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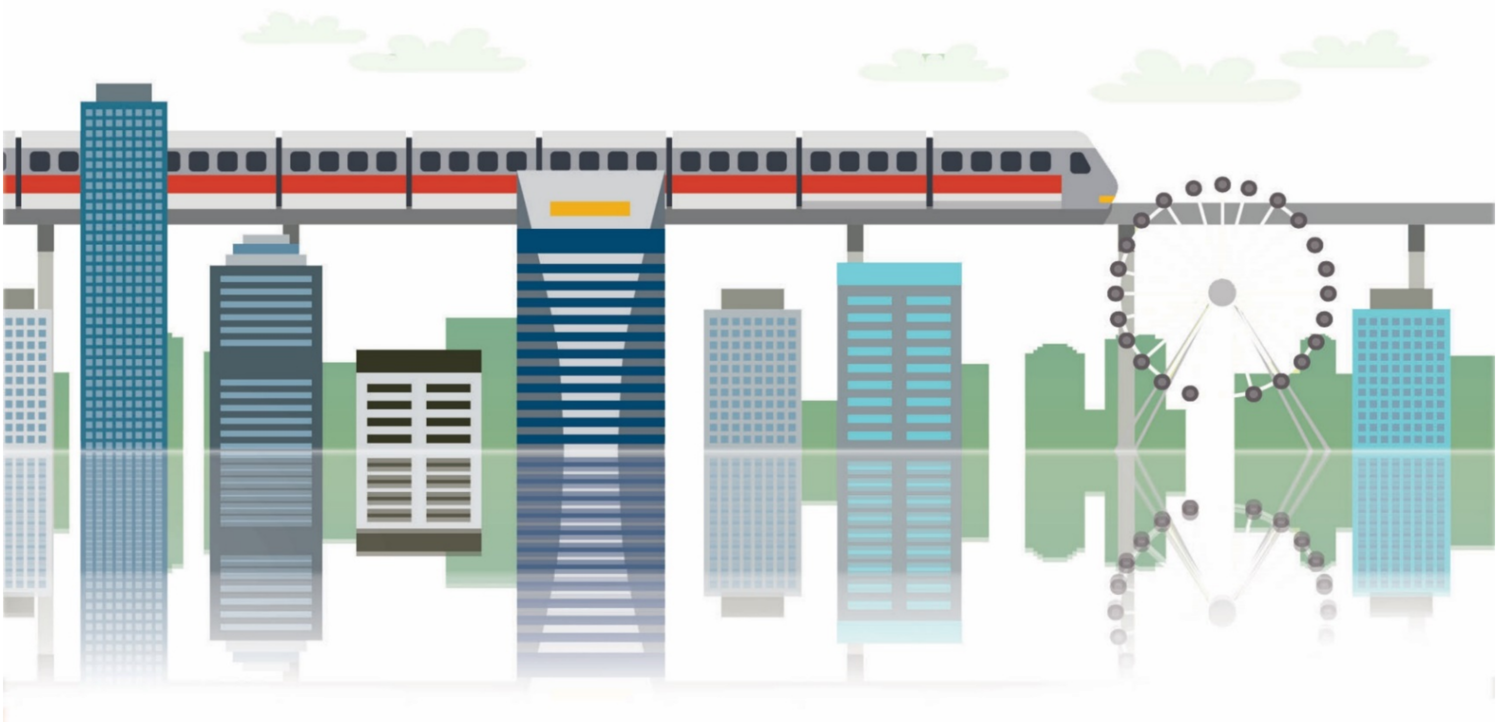

Singapore Budget 2021 Special

Tax Alert

March 2021

A summary of the tax and other changes announced on 16 February 2021.

Companies and Businesses

1. Corporate tax rate

No changes were made to the corporate tax rate which still remains at 17%.

2. Corporate income tax rebate ("CIT rebate")

Year of Assessment ("YA") 2021

- No CIT rebate

3. Extending the YA 2020 enhancements to the carry-back relief scheme

To continue providing support to businesses, the enhanced carry-back relief scheme will be extended to apply to qualifying deductions for YA 2021, with the same parameters (i.e. YA 2021 qualifying deductions may be carried back up to 3 immediate preceding YAs, capped at $100,000 of qualifying deductions and subject to conditions).

4. Extending the option to accelerate the write-off of the cost of acquiring plant and machinery

To continue providing support to businesses, the option to accelerate the write-off of the cost incurred in acquiring the asset will be extended to capital expenditure incurred on the acquisition of asset in the basis period for YA 2022, with the same parameters.

The rates of accelerated capital allowance allowed are as follows:

(a) 75% of the cost incurred to be written off in the first year (i.e. YA 2022); and
(b) 25% of the cost incurred to be written off in the second year (i.e. YA 2023).

If exercised, this option is irrevocable. No deferment of capital allowance claim is allowed under this option.

5. Extending the option to accelerate the deduction of expenses incurred on renovation and refurbishment ("R&R")

To continue providing support to businesses, the option to claim R&R deduction in one year (i.e. accelerated R&R deduction) will be extended to qualifying R&R expenditure incurred during the basis period for YA 2022, with the same parameters.

The cap of $300,000 for every relevant period of 3 consecutive YAs will still apply. If exercised, this option is irrevocable.

6. Enhancing the Double Tax Deduction for Internationalisation ("DTDi") scheme

To continue supporting internationalisation efforts of businesses amid changes in the business environment, the scope of the DTDi scheme will be enhanced to cover the following specified expenses incurred in approved virtual trade fairs:-

(a) Package fees charged by event organisers for virtual exhibition hall and booth access, collateral creation, business meeting/match sessions, pitches/product launches/speaking slots, webinar/conference, and post event analytics;
(b) Third-party costs for design and production of digital collaterals and promotion materials for virtual fairs; and
(c) Logistics costs incurred to send materials/samples overseas to potential clients met at virtual trade fairs

The list of qualifying expenses for overseas investment study trips will also be expanded to include logistics costs to transport materials/samples used during the investment trips.

In addition, the scope of qualifying activities which do not require prior approval from Enterprise Singapore or STB will be enhanced to cover the following additional activities, up to the current annual expense cap of $150,000:

(a) Product/service certification (primarily to increase buyer's acceptance in overseas market) approved by Enterprise Singapore;
(b) Overseas advertising and promotional campaign;
(c) Design of packaging for overseas markets;
(d) Advertising in approved local trade publication; and
(e) Participation in virtual trade fairs approved by Enterprise Singapore.

The above enhancements will take effect for qualifying expenses incurred on or after 17 February 2021. Enterprise Singapore will provide further details of the changes by 28 February 2021.

The DTDi scheme is scheduled to lapse after 31 December 2025.

7. Extending the Business and IPC Partnership Scheme ("BIPS")

To continue supporting corporate volunteering, BIPS will be extended till 31 December 2023.

Businesses may claim 250% tax deduction on qualifying expenditure incurred from 1 July 2016 to 31 December 2023 when they send their employees to volunteer and provide services, including secondments, to Institutions of a Public Character ("IPCs").

The qualifying expenditure includes basic wages and other related expenditure incurred by the business that were necessary for the provision of services to the IPC (which must be incurred because of the volunteers' services; not be reimbursed by the IPC and not of private or capital in nature).

From 2 December 2019, qualifying businesses are also allowed to claim tax deduction on wages of part-time employees who volunteer with IPCs under BIPS. In addition, there is an option for businesses to claim tax deduction on wage expenditure based on fixed hourly rates in lieu of actual salary, at $10 per hour for general volunteering and $20 per hour for skills-based volunteering. Skills-based volunteering refers to services which necessitate a qualifying employee to apply work-related expertise, as required by the IPC.

The qualifying expenditure is subject to a cap of $250,000 per business per YA. A qualifying expenditure cap of $50,000 is also imposed on each IPC per calendar year.

8. Extending the Not-for-Profit Organisation ("NPO") tax incentive

To continue attracting NPOs to Singapore, the NPO tax incentive will be extended till 31 December 2027.

9. Allowing the Automation Support Package ("ASP") to lapse, but retaining the 100% Investment Allowance ("IA") scheme to support automation

The ASP was introduced in Budget 2016 to support businesses to automate, drive productivity, and scale up. The ASP will lapse after 31 March 2021.

Schemes including the Enterprise Development Grant, IA scheme, and the Enterprise Financing Scheme will continue to be available to support businesses in their automation, productivity and scale-up efforts.

The 100% IA scheme to support automation will be extended by two years, for automation projects approved by Enterprise Singapore from 1 April 2021 to 31 March 2023. All other conditions of the scheme remain the same.

10. Extending and enhancing the Investment Allowance (Energy Efficiency) ("IA-EE") scheme

The scheme provides for investment allowance for EE improvement projects, subject to conditions.

The IA-EE scheme will be renamed the "Investment Allowance for Emissions Reduction" scheme, with the following revisions:

(a) Expansion in the scope of qualifying projects to include projects involving a reduction of greenhouse gas emissions; and
(b) Streamlined and updated eligibility conditions. These will apply to all projects (i.e. there will no longer be a distinction between data centres and non-data centres).

The revised conditions will apply to projects approved by EDB from 1 April 2021 to 31 December 2026 (both dates inclusive).

11. Withdrawing the Accelerated Depreciation Allowances for Highly Efficient Pollution Control Equipment ("ADA-PCE") scheme

The ADA-PCE scheme was introduced in Budget 1996 to encourage businesses to purchase and install clean technologies to improve air quality in Singapore.

Under the scheme, a taxpayer who incurs capital expenditure to install qualifying highly efficient PCE can accelerate the write-off of the cost of acquiring such equipment over one year.

The ADA-PCE scheme will be withdrawn from 17 February 2021.

12. Extending the 250% Tax Deduction for Qualifying Donations

Donors are eligible for a 250% tax deduction for qualifying donations made to IPCs and other qualifying recipients from 1 January 2016 to 31 December 2021.

To continue encouraging Singaporeans to give back to the community, the 250% tax deduction will be extended to cover qualifying donations made from 1 January 2022 to 31 December 2023. All other conditions of the scheme will remain the same.

13. Extending and refining the double tax deduction ("DTD") for qualifying upfront cost attributable to retail bonds issued under MAS' Seasoning Framework and Exempt Bond Issuer Framework

To promote rated retail bond issuances, the DTD scheme will be extended for qualifying upfront cost 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 (both dates inclusive) under the Seasoning Framework and Exempt Bond Issuer Framework. The refinement of the DTD scheme seeks to provide investors with access to rated retail bonds.

All other conditions of the DTD scheme remain the same. The Monetary Authority of Singapore (MAS) will provide further details of the changes by 31 May 2021.

14. Extending and rationalising the withholding tax ("WHT") exemptions for the financial sector

To support Singapore's value proposition and competitiveness of our financial sector, the following changes will be made:

(a) The existing WHT remission for interbank / interbranch transactions will be legislated as a WHT exemption with effect from 1 April 2021, along with a review date of 31 December 2031.

Under this WHT exemption, all section 12(6) payments made by banks in Singapore for the purpose of their trade or business, to their branches / head offices outside Singapore or other banks outside Singapore will be exempt from tax where such payments:

(i) are made during the period from 1 April 2021 to 31 December 2023 (both dates inclusive) under a contract that takes effect before 1 April 2021; or

(ii) are made under a contract that takes effect during the period from 1 April 2021 to 31 December 2023 (both dates inclusive). In such cases, the WHT exemption will apply to the entire duration of the contract, including payments that are made beyond 31 December 2031 under that contract.

(b) The WHT exemption will be extended till 31 December 2026. All other conditions of the WHT exemption remain the same.

All Section 12(6) payments made to any non-resident person (excluding any Permanent Establishment ("PE") in Singapore) by the specified entities, for the purpose of the specified entities' trade or business, are exempt from tax where such payments:

(i) are made during the period from 1 April 2011 to 31 December 2026 (both dates inclusive) under a contract that took effect before 1 April 2011; or

(ii) are made under a contract that takes effect during the period from 1 April 2011 to 31 December 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the contract, including payments that are made beyond 31 December 2026 under that contract.

(c) The WHT exemption will be extended until 31 December 2026. All other conditions of the WHT exemption remain the same.

Specified entities are not required to withhold tax on all Section 12(6) payments made to any PE in Singapore if the payments:

(i) are made during the period from 17 February 2012 to 31 December 2026 (both dates inclusive) under a contract that took effect before 17 February 2012; or

(ii) are made under a contract that takes effect during the period from 17 February 2012 to 31 December 2026 (both dates inclusive). In such cases, the specified entities do not need to withhold tax on all Section 12(6) payments that are made for the entire duration of the contract, including payments that are made beyond 31 December 2026 under that contract.

As per the existing tax treatment, the PEs in Singapore are required to declare the Section 12(6) payments that they received in their annual income tax returns and are assessed to tax on such payments (unless the payments are specifically exempt from tax).

The MAS will release further details of all changes by 31 May 2021.

15. Extending the WHT exemption on payments made for structured products

To support Singapore's value proposition and competitiveness of our financial sector, the WHT exemption will be extended for another five years and will cover payments made under a contract that takes effect during the period from 1 January 2007 to 31 December 2026 (both dates inclusive).

All other conditions of the WHT exemption remain the same. The MAS will release further details of the changes by 31 May 2021.

16. Extending the WHT exemption on payments for over-the-counter ("OTC") financial derivatives

The WHT exemption will be exempted for another five years until 31 December 2026.

All other conditions of the WHT exemption remain the same.

All payments on OTC financial derivatives made by a Singapore financial institution to any non-resident person (excluding any PE in Singapore) are exempt from WHT, where such payments:

a) are made during the period from 20 May 2007 to 31 December 2026 (both dates inclusive) under a contract that took effect before 15 February 2007; or
b) are made under a contract that takes effect during the period from 15 February 2007 to 31 December 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the OTC financial derivatives contract, including payments that are made beyond 31 December 2026 under that contract.

The MAS will release further details of the changes by 31 May 2021.

Individuals

17. Personal income tax rates

No changes have been proposed for the Personal Income Tax rates. There was also no Personal Income Tax rebate announced.

18. Household support package

- $200 additional one-off GST Voucher – Cash Special Payment for all eligible Singaporeans
- $120 - $200 in GST Voucher – U-Save Special Payment for eligible HDB households
- Extended Service and Conservancy Charges ("S&CC") Rebate for all eligible households for another year, to offset between 1.5 to 3.5 months of charges
- $200 additional one-off top-up per Singaporean child through CDA, Edusave, or PSEA, for families with children below the age of 21
- $100 CDC Vouchers for each Singaporean household, to be used at participating heartland shops and hawker centres

Goods and Services Tax ("GST")

19. GST rate hike

The GST rate hike from 7% to 9% will not take place in 2021, but will take place some time during 2022 and 2025, and sooner rather than later, depending on the nation's economic outlook.

20. Extending the GST to goods imported via air or post that are valued up to (and including) the current GST import relief threshold of $400 ("low-value goods")

GST will be extended to low-value goods which are imported via air or post. This will be effected via the Overseas Vendor Registration and reverse charge regimes. GST is already and will continue to be collected on goods imported via land or sea, regardless of value.

This change will take effect from 1 January 2023. The IRAS will consult the affected industries before finalising the implementation details.

21. Extending the GST to business-to consumer ("B2C") imported non-digital services

GST will be extended to B2C imported non-digital services (such as live interaction with overseas providers of educational learning, fitness training, counselling and telemedicine). This will be effected via the Overseas Vendor Registration regime.

This change will take effect from 1 January 2023. The IRAS will consult the affected industries before finalising the implementation details.

22. Changing of the basis for determining whether zero-rating applies to a supply of media sales

The basis for determining whether zero-rating applies to a supply of media sales will be updated, to be based on the place where the customer (i.e. the contractual customer) and direct beneficiary of the service belong:

a) If the customer of the service belongs outside Singapore and the direct beneficiary either belongs outside Singapore or is GST-registered in Singapore, the media sales will be zero-rated; and
b) If the customer belongs in Singapore, the media sales will be standard-rated.

This change will take effect for the supply of media sales on or after 1 January 2022.

Others

23. Extending the Jobs Support Scheme ("JSS")

JSS will be extended to the following:

- Tier 1 sectors (Aviation, Aerospace and Tourism) covering 30% for wages from April to June 2021, and 10% for wages paid from July to September 2021
- Tier 2 sectors (such as Retail, Arts and Culture, Food Services and Built Environment) covering 10% for wages paid from April to June 2021
- Firms in other sectors until March 2021

24. Extending the Wage Credit Scheme ("WCS")

WCS is extended by one year to 2021, with the government co-funding ratio at 15% and the qualifying gross wage ceiling at $5,000.

Gross monthly wage increases (at least $50) previously given in 2019 and 2020 by the same employer will continue to be co-funded if they are sustained in 2020 and 2021.

25. Extending the Jobs Growth Incentive ("JGI")

JGI will be extended by seven months. With this extension, eligible companies that hire locals between March 2021 and end-September 2021 will receive wage support as follows:

- For non-mature locals, up to 12 months based on 25% of the first $5,000 of gross monthly income, from the month of hire.
- For mature workers (aged 40 & above), persons with disabilities and ex-offenders, up to 18 months (12 months previously) based on 50% of the first $6,000 ($5,000 previously) of gross monthly income. Eligible companies that had hired such locals between September 2020 and February 2021 will enjoy the enhanced support from March 2021.

26. Enhancing the Electric Vehicle ("EV") Early Adoption Incentive ("EEAI") and Road Tax Reduction for Electric Car

Currently, motorists enjoy 45% rebate off the Additional Registration Fee ("ARF") for electric cars and taxis from January 2021 to December 2023 at a cap of $20,000, with an ARF floor of $5,000.

The proposed enhancement allows for motorists to enjoy 45% rebate off the ARF for electric cars and taxis from January 2022 to December 2023 at a cap of $20,000, with an ARF floor of $0.

27. Revising of petrol duty rates and transitional offset measures for vehicles using petrol

Petrol duty rates have been raised on 16 February 2021 as follows:

(i) For premium petrol, the duty was raised by 15 cents per litre
(ii) For intermediate petrol, the duty was raised by 10 cents per litre

To ease the transition to the revised petrol duty rates, a road tax rebate will be provided for petrol and petrol-hybrid vehicles at the following rates for one year:

- 15% for cars, including taxis and private hire cars ("PHCs");
- 60% for motorcycles; and
- 100% for commercial vehicles

The road tax rebate will be effective from 1 August 2021 to 31 July 2022.

On top of the 15% road tax rebate, active drivers of taxis and PHCs using petrol will receive an additional Petrol Duty Rebate of $360 to be paid out over 4 months in view of their higher mileage.

On top of the 60% road tax rebate, individual owners of motorcycles using petrol, registered as at 16 February 2021, with the following engine capacity will receive an additional Petrol Duty Rebate:

- Petrol duty rebate of $80 for engine capacity of motorcycle less than 200cc
- Petrol duty rebate of $50 for engine capacity of motorcycle between 201 to 400cc

LTA will release further details on the additional Petrol Duty Rebates for taxi and PHC drivers, and individual motorcycle owners in April 2021.

28. Reducing the S Pass Sub-Dependency Ratio Ceiling ("DRC") and Foreign worker levy ("FWL") rates

To encourage the manufacturing sector to develop a strong, highly skilled local core in their workforce and to moderate further the reliance on foreign workers, the S Pass sub-DRC will be reduced in two steps for the Manufacturing sector starting from 1 January 2022.

- Reduce the S Pass sub-DRC from 20% to 18% from 1 January 2022
- Further reduce the S Pass sub-DRC from 18% to 15% from 1 January 2023

Firms in the manufacturing sector that have exceeded the revised sub-DRC will not be able to hire or renew the S Passes of their foreign employees. However, they can retain excess S Pass holders until the expiry of the work passes to minimise business disruptions.

FWL rates will remain unchanged for all sectors. The earlier-announced FWL rate increase for the Marine Shipyard and Process sectors will be deferred for another year.

Contact us

If you need assistance or advice on the above, we are here to assist you.

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