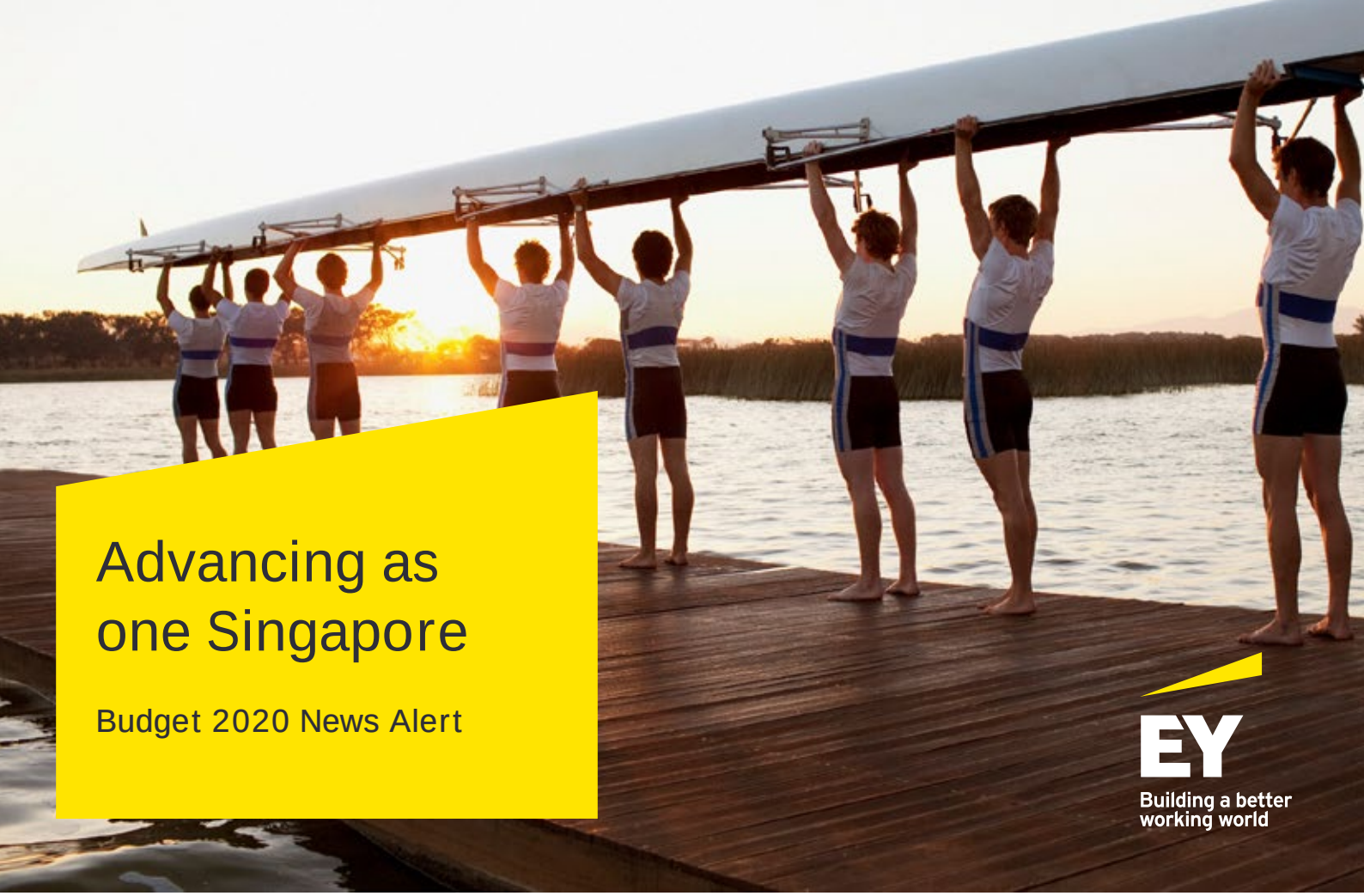

Advancing as one Singapore

Budget 2020 News Alert

Building a better working world

At a glance

- Budget 2020 is an expansionary budget with an overall projected deficit of S$10.9b, equating to 2.1% of GDP
- It includes an amount of S$5.6b set aside for temporary measures to support businesses, workers and families
- S$8.3b to execute Transformation and Growth strategy in providing continued support to SMEs

The Minister for Finance, Mr. Heng Swee Keat, delivered the Singapore Budget for financial year (FY) 1 April 2020 to 31 March 2021 in Parliament on 18 February 2020.

Singapore's economy grew by 0.7% in 2019, the lowest in a decade. With the COVID-19 virus outbreak and ensuing impact on global economies as well as continued structural shifts around the world, the Ministry of Trade and Industry has downgraded the year 2020's growth forecast from between 0.5% and 2.5% to between -0.5% and 1.5%.

Budget 2020 introduces temporary measures, including a S$4b Stabilisation and Support Package aimed at providing support to workers and enterprises to allay their immediate concerns regarding the slowdown in the economy, as well as a S$1.6b Care and Support Package to help families and households with the cost of living.

Budget 2020 also aims to prepare Singapore to seize new opportunities amid broader short-term uncertainties and longer-term structural changes, and continue her march towards becoming a Global-Asia node of technology, innovation and enterprise.

This alert summarises the key tax measures impacting businesses. For further details, please refer to the EY Singapore Budget Synopsis 2020.

Temporary measures to address immediate challenges

1. *Corporate income tax (CIT) rebate:* To help companies with cash flow, a CIT rebate of 25% of tax payable, capped at S$15,000, will be granted for the Year of Assessment (YA) 2020.

2. *Property tax (PT) rebate for affected sectors, such as hotels and serviced apartments, cruise and ferry terminals, events and exhibition centres, and the integrated resorts:* The PT rebate is 30%, 15% or 10% of the PT payable depending on the type of qualifying properties. Details will be released by end February 2020.

3. *Automatic extension of interest-free instalments of two months for payment of CIT on estimated chargeable income (ECI).*

4. *Carry back of unabsorbed capital allowances (CA) and trade losses (collectively referred to as qualifying deduction):* Carry back of qualifying deductions for YA 2020 to be extended to three immediate preceding YAs (from the current one year) capped at S$100,000 of qualifying deductions.

5. *Option to accelerate the CA claim for plant and machinery (P&M) acquired in FY 2020:* 75% of the cost in the first year, and 25% of the cost in the second year.

6. *Option to accelerate the deduction of expenses incurred in FY 2020 on renovation and refurbishment (R&R):* Deduction in one YA instead of the current three consecutive YAs.

Encouraging growth and internationalisation

7. *Double Tax Deduction for Internationalisation (DTDi) scheme:* To continue encouraging internationalisation, the DTDi scheme will be extended until 31 December 2025. In addition, the scope of the DTDi scheme will be enhanced to cover third-party consultancy costs relating to new overseas business development to identify suitable talent and build up business network and new categories of expenses incurred for overseas business missions.

8. *Mergers and Acquisition (M&A) scheme:* To continue encouraging companies to consider M&A as a strategy for growth and internationalisation, the M&A scheme will be extended to cover qualifying acquisitions made on or before 31 December 2025. However, the stamp duty relief under this scheme will lapse on or after 1 April 2020.

9. *Non-taxation of gains on disposal of ordinary shares:* To provide upfront certainty to companies in their corporate restructuring, the scheme under section 13Z of the Income Tax Act (ITA) will be extended to 31 December 2027. To ensure consistency in the tax treatment for property-related business, the scheme will not apply to disposals of unlisted shares in an investee company that is in the business of trading, holding or developing immovable properties in Singapore or abroad. The change will apply to shares disposed on or after 1 June 2022. All other conditions and exclusions of the scheme will remain.

Strengthening resilience and competitiveness of the tax system

10. *CA claims to be streamlined:* To simplify CA claims under section 19 of the ITA, the prescribed working life of P&M in the Sixth Schedule will be streamlined from the current annual allowance rate of 5, 6, 8, 10, 12 or 16 years. Businesses claiming annual allowance under section 19 of the ITA may make an irrevocable election to write down their P&M over 6, 12 or 16 years depending on the current prescribed working life of the P&M.

11. *Tax treatment of expenditures funded by capital grants:* For capital grants approved on or after 1 January 2021, recipients will not be allowed to claim tax deductions or allowances on that part of the expenditures that are funded by such grants from the Government or statutory boards.

12. The schemes that will be extended, refined and/or enhanced or allowed to lapse include:

    a) Insurance Business Development (IBD) scheme and IBD-Captive Insurance scheme will be extended until 31 December 2025. The IBD-Marine Hull and Liability Insurance Business (IBD-MHL) scheme will lapse after 31 March 2020. Insurers engaged in the MHL insurance and reinsurance business will be incentivised under the IBD scheme.
    b) Maritime Sector Incentive (MSI) scheme will be extended until 31 December 2026, coupled with changes to the scope of income coverage, but the stamp duty remission under the scheme will lapse for instruments executed on or after 1 June 2021.
    c) Withholding tax (WHT) exemption for interest on margin deposits, which is part of a range of WHT exemptions granted for the financial sector up until 31 December 2022, will be enhanced to cover additional covered entities and covered products.
    d) Finance and Treasury Centre scheme will be extended until 31 December 2026, with minor enhancements.
    e) Global Trade Programme (GTP) will be extended until 31 December 2026, with minor refinements. The GTP (Structured Commodity Financing) will lapse after 31 March 2021 and the qualifying activities will be subsumed under GTP.
    f) Tax incentives for venture capital funds under section 13H of the ITA and venture capital fund management companies under section 43ZG of the ITA will be extended until 31 December 2025, together with the introduction of certain refinements.
    g) Land Intensification Allowance scheme, which is scheduled to lapse after 30 June 2020, will be extended until 31 December 2025.
    h) Writing-down allowance scheme for acquisition of an Indefeasible Right of Use under section 19D of the ITA will be extended until 31 December 2025.
    i) Further tax deduction scheme for research and development (R&D) expenditure under section 14E of the ITA will lapse after 31 March 2020. Businesses can consider other broad-based tax deductions for R&D conducted in Singapore or other various non-tax schemes for R&D and innovation.
    j) Angel Investors Tax Deduction (AITD) scheme will lapse after 31 March 2020. With the lapsing of AITD, Singapore-based startups can access funding through other government schemes such as the Startup SG programme.

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