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Singapore Budget 2020 – Relief from global uncertainty, growing the future economy

Budget 2020 was delivered by Deputy Prime Minister and Minister for Finance, Mr Heng Swee Keat, to the Singapore Parliament on 18 February 2020.

Known as the Unity Budget, Budget 2020 focused on: (a) ensuring that Singapore remains business competitive; (b) preserving jobs and helping businesses to mitigate the economic slowdown resulting from the twin effects of COVID-19 and the US-China trade war; and (c) laying the groundwork for future industries and businesses.

Key fiscal measures in Budget 2020 are as follow.

A. ENSURING RESILIENCE AND COMPETITIVENESS OF THE TAX SYSTEM

To ensure that Singapore continues to have a tax system that encourages businesses to be competitive, Budget 2020 introduces the following measures.

1.	*Extension and enhancement of the Double Tax Deduction for Internationalisation ("DTDI") scheme*	Under the existing DTDI scheme, a business can take a 200% deduction on qualifying market expansion and investment development projects (subject to approval of Enterprise Singapore or the Singapore Tourism Board). Budget 2020 extends the DTDI scheme to 31 December 2025. From 1 April 2020, the scope of the DTDI scheme will be expanded to include third-party consulting costs relating to new overseas business development and expenses for overseas business missions.
2.	*Extension of the Mergers and Acquisitions ("M&A") scheme*	The M&A scheme is designed to help companies (particularly SMEs) grow and internationalise through strategic acquisitions. Under the M&A scheme, a qualifying company may: ▪ take a 200% deduction on costs incurred on qualifying acquisitions (subject to a S$100,000 expenditure cap per YA); ▪ enjoy stamp duty relief on the acquisition of ordinary shares (subject to a S$80,000 stamp duty cap per YA); and ▪ be granted an M&A allowance (to be written down over 5 years) based on 25% of the value of a qualifying acquisition (subject to a S$40 million value cap).

Taxise Asia LLC
8 Shenton Way #36-03, AXA Tower Singapore 068811

		Budget 2020 extends the M&A scheme to 31 December 2025. The M&A scheme will remain unchanged for acquisitions made on or after 1 April 2020, except for the following: ▪ stamp duty relief will lapse for instruments executed on or after 1 April 2020; and ▪ no waiver will be granted for the condition that the acquiring company must be held by an ultimate holding company that is incorporated in and is a tax resident of Singapore. This will apply to acquisitions made on or after 1 April 2020.
3.	*Extension of the upfront certainty of exemption of gains derived from ordinary share disposals from taxation*	Gains from the disposal of ordinary shares by a company are not taxable where the divesting company: ▪ is, at minimum, a 20% shareholder in the investee company (i.e. the company whose shares are being disposed of); and ▪ has satisfied the 20%-shareholding requirement for a period of at least 24 months prior to the disposal. Budget 2020 extends this exemption to ordinary share disposals between 1 June 2022 to 31 December 2027. However, to ensure consistency in the tax treatment for property-related businesses, 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.
4.	*Extension of the Land Intensification Allowance ("LIA") scheme*	The LIA scheme was introduced to encourage the intensification of industrial land by granting an initial allowance of 25% of qualifying capital expenditure incurred on the construction or renovation / extension of an approved building. Once the project is issued with its Temporary Occupation Permit, an annual allowance of 5% of qualifying capital expenditure incurred will then be granted. Budget 2020 extends the LIA scheme to 31 December 2025.
5.	*Extension of tax incentive schemes for insurance businesses*	The Insurance Business Development ("IBD") programme administers several tax incentive schemes targeted at the Singapore insurance industry. Broadly, an approved insurer enjoys a concessionary tax rate of 10% for a period of 5 to 10 years (as the case may be) for qualifying income derived from the relevant insurance activities, including life, general, captive and marine hull and liability. Budget 2020 extends the IBD programme to 31 December 2025.
6.	*Extension and enhancement of tax incentive schemes for the maritime sector*	The Maritime Sector Incentive ("MSI") programme oversees tax incentive schemes for ship operators, maritime lessors and providers of shipping-related support services. An approved maritime sector business may enjoy tax exemption or concessionary tax rates for certain qualifying income

		derived from the relevant maritime activities, stamp duty remission or withholding tax exemption on qualifying payments (as the case may be). Budget 2020 expands the scope of tax exemption to include new categories of income, such as certain in-house ship management income and income derived from operating a ship that is provisionally registered with the Singapore Registry of Ships. It also extends the MSI programme to 31 December 2026.
7.	*Enhancement of withholding tax exemption for interest on margin deposits*	For agreements entered into on or after 19 February 2020, the lists of entities and products that qualify for withholding tax exemption for interest on margin deposits are expanded. In addition to members of approved exchanges, the list of covered entities now includes members of approved clearing houses, approved exchanges and approved clearing houses. Separately, apart from spot foreign exchange, financial futures and gold futures, the list of covered products is expanded to include all other derivative contracts traded or cleared on approved exchanges and approved clearing houses.
8.	*Extension and enhancement of the Finance and Treasury Centre ("FTC") scheme*	Under the FTC scheme, qualifying income derived by an approved FTC from qualifying activities is taxed at a concessionary tax rate of 8%. As a condition, the approved FTC must use funds from certain qualifying sources. From 19 February 2020, the list of qualifying sources of funds is expanded to include funds raised by way of a convertible debt issuance. In addition, the list of qualifying FTC activities is expanded to include investments into private equity or venture capital (”VC”) funds that are not structured as companies. Budget 2020 extends the FTC scheme to 31 December 2026.
9.	*Extension of the Global Trader Programme ("GTP") scheme*	Under the GTP scheme, income derived by an approved global trading company from qualifying transactions enjoys a concessionary tax rate of 5% or 10%. In addition, an approved global trading company also qualifies for a concessionary tax rate of 5% on income derived from qualifying liquified natural gas ("LNG") transactions. Separately, under the GTP (Structured Commodity Financing) ("GTP(SCF)") scheme, qualifying income derived by an approved GTP(SCF) company is taxed at a concessionary rate of 5% or 10%. From 19 February 2020, the qualifying activities of GTP(SCF) scheme is subsumed under the GTP scheme and the GTP scheme is extended to 31 December 2026. Notably, Budget 2020 will allow the 5% concessionary tax rate for qualifying LNG transactions, and the 5% or 10% concessionary tax rate for qualifying structured commodity financing, to lapse after 31 March 2021.

10.	*Enhancement of tax incentive schemes for VC funds and VC fund management companies*	An approved VC fund enjoys tax exemption on income derived from certain prescribed types of income. An approved VC fund management companies qualifies for a concessionary tax rate of 5% on income derived from managing an approved VC fund. From 1 April 2020, the list of qualifying investments and income will be expanded. In addition to Singapore companies and partnerships, these incentives will also be applicable to VC funds constituted as foreign-incorporated companies or Singapore variable capital companies. The statutory limits imposed on the tenure of VC funds and VC fund management companies will be extended. Moving forward, a VC fund may enjoy tax exemption for up to a tenure of 15 years, while a VC fund management company may qualify for a concessionary rate for up to a tenure of 5 years (which can be renewed subject to conditions).
11.	*Deep-tech start-up support*	Deep-tech start-ups refer to businesses operating in emerging technology areas, including pharmbio and medical technology, advanced manufacturing and agri-food technology. Budget 2020 sets aside S$300 million under the Startup SG Equity scheme to support deep-tech start-ups in growing and realising their intellectual property and market potential.

B. STABILISATION AND SUPPORT FOR AFFECTED BUSINESSES

The following measures are introduced to help support businesses affected by the COVID-19 outbreak and the slowdown resulting from the US-China trade war.

1.	*Corporate income tax rebate*	Companies will be granted a 25% corporate income tax rebate of tax payable for Year of Assessment ("YA") 2020, subject to a maximum of S$15,000 per company.
2.	*Assistance for COVID-19 affected sectors*	To help the sectors most affected by the COVID-19 outbreak, Budget 2020 implements the following measures for YA2020: a) Tourism ▪ 30% property tax rebate for the accommodation and function room components of licensed hotels and serviced apartment buildings, as well as for prescribed MICE venues; ▪ 15% property tax rebate for the premises of international cruise and regional ferry terminals; and ▪ 10% property tax rebate for integrated resort operators.

		b) Aviation ▪ 15% property tax rebate for the premises of Changi Airport; ▪ Rebates and credits on aircraft landing and parking charges; and ▪ Rental rebates for shops and cargo agents at Changi Airport. c) Retail ▪ 15% property tax rebate for qualifying commercial properties.
3.	*Accelerated writing-down allowance option*	Businesses will have the option to write-down the cost of plants and machineries incurred for YA2021 at a faster rate: ▪ 75% of cost incurred to be written off in YA2021; and ▪ 25% of cost incurred to be written off in YA2022. Businesses will also have the option of an accelerated write down of the qualifying cost of renovation and refurbishment incurred for YA2021. Specifically, such expenses may be fully written off in the YA of incurrence – in other words, 100% of cost incurred may be written off in YA2021 itself.
4.	*Number of years of working life of plant and machinery for capital allowance claims*	Budget 2020 introduces changes to the number of years that a plant or machinery may claim annual capital allowance. For plants and machineries acquired in YA2022 onwards and in cases where such plants or machineries were purchased prior to YA2020 and no claim for capital allowance has been made: ▪ where the current prescribed working life under the Income Tax Act is 12 years or less, a business may elect to claim capital allowance over 6 or 12 years; and ▪ where the current prescribed working life under the Income Tax Act is 16 years, a business may elect to claim capital allowance over 6, 12 or 16 years.
5.	*Enhancement of carry-back relief*	Up to S$100,000 of unabsorbed capital allowances and trade losses for YA2020 may be carried back to offset against a 'business' assessable income for up to 3 immediate preceding YAs (i.e. YA2017-2019). Previously, unabsorbed capital allowances and trade losses could only be carried back for 1 immediate preceding YA.
6.	*Defraying staff cost*	To help businesses defray some of their staff costs and retain their local employees, Budget 2020 will provide employers with a 8% cash grant on the gross monthly wage of each Singapore citizen / PR employee (up to a monthly cap of S$3,600 per employee) for the months of October 2019 to December 2019.

		The Government will also co-fund 20% and 15% of qualifying wage increases given to Singapore citizen / PR employees earning a gross monthly wage of up to S$5,000 in 2019 and 2020, respectively.
7.	*Enhancement of the Enterprise Financing Scheme ("EFS") for SMEs*	The EFS-SME Working Capital Loan was introduced to support the daily operational cashflow needs of SMEs. Budget 2020 raises the maximum loan quantum from S$300,000 to S$600,000 and increases the Government's risk-share on such loans from the current 50-70% to 80%. This measure is expected to ease the working capital needs of SMEs by making it easier for them to obtain loans to finance their day-to-day operations.

C. OTHER MEASURES

1.	*No GST hike in 2021*	It was previously announced in 2018 that GST will be raised to 9 per cent at some time between 2021 and 2025. Budget 2020 affirms that the GST hike will not take effect in 2021; the GST rate will remain at 7 per cent for the time being.
2.	*Electric Vehicle Early Adopter Incentive ("EEAI") scheme*	The EEAI scheme will be introduced to achieve the goal of phasing out all internal combustion engine vehicles and have all vehicles run on cleaner engines by 2040. From 1 January 2021 to 31 December 2023, owners who register fully electric cars will receive a rebate of 45% off the Additional Registration Fees ("ARF"), capped at $20,000.
3.	*Updated vehicular tax structure*	To partly account for the loss in fuel excise duties resulting from more widespread use of electric vehicles ("EVs"), an EV lump-sum component will be added to the road tax imposed on electric cars and electric motorcycles. The road tax rates have also been increased for petrol-electric cars, electric light goods vehicles and electric goods passenger vehicles.
4.	*Extension of withholding tax exemption for non-resident mediators and arbitrators*	Non-residential mediators and arbitrators are exempt from withholding tax on their income derived from mediation or arbitration work (as the case may be) carried out in Singapore. Budget 2020 extends the withholding tax exemption to 31 March 2022.
5.	*Extension of withholding tax exemption for non-resident public entertainers*	Non-resident public entertainers are subject to withholding tax at a concessionary rate of 10% (rather than 15%). Budget 2020 extends the withholding tax exemption to 31 March 2022; thereafter, it will be allowed to lapse.

6.	*Angel Investor Tax Deduction ("AITD") scheme to lapse*	Under the AITD scheme, an approved angel investor is given a 50% deduction of the cost of qualifying investments. Budget 2020 will allow the AITD scheme to lapse after 31 March 2022.
7.	*Reducing the S-Passes issued*	Budget 2020 reduces the S-Pass sub-dependency ratio ceiling of the construction, marine shipyard and process sectors from 20% to 15%. This reduction will be implemented in two phases: ▪ On 1 January 2021, from 20% to 18%; and ▪ On 1 January 2023, from 18% to 15%.
8.	*Further deduction for expenditure on R&D project to lapse*	Businesses are currently allowed to take a further tax deduction (subject to a cap of 200%) for R&D expenditure incurred on approved R&D projects conducted in Singapore. Such approved R&D projects may either be carried out by the business itself or by a separate R&D firm on its behalf. Budget 2020 will allow the incentive to lapse after 31 March 2020.

D. CONCLUSION

Budget 2020 has a comprehensive suite of measures to address the twin shocks of the US-China trade war and COVID-19 outbreak while keeping an eye to the future. Businesses will do well to take advantage of the different programmes and schemes made available by Budget 2020 to maintain their competitive edge and stay ahead of the curve.

For further inquiries regarding this alert, please contact:

Eugene Lim
Co-Founder and Principal
eugene.lim@TaxiseAsia.com
+65 6304 7978

Sam Sim
Co-Founder and Senior Of Counsel
sam.sim@TaxiseAsia.com
+65 6304 7977

James Yeo
Transfer Pricing Manager
james.yeo@TaxiseAsia.com
+65 6304 7976

Janus Lim
Associate
janus.lim@TaxiseAsia.com
+65 6304 8006

Taxise Asia LLC
8 Shenton Way #36-03, AXA Tower Singapore 068811