Tax

Singapore Budget 2024: Building Our Shared Future Together

Introduction

The Budget Statement for Budget 2024 was delivered on 16 February 2024. Given a modest 1.1% in Singapore's economic growth in 2023, expected continued resilience of growth in major economies and looming geopolitical risks, Budget 2024 seeks to assist Singaporeans in meeting their full potential, navigating uncertainties, and building a common, shared future together. At a glance, some key tax measures and changes announced in Budget 2024 are as follows:

1. **Tax implications for corporations**:
    a. Introduction of a corporate income tax rebate;
    b. Introduction of a refundable investment tax credit;
    c. Enhancement of the tax deduction for renovation or refurbishment expenditure;
    d. Extension and revision of three tax incentive schemes for qualifying funds;
    e. Introduction of alternative basis of tax for three Maritime Sector Incentive sub-schemes; and
    f. Introduction of additional Concessionary Tax Rate tiers for certain incentives and schemes.

2. **Tax implications for individuals**:
    a. Top-up of the goods and services tax ("**GST**") voucher fund;
    b. Introduction of a personal income tax rebate;
    c. Enhancement of retirement support schemes; and
    d. Lapse of Course Fees Relief.

3. **Tax implications for residential properties:**
    a. Amendments to Additional Buyer's Stamp Duty ("**ABSD**") refund concessions for housing developers and senior citizens;
    b. Adjustment to Annual Value Bands for owner-occupier residential property tax rates; and
    c. Introduction of a property tax instalment plan for retirees.

4. **Other tax changes**:
    a. Introduction of an overseas emergency humanitarian assistance tax deduction scheme; and
    b. Withdrawal of the income tax concession on royalty income.

5. **Support for businesses and workers**:
   a. Enhancements to the Enterprise Financing Scheme;
   b. Expansion and enhancement of the Energy Efficient Grant;
   c. Enhancements to the Progressive Wage Credit Scheme;
   d. Raising the Local Qualifying Salary;
   e. Extension of the SkillsFuture Enterprise Credit; and
   f. Implementation of the CPF Transition Offset for the increase in senior workers' Central Provident Fund ("**CPF**") contribution rates.

6. **BEPS 2.0 Pillar 2**:
   a. Introduction of an income inclusion rule; and
   b. Introduction of a domestic top-up tax.

We discuss the key tax measures, changes, enhancements and extensions, as well as refinements in the existing Singapore tax regime below.

Tax Implications for Corporations

a. Corporate Income Tax Rebate

In light of rising costs of businesses, such as wages, rent and utilities, the Government has introduced an Enterprise Support Package which will provide S$1.3 billion in support to companies. Most pertinently, companies will receive a 50% Corporate Income Tax Rebate, capped at S$40,000 in the Year of Assessment ("**YA**") 2024. As not all companies are profitable and able to leverage such a rebate, all companies with at least one local employee in 2023 will receive a minimum benefit of S$2,000 in cash payouts.

b. Refundable Investment Credit

To enhance Singapore's investment promotion toolkit in light of increasing competition from governments around the world to attract investments, Singapore will introduce a new refundable investment credit ("**RIC**"). The RIC is a tax credit with a refundable cash feature that aims to support high value and substantive economic activities, such as:

1. the setting up or expansion of manufacturing facilities;
2. new innovation and R&D activities; and
3. activities in support of the green transition.

It is expected that the RIC will likely fall within the scope of a Qualified Refundable Tax Credit scheme under the BEPS 2.0 Pillar 2 rules and mitigate the impact of BEPS 2.0 Pillar 2 after the introduction of a global minimum effective tax rate of 15% for large MNE groups. As such, this measure is crucial as it will help sustain Singapore's competitiveness and attract investments from global companies with the right know-how.

c. Enhancement of Tax Deduction for Renovation or Refurbishment ("R&R") Expenditure

At present, businesses may claim a tax deduction on incurred qualifying R&R expenditure over three consecutive YAs on a straight-line basis. The scheme will be enhanced by:

1. expanding the scope of qualifying expenditure to include designer or professional fees;
2. creating a fixed three-year period, commencing with YA 2025 to YA 2027;
3. allowing the option to claim R&R deductions in one YA, subject to the prevailing expenditure cap.

More details will be provided by the Inland Revenue Authority of Singapore (IRAS) by 3Q 2024.

d. Extension and Revision of Tax Incentive Schemes for Qualifying Funds

At present, Qualifying Funds (funds managed by Singapore-based fund managers) are eligible for three tax concessions under sections 13D, 13O, and 13U of the Income Tax Act ("**ITA**"). These schemes are:

1. tax exemptions on specified income derived from designated investments;
2. withholding tax exemption on interest and other qualifying payments made to non-resident persons; and
3. GST remission on relevant expenses.

The schemes were scheduled to lapse after 31 December 2024, but will now be extended by five years to 31 December 2029. Additionally, the economic criteria for all three schemes will be revised, while the section 13O scheme will additionally include Limited Partnerships registered in Singapore.

These changes will come into effect from 1 January 2025. More details will be provided by the Monetary Authority of Singapore (MAS) in 3Q 2024.

e. Introduction of Alternative Basis of Tax for Three Maritime Sector Incentive ("MSI") Sub-schemes

To better align Singapore's tax regime with commercial international practices, the following sub-schemes will offer an alternative basis of tax where the qualifying income of qualifying shipping entities is taxed by reference to the net tonnage of their ships:

1. MSI-Shipping Enterprise (Singapore Registry of Ship);
2. MSI-Approved International Shipping Enterprise; and
3. MSI-Maritime Leasing (Ship).

This will apply to all qualifying ships of MSI entities that are subjected to it. For MSI entities that are not under the alternative basis of tax, the existing tax treatment will continue to apply. Further details will be provided by 3Q 2024.

f. Introduction of Additional Concessionary Tax Rate ("CTR") Tiers

Incentive / Scheme	Current CTR	New CTR
Finance and Treasury Centre incentive	Approved companies are eligible for a CTR of 8% on qualifying income	Additional CTR tier of 10%
Aircraft Leasing Scheme	Approved aircraft lessors are eligible for a CTR of 8% on qualifying income	Additional CTR tier of 10%
Development and Expansion Incentive	Approved companies are eligible for CTRs of 5% or 10% on qualifying income	Additional CTR tier of 15%
Intellectual Property Development Incentive	Approved companies are eligible for CTRs of 5% or 10% on qualifying income	Additional CTR tier of 15%
Global Trader Programme	Approved companies are eligible for CTRs of 5% or 10% on qualifying income	Additional CTR tier of 15%

The CRT changes came into effect on 17 February 2024, with further details to be provided by 2Q 2024.

Tax Implications for Individuals

a. Top-up of GST Voucher Fund

The Government has announced plans to top up the GST Voucher Fund by S$6 billion. This demonstrates the Government's steady commitment to permanently defray expenses for lower- and middle-income households through the GST Voucher Scheme.

b. Personal Income Tax Rebate

In light of rising costs of living and wage levels, the Government has announced a personal income tax rebate of 50% for YA 2024. To target middle-income workers, the rebate will be capped at S$200. On the other hand, the annual income threshold for dependant-related reliefs will be increased from S$4,000 to S$8,000 with effect from YA 2025.

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c. Retirement Support Schemes

Currently, the Government provides a tax relief to encourage Singaporeans to top up their Central Provident Fund ("**CPF**"). Budget 2024 will allow Singaporeans aged 55 to 70 who make voluntary contributions to their CPF to receive matching grants from the Government to grow their savings faster under the Matched Retirement Savings Scheme. Given that the matching grant is already a significant benefit extended by the Government, the tax relief for the cash top-ups that attract the matching grant will no longer be effective from 2025 onwards.

There will be an increase in the Enhanced Retirement Sum ("**ERS**") from three times the Basic Retirement Sum to four times from 2025. ERS is the maximum amount that senior workers can put into their CPF Retirement Accounts to receive payouts. Such an increase will allow more Singaporeans aged 55 and above to fully commit their accumulated CPF savings to receive higher CPF payouts, should they wish to do so.

To keep pace with inflation, there will also be an increase in the qualifying per capita household income threshold for the Silver Support Scheme ("**SSS**") from S$1,800 to S$2,300, as well as an increase of 20% in the quarterly payments. The SSS provides quarterly payments to seniors who had low incomes during their working years and have less family support.

d. Lapse of Course Fees Relief ("CFR")

At present, a tax resident individual may claim CFR (capped at $5,500 per YA) for qualifying courses, seminars, or conferences. This will be lapsed with effect from YA 2026, due to the introduction of more targeted direct subsidies to support learning and upskilling.

Tax Implications for Residential Properties

a. ABSD Refund Concessions for Housing Developers

Currently, housing developers must sell all units in their developments within a prescribed sale timeline to be granted ABSD remissions. ABSD clawbacks apply if the sale timeline is not met.

To address difficulties in meeting this timeline, a reduced ABSD clawback rate will apply if housing developers sell at least 90% of each development within the prescribed sale timeline.

b. ABSD Refund Concessions for Senior Citizens

From 16 February 2024, the ABSD refund on replacement private properties will be extended to single Singapore citizens aged 55 and above. Previously, only married couples could enjoy the rebate.

Under the scheme, Singapore citizens above 55 years old will be able to claim a refund of ABSD paid on their replacement private property if they sell their first property within six months after purchasing a lower-value replacement private property.

c. Adjustment to Annual Value ("AV") Bands

In Budget 2022, a two-step increase in Property Tax rates was announced for residential properties. However, from 2022 onwards, market rents increased significantly due to strong market demand and COVID-related supply constraints. While the property tax rates aimed to mainly target the top 7% of owner-occupied residential properties, rising AVs resulted in 13% of owner-occupied properties being affected.

From 1 January 2025 onwards, the Government will raise the AV bands of owner-occupier residential Property Tax rates. Currently, only properties with an AV above S$8,000 are taxed, with properties having an AV above S$100,000 being taxed at the maximum rate. After 1 January 2025, only properties with an AV above S$12,000 are taxed, and properties with an AV above S$140,000 will be taxed at the maximum rate. Corresponding adjustments will be made to the AV bands in between.

d. Instalment Plan for Retirees

Retirees living in higher-end residential homes facing cash flow issues can pay their Property Tax with a 24-month interest free instalment plan from IRAS. To be eligible, individuals must meet the following criteria:

1. they are residing in the property (i.e. their property is taxed at owner-occupier tax rates);
2. their assessable income does not exceed $34,000 in YA 2023;
3. all the owner(s) of the property, including themselves, are aged 65 or above in 2024; and
4. there is outstanding property tax payable for the property.

e. Rebates

If needed, a rebate to cushion the impact of the Property Tax changes may be introduced in 2025.

For more details on the property tax and ABSD implications arising from Budget 2024, please see our February 2024 Legal Update titled "Announcements Made at Budget 2024 Regarding Residential Properties".

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Other Tax Changes

a. Overseas Emergency Humanitarian Assistance Tax Deduction Scheme

An Overseas Humanitarian Assistance Tax Deduction Scheme ("**OHAS**") will be introduced to encourage Singaporeans to support those overseas. From 1 January 2025 to 31 December 2028, 100% tax deductions will be granted for cash donations made towards overseas emergency humanitarian assistance causes through designated charities.

However, tax deductions under OHAS, either alone or together with the Philanthropy Tax Incentive Scheme for Family Offices, will be capped at 40% of the donor's statutory income. Any unutilised tax deductions under OHAS cannot be carried forward.

b. Withdrawal of Income Tax Concession on Royalty Income

Currently, royalties derived by authors, composers, choreographers or any company wholly owned by such individuals in respect of literary, dramatic, musical and artistic work is brought to tax based on the lower of (i) the net amount of royalties, or (ii) 10% of the gross amount of royalties.

This will be phased out, with eligible taxpayers required to report their taxable royalty income based on:

1. From YA 2027 – the lower of the net amount of royalties or 40% of gross royalties;
2. From YA 2028 – the lower of the net amount of royalties or 70% of gross royalties; and
3. From YA 2029 – the net amount of royalties.

Support for Workers and Businesses

a. Enhancements to Enterprise Financing Scheme ("EFS")

The EFS enables Singapore enterprises to access financing more readily across all stages of growth. There will be three enhancements:

1. **EFS – SME Working Capital Loan** for small-medium enterprises ("**SMEs**"): The maximum loan quantum will be permanently enhanced from $300,000 to $500,000.
2. **EFS – Trade Loan**: The maximum loan quantum of $10 million will be extended until 31 March 2025.
3. **EFS – Project Loan**: The maximum loan quantum of $15 million for domestic construction projects will be extended until 31 March 2025.

b. Expansion of Energy Efficiency Grant ("EEG")

The EEG co-funds investments in energy-efficient ("**EE**") equipment. To be eligible for the EEG, companies must be registered and operating in Singapore with (i) at least 30% local shareholding, (ii) at least one local employee, and (iii) group annual sales turnover of no more than $500 million.

The EEG will now be enhanced as follows:

1. Expansion to more sectors, including Manufacturing, Construction, Maritime, and Data Centres and their users.

2. Provision of two tiers of support:
    a. A **Base Tier** for pre-approved EE equipment, capped at $30,000. SMEs and non-SMEs will receive support for 70% and 30%, respectively, of pre-approved EE equipment costs.
    b. For selected sectors – an **Advanced Tier**, capped at $350,000 (inclusive of the Base Tier). The EE equipment need not be pre-approved but must demonstrate energy savings above 350t lifetime carbon abatement. The grant amount will be calculated based on the lower of (i) the support levels under the Base Tier, or (ii) the EE equipment's expected lifetime carbon abatement.

c. Enhancement to the Progressive Wage Credit Scheme ("PWCS")

By way of background, the PWCS provides transitional support from 2022 to 2026 to assist employers with adjusting to the Progressive Wages moves. It co-funds wage increases (minimum $100 increase in each qualifying year) given to resident lower-wage employees with gross monthly wages of up to $3,000.

This will be enhanced as follows:

YA	Payout Period	Current Co-funding	Enhanced Co-funding
YA 2024	Q1 2025	• Gross monthly wage ceiling ≤$2,500: 30% • Gross monthly wage ceiling >$2,500 and ≤$3,000: 15%	• Gross monthly wage ceiling ≤$2,500: **50%** • Gross monthly wage ceiling >$2,500 and ≤$3,000: **30%**
YA 2025	Q1 2026	• Gross monthly wage ceiling ≤$2,500: 30%	• Gross monthly wage ceiling **≤$3,000**: **30%**
YA 2026	Q1 2027	• Gross monthly wage ceiling ≤$2,500: 15%	• Gross monthly wage ceiling **≤$3,000**: 15%

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d. Raise in Local Qualifying Salary ("LQS")

The Progressive Wages moves include requiring firms that hire foreign workers to pay all local workers the LQS at a minimum (or Progressive Wage Model wages, where applicable).

The LQS will now be raised from $1,400 to $1,600 for full-time local workers. Part-time local workers must be paid at least $10.50 per hour.

e. Extension of SkillsFuture Enterprise Credit ("SFEC")

Under the SFEC, eligible firms have received a one-off credit of up to $10,000 to cover up to 90% of out-of-pocket expenses for supportable enterprise capability development and workforce transformation programmes. Supportable programmes are listed on Enterprise Singapore's website here, with the list being reviewed periodically.

The SFEC will be extended by a year to 30 June 2025, allowing employers to use the SFEC on supportable schemes beyond the original date of 30 June 2024. Claims are to be submitted by 30 June 2025.

f. CPF Transition Offset for Increase in Senior Workers' CPF Contribution Rates

On 1 January 2025, employer CPF contribution rates for workers aged above 55 to 65 years of age ("**relevant worker**") will increase by 0.5%. This is part of the broader scheme to increase the CPF contribution rates for senior workers to help them save for retirement.

To mitigate the corresponding rise in business costs, employers will automatically receive a one-year CPF Transition Offset equivalent to half of the 2025 increase in employer CPF contribution rates for every relevant worker who is a Singaporean or Permanent Resident.

BEPS Pillar 2.0

From January 1, 2025, Singapore will implement two components of BEPS 2.0 Pillar 2, which aims to introduce a global minimum effective tax rate of 15% for large MNE groups. It will apply to large MNE groups with global revenues of at least €750 million annually.

a. First Component: Income Inclusion Rule

The first component is the Income Inclusion Rule ("**IIR**"). This will subject the overseas profits of MNE groups parented in Singapore, regardless of where they operate, to a minimum effective tax rate of 15%.

b. Second Component: Domestic Top-Up Tax

The second component is the Domestic Top-Up Tax ("**DTT**"). This increases the effective tax rate on Singapore profits of MNE groups to 15%, ensuring that the tax is collected in Singapore instead of the MNE group's parent jurisdictions.

c. Future Plans

A third component, the Undertaxed Profits Rule ("**UPR**"), will be considered at a later stage. The UPR allows Singapore to collect a share of top-up tax imposed on MNEs with Singapore operations.

The introduction of RIC will be welcomed by potential investors and existing MNE groups as it will likely fall within the scope of a Qualified Refundable Tax Credit scheme under the BEPS 2.0 Pillar 2 rules.

BEPs 2.0 Pillar 1 will be implemented at a later undecided date.

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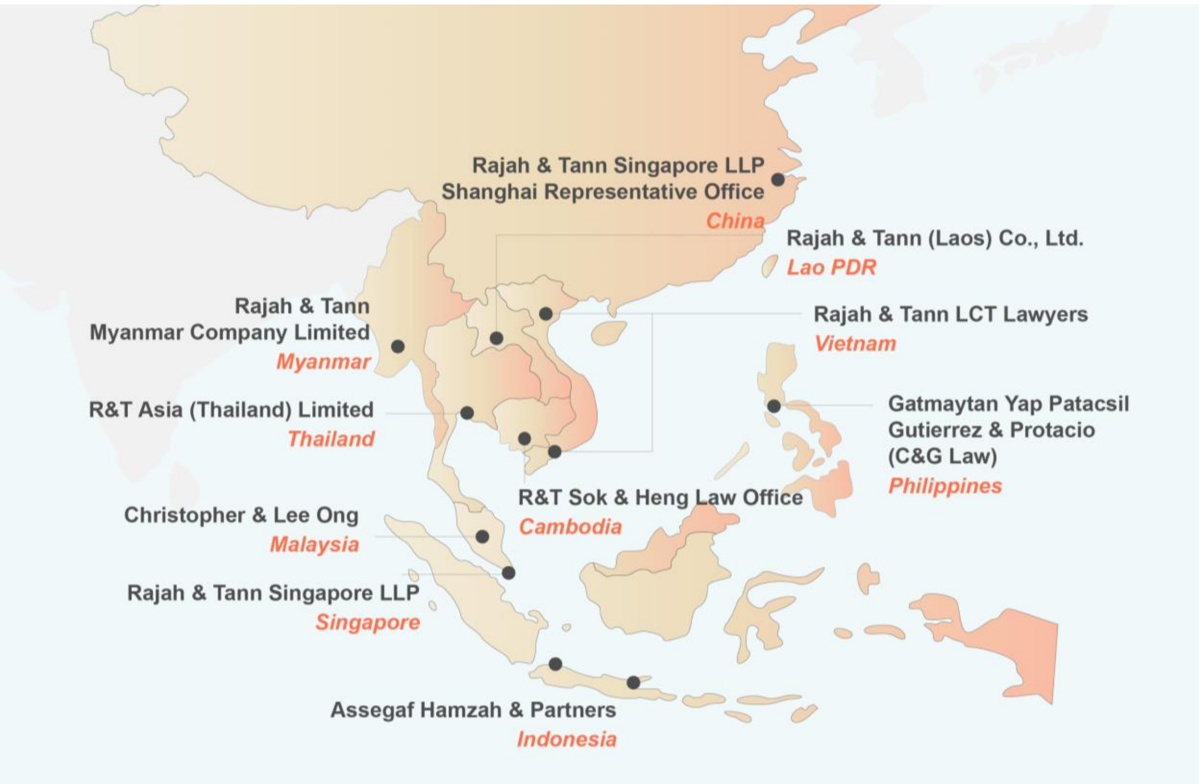

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