Singapore Budget 2023

Budget News Alert

Building a better working world

Introduction

Singapore stepped down its COVID-19 restrictions on 13 February 2023, a signal that the worst of the pandemic is behind us. Singapore is now ready to move forward in a new era, as set out by Deputy Prime Minister and Finance Minister Lawrence Wong in his Budget 2023 speech on 14 February 2023.

Budget 2023 contains many measures to help Singaporeans seize new opportunities, strengthen the social compact and give assurance to families. To encourage innovation, businesses will be able to enjoy tax deductions of up to 400% or partial cash payout on qualifying activities carried out under the new Enterprise Innovation Scheme. The Government also reaffirms its intention to implement Pillar 2 of the Base Erosion and Profit Shifting 2.0 project with effect from 2025.

Singapore is projected to grow at a slower pace of 0.5% to 2.5% for financial year 2023. However, should downside economic scenarios materialise, the Minister has indicated that there are "drawer plans" in place to take swift actions.

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

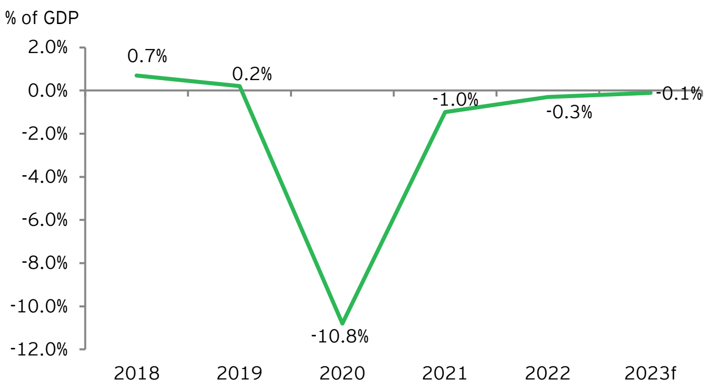
For further details on the tax measures, please refer to the EY Singapore Budget Synopsis 2023.

Soh Pui Ming
Head of Tax
14 February 2023

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

Economic indicators

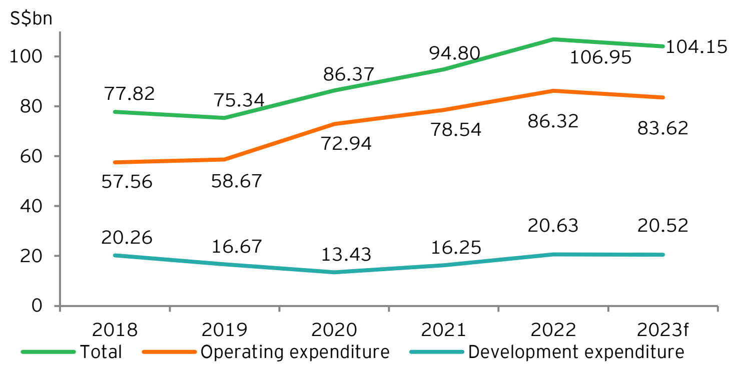
Budget surplus or deficit



For the financial year (FY) 2022, the Government expects an overall budget deficit of S$2bn or 0.3% of gross domestic product (GDP).

FY 2023 is also expected to be in deficit, but at a lower amount of S$0.4bn or 0.1% of GDP.

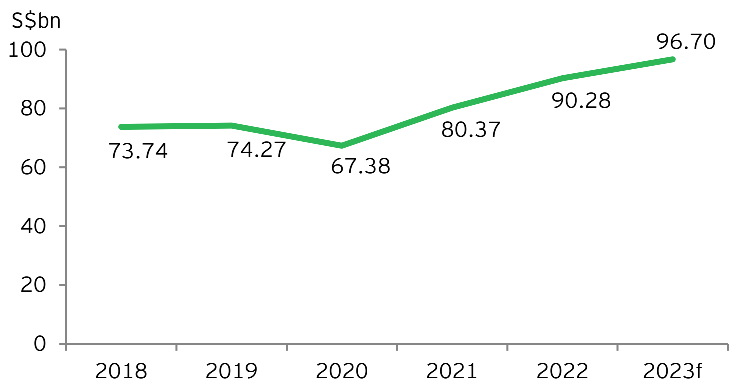
Government expenditure



Operating expenditure for FY 2023 is estimated to be S$83.62bn, which is S$2.7bn or 3.1% lower than the revised FY 2022 estimate.

Development expenditure is estimated to be S$20.5bn, which is S$0.11bn or 0.5% lower than the revised FY 2022 estimate.

Government operating revenue



The Government expects an increase in operating revenue for FY 2023. The operating revenue is estimated to be S$96.7bn, which is S$6.42bn or 7.1% higher than the revised FY 2022 estimate.

Notes:

- f = forecast
- The Government's financial year is from 1st April of the calendar year to 31st March of the following calendar year. FY2023 refers to the Financial Year 1st April 2023 to 31st March 2024.

Source:

- *Analysis of Revenue and Expenditure* distributed on Budget Day 14 February 2023.

Key proposals

Tax measures

Implementation of Global Anti-Base Erosion rules and Domestic Top-Up Tax

- In response to Pillar 2 of the Base Erosion and Profit Sharing (BEPS) 2.0 project, Singapore plans to implement the Global Anti-Base Erosion (GloBE) rules and Domestic Top-Up Tax (DTT) of 15% from businesses' FY 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 review and update its broad suite of industry development incentives to ensure that Singapore remains competitive in attracting and retaining investments.

Introduction of the Enterprise Innovation Scheme

- To encourage businesses to engage in R&D, innovation and capability development activities, the following tax measures will be enhanced or introduced under the Enterprise Innovation Scheme (EIS) from year of assessment (YA) 2024 to 2028:
    - Enhance the tax deduction to 400% for the first S$400,000 of staff costs and consumables incurred on qualifying R&D projects conducted in Singapore for each YA.
    - Enhance the tax deduction to 400% for the first S$400,000 of qualifying intellectual property (IP) registration costs incurred per YA.
    - Enhance the tax allowance or deduction to 400% for the first S$400,000 (combined cap) of qualifying expenditure incurred on the acquisition and licensing of IP rights per YA. This is only available to businesses that generate less than S$500mn in revenue in the relevant YA.
    - Enhance the tax deduction to 400% of qualifying training expenditure incurred on qualifying courses (i.e., courses that are eligible for SkillsFuture Singapore funding and aligned with Skills Framework) per YA.
    - Introduce a 400% tax deduction for up to S$50,000 of qualifying innovation expenditure incurred on qualifying innovation projects carried out with polytechnics, Institute of Technical Education and other qualified partners per YA.
    - Allow businesses to, in lieu of tax deductions or allowances, opt for a non-taxable cash payout at a cash conversion ratio of 20% on up to S$100,000 of total qualifying expenditure across all the abovementioned five categories of qualifying activities per YA. 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 Central Provident Fund (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.

Key proposals

Tax measures

Enhancement of the Double Tax Deduction for Internationalisation Scheme

- Under the Double Tax Deduction for Internationalisation (DTDi) 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.
- The scope of this scheme will be enhanced to include a new qualifying activity i.e., "e-commerce campaign", which will cover certain specified e-commerce campaign start-up expenses paid to e-commerce platform or service providers.
- Prior approval is required from Enterprise Singapore to enjoy DTDi on the new qualifying activity.
- The enhancement will take effect for qualifying e-commerce campaign startup expenses incurred on or after 15 February 2023.

Accelerated write-off for cost of acquiring plant and machinery

- Businesses that incur capital expenditure on the acquisition of plant and machinery (P&M) in the basis period for YA 2024 will have an irrevocable option to accelerate the write-off of the cost of acquiring such P&M over two years.
- The rate of accelerated write-off allowed are 75% and 25% of the cost incurred to be written off in the first and second year of claim respectively.

Accelerated deduction for renovation or refurbishment expenditure

- Businesses that incur capital expenditure on renovation or refurbishment (R&R) in the basis period for YA 2024 will have an irrevocable option to claim R&R deduction in one YA. The existing cap of S$300,000 for every relevant period of three consecutive YAs will apply.

Supporting charities and encouraging philanthropy

- The 250% tax deduction for qualifying donations made to Institutions of a Public Character (IPC) and other eligible institutions will be extended to 31 December 2026.
- The 250% tax deduction on qualifying expenditure incurred under the Corporate Volunteer Scheme will be extended to 31 December 2026. With effect from 1 January 2024, the scope of qualifying volunteering activities will be expanded and the cap on qualifying expenditure per IPC per calendar year will be doubled from S$50,000 to S$100,000.
- A tax incentive scheme will be introduced for qualifying donors with family offices operating in Singapore. Under the 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.

Key proposals

Tax measures

Extension and refinement of the following schemes

- Extension of sunset dates to YA 2028 for existing provisions relating to IP and R&D costs
  - Section 14A – deduction for costs of protecting IP
  - Section 14C – deduction for qualifying expenditure for R&D
  - Section 14D – enhanced deduction for qualifying expenditure for R&D
  - Section 14U – enhanced deduction for expenditure on licensing IP rights
  - Section 19B – writing down allowances for capital expenditure on acquiring IP rights
- The Investment Allowance (IA) Scheme, which provides an additional tax allowance for businesses that incur qualifying fixed capital expenditure on approved projects, will be extended to 31 December 2028.
- Businesses can enjoy 100% IA support on the amount of approved qualifying capital expenditure, net of grants, for automation projects approved by Enterprise Singapore. The IA-100% Scheme will be extended until 31 March 2026.
- To continue encouraging companies to anchor and grow strategic high value-added manufacturing and service activities in Singapore, the Pioneer Certificate Incentive and Development and Expansion Incentive will be extended until 31 December 2028.
- The IP Development Incentive (IDI) aims to support companies that use and commercialise IP rights arising from R&D in Singapore with a concessionary tax rate of 5% or 10% on a percentage of qualifying income. The IDI will be extended until 31 December 2028.
- The following three tax measures relating to submarine cable systems will be extended until 31 December 2028:
  - Withholding tax exemption on payments made to non-residents for use of international telecommunications submarine cable capacity under indefeasible right to use (IRU) agreements
  - Writing down allowances for the acquisition of an IRU over their useful life
  - IA for the construction and operation of submarine cable systems in Singapore
- The Insurance Business Development – Insurance Broking Scheme grants approved insurance and reinsurance brokers a concessionary tax rate of 10% on commission and fee income derived from insurance banking and advisory services. The scheme will be extended until 31 December 2028.

Key proposals

Tax measures

Extension and refinement of the following schemes

- The Financial Sector Incentive (FSI) Scheme accords concessionary tax rates of 5%, 10%, 12% and 13.5% on income from qualifying banking and financial activities, headquarters and corporate services, fund managing and investment advisory services. The FSI scheme will be extended until 31 December 2028, with a streamlining of the multi-tier tax rates to two tiers of 10% and 13.5% for new and renewal awards approved on or after 1 January 2024. The qualifying activities will also be updated to remain relevant.
- The tax exemption on income derived by primary dealers from trading in Singapore Government Securities will be extended until 31 December 2028.
- The Qualifying Debt Securities (QDS) Scheme offers a 10% concessionary tax rate for qualifying companies and bodies of persons in Singapore, as well as a tax exemption for qualifying non-residents and qualifying individuals. The scheme will be extended until 31 December 2028. The scope of qualifying income under the QDS Scheme will be streamlined and clarified to include all payments in relation to early redemption of a QDS. The requirement that the QDS has to be substantially arranged in Singapore will also be rationalised.
- The Approved Special Purpose Vehicle (ASPV) Scheme that grants tax concessions to an ASPV engaged in asset securitisation transactions will be extended to 31 December 2028. A new sub-scheme named ASPV (Covered Bonds) will be introduced with effect from 15 February 2023 to 31 December 2028.
- The tax concession for deduction of general provisions for doubtful debts and regulatory loss allowances made in respect of non-credit impaired financial instruments for banks (including merchant banks) and qualifying finance companies will be extended until YA 2029 (for those with a 31 December financial year end) or YA 2030 (for those with a non-31 December financial year end).

Withdrawal of tax deduction for expenditure incurred on building modifications for benefit of disabled employees

- The scheme was first introduced in 1989 and has become less relevant over the years. Other support schemes have been introduced since then to help employers recruit and retain disabled employees. This scheme will be withdrawn from 15 February 2023.

Key proposals

Tax measures

Personal income tax

- The Working Mother's Child Relief (WMCR) will be changed from a percentage of an eligible working mother's earned income to a fixed dollar tax relief, as follows:

Child order	WMCR amount for a qualifying Singapore citizen child born or adopted on or after 1 January 2024
1st	S$8,000
2nd	S$10,000
3rd and beyond	S$12,000

- With effect from YA 2024, working mothers will be able to claim Grandparent Caregiver Relief in respect of caregivers who have trade, business, profession, vocation and/or employment income, as long as the caregivers' total income from these activities does not exceed S$4,000 in the year preceding the YA of claim.

Buyer's Stamp Duty

- The Buyer's Stamp Duty (BSD) rates for higher-value residential and non-residential properties will be raised for all properties acquired on or after 15 February 2023.
  - For residential properties, a new marginal BSD rate of:
    a) 5% will apply to the portion of the property value in excess of S$1.5mn and up to S$3mn.
    b) 6% will apply to the portion of the property value in excess of S$3mn.
  - For non-residential properties, a new marginal BSD rate of:
    a) 4% will apply to the portion of the property value in excess of S$1mn and up to S$1.5mn.
    b) 5% will apply to the portion of the property value in excess of S$1.5mn.

Key proposals

Others

- The Government will raise the CPF monthly salary ceiling from S$6,000 to S$8,000 by 2026. The increase will take place in four steps from 1 September 2023 to 1 January 2026.
- The Additional Registration Fee (ARF) for cars, taxis, and goods-cum-passenger vehicles will be increased. Vehicles with Open Market Value (OMV) of more than S$40,000 will have to pay ARF of between 190% to 320% of OMV. The new ARF structure will apply to all new and imported used vehicles with Certificates of Entitlement (COEs) obtained from the second COE bidding exercise in February 2023 onwards. For vehicles that do not need to bid for COEs (e.g., taxis), the new rates will apply for those registered on or after 15 February 2023.
- The Preferential Additional Registration Fee (PARF) rebates will be capped at S$60,000, for vehicles that are registered with COEs obtained from the second bidding exercise in February 2023 onwards. For cars that do not need to bid for COEs (e.g., taxis), the PARF rebate cap will apply to those that are registered on or after 15 February 2023.
- The excise duties for tobacco products will be increased by 15%, with effect from 14 February 2023.

Key proposals

Support for businesses, workers and families

- Extension of the current enhancements to the Enterprise Financing Scheme for another year until 31 March 2024. This includes the 70% government risk-share for trade loans, the enhanced maximum quantum for trade and working capital loans, and support for domestic construction projects via project loans.
- Extension of the Energy Efficient Grant for one year until 31 March 2024 to provide continued support for businesses in the food services, food manufacturing and retail sectors to invest in energy efficiency.
- Topping up of the National Productivity Fund with S$4bn, with an expansion in the scope of the fund to include investment promotion.
- Setting aside an additional S$150mn via the Small and Medium Enterprise (SME) Co-Investment Fund to invest in promising SMEs, with an aim to catalyse an additional S$300mn of private investments to support the SMEs.
- Setting aside S$1bn to provide a further boost to the Singapore Global Enterprises initiative to help promising companies grow into globally leading enterprises.
- Extension of the Senior Employment Credit until 2025 to continue to provide wage offsets to employers that hire senior workers.
- Extension of the Part-time Re-employment Grant until 2025 to encourage employers to offer part-time re-employment, other flexible work arrangements, and structured career planning to senior workers.
- Enhancement of the Enabling Employment Credit to cover a larger proportion of wages and a longer duration for persons with disabilities who have not been working for at least six months.
- Introduction of a new Uplifting Employment Credit in the form of a time-limited wage offset to encourage firms to employ ex-offenders.
- The Progressive Wage Credit Scheme (PWCS) co-funding support by the Government will be increased by 15% to 25% for wage increases in the qualifying year 2023. The enhanced 2023 co-funding support will also apply to wage increases given in the qualifying year 2022 and sustained in 2023.
- The Government had previously announced that the CPF contribution rates would be raised gradually for Singaporean and Permanent Resident workers aged above 55 to 70. The Government will now provide employers with a one-year CPF Transition Offset equivalent to half of the 2024 increase in employer CPF contribution rates for these workers.

Key proposals

Support for businesses, workers and families

- The Government will introduce the Platform Worker (PW) CPF Transition Support (PCTS) to provide support for lower-income PWs during the phase-in period. The PCTS will offset part of the PW's share of the year-on-year increase in CPF contribution rates from years one to four.
- The Government-paid paternity leave will be increased from two weeks to four weeks on a voluntary basis for eligible working fathers with Singaporean children born on or after 1 January 2024.
- The unpaid infant care leave will be extended by six days per parent per year (such that each parent can take up to 12 days per year in the child's first two years) from 1 January 2024 for eligible parents with Singaporean children aged under two.

Contact us

Head of Tax

Soh Pui Ming
pui.ming.soh@sg.ey.com

Business Tax Services

Desmond Teo
desmond.teo@sg.ey.com

Global Compliance and Reporting

Chai Wai Fook
wai-fook.chai@sg.ey.com

Indirect Tax

Yeo Kai Eng
kai.eng.yeo@sg.ey.com

International Tax and Transaction Services

International Corporate Tax Advisory
Florence Loh
florence.loh@sg.ey.com

Transfer Pricing
Luis Coronado
luis.coronado@sg.ey.com

Transaction Tax Advisory
Darryl Kinneally
darryl.kinneally@sg.ey.com

People Advisory Services

Panneer Selvam
panneer.selvam@sg.ey.com

Financial Services Organisation

Stephen Bruce
stephen.bruce@sg.ey.com

Legal Services

(provided by Atlas Asia Law Corporation,
an independent member firm of the global EY network)

Kenneth Cheow
Atlas Asia Law Corporation
kenneth.cheow@atlasasialaw.com.sg

Partners listed here are from Ernst & Young Solutions LLP unless otherwise stated

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

APAC no. 12003103
ED None

ey.com