Tax

Budget Speech 2021 – Emerging Stronger Together

After an unprecedented year in which Singapore experienced its worst recession since independence and with the global battle against COVID-19 far from over, Budget Speech 2021 was delivered by Singapore's Deputy Prime Minister ("**DPM**") and Minister for Finance Mr Heng Swee Keat on 16 February 2021. With the theme "Emerging Stronger Together", DPM Heng laid out the following plans to tackle Singapore's immediate challenges:

- The COVID-19 Resilience Package to reopen Singapore safely and sustain the momentum of its recovery;
- The Household Support Package for families, with greater support for families in need;
- Singapore's investments in economic and workforce transformation to emerge stronger; and
- The Singapore Green Plan 2030 to enhance sustainability and deal with climate change.

There were also tax measures and changes announced which were categorised in the following manner:

- Extending Budget 2020 Temporary Tax Measures to Support Businesses;
- Updating Singapore's Tax Regime as the Digital Economy Grows;
- Maintaining the Competitiveness and Resilience of Singapore's Tax System;
- Emerging Stronger as a Community: Encouraging Philanthropy and Volunteerism;
- Encouraging Early Adoption of Electric Vehicles; and
- Environmental Sustainability.

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

Extending Budget 2020 Temporary Tax Measures to Support Businesses

1. Extending the Year of Assessment ("YA") 2020 enhancements to the Loss Carry-Back Relief Scheme

This scheme aims to help businesses cope with cash-flow problems. Under the enhancements made to the scheme in YA 2020, current year unabsorbed capital allowances ("**CA**") and trade losses (collectively, "**qualifying deductions**") for YA 2020 could be carried back up to three immediate preceding YAs, capped at $100,000 of qualifying deductions, subject to conditions.

Taxpayers were allowed to make such elections to the relevant carry back to the relevant preceding YAs an estimated amount of qualifying deductions available for YA 2020, before filing their income tax returns for YA 2020.

This enhanced carry-back relief scheme is extended to apply to qualifying deductions for YA 2021, subject to the same conditions.

2. Extending the option to accelerate the write-off over 2 years of the cost of acquiring plant and machinery ("P&M")

Under section 19 of the Income Tax Act ("**ITA**"), capital allowances could be claimed over an asset's prescribed working life based on the Sixth Schedule of the ITA. Alternatively, under section 19A of the ITA, capital allowances on all assets could be claimed over a three-year period. Also, for computers, prescribed automation equipment and low-value assets, 100% of the capital allowances could be claimed in the year in which the expenditure was incurred.

In Budget 2020, it was announced that an irrevocable option can be made to accelerate the write-off the cost of acquiring all P&M in the basis period for YA 2021 (i.e. Financial Year ("**FY**") 2020) over two years. This has now been extended to capital expenditures incurred by taxpayers on the acquisition of P&M in the basis period for YA 2022 (i.e. FY 2021). This allows taxpayers to claim 75% of the cost incurred in year one (i.e. YA 2022) and 25% of the balance of cost in year two (i.e. YA 2023). No deferment of capital allowance claim is allowed under this option.

3. Extending the option to accelerate the deduction of expenses incurred on renovation and refurbishment ("R&R")

Under section 14Q of the ITA, R&R deductions are to be claimed over 3 consecutive YAs starting the from the year in which the R&R expenditure is incurred, i.e. 1/3 of the R&R expenditure can be claimed in each of the 3 YAs.

In Budget 2020, it was announced that an irrevocable option can be made to claim the R&R deduction in one YA (i.e. accelerated R&R deduction) on the qualifying expenditure incurred on R&R for the purposes of a taxpayer's trade, profession or business in the basis period for YA 2021 (i.e. FY 2020). This has now been extended for qualifying expenditure incurred in the basis period for YA 2022 (i.e. FY 2021). The cap of $300,000 for every relevant period of three consecutive YAs continues to apply.

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Updating Singapore's Tax Regime as the Digital Economy Grows

4. Extending Goods and Services Tax ("GST") to (i) low-value goods imported via air or post and (ii) business-to-customer ("B2C") imported non-digital services

Currently, goods imported via air or post that are valued up to (and including) S$400 are deemed as low value goods and are granted relief from GST. However, with effect from 1 January 2023, GST will be collected on all goods regardless of value. This will be effected via the Overseas Vendor Registration and reverse charge regime.

Also, in Budget 2018, GST was extended to cover (i) B2C imported digital services, and (ii) business-to-business ("**B2B**") digital and non-digital services. This was effected via the Overseas Vendor Registration Regime and reverse charge regime respectively. The whole idea was to ensure parity in GST treatment between local and overseas suppliers on their sales to local consumers and businesses. With the same underlying rationale, B2C imported non-digital services will also be subject to GST with effect from 1 January 2023. This would include services such as live interaction with overseas providers of educational training, fitness training, counselling and telemedicine.

5. Changing of basis for whether zero-rating applies to a supply of media sales for GST purposes

Currently, the applicability of zero-rating to a supply of media sales is determined based on the place of circulation of advertisement. If the advertisement is intended to be substantially circulated outside Singapore, the media sales is zero-rated. Conversely, if the advertisement is intended to be substantially circulated in Singapore, the media sales is standard-rated.

With the growth of online advertising and development in digital services, it has become increasingly difficult for suppliers of digital media sales to determine the place of circulation. As such, with effect from 1 January 2022, the applicability of zero-rating to a supply of media sales will be determined based on the place where the contractual customer and direct beneficiary of the service belongs. If the customer of the service belongs outside Singapore and the direct beneficiary either (i) belongs outside Singapore or (ii) is GST-registered in Singapore, the media sales will be zero-rated. Conversely, if the customer belongs in Singapore, the media sales will be standard-rated.

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Maintaining the Competitiveness and Resilience of Singapore's Tax System

6. Enhancing the Double Tax Deduction for Internationalisation ("DTDi") scheme

The DTDi scheme, which is scheduled to lapse after 31 December 2025, allows businesses to claim a tax deduction of 200% on qualifying market expansion and investment development expenses, subject to the approval of the Enterprise Singapore ("**ESG**") or the Singapore Tourism Board.

No prior approval is currently required for tax deductions on the first $150,000 for each YA on the following activities:

(a) Participation in overseas market development trips/missions;
(b) Participation in overseas investment study trips/missions;
(c) Participation in overseas trade fairs; and
(d) Participation in approved local trade fairs.

To continue supporting internalisation efforts of business amid changes in the business environment, the scope of the DTDi scheme has been expanded to include the following specified expenses incurred, on or after 17 February 2021, to participate in approved virtual trade fairs:

(a) package fees charged by event organisers for virtual exhibition hall and booth access, collateral creation, business meetings or match sessions, product launches or speaking slots, webinars or conferences, and post-event analytics;
(b) third-party costs for design and production of digital collaterals and promotion materials for virtual fairs; and
(c) logistics costs incurred to send materials or samples overseas to potential clients met at virtual trade fairs.

Moreover, the scope of qualifying activities which do not require prior approval from Enterprise Singapore or STB has been enhanced to cover the following additional activities, up to the current annual expense cap of $150,000:

(a) Product/service certification (primarily to increase buyers' acceptance in overseas markets) approved by ESG;
(b) Overseas advertising and promotional campaigns;
(c) Design of packaging for overseas markets;
(d) Advertising in approved local trade publications; and
(e) Participation in virtual trade fairs approved by ESG.

Lastly, the list of qualifying expenses for overseas investment study trips will also be expanded to include logistics costs to transport materials or samples used during the investment trips.

ESG will provide further details by 28 February 2021.

7. Extending and refining the double tax deduction ("DTD") for qualifying upfront costs attributable to retail bonds

The DTD scheme, which is scheduled to lapse after 18 May 2021, allows bond issuers who carry on a trade or business in Singapore to claim a tax deduction of up to 200% under section 14ZA on qualifying upfront costs incurred on or after 19 May 2016 that is attributable to retail bonds issued during the period from 19 May 2016 to 18 May 2021 (both dates inclusive) under the Monetary Authority of Singapore's ("**MAS**") Seasoning Framework and Exempt Bond Issuer Framework.

The DTD scheme will be extended for qualifying upfront costs incurred on or after 19 May 2021 that is attributable to, instead of all retail bonds, rated retail bonds (i.e. rated by credit rating agencies such as Standard & Poor, Moody's and Fitch) issued during the period from 19 May 2021 to 31 December 2026 (both dates inclusive) under MAS' Seasoning Framework and Exempt Bond Issuer Framework.

This refinement seeks to provide investors access to rated retail bonds. Credit rating will improve market transparency by providing timely and independent assessments of the creditworthiness of bond issuers.

MAS will provide further details by 31 May 2021.

8. Extending and rationalising the withholding tax ("WHT") exemptions for the financial sector

There is a range of WHT exemptions or remissions for the financial sector for all interest and other payments falling within section 12(6) of the ITA ("**Section 12(6) payments**"). Section 12(6) payments refer to interest, commissions, fees or any other payments in connection with any loan or indebtedness, or any arrangement, management, guarantee, or service relating to any loan or indebtedness.

To support Singapore's value proposition and the competitiveness of her financial sector, the following changes will be made:

(a) The existing WHT remission for interbank or inter-branch transactions will be legislated as a WHT exemption with effect from 1 April 2021, along with a review date of 31 December 2031. Under this WHT exemption, all Section 12(6) payments made by banks in Singapore, for the purpose of their trade or business, to their branches or head offices outside Singapore or other banks outside Singapore will be exempt from tax where such payments are made:

- between 1 April 2021 to 31 December 2031 (both dates inclusive) under a contract that takes effect before 1 April 2021; or

- under a contract that takes effect between 1 April 2021 to 31 December 2031 (both dates inclusive). In such cases, the WHT exemption will apply to the entire duration of the contract, including payments that are made beyond 31 December 2031 under that contract.

(b) Until 31 December 2026, all Section 12(6) payments made to any non-resident person (excluding any permanent establishments ("**PEs**") in Singapore) by the specified entities,[1] for the purpose of the specified entities' trade or business, are exempt from tax where such payments are made:

- between 1 April 2011 to 31 December 2026 (both dates inclusive) under a contract that took effect before 1 April 2011; or

- under a contract that takes effect between 1 April 2011 to 31 December 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the contract, including payments that are made beyond 31 December 2026 under that contract.

(c) Until 31 December 2026, specified entities are not required to withhold tax on all Section 12(6) payments made to any PE in Singapore if the payments are made:

- between 17 February 2012 to 31 December 2026 (both dates inclusive) under a contract that took effect before 17 February 2012; or

- under a contract that takes effect between 17 February 2012 to 31 December 2026 (both dates inclusive). In such cases, the specified entities do not need to withhold tax on all Section 12(6) payments that are made for the entire duration of the contract, including payments that are made beyond 31 December 2026 under that contract.

MAS will provide further details by 31 May 2021.

9. Extending the WHT exemption on payments made for structured products

The WHT exemption on payments for structured products has been extended for another five years to allow the WHT exemption on payments made to a non-individual, non-resident person (excluding any PE in Singapore) from structured products offered by a financial institution in Singapore if such payments made under a contract takes effect during the period from 1 January 2007 to 31 December 2026 (both dates inclusive).

[1] Specified entities are:
(a) Banks licensed under the Banking Act or merchant banks approved under the Monetary Authority of Singapore Act;
(b) Finance companies licensed under the Finance Companies Act; or
(c) Approved entities that are (i) licensed under the Securities and Futures Act for dealing in capital markets products and advising on corporate finance; (ii) involved or will be involved in the underwriting of debt or equity issuances; and (iii) approved by MAS for the purpose of the exemption.

MAS will provide further details by 31 May 2021.

10. Extending the WHT exemption on payments for over-the-counter ("OTC") financial derivatives

To encourage Singapore's value proposition and the competitiveness of her financial sector, the WHT exemption will be extended for another five years till 31 December 2026.

All payments on OTC financial derivatives made by a financial institution in Singapore to any non-resident person (excluding any PE in Singapore) are exempt from WHT, where such payments are made:

(a) between 20 May 2007 to 31 December 2026 (both dates inclusive) under a contract that took effect before 15 February 2007; or

(b) under a contract that takes effect between 15 February 2007 to 31 December 2026 (both dates inclusive). In such cases, the WHT exemption applies to the entire duration of the OTC financial derivatives contract, including payments that are made beyond 31 December 2026 under that contract.

MAS will provide further details by 31 May 2021.

11. Extending the Not-for-Profit Organisation ("NPO") tax incentive

The NPO tax incentive, subject to the conditions being satisfied, provides tax exemptions on income derived by an approved NPO under section 13U.

To continue attracting NPOs to Singapore, the NPO tax incentive will be extended until 31 December 2027.

12. Allowing the Automation Support Package ("ASP") to lapse but retaining the 100% Investment Allowance ("IA") scheme to support automation

The ASP includes 100% IA support on the amount of approved capital expenditure, net of grants, for automation projects approved by ESG (subject to a cap of $10 million per project). It will lapse after 31 March 2021.

Moving forward, schemes including the Enterprise Development Grant, the IA scheme and the Enterprise Financing scheme will remain available to support businesses in their automation, productivity, and scale-up efforts.

In particular, the 100% IA scheme to support automation will be extended by two years for automation projects approved by ESG from 1 April 2021 to 31 March 2023.

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13. Extending and enhancing the Investment Allowance (Energy Efficiency) ("IA-EE") scheme

The IA-EE scheme, which provides for investment allowance for EE improvement projects, has now been renamed as the Investment Allowance for Emissions Reduction ("**IAER**") scheme.

Under the revised IAER scheme, there has been an expansion in the scope of qualifying projects involving a reduction of greenhouse gas emissions. Also, unlike the IA-EE scheme which had additional qualifying conditions for data centres, the streamlined and updated eligibility conditions under the IAER scheme apply to all projects without a distinction between data centres and non-data centres. These revised conditions will apply to projects approved by EDB from 1 April 2021 to 31 December 2026 (both dates inclusive).

14. Allowing the Insurance Business Development-Specialised Insurance ("IBD-SI") scheme to lapse

The IBD-SI scheme, which is under the IBD umbrella scheme, provides for a concessionary tax rate of 8% and 10% for new and renewal award recipients respectively on qualifying income derived by a (re)insurer from carrying on specialised insurance and reinsurance business.

As scheduled, the IBD-SI scheme will lapse after 31 August 2021. Moving forward, insurers engaged in the specialised insurance and reinsurance business can apply for the IBD scheme.

15. Withdrawing the Accelerated Depreciation Allowances for Highly Efficient Pollution Control Equipment ("ADA-PCE") scheme

The ADA-PCE scheme enables a taxpayer who incurs capital expenditure to install qualifying highly efficient pollution control equipment ("**PCE**") to accelerate the write-off of the cost of acquiring such equipment over one year. The ADA-PCE scheme will be withdrawn from 17 February 2021.

Emerging Stronger as a Community: Encouraging Philanthropy and Volunteerism

16. Extending the 250% tax deduction for qualifying donations

In Budget 2018, the 250% tax deduction for qualifying donations was extended to 31 December 2021.

To continue to encourage giving, subject to conditions being satisfied, the 250% tax deduction for qualifying deductions made to Institutions of a Public Character ("**IPCs**") and other qualifying recipients has been extended for two years (i.e. donations made between 1 January 2022 to 31 December 2023, both dates inclusive).

17. Extending the Business and IPC Partnership Scheme ("BIPS")

To continue encouraging corporate volunteering, the BIPS has been extended for two years till 31 December 2023.

Under the BIPS, subject to conditions being satisfied, businesses will enjoy a 250% tax deduction on qualifying expenditure such as wages incurred by the person from 1 July 2016 to 31 December 2023 in respect of:

(a) the provision of services by the person's qualifying employee to an IPC during that period; or
(b) the secondment of the person's qualifying employee to an IPC during that period.

Encouraging Early Adoption of Electric Vehicles

18. Enhancement of the Electric Vehicle Early Adoption Incentive

A 45% rebate off the Additional Registration Fee ("**ARF**") was to be given for electric cars and taxis between January 2021 to December 2023, at a cap of $20,000 and an ARF floor of $5,000. However, from January 2022 to December 2023, while the cap of $20,000 remains, the ARF floor has been lowered to $0.

Environmental Sustainability

19. Revision to petrol duty rates

The duty rate for premium grade petrol (unleaded, RON 97 and above) has been increased from $0.64 per litre to $0.79 per litre. Similarly, the duty rate for intermediate grade petrol (unleaded, RON 90 and above but under RON 97) has been increased from $0.56 per litre to $0.66 per litre.

20. Transitional offset measures for vehicles using petrol

To ease the transition to the above-mentioned revised petrol duty rates, a road tax rebate will be provided for petrol and petrol-hybrid vehicles effective from 1 August 2021 to 31 July 2022.

This rebate will be at:

(a) 15% for cars, including taxis and private hire cars ("**PHCs**");
(b) 60% for motorcycles; and
(c) 100% for commercial vehicles.

On top of the 15% road tax rebate, active drivers of taxis and PHCs using petrol will receive an additional Petrol Duty Rebate of $360 to be paid out over four months in view of their higher mileage. Similarly, on top of the 60% road tax rebate, individual owners of motorcycles using petrol that are registered as at 16 February 2021 will receive an additional petrol duty rebate depending on the engine capacity of the motorcycle. This additional petrol duty rebate is $80 where the engine capacity is less than 200 cc, $50 where the engine capacity is between 201 cc to 400 cc, and nil where the engine capacity is above 400 cc.

The Land Transport Authority will provide further details on the additional Petrol Duty Rebates for taxi and PHC drivers and individual motorcycle owners in April 2021.

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