Tax

MOF Consults on Proposed Amendments to Income Tax Act

Introduction

On 6 June 2023, the Ministry of Finance ("**MOF**") announced a public consultation on 33 proposed amendments to the Income Tax Act 1947 ("**ITA**") by way of the Income Tax (Amendment) Bill 2023 ("**Bill**"). The consultation covers:

- 19 proposed amendments to implement tax measures announced in the 2023 Budget Statement; and
- 14 proposed amendments arising from international tax developments and MOF's periodic review of Singapore's tax system.

The consultation will run from **6 June to 30 June 2023**, and MOF will publish a summary of comments together with MOF's response in August 2023.

In this Update, we highlight key amendments that have been proposed. Out of all the proposed changes, the change that could perhaps have the most implications is the taxation of gains from the sale of foreign assets received in Singapore by businesses without economic substance in Singapore, which is detailed below.

2023 Budget Amendments

The 2023 Budget Statement was released on 14 February 2023 as covered in our earlier February 2023 Client Update titled "Singapore Budget 2023: Moving Forward in a New Era". The Bill provides for the proposed amendments to Singapore's tax regime set out in the 2023 Budget Statement, including key amendments such as:

- **Introduction of the Enterprise Innovation Scheme ("EIS")** to encourage businesses to engage in research and development ("**R&D**"), innovation and capability development activities. The EIS comprises the following new or enhanced tax measures, which will be effective from Year of Assessment ("**YA**") 2024 to YA 2028:
    - Existing tax deductions or allowances will be increased to 400% for the first S$400,000 of qualifying expenses incurred for each qualifying activity per YA. These qualifying activities include:
        - Staff costs and consumables incurred on qualifying R&D projects conducted in Singapore;
        - Qualifying Intellectual Property ("**IP**") registration costs;

        - Acquisition and licensing of qualifying IP rights for businesses that generate less than S$500 million in revenue in the relevant YA; and
        - Qualifying training expenses for qualifying courses eligible for SkillsFuture Singapore funding and aligned with the Skills Framework.

    - There will be a new 400% tax deduction for up to S$50,000 of qualifying innovation expenditure incurred on qualifying innovation projects carried out with selected partner institutions per YA.
    - In lieu of the above tax deductions or allowances, eligible 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. This cash payout will be capped at S$20,000 per YA and is only available to businesses with at least three full-time local employees earning a gross monthly salary of at least S$1,400, and in employment for at least six months in the basis period of the relevant YA.

- **Enhancement of the Double Tax Deduction for Internationalisation ("DTDi") Scheme**, under which businesses are allowed a tax deduction of 200% on qualifying market expansion and investment development expenses.

    - The scope of the DTDi scheme will be enhanced to include a new qualifying activity "e-commerce campaign" and cover specified e-commerce campaign startup expenses paid to e-commerce platform/service providers such as business advisory, account creation, content creation as well as product listing and placement services.
    - Businesses must obtain prior approval from Enterprise Singapore to enjoy DTDi on the new qualifying activity. DTDi support will only be approved for a maximum of one year on a per-country basis.
    - This enhancement will take effect for qualifying e-commerce campaign startup expenses incurred on or after 15 February 2023.

- **Option to accelerate the write-off of the cost of acquiring Plant and Machinery ("P&M")**, where businesses that incur capital expenditure on the acquisition of P&M in the basis period for YA 2024 will have the irrevocable option (if exercised) to accelerate the write-off of such cost over two years. In the first year, 75% of the cost incurred may be written off. In the second year, 25% of the cost incurred may be written off.

- **Option to accelerate the deduction for Renovation or Refurbishment ("R&R") expenditure**, where businesses that incur qualifying expenditure on R&R during the basis period for YA 2024 will have the irrevocable option (if exercised) to claim R&R deduction in one YA. The cap of S$300,000 for every relevant period of three consecutive YAs will still apply.

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- **Introduction of the pilot Philanthropy Tax Incentive Scheme for Family Offices ("FOs")** to encourage FOs to anchor their giving operations in Singapore and strengthen Singapore's position as a regional philanthropy hub.

    - Under the scheme, qualifying donors will be able to claim 100% tax deduction for overseas donations made through qualifying local intermediaries. The tax deduction will be capped at 40% of the donor's statutory income.
    - To qualify, the donors must have a fund under MAS' section 13O or 13U scheme and meet eligibility conditions, such as incremental business spending of S$200,000.

- **Extension and/or refinement of various schemes until 31 December 2028**, namely:

    - The Investment Allowance (IA) Scheme, which provides an additional tax allowance for businesses which incur qualifying fixed capital expenditure on approved projects;
    - The Pioneer Certificate Incentive (PCI), where recipients are eligible for corporate tax exemption on income from qualifying activities;
    - The Development and Expansion Incentive (DEI), where recipients are eligible for concessionary tax rates of 5% or 10% on qualifying income;
    - The IP Development Incentive (IDI), which accords concessionary tax rates of 5% or 10% on a percentage of qualifying IP income;
    - The Qualifying Debt Securities (QDS) Scheme, which offers 10% concessionary tax rate for qualifying companies and bodies of persons in Singapore, and a tax exemption for qualifying non-residents and qualifying individuals;
    - Tax exemption on income derived by primary dealers from trading in Singapore Government Securities (SGS);
    - The Approved Special Purpose Vehicle (ASPV) Scheme, which grants tax concessions to an ASPV engaged in asset securitisation transactions;
    - The Financial Sector Incentive (FSI) Scheme, which 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;
    - The Insurance Business Development – Insurance Broking Business (IBD-IBB) Scheme, which grants approved insurance and reinsurance brokers a concessionary tax rate of 10% on commission and fee income derived from insurance broking and advisory services; and
    - The three tax measures (i.e. withholding tax exemption, writing-down allowance and investment allowance) relating to submarine cable systems.

Non-Budget Amendments

There are 14 proposed amendments arising from international tax developments and MOF's periodic review of Singapore's tax system to better reflect policy objectives and to improve tax administration, including key amendments such as:

- **Taxing gains from the sale of foreign assets received in Singapore** on and after 1 January 2024 by entities of multinational (MNE) groups that do not have economic substance in Singapore. This proposed tax change is to align the treatment of gains from the sale of foreign assets to the EU Code of Conduct Group guidance, which aims to address international tax avoidance risks.

- **Extending the tax treatment for the transfer of credit-impaired loans on revenue account** to taxpayers that are not banks, merchant banks or qualifying finance companies ("**non-bank taxpayers**"), given that in today's business environment, non-bank taxpayers may also lend money and face similar circumstances as banks, merchant banks and qualifying finance companies.

- **Mandating the submission of income information by intermediaries for Self-Employed Persons ("SEPs") to IRAS directly** in order to facilitate the income tax assessment of SEPs (e.g. commission agents), as well as the administration of schemes that cover SEPs such as the Workfare Income Supplement, and allow the government to roll out SEP schemes more quickly and effectively going forward.

- **Simplifying the taxation of estates** where the income of an Estate Under Administration may be assessed at the beneficiary level if the income is distributed to the beneficiary within the same year of receipt or a period which the Comptroller is satisfied with. This will accord a resident beneficiary of an Estate Under Administration with the same concessions, exemptions and foreign tax credits as a resident beneficiary of an Estate Held in Trust.

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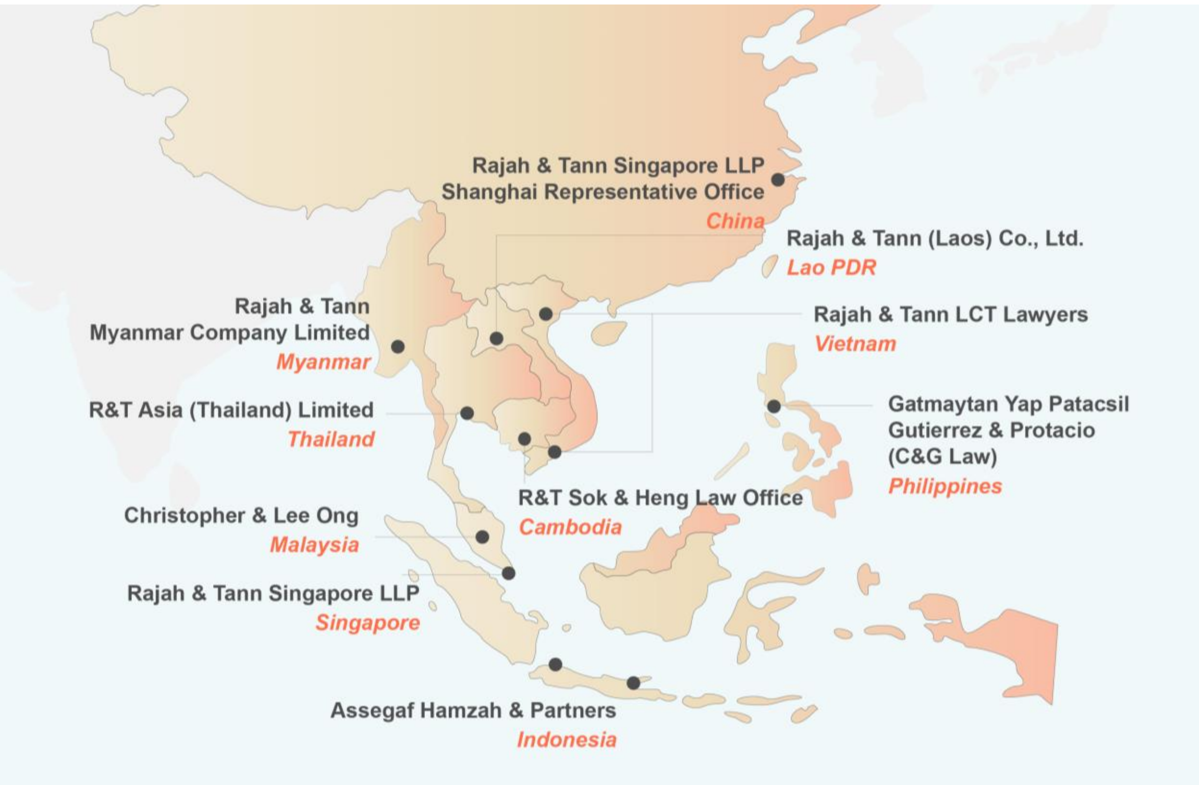

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