SINGAPORE BRIEFING

# Singapore Budget 2023 Update

February 2023

Deputy Prime Minister ("DPM") and Minister of Finance – Mr Lawrence Wong had promised to deliver a Valentine's Day present in his Budget Speech on 14 February 2023, and we now see why… the biggest beneficiaries this year appear to be young married couples, apart from lower-income families.

As usual, we provide salient takeaways for Budget 2023, with a focus on the key changes and our thoughts on the proposed changes. For the comprehensive Budget statement and changes, please visit:
https://www.mof.gov.sg/singaporebudget/budget-2023/budget-speech

## 1. The Big Picture

Singapore expects to run a slight budget deficit of S$0.35billion for the financial year 2023. Historically, this projection tends to be conservative, and we may end up with a budget surplus - barring any unexpected economic shocks.

On the economic front, even as the world recovers from the shock of the pandemic, the worst may be yet to come as countries tilt to being more protectionist for security and strategic reasons. Indeed, it is no longer uncommon for countries to restrict exports to meet their own internal demand. The rules seem to have changed and Singapore needs to adapt.

Singapore intends to implement a minimum top-up tax of 15% in lieu of BEPS 2.0 from year 2025. Nonetheless, no details have been announced yet (same as last year) given the fluid situation. On the corporate front, there are no significant announcements except for the Enterprise Innovation Scheme and the renewal of several existing schemes.

Much of DPM Wong's speech was focused on cost of living, helping families achieving work-life balance and ensuring Singaporeans have sufficient funds set aside for retirement. Some changes were announced to address immediate concerns on such issues and we can expect further refinements in the coming months and years.

Despite the challenges ahead (which were always there in one form or another), DPM Wong delivered his speech with confidence and poise, convinced that better days lie ahead, when Singapore unites as one to **Move Forward in a New Era**.



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## 2. Key highlights for Businesses

### *Enterprise Innovation Scheme ("EIS")*

EIS was the most significant announcement for businesses. 400% tax deduction on qualifying expenditure will be granted in respect of the following activities would be available from Year of Assessment ("YA") 2024 to 2028:

- Staff cost and consumables incurred on qualifying R&D projects conducted in Singapore
- Intellectual Property ("IP") registration & tax allowance on IP acquisition and licensing
- Qualifying training expenditure on qualifying courses
- Qualifying innovation expenditure on projects carried out with the Institute of Technical Education and other qualified partners (capped at S$50,000 per YA)

In lieu of tax deduction/allowances, qualifying expenditure of up to S$100,000 can be converted to cash. To do so, businesses need to have at least 3 full-time local employees earning a gross salary of at least S$1,400 in employment for 6 months or more in the relevant YA.

The EIS has a more targeted approach when compared to the Productivity and Innovation Credit but is equally generous. Businesses can consider having certain R&D to be conducted in Singapore to utilize the tax savings, though it should be said that the bar for an expenditure to be considered qualifying can be quite high.

It should be emphasized that only expenses on training courses that are eligible for SkillsFuture Singapore funding and aligned with the Skills Framework will qualify for 400% tax deduction. Clearly, this indicates businesses must focus on what is considered relevant training by the Government in order to take advantage of this incentive.

Overall, we are highly supportive of the EIS in view of the long-term capabilities and advantages it is envisaged to deliver.

### *Double Tax Deduction for Internationalisation ("DTDi")*

The DTDi provides a 200% tax deduction on eligible costs spent on international market expansion and investment development activities. Examples of such costs include overseas trade fairs (virtual & physical), overseas advertising and promotion, market surveys and feasibility studies, etc.

The DTDi has been enhanced to include e-commerce campaigns. Eligible expenses include business advisory, account creation, content creation and product listing and placement. For this category of expenses, prior approval from EnterpriseSG is required. Further details will be released by 28 February 2023.

### *Accelerated claims to reduce tax liability*

For the YA 2024, businesses can choose to accelerate their claim for capital allowance or renovation costs incurred to reduce their tax payable.

Accelerated capital allowance can be claimed – 75% (YA 2024) and 25% (YA 2025) instead as opposed to the slower rate of claim (usually 3 years or more).

Renovation and refurbishment costs ("R&R") can be fully claimed in YA 2024 as opposed to over a 3-year period. The expenditure cap claimable remains at S$300,000 for every relevant 3-year period.

The accelerated claims should provide immediate assistance for businesses to reduce their taxes and cashflow. We would have liked to see the S$300,000 cap on R&R increased given that such costs had increased significantly in the recent years. It should also be considered that the R&R costs be allowed as and when businesses shift their premise rather than applying a strict 3-year limitation period as such costs are usually substantial.

### *Extension of existing schemes*

The follow existing schemes that provide tax savings were extended:
- Investment Allowance Scheme (extended till 31 December 2028)
- Investment Allowance for Automation (extended till 31 March 2026)
- Pioneer Certificate Incentive ("PC") and Development and Expansion Incentive ("DEI") (extended till 31 December 2028)
- IP Development Incentive (extended till 31 December 2028)

Briefly, the Investment Allowance schemes provide for additional tax allowances on approved fixed capital expenditure. This is targeted to attract substantial investments in plant and productive equipment in Singapore.

The PC provides tax exemption from corporate tax and DEI awardees at taxed at 5%/10% on qualifying income. The PC is intended to attract companies with innovative and advanced technologies to be based in Singapore, while the DEI aims to attract global and regional headquarters to be set-up in Singapore.

Notwithstanding the extension of PC and DEI, these schemes could be materially revised to consider the Minimum Effective Tax Regime which is expected to be implemented in 2025. Other forms of support (instead of concessionary tax rates or tax exemption) to attract high caliber companies to invest in Singapore should be expected.

### *Philanthropy and giving back to society*

Interesting, a new tax incentive scheme was announced for donors who enjoy the Section 13O or 13U incentive and meet eligibility conditions such as incremental business spending of S$200,000. Donors can claim 100% tax deduction for overseas donations made through local intermediaries, capped at 40% of their statutory income. Absent this incentive, donations to overseas recipients are normally not tax-deductible.

The MAS has been advocating for single family offices to be more involved in philanthropy work and this is certainly a step in the right direction. At first glance, we wonder about their rationale for limiting tax deduction to overseas donations, and to those with a tax exemption. Nonetheless, we look forward to details which would be provided by MAS by 30 June 2023.

The existing 250% tax deduction on donations to Institutions of Public Character ("IPC") and Corporate Volunteer Scheme ("CVS") has been extended to 31 December 2026. From 1 January 2024, the scope of CVS will now include activities conducted virtually. Further, the cap on qualifying expenditure per IPC has been doubled to S$100,000 per calendar year.

## 3. Key highlights for Individuals

### *Supporting households to mitigate inflation & GST increments*

The GST Vouchers ("GSTV") and GSTV-U-Save provides much needed relief for about 950,000 Singaporean households. These schemes are targeted at lower and middle-income households . Naturally, such measures are welcomed and should alleviate partially the increased cost of living.

The Assurance Package was enhanced and will benefit about 2.9million Singaporeans, with the lower income group receiving more help to offset the GST increases.

During his speech, DPM Wong has clearly signaled that unsustainable handouts are short-term measures to tide over tough times, which should not relied upon for the long-term.

### *Supporting housing aspirations*

The government has introduced new measures and enhanced grants further to help families in securing their first home. This includes:

- ✓ Giving priority to specific groups of first timer families to increase their chances of securing a Build-To-Order ("BTO") flat;
- ✓ Increase in CPF Housing Grant by up to S$30,000 for those buying resale flats.

In consideration of the above and other separate grants (subject eligibility), a family with a monthly household income of S$1,500 can potentially receive up to S$190,000 in grants. Higher income groups with monthly income of S$9,000 can receive grants of S$85,000 to defray the cost of buying their first home.

The subsidy provided for resale flats are no doubt generous. That said, it remains to be seen if resale flat sellers take the opportunity to increase their asking prices which would then eliminate any real savings.

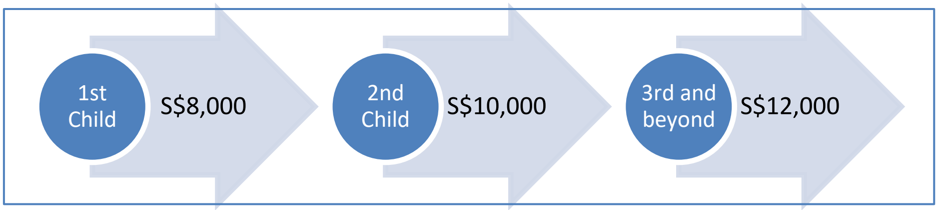
### *Building a Singapore made for families*

On top of the measures to help families secure housing, the government will also be supporting families with the costs of raising children through cash supports, grants and other measures to encourage young Singaporeans to raise a family.

We strongly applaud the government's collaborative approach in taking feedback from the community in refining their policies. We are heartened to hear that more enhancements can be expected as the collation of feedback is still on-going.

#### i. Change in Working Mother's Child Relief ("WMCR")

WMCR is a tax relief to encourage women to continue working after they are married and have given birth to qualifying Singaporean children. This would be changed from a percentage of an eligible working mother's annual earned income to a fixed dollar relief for working mothers in respect of qualifying children who are Singapore citizens born or adopted on or after 1 January 2024.




This change will effectively benefit lower-to-middle income working mothers more.

Higher income working mothers may consider exploring other methods to reduce their tax liability. Possible options would include top-ups to the CPF special account or the Supplementary Retirement Scheme ("SRS") which can be used to fund their retirement. However, any such top-ups should be balanced with their cashflow needs as top-ups to CPF special account is irreversible, and there are early withdrawal penalties for SRS.

#### ii. Change in Grandparent Caregiver Relief eligibility ("GCR")

Effective YA 2024, working mothers can claim GCR in respect of caregivers who carry on a trade, business, profession, vocation or/ and employment income so long that the total income does not exceed S$4,000.

#### iii. Doubling paid paternity leave from 1 January 2024

- ✓ Paid paternity leave will be increased from 2 weeks before to 4 weeks (on a voluntary basis), for eligible working fathers;
- ✓ The unpaid infant care leave for Singapore children aged under 2 years to increase from 6 days to 12 days per year for each parent.

#### iv. Baby Bonus Cash Gift ("BBCG")

Currently, the Government provides a BBCG of up to S$10,000 to parents of eligible children, to support them in raising their child. The BBCG will be increased by S$3,000 for eligible Singaporean children in all birth orders and disbursed on a regular basis every six months until the child is six-and-a-half.

#### v. Other grants

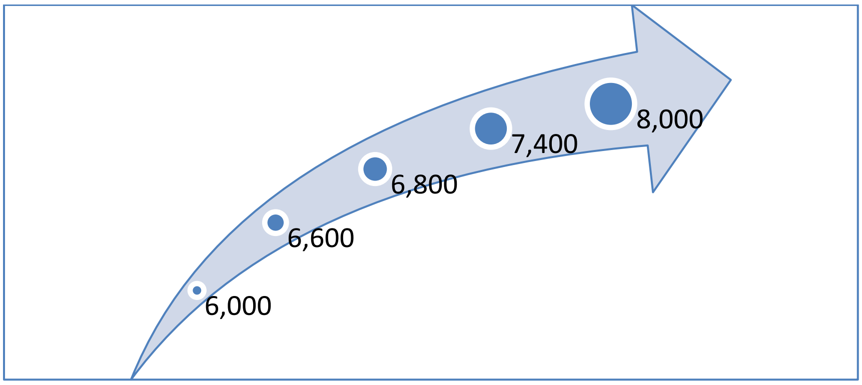
- ✓ Baby Support Grant (BSG) of S$3,000 has been extended to all eligible Singaporean children born between 1 Oct 2022 and 13 Feb 2023.
- ✓ Increase in Government Contributions by Increasing the First Step Grant and Raising the Co-

matching Cap for Eligible Singaporean Children Born on or after 14 February 2023.

*Strengthening retirement adequacy*

i. Increase in CPF monthly salary ceiling

Middle-income Singaporeans will now be able to save more for retirement as the government raises the Central Provident Fund ("CPF") monthly salary ceiling from S$6,000 to S$8,000 by 2026. The increase will be phased in over a four year period, starting from 1st Sept 2023.




The policy seeks to strike some balance between immediate and long-term retirement needs.

The reaction to this change may be mixed. Some employees may like this as more funds are now set aside for retirement and increased CPF mandatory contributions can reduce their personal tax liability. Other employees and their employers may not necessarily hold the same view as the change would mean higher costs for the employers and reduced take-home pay for the employees.

ii. Other enhancements

- ✓ The minimum CPF monthly payout for all seniors on the Retirement Sum Scheme has been boosted from S$250 per month before to S$350 per month with effect from 1 June 2023.

- ✓ The CPF contribution rates of senior workers between 55 and 70 years old to change with effect from 1 January 2024. Contribution rates for senior workers are generally expected to increase by 2030, depending on economic conditions.

## 4. Increase in taxes

As the pandemic has taken dip into Singapore's reserves, the government is looking to raise revenue for future expenses. The government has introduced a progressive tax system targeting the wealthy. The increase in taxes appears to be gradual and calculated which is unlikely to dampen the sentiments of high-income earners towards high-end consumption and property investment.

*Raising Buyer Stamp Duty ("BSD") rates for higher value properties*

| **Property value** | Marginal Buyer's Stamp Duty rates | | | |
|---|---|---|---|---|
| | Residential Property | | Non-residential property | |
| | On or before 14 Feb 23 | On or after 15 Feb 23 | On or before 14 Feb 23 | On or after 15 Feb 23 |
| First S$180,000 | 1% | 1% | 1% | 1% |
| Next S$180,000 | 2% | 2% | 2% | 2% |
| Next S$640,000 | 3% | 3% | 3% | 3% |
| Next S$500,000 | 4% | 4% | | 4% |
| Next S$1.5million | | 5% | | 5% |
| More than S$3million | | 6% | | |



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*This would mean that a buyer looking to purchase a S$2million property will need to pay an additional S$5,000 BSD.*
*A buyer looking to purchase a S$10million commercial office unit will need to pay an additional S$175,000 in BSD.*

*Increase in Additional Registration Fee ("ARF") for vehicles*

| CURRENT ARF RATES | |
|---|---|
| Open Market Value ("OMV") | ARF Rate |
| First 20,000 | 100% of OMV |
| Next 30,000 | 140% of OMV |
| Next 30,000 | 180% of OMV |
| In excess of 80,000 | 220% of OMV |

| NEW ARF RATES | |
|---|---|
| Open Market Value ("OMV") | ARF Rate |
| First 20,000 | 100% of OMV |
| Next 20,000 | 140% of OMV |
| Next 20,000 | 190% of OMV |
| Next 20,000 | 250% of OMV |
| In excess of 80,000 | 320% of OMV |

*Putting this into numbers – at the top end, a Bentley Flying Spur V8 could cost S$240,000 more, representing a 40% increase in the vehicle tax.*

The increase in ARF targets high income individuals buying luxury cars and super cars from the likes of Porsche, Mercedes Benz, Bentley and Ferrari. While this group of buyers may generally be less price sensitive, but it remains to be seen if demand for such high-end cars will eventually decrease, especially after such taxes are raised 2 years in a row.

*Increase in Excise Duty on Tobacco*

Exercise duties across all tobacco products will be raised by 15% on and after 14 February 2023. The move will not only help in bringing in additional government revenues, but it will also promote healthy lifestyle for individuals.

## 5. Our final thoughts

The "winners" of Singapore Budget 2023 will be young families, and rightfully so, given the challenges faced with rising prices and competing demands from work and family. The elderly are not forgotten as well as the government continued to provide handouts to mitigate rising cost of living.

Those aspiring to own higher end private properties could be slightly disappointed given the rise in BSD. That said, the increase should be bearable. For middle-income group with young families, we would love to see more being done for them as they are too facing cost of living challenges.

On wealth taxes, the stance so far appears to be that a pure wealth tax is cumbersome to implement and may lead to an outflow of wealthy families – the very people Singapore has been trying to attract over the last 20 years. Hence, rather than implementing a pure wealth tax, we have seen incremental increases in taxes on high-end cars and immovable properties. While the increases so far should not be a deterrent, any further increases should be carefully considered so that Singapore is not being perceived as unwelcoming.

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