

Tax

Singapore Budget 2023: Moving Forward in a New Era

Introduction

The Budget Statement for Budget 2023 was delivered on 14 February 2023. Following the lowering of the Disease Outbreak Response System Condition (DORSCON) level from yellow to green on 13 February 2023, Budget 2023 sets out a comprehensive range of measures to deal with the transition to a post-COVID-19 Singapore. This includes the strengthening of Singapore's social compact, and addressing concerns about inflation and the higher cost of living in Singapore. At a glance, some key measures include:

- i) Extra financial support to help Singaporeans cope with inflation and cushion the impact of the higher goods and services tax rate;
- ii) S\$3 billion enhancement to the Assurance Package, translating to a S\$300 to S\$650 increase in total cash payouts for each eligible Singaporean;
- iii) S\$30,000 increase in the Central Provident Fund ("**CPF**") housing grant for eligible families purchasing four-room or smaller resale units and S\$10,000 for those purchasing five-room or larger flats;
- iv) Raising the CPF monthly salary ceiling from S\$6,000 to S\$8,000 in 2026;
- v) The doubling of voluntary Government-paid paternity leave to four weeks for fathers of Singaporean children born on or after 1 January 2024; and
- vi) An increase in the Government's co-funding support under the Progressive Wage Credit Scheme.

The tax measures and changes announced are categorised as follows:

- Tax Implications on Corporations
- Tax Implications on Individuals
- Encouraging a Culture of Giving
- Increased Tax for Purchases of Higher-value Properties and Vehicles

We discuss selected tax measures, changes, enhancements and extensions, and refinements below.



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Tax Implications on Corporations

(a) Implementation of the Global Anti-Base Erosion ("GloBE") Rules and Domestic Top-up Tax

Due to the implementation of the Pillar 2 GloBE rules of the Base Erosion and Profit Shifting ("BEPS") 2.0 project ("Pillar 2"), a global minimum effective tax rate of 15% will be implemented for large Multi-National Enterprises ("MNEs").

While the European Union recently announced its plans to implement Pillar 2 in phases starting effectively from 2024 (with other jurisdictions like the United Kingdom and Switzerland announcing their intention to do the same), Singapore plans to implement Pillar 2 from businesses' financial year starting on or after 1 January 2025.

While Singapore is committed to implementing Pillar 2 to keep up with international developments, Singapore will continue to monitor international developments and adjust the implementation timeline as necessary.

(b) Introduction of the Enterprise Innovation Scheme ("EIS")

To stay ahead of its competitors, the Government has introduced the EIS to encourage businesses to engage in research and development ("R&D"), innovation and capability development activities.

The EIS scheme will significantly enhance the tax deduction for five key activities in the innovation value chain ("**Qualifying Activities**"):

- i) R&D conducted in Singapore;
- ii) Registration of intellectual property ("**IP**"), including patents, trademarks, and designs;
- iii) Acquisition and licensing of IP rights;
- iv) Innovation carried out with polytechnics and the Institute of Technical Education ("**ITE**"); and
- v) Training via courses approved by SkillsFuture and aligned to the Skills Framework.

The qualifying expenditure will be capped at S\$400,000 for each activity, except for innovation carried out with polytechnics and ITE, for which the expenditure will be capped at S\$50,000.

In the table below, we set out a summary of the current tax deductions available under the Income Tax Act 1947 ("**ITA**") and the enhanced tax deductions available under EIS.

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Current tax deduction available under the Income Tax Act	Enhanced tax deduction/tax allowance available under EIS
250% tax deduction for staff costs and consumables incurred on qualifying R&D projects conducted in Singapore under sections 14C and 14D of the ITA. The current sunset date is Year of Assessment ("YA") 2025.	400% tax deduction for the first S\$400,000 of staff costs and consumables incurred on qualifying R&D projects conducted in Singapore for each YA from YA 2024 to YA 2028.
200% tax deduction for the first S\$100,000 (and 100% for amounts exceeding S\$100,000) of qualifying IP registration costs under section 14A of the ITA. The current sunset date is YA 2025.	400% tax deduction for the first S\$400,000 of qualifying IP registration costs incurred per YA from YA 2024 to YA 2028
100% writing-down allowance ("WDA") over a period of 5, 10 or 15 years on acquisition cost of qualifying IP rights under section 19B of the ITA. The current sunset date is YA 2025.	400% tax deduction/tax allowance for the first S\$400,000 (combined cap) of qualifying expenditure incurred on the acquisition and licensing of IP rights per YA from YA 2024 to YA 2028. This enhancement will only be available to businesses that generate less than S\$500 million in revenue in the relevant YA.
200% tax deduction for the first S\$100,000 (and 100% for amounts exceeding S\$100,000) of qualifying IP rights licensing expenditure under section 14 or 14C, and 14U of the ITA. The current sunset date for section 14U is YA 2025.	400% tax deduction for the first S\$400,000 of qualifying training expenditure incurred on qualifying courses (i.e. courses that are eligible for SkillsFuture Singapore funding and aligned with the Skills Framework) per YA from YA 2024 to YA 2028.
100% tax deduction can be claimed for training expenditure incurred, subject to general tax deduction rules under sections 14 and 15 of the ITA.	400% tax deduction for up to S\$50,000 of qualifying innovation expenditure incurred on qualifying innovation projects carried out with polytechnics, the ITE and other qualified partners per YA from YA 2024 to YA 2028.
	Qualifying businesses may 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 Qualifying Activities above per YA. The cash payout will be capped at S\$20,000 per YA and will only be available to businesses which have at least three full-time employees who are Singapore Citizens or Permanent Residents with CPF

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Current tax deduction available under the Income Tax Act	Enhanced tax deduction/tax allowance available under EIS
	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.

The sunset dates for section 14A (Deduction for costs of protection IP), section 14C (Deduction for qualifying expenditure on R&D), section 14D (Enhanced deduction for expenditure on licensing IP rights) and section 19B (WDA for capital expenditure on acquiring IP rights) of the ITA will be extended till YA 2028, in line with the above enhancements.

(c) Enhancement of the Double Tax Deduction for Internationalisation ("DTDi") Scheme

At present, businesses which obtain approval from Enterprise Singapore or Singapore Tourism Board are entitled to a tax deduction of 200% on qualifying market expansion and investment development expenses under the DTDi scheme.

To further support businesses in building up their capabilities in internationalising via e-commerce, the scope of the DTDi Scheme will be enhanced to include a new qualifying activity "e-commerce campaign". This will cover a spectrum of e-commerce start-up expenses paid to e-commerce platforms or service providers, including:

- Business advisory on market promotion and execution plans;
- Account creation on e-commerce platforms;
- Content creation and design of e-commerce campaign publicity materials; and
- Product listing and placement.

Prior approval is required from Enterprise Singapore to enjoy DTDi on the new qualifying activity. For each business, Enterprise Singapore will only approve DTDi support for e-commerce campaigns for a maximum period of one year applied on a per-country basis.

The above enhancement will take effect for qualifying e-commerce campaign start-up expenses incurred on or after 15 February 2023.

Enterprise Singapore will release further details of the changes by 28 February 2023.

(d) Option to Accelerate the Write-off of the Cost of Acquiring Plant & Machinery

Under sections 19 and 19A of the ITA, businesses that incur capital expenditure on the acquisition of plant and machinery may claim a capital allowance in respect of write-off costs. Under section 19 of the ITA, capital allowances could be claimed over an asset's prescribed working life based on the Sixth

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Schedule of the ITA. On the other hand, under section 19A of the ITA, capital allowances on all assets could be claimed over one or three years.

However, in the basis period for YA 2024, a business may exercise an irrevocable option to accelerate the write-off of the cost of acquiring plant and machinery over two years. Under the irrevocable option, the rates of accelerated capital allowance are as follows:

- 75% of the incurred cost will be written off in the first year (i.e. YA 2024); and
- 25% of the cost incurred to be written off in the second year (i.e. YA 2025).

(e) Extension and Refinement of the Qualifying Debt Securities ("QDS") Scheme

To continue supporting the growth and sophistication of Singapore's debt market, the existing QDS scheme will be extended till 31 December 2028.

Further, the scope of qualifying income under the QDS scheme will be streamlined and clarified such that it includes all payments in relation to early redemption of QDS.

To ensure continued relevance, the requirement that the QDS has to be substantially arranged in Singapore will be rationalised, as follows:

- For all debt securities issued on or after 15 February 2023, they must be substantially arranged in Singapore by a financial institution holding a specified licence (instead of a Financial Sector Incentive ("FSI") company).
- For insurance-linked securities ("ILS") issued on or after 1 January 2024 that are unable to meet the condition above, at least 30% of the ILS issuance costs incurred by the issuer must be paid to Singapore businesses.

The Monetary Authority of Singapore ("MAS") will provide further details by 31 May 2023.

(f) Extension of the Investment Allowance ("IA") Scheme

The IA scheme provides an additional tax allowance for businesses which incur qualifying fixed capital expenditure on approved projects. The IA Scheme, which is administered by the Singapore Economic Development Board, Building and Construction Authority and EnterpriseSG is scheduled to lapse after 31 December 2023.

To continue encouraging businesses to make capital investments in plant and productive equipment in Singapore, the IA scheme will be extended till 31 December 2028.

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(g) Extension of the Pioneer Certificate Incentive ("PC") and Development and Expansion Incentive ("DEI")

The PC and DEI (which are scheduled to lapse after December 2023) aim to encourage companies to grow capabilities, conduct new or expanded economic activities, and establish their global or regional headquarters in Singapore.

To continue encouraging companies to anchor and grow strategic high value-added manufacturing and services activities in Singapore, the PC and DEI will be extended till 31 December 2028.

(h) Extension and Refinement of the FSI Scheme

The FSI scheme (which is scheduled to lapse after 31 December 2023) 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.

To continue supporting the growth of the financial sector in Singapore, the FSI scheme will be extended till 31 December 2028. However, the existing concessionary tax rates will be streamlined to two tiers of 10% and 13.5% for new and renewal awards approved on or after 1 January 2024, as follows:

- FSI-Capital Market, FSI-Derivatives Market and FSI-Credit Facilities Syndication – from 5% to 10%;
- FSI-Fund Management and FSI-Headquarter Services – remain at 10%;
- FSI-Trustee Companies – from 12% to 13.5%; and
- FSI-Standard Tier – remains at 13.5%.

Further, the qualifying activities will be updated to ensure continued relevance.

MAS will provide further details of the changes by 31 May 2023.

Tax Implications on Individuals

(a) Introduction of a Fixed Dollar Tax Relief for the Working Mother's Child Relief ("WMCR")

Currently, under the WMCR scheme, eligible working mothers can claim a tax relief on a percentage of the mother's earned income. WMCR percentages are added together if there is a claim for more than one child and the total is capped at 100% of the mother's earned income. WMCR may be claimed even if the mother and/or husband has already claimed Qualifying Child Relief ("QCR") /Handicapped Child Relief ("HCR") on the same child. However, *inter alia*, the total cap (i.e. QCR/HCR plus WMCR) is S\$50,000 per child.

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As part of the review of the Government's support for Marriage & Parenthood, the WMCR will be changed to a fixed dollar tax relief for eligible working mothers in respect of qualifying children who are Singapore citizens born or adopted on or after 1 January 2024:

Child Order	WMCR for a Qualifying Singaporean child born/adopted before 1 January 2024	WMCR for a Qualifying Singaporean child born/adopted on or after 1 January 2024
1 st	15% of mother's earned income	S\$8,000
2 nd	20% of mother's earned income	S\$10,000
3 rd and beyond	25% of mother's earned income	S\$12,000

The qualifying conditions of WMCR remain the same and the total WMCR amount that an eligible working mother can claim for all her qualifying children remains capped at 100% of the mother's earned income.

(b) Lapse of the Foreign Domestic Worker Levy Relief ("FDWLR")

Currently, a woman resident in Singapore who, in the year immediately preceding the YA of claim, was:

- i) Living with her husband; or
- ii) Married and her husband is not resident in Singapore; or
- iii) Married but separated from her husband, a divorcee or a widow and who, in the year immediately preceding the YA, has any unmarried child or children living with her in the same household in Singapore in respect of whom she may be allowed a deduction under the QCR;

is allowed to claim FDWLR in respect of one migrant domestic worker employed by her or her husband.

Since the Government has introduced a number of schemes that directly support those caring for dependants, including working mothers, the FDWLR will be lapsed for all taxpayers with effect from YA 2025.

Encouraging a Culture of Giving

(a) Extension of the 250% Tax Deduction for Qualifying Donations to Institutions of a Public Character ("IPCs") and Eligible Institutions

To encourage Singaporeans to continue to give back to the community, the 250% tax deduction for qualifying donations made to IPCs and other eligible institutions (which was due to expire on 31 December 2023) will be extended for another three years until 31 December 2026.

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All other conditions of the scheme remain the same.

(b) Extension and Enhancement of the Corporate Volunteer Scheme ("CVS")

Under the Business and IPC Partnership Scheme (which is due to lapse on 31 December 2023) ("**BIPS**"), a qualifying person may, subject to conditions, claim a total of 250% tax deduction on qualifying expenditure such as wages incurred by the person from 1 July 2016 to 31 December 2023 in respect of:

- The provision of services by the person's qualifying employee to an IPC during that period; or
- The secondment of the person's qualifying employee to an IPC during that period.

The BIPS will be enhanced into a broader CVS, which will be rolled out for three years until 31 December 2026. Under the CVS (which comes into effect on 1 January 2024), the scope of qualifying volunteering activities will be expanded to include activities which are conducted virtually (e.g. online mentoring and tuition support for youths/children) or outside of the IPCs' premises (e.g. refurbishment of rental flats).

To facilitate deeper partnerships between businesses and IPCs, the cap on qualifying expenditure per IPC per calendar year has been doubled to S\$100,000.

(c) Introduction of a Philanthropy Tax Incentive Scheme for Family Offices

A new tax incentive scheme will be introduced for qualifying donors with Family Offices operating in Singapore. To qualify, donors must have a fund under MAS' section 13O or 13U scheme which satisfies the eligibility conditions (e.g. incremental business spending of S\$200,000).

Under the scheme, qualifying donors can claim 100% tax deduction for overseas donations made through qualifying local intermediaries. However, the tax deduction is capped at 40% of the donor's statutory income.

Further details will be released by MAS by 30 June 2023.

Increased Tax Implications for Higher-value Properties and Vehicles

(a) Increased Buyer Stamp Duty ("BSD") Rates for Higher-value Properties

There will be higher BSD rates for higher-value residential and non-residential properties.

The revised BSD rates for residential and non-residential properties are as follows (changes are reflected in red):

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Purchase price or market value of the property (whichever is higher)	BSD rates (residential properties)
First S\$180,000	1%
Next S\$180,000	2%
Next S\$640,000	3%
Next S\$500,000	4%
Next S\$1,500,000	5%
Amount exceeding S\$3,000,000	6%

Purchase price or market value of the property (whichever is higher)	BSD rates (non-residential properties)
First S\$180,000	1%
Next S\$180,000	2%
Next S\$640,000	3%
Next S\$500,000	4%
Next S\$1,500,000	5%

Notwithstanding the above increases, the BSD rates on or before 14 February 2023 will continue to apply for cases which satisfy the following criteria:

- The Option to Purchase ("**OTP**") was granted by sellers to potential buyers on or before 14 February 2023;
- The OTP was exercised on or before 7 March 2023, or within the OTP validity period, whichever is earlier; and
- The OTP has not been varied on or after 15 February 2023.

Correspondingly, the Additional Conveyance Duties for Buyers which applies to qualifying acquisitions of equity interest in property holding entities will be raised from up to 44% to up to 46%.

(b) Increase in Vehicle Taxes

The Additional Registration Fee ("**ARF**") is currently tiered based on the following rates:

Open Market Value (" OMV ")	Rate
First S\$20,000	100%

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Open Market Value ("OMV")	Rate
Next S\$30,000	140%
Next S\$30,000 of OMV	180%
Above S\$80,000 of OMV	220%

In line with the higher tax rates for higher-value properties, the tax rates for vehicles will also be made more progressive.

The table below reflects the revised ARF rates (changes are reflected in red):

OMV	Rate
First S\$20,000 of OMV	100%
Next S\$20,000 of OMV	140%
Next S\$20,000 of OMV	190%
Next S\$20,000 of OMV	250%
Above S\$80,000 of OMV	320%

The enhancements to the ARF rates are targeted at the top one-third of cars by OMV. Hence, buyers who purchase cars with an OMV of less than S\$40,000 will not be affected.

The enhanced ARF rates will apply to all new and imported used cars and goods-cum-passenger vehicles registered with Certificates of Entitlement ("COE") obtained from and after the second COE bidding exercise in February 2023 onwards.

For vehicles that do not need to bid for COEs (e.g. taxis, classic cars), the new rates will apply for those registered on or after 15 February 2023.

Conclusion

The measures introduced under the present Budget lays the foundation for a smooth transition to a post-COVID-19 world by bolstering Singapore's fiscal position whilst simultaneously strengthening our social compact.

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Contact



Vikna Rajah
Head, Tax & Trust
Co-Head, Private Client

T +65 6232 0597

vikna.rajah@rajahtann.com

Please feel free to also contact Knowledge Management at eOASIS@rajahtann.com

Regional Contacts

R&T SOK & HENG | *Cambodia*

R&T Sok & Heng Law Office

T +855 23 963 112 / 113

F +855 23 963 116

kh.rajahtannasia.com

RAJAH & TANN | *Myanmar*

Rajah & Tann Myanmar Company Limited

T +95 1 9345 343 / +95 1 9345 346

F +95 1 9345 348

mm.rajahtannasia.com

RAJAH & TANN 立杰上海

SHANGHAI REPRESENTATIVE OFFICE | *China*

Rajah & Tann Singapore LLP

Shanghai Representative Office

T +86 21 6120 8818

F +86 21 6120 8820

cn.rajahtannasia.com

GATMAYTAN YAP PATACSIL

GUTIERREZ & PROTACIO (C&G LAW) | *Philippines*

Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)

T +632 8894 0377 to 79 / +632 8894 4931 to 32

F +632 8552 1977 to 78

www.cagatlaw.com

ASSEGAF HAMZAH & PARTNERS | *Indonesia*

Assegaf Hamzah & Partners

Jakarta Office

T +62 21 2555 7800

F +62 21 2555 7899

Surabaya Office

T +62 31 5116 4550

F +62 31 5116 4560

www.ahp.co.id

RAJAH & TANN | *Singapore*

Rajah & Tann Singapore LLP

T +65 6535 3600

sg.rajahtannasia.com

RAJAH & TANN | *Thailand*

R&T Asia (Thailand) Limited

T +66 2 656 1991

F +66 2 656 0833

th.rajahtannasia.com

RAJAH & TANN | *Lao PDR*

Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239

F +856 21 285 261

la.rajahtannasia.com

RAJAH & TANN LCT LAWYERS | *Vietnam*

Rajah & Tann LCT Lawyers

Ho Chi Minh City Office

T +84 28 3821 2382 / +84 28 3821 2673

F +84 28 3520 8206

CHRISTOPHER & LEE ONG | *Malaysia*

Christopher & Lee Ong

T +60 3 2273 1919

F +60 3 2273 8310

www.christopherleeong.com

Hanoi Office

T +84 24 3267 6127

F +84 24 3267 6128

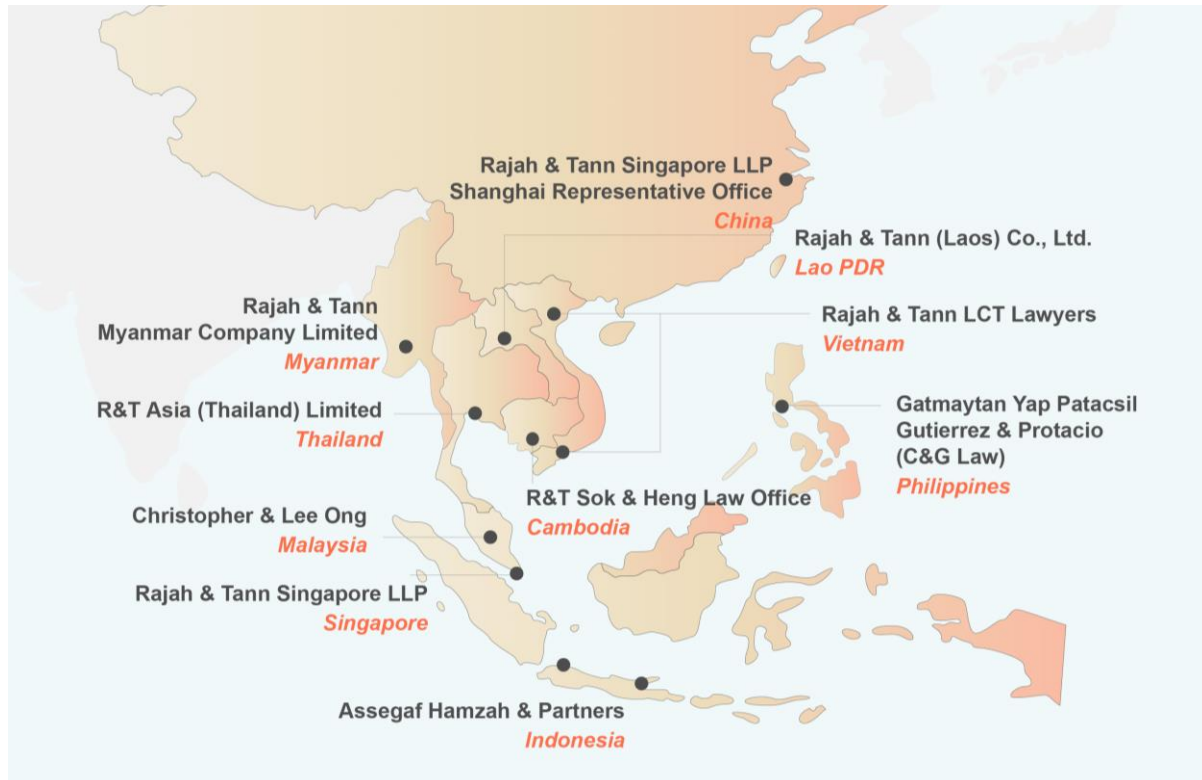
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