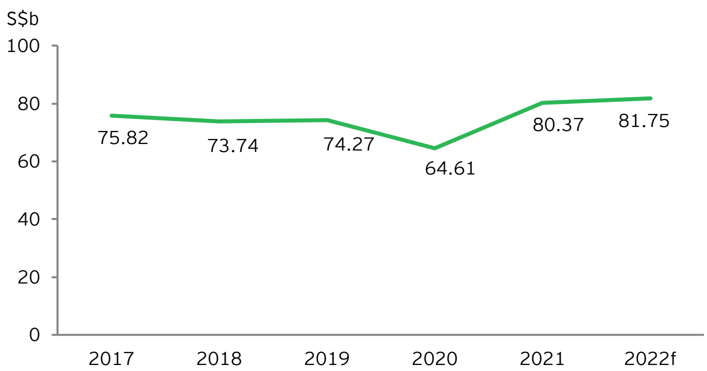
Similar to FY 2021, Budget 2022 is an expansionary budget with an overall projected deficit of S$3b, equating to 0.5% of GDP.

Government expenditure



Operating expenditure for FY 2022 is estimated to be S$85.06b, which is S$3.52b or 4.3% higher than the revised FY 2021 estimate. Development expenditure is estimated to be S$17.35b, which is S$0.48b or 2.8% higher than the revised FY 2021 estimate.

Government operating revenue



The Government expects to maintain its operating revenue at a similar level to FY 2021. The operating revenue for FY 2022 is estimated to be S$81.75b, which is S$1.38b (or 1.7%) higher than the revised FY 2021 estimate.

Notes:
- f = forecast

Source:
- Analysis of Revenue and Expenditure distributed on Budget Day 16 February 2021 for 2017 to 2020.
- Annex G-2 to Budget Statement 2022 for 2021 and 2022f.

Key proposals

Tax measures

General

- In response to the global Minimum Effective Tax Rate (METR) under the Pillar 2 Global Anti-Base Erosion rules of the Base Erosion and Profit Sharing (BEPS) 2.0 project, the Government is exploring introducing METR. The METR will top up a multinational enterprise (MNE) group's effective tax rate in Singapore to 15%. The METR will apply to MNEs operating in Singapore that have annual revenues of at least €750m, as reflected in the consolidated financial statements of the ultimate parent entity. The Inland Revenue Authority of Singapore (IRAS) will study the METR further and consult industry stakeholders on the design of the METR.
- To ensure parity in treatment for all companies, including those in the insurance business, the tax framework for facilitating corporate amalgamations under Section 34C of the Income Tax Act (ITA) will be extended to cover amalgamation of Singapore-incorporated companies involving a scheme of transfer under Section 117 of the Insurance Act 1966 (IA), in particular where the court order for the confirmation of the scheme referred to under Section 118 of the IA is made on or after 1 November 2021, subject to conditions being met.
- With effect from YA 2024 (or YA 2025 for insurers with non-December year-end), the Monetary Authority of Singapore (MAS) Statutory Returns will be used as the basis for preparing tax computations instead of financial statements.

Enhancement, extension and rationalisation of incentive schemes

- The Aircraft Leasing Scheme will be extended till 31 December 2027 to continue encouraging the growth of the aircraft leasing sector in Singapore.
- The Integrated Investment Allowance scheme for qualifying productive equipment placed overseas for approved projects will be allowed to lapse after 31 December 2022.
- The Approved Royalties Incentive will be extended till 31 December 2028 to continue encouraging companies to leverage new technologies and know-how to develop the capabilities of our local workforce and capture new growth opportunities. It will also be simplified to cover classes of royalty agreements based on an activity-set-based approach, as opposed to the current agreement-based approach.
- The Approved Foreign Loan Scheme will be extended till 31 December 2028 to continue encouraging companies to invest in productive equipment for the purpose of conducting substantive activities in Singapore.

Key proposals

Tax measures

- The withholding tax (WHT) exemptions on the following payments made to non-tax resident lessors will be extended for:
  - Container-lease payments made under operating lease agreements entered into on or before 31 December 2027 for the use of qualifying containers.
  - Ship and container lease payments made by specified Maritime Sector Incentive (MSI) recipients under finance lease agreements entered into on or before 31 December 2028.
- The WHT exemption for non-tax resident mediators and arbitrators will be extended:
  - The existing WHT exemption on income derived by non-tax resident mediators and arbitrators from mediation and arbitration work carried out in Singapore will be extended till 31 March 2023.
  - From 1 April 2023 to 31 December 2027, such gross income derived by non-tax resident mediators and arbitrators will be subject to a concessionary WHT rate of 10%, subject to conditions. Alternatively, they may elect to be taxed at 24% on net income from YA 2024 onwards.
- The tax incentive scheme for funds managed by Singapore-based fund managers will be enhanced. The conditions imposed on the investments in physical Investment Precious Metals under the designated investments list of Section 13D/13O/13U of the ITA will be refined and effective on and after 19 February 2022.
- The WHT exemption for the financial sector will be extended to 31 December 2026 to support the competitiveness of our financial sector for the following payments:
  - Payments made under cross currency swap transactions by Singapore swap counterparties to issuers of Singapore dollar debt securities.
  - Interest payments on margin deposits made under all derivatives contracts by approved exchanges, approved clearing houses, members of approved exchanges and members of approved clearing houses.
  - Specified payments made under securities lending or repurchase agreements by specified institutions.
  - Payments made under interest rate or currency swap transactions by the MAS.

  WHT for payments made under interest rate or currency swap transactions by financial institutions will be allowed to lapse after 31 December 2022.

Key proposals

Tax measures

- To support the development of Singapore as an infrastructure financing hub, the following Project and Infrastructure Finance tax incentives schemes will be extended till 31 December 2025:

    - Exemption of qualifying income from qualifying project debt securities.

    - Exemption of qualifying foreign-sourced income from qualifying offshore infrastructure projects or assets received by approved entities listed on the Singapore Exchange (SGX).

  The concessionary rate of 10% on qualifying income derived by Approved Infrastructure Trustee-Manager or Fund Management Company from managing qualifying SGX-listed Business Trusts or Infrastructure funds in relation to qualifying infrastructure projects or assets will be allowed to lapse after 31 December 2022.

Goods and Services Tax (GST)

- The GST rate will be increased from 7% to 8% with effect from 1 January 2023 and to 9% with effect from 1 January 2024.

- With effect from 1 January 2023, the basis for determining whether zero-rating applies to a supply of travel arranging services will be updated, to be based on the place where the customer (i.e., the contractual customer) and direct beneficiary of the service belong:

    - If the customer of the service belongs in Singapore, the travel arranging service will be standard-rated.

      Or

    - If the customer of the service belongs outside Singapore and the direct beneficiary either belongs outside Singapore or is GST-registered in Singapore, the travel arranging service will be zero-rated.

Key proposals

Tax measures

Personal income tax

- With effect from YA 2024, the top marginal personal income tax rate for tax resident individuals will be increased from the current rate of 22% to:
    - 23% for chargeable income in excess of S$500,000 and up to S$1m.
    - 24% for chargeable income in excess of S$1m.
- Correspondingly, the income tax rate for non-resident individuals (except on employment income and certain income taxable at reduced withholding rates) will be raised from 22% to 24%, with effect from YA 2024.

Property tax

- For owner-occupied residential properties, the property tax rates for the portion of annual value in excess of S$30,000 will be increased from 4% to 16% currently, to 5% to 23% on 1 January 2023 and to 6% to 32% on 1 January 2024.
- For non-owner occupied residential properties, the property tax rates will be increased from 10% to 20% currently, to 11% to 27% on 1 January 2023 and to 12% to 36% on 1 January 2024.

Carbon tax

- To help achieve a net zero carbon emission by or around 2050, the carbon tax that was introduced in 2019 will be increased from S$5 per tonne of emissions to S$25 per tonne in 2024 and 2025, and S$45 per tonne in 2026 and 2027, with a view to reaching S$50 to S$80 per tonne by 2030. The increases are paced between now and 2030 and any subsequent increases will be announced ahead of time to provide certainty for businesses.
- To support firms as they adjust to carbon tax increases and to manage the near-term impact on their competitiveness, a transition framework will be put in place in 2024. Under the framework, firms will be provided with allowances for a share of their emissions. The allowances will be determined based on efficiency standards and decarbonisation targets. This will help to mitigate the impact on business costs while still encouraging decarbonisation.
- From 2024, businesses will be allowed to use high-quality, international carbon credits to offset up to 5% of their taxable emissions, in lieu of paying carbon tax.

Key proposals

Jobs and Business Support Package

- The S$500m Jobs and Business Support Package will provide targeted help for workers and businesses in segments of the economy that are facing slower recoveries. The package consists of:
    - Small Business Recovery Grant to provide a one-off cash support to small businesses in sectors that were most affected by the COVID-19 Safe Management Measures in 2021.
        - Eligible firms will receive S$1,000 for each local employee with mandatory Central Provident Fund (CPF) contributions in the period from 1 November 2021 to 31 December 2021, up to a cap of S$10,000 per firm.
        - Sole proprietorships and partnerships that are run by at least one local business owner but do not hire any local employees will receive a flat payout of S$1,000, if the local business owner is earning a net trade income of no more than S$100,000, filed with the IRAS in the YA 2021 by 31 December 2021.
    - Jobs Growth Incentive, which provides salary support for employers to expand local hiring, will be extended by six months to September 2022, with stepped-down rates reflecting the improved labour market conditions. This extension will only cover mature workers aged 40 and above who have not been employed for six months or more, persons with disabilities, and ex-offenders.
- Targeted assistance for the aviation sector will be extended. This includes measures to ensure public health and safety at the airport, as well as to preserve core capabilities. More details will be released by the Ministry for Transport.

Key proposals

Strengthen local enterprises

- S$600m will be set aside to expand the range of available solutions under the Productivity Solutions Grant and push for greater take up of productivity solutions by small and medium-sized enterprises (SMEs).
- Launch of the Singapore Global Enterprises initiative to provide customised assistance to local enterprises to scale up and invest in overseas markets. Under this initiative, bespoke assistance tailored to the needs of promising local enterprises will be provided in areas such as innovation, internationalisation and fostering of partnerships with other firms.
- Launch of the Singapore Global Executive Programme to help local enterprises attract and nurture their next generation of leaders through industry and overseas attachments, mentorships and peer support networks.

Enhanced financing support

- The Temporary Bridging Loan Programme (TBLP) was introduced to provide enterprises with access to working capital during the COVID-19 pandemic. The TBLP will be extended for another six months to 30 September 2022, with revised parameters.
- The enhancement to the Enterprise Financing Scheme – Trade Loan introduced in April 2020 will be extended for another six months to 30 September 2022, with revised parameters.
- The enhancement to Enterprise Financing Scheme – Project Loan introduced in January 2021 will be extended for another year to 31 March 2023, with revised parameters.
- The Enterprise Financing Scheme – Merger & Acquisition Loan will be enhanced for four years, from 1 April 2022 to 31 March 2026, to include domestic merger & acquisition activities, with revised parameters.

Key proposals

Investing in digital capabilities

- From 1 April 2022, the Advanced Digital Solutions Scheme will be expanded to include solutions that leverage Artificial Intelligence (AI) and cloud technologies, to help enterprises improve operation efficiency and business decisions. Participating enterprises will receive up to 70% funding support for these solutions.
- From 1 April 2022, the Grow Digital Scheme will be expanded to include more pre-approved digital platforms, so that more businesses can internationalise without requiring an in-market presence. Participating enterprises will receive up to 70% funding support to onboard the business-to-business and business-to-consumer platforms.
- In the coming year, the TechSkills Accelerator (TeSA) will expand on several fronts to build a strong Singaporean core of info-communications technology talent, including partnering with industry leaders to grow product development teams in Singapore, expanding TeSA to SMEs and startups to provide more job opportunities for mid-career workers, and upskilling the current digital workforce to keep their skills relevant.

Encouraging enterprise and workforce transformation

- The SkillsFuture Enterprise Credit (SFEC) eligibility criteria have been adjusted to expand the coverage of SFEC for the qualifying period from 1 January 2021 to 31 December 2021. New eligible employers will be notified in April 2022. The deadline to claim the credit for all employers (including those that previously qualified) will be extended by one year to 30 June 2024, to give employers more time to plan and embark on transformation initiatives.

Key proposals

Support for mid-career workers

- The SkillsFuture Career Transition Programme will be launched to provide individuals with industry-oriented courses to secure employment in sectors with good hiring opportunities, with additional support of up to 95% of total course fees for eligible Singapore Citizens. The programme will commence from 1 April 2022 and will replace the SGUnited Skills and SGUnited Mid-Career Pathways - Company Training programmes, which will both expire on 31 March 2022.
- The SGUnited Mid-Career Pathways Programme - Company Attachment will provide trainees with training allowance of up to S$3,800 per month for the duration of the attachment, co-funded by the Government and host organisation.

Foreign workforce policies

- The minimum qualifying salary for Employment Pass (EP) will be raised from S$4,500 to S$5,000. For the financial services sector, this will be raised from S$5,000 to S$5,500. The changes will apply to new EP applications from 1 September 2022 and to renewal applications from 1 September 2023.
- The minimum qualifying salary for S Pass will be raised in three phases, starting with a revised minimum qualifying salary of S$3,000 (up to S$4,500 for a candidate in mid-40s). For the financial services sector, the revised minimum qualifying salary will be S$3,500 (up to S$5,500 for a candidate in mid-40s). The first-step increase will be on 1 September 2022 for new S Pass applications, and subsequently on 1 September 2023 and 1 September 2025. These changes will apply to renewal applications one year later (e.g., the increase for new applications from 1 September 2022 will only affect renewals from 1 September 2023 onwards).
- The Tier 1 S Pass foreign worker levy (FWL) rate will be progressively raised from S$330 to S$650 by 2025.
- The FWL rates for Work Permit Holders in the construction and process sectors will be adjusted from 1 January 2024. The Man-Year Entitlement framework in both sectors will also be dismantled.
- From 1 January 2024, the Dependency Ratio Ceiling for the construction and process sectors will be reduced from 87.5% to 83.3%.

Key proposals

Uplifting lower-wage workers

- The Progressive Wage Credit Scheme (PWCS) will be introduced to provide transitional support to employers by co-funding wage increases of lower-wage workers between 2022 and 2026. The average gross monthly wage increase must be at least S$100 to be eligible for the PWCS payout in each qualifying year.
- For resident lower-wage employees with gross monthly wages of up to S$2,500, the support will be provided from 2022 to 2026, with co-funding rate of 50% in the first two years, 30% in the next two years and tapering to 15% in 2026.
- For employees with gross monthly wages above S$2,500 and up to S$3,000, co-funding will be provided from 2022 to 2024, but at a lower ratio of 30% for the first two years, and 15% in 2024.

Senior worker CPF contribution rates

- From 1 January 2023, workers aged 55 to 70 will see a total increase of 1.5 to 2 percentage points in their CPF contribution rates, with employer's contribution increasing by 0.5 to 1 percentage point. There will be a one-year CPF Transition Offset of between 0.25 to 0.5 percentage point automatically provided to employers for the 2023 increases.

Key proposals

Supporting charities and encouraging philanthropy

- The Government will extend the Tote Board's Enhanced Fund-Raising Programme's dollar-for-dollar matching for eligible donations for another three years from FY 2022 to FY 2024, capped at S$250,000 per year per charity for eligible local charitable causes.
- Top-up of S$26m to the Charities Capability Fund, which provides grant support on training, consultancy, shared services, info-communications technology and collaboration. The scheme will also be extended for five years from FY 2022 to FY 2026.
- Top-up of S$150m to the Cultural Matching Fund, which encourages broad-based cultural philanthropy through the provision of dollar-for-dollar matching for private cash donations to eligible arts and heritage charities. The scheme will also be extended for three years from FY 2022 to FY 2024.
- The One Team Singapore Fund dollar-for-dollar matching grant, which matches eligible cash donations to support Team Singapore athletes, will be extended for five years from FY 2022 to FY 2026.

Others

- For cars with an open market value in excess of S$80,000, an additional tier of registration fee will be charged at 220% of the excess.

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