#TransformNow
#ReimagineDigital

Rethink, reimagine, transform now

PwC's proposals for Budget 2021

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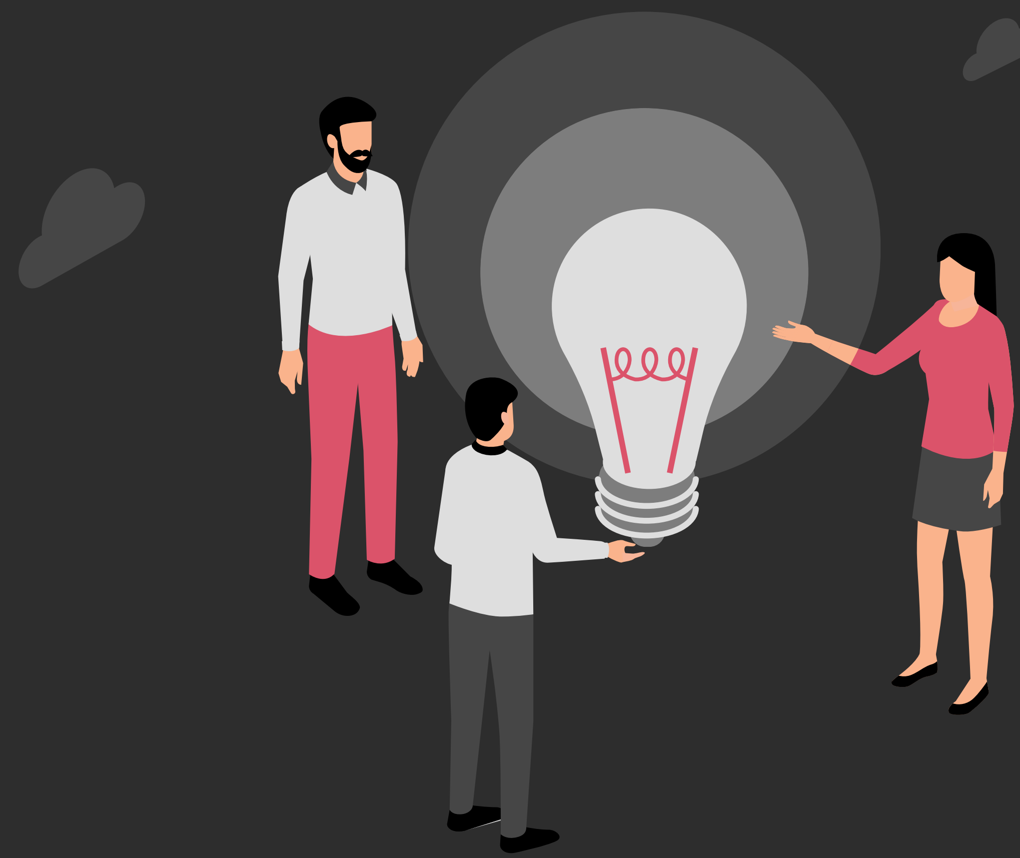


01

Supporting economic transformation

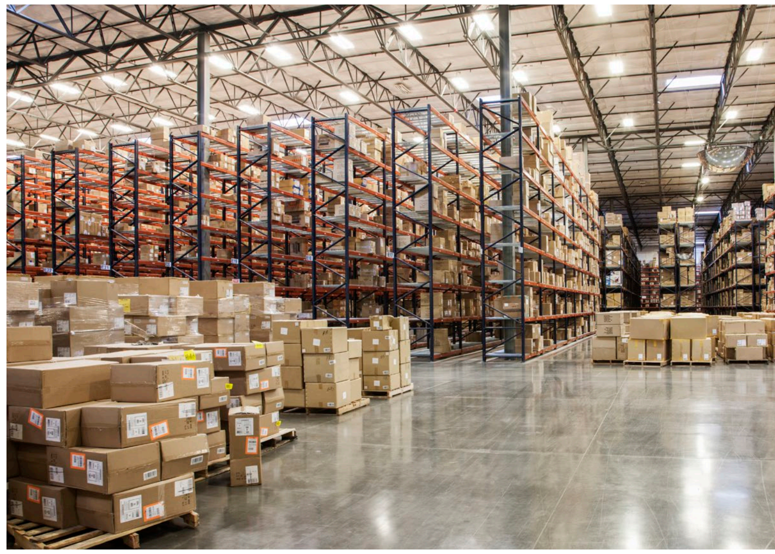
Trade

Some of the key initiatives that Singapore can take to continue making it attractive for companies to invest in operations in Singapore despite the increasing pressure on tax incentive schemes could include:

1. Specific manufacturing

Manufacturing has and should always be a cornerstone of the Singapore economy, regardless of its success in the services industries. In many cases, core manufacturing will support the growth of the services industry as well, including the attraction of whole ecosystems.

Given Singapore's relatively high cost basis compared to neighbouring economies, priority focus should be given to industries that are low on labour and overhead demands, but where final stage processing can economically and viably be carried out in Singapore. Examples of these industries include final stage food processing and advanced bio-engineering. At the same time, this processing should increase the ability of companies to benefit from Singapore's wide and strong Free Trade Agreement (FTA) network which would offset the probably higher cost base (including land cost) perspective in overseas markets.



2. SME support

Focus should be on the same purpose as above, i.e. specifically on enhanced use of FTAs, either through direct exports or by supporting companies that are processing in Singapore and require such small and medium-sized enterprises' (SMEs') inputs. Making it easier for SMEs to meet the FTA requirements, perhaps through an industry-wide FTA approach that is technology based, would go a long way in achieving this goal. For SMEs to meet the requirements of an FTA, which involves determining whether a product made meets the FTA qualifying criteria, technology can be a key enabler to document or certify that accordingly. For example, a tool that would allow companies to upload bills of material so that they can be analysed for meeting the value-add qualifying criteria of specific FTAs would be useful to many SMEs.

3. Mutual recognition agreements

Further investment in mutual recognition agreements or agreements with foreign governments in relation to single windows for reporting and compliance with import and export related regulatory requirements will also enhance Singapore's attractiveness as an international trading hub. Not only should further agreements be pursued, existing agreements need to be better implemented and promoted so that it is clear to companies what practical benefits they are actually getting.

Digitalisation

1. Concessions to help companies digitalise

Local start-up enterprises will have to incur expenditure that spans from hardware infrastructure costs to labour costs of digitising data, information migration and staff training. In this regard, targeted reliefs and funding would help businesses alleviate the investment cost of going digital, and encourage them to digitise their data and modernise their processes, e.g. relief for expenditure such as the gathering, analysis and utilisation of big data would encourage the adoption and use of data analytics.

To safeguard revenue and reward investments in productivity, the scheme can be tied to the Government's current areas of focus; for example, companies which have invested in staff training and are able to demonstrate incremental job creation (local hires) alongside the staff training programmes for the year could opt for a co-funding scheme or be given enhanced allowances / deductions.

2. Grants to local businesses should not be restricted by shareholding

To kick-start businesses' adoption of technology and push for initiatives to upgrade, grants like the Productivity Solutions Grant (PSG) and the Enterprise Development Grant (EDG) are available for SMEs. However, an eligibility requirement for these grants is that there must be a minimum of 30% local shareholding.

Promising local companies that have been acquired by private equity funds often are no longer able to meet the minimum local shareholding criterion as a result. However, many of these homegrown companies continue to have a strong local presence with a strong base and operations in Singapore. The broad objective of these grants is to support local businesses in their transformation. The grants should therefore be extended to such companies in light of their operations and presence in Singapore.

3. Cybersecurity and data security risks

Cybersecurity breaches and loss of data can result in the loss of productivity, loss of personal and business information and financial loss, and repercussions of cyber-attacks may extend beyond the affected company. The current economic climate is accelerating the adoption of digitalisation by businesses, and the importance of cybersecurity should not be overlooked. The cost of security tools such as firewalls and detection sensors add to the already substantial investment that businesses have to make when they digitalise. Although the SME Go Digital Programme supports SMEs with pre-approved solutions as well as funding part of the costs under the PSG, medium-sized to larger corporations do not qualify for such aid and are more likely to require advanced or customised solutions due to the size and complexity of the business. Data security at any level of business is necessary and should be encouraged to facilitate Singapore's efforts to be a trusted digital economy as a whole, and to preserve that trust in a digitally connected world.

To encourage a wider adoption beyond the initial jumpstart of digital security systems, companies that do not benefit from the SME Go Digital Programme should be allowed to claim enhanced tax deductions or enhanced capital allowances for costs incurred to safeguard against cyber security and data security risks, including consultation and professional fees in the design and implementation of the integrated digital systems.

Companies that invest in cybersecurity systems and other digitalisation tools should also be given the option to convert capital allowances on such expenditure into cash grants (as was available in the past under the PIC Cash Payout scheme). This would give companies immediate help to finance their digitalisation initiatives.

4. Regional centre of excellence for artificial intelligence

Many organisations are still in the early stages of adoption of artificial intelligence (AI) capabilities, although this is expected to be the next big driver of industry development and change for the future. Specific incentive programmes could be introduced to help Singapore become a regional centre of excellence in AI, such as:

- attract leading AI vendors/catalysts to set up their regional headquarters in Singapore;
- support local "deep-tech" businesses to further develop their capabilities and offerings in this area, and
- encourage and help Singapore businesses expand into the region.

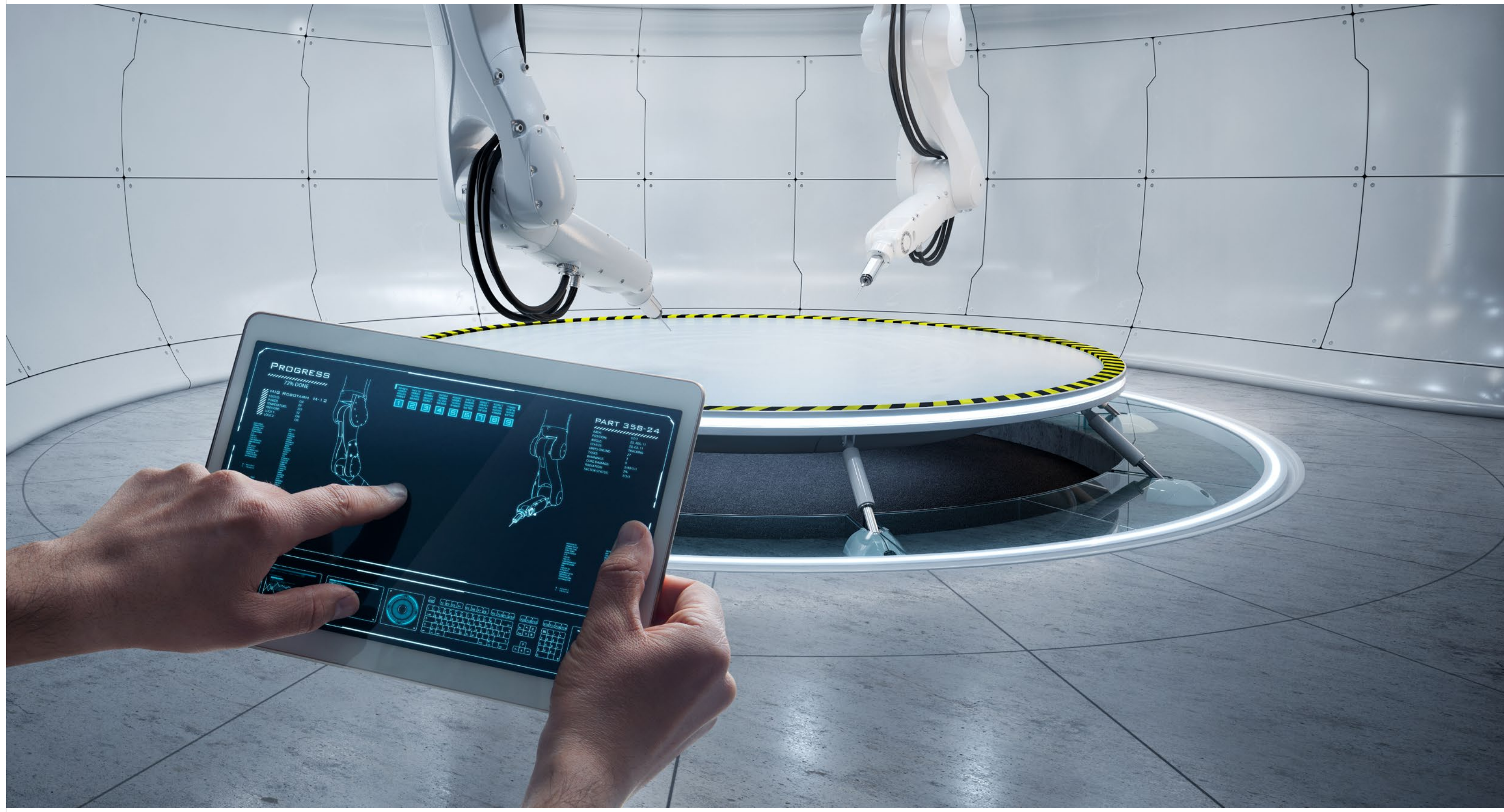
Whilst there are already some programmes in place to support these objectives, this can be further enabled through more dedicated support, such as the development of new trusted regulatory standards and safeguards around ethical AI usage to establish Singapore as the regional "trusted AI hub", and through dedicated AI upskilling programmes at industry sector levels.

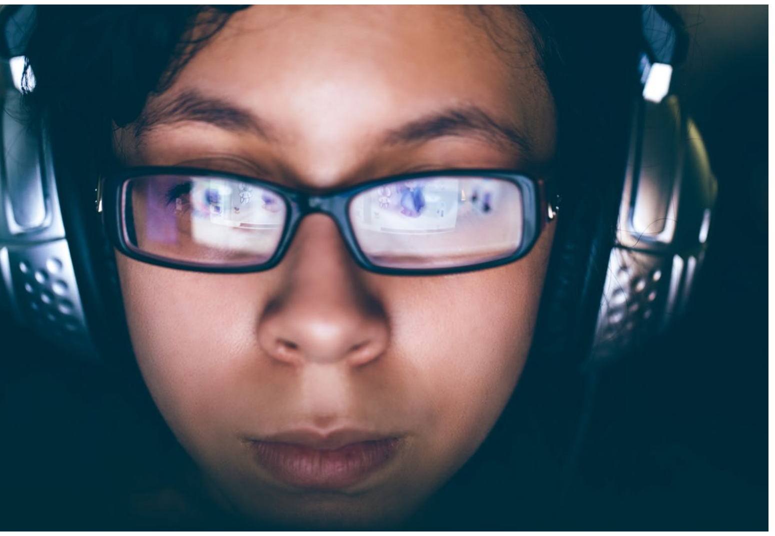
Inclusive growth

Job stability and progression are key to the stabilisation and growth of our economy. This involves the upskilling, reskilling and positioning of Singaporeans and Singapore residents for suitable opportunities, as well as remaining a conducive environment for global talent.

1. Digital coach programmes for SMEs

There are many support packages available to promote the acceleration of digital transformation, particularly for SMEs and entities in high growth sectors. However, many SMEs often do not have the requisite digital knowledge and manpower capabilities to evaluate and execute digital transformation strategies. The Government could consider co-funding a programme with the private sector to employ dedicated individuals, or "digital coaches", to advise and mentor business leaders from SMEs and companies from selected industry sectors to accelerate their digital adoption. This programme could be introduced to support industry-wide digital upskilling initiatives under the various Industry Transformation Maps (ITMs). It could also help to create jobs through the reskilling and employment of digital coaches.





2. Upskilling sabbatical programmes for larger companies

To better prepare employees for the future needs of the economy, a programme for larger companies to enable a co-funded approach for mid-career employees to accept reduced wages while taking time out, e.g. three, six or 12-months, to reskill and upskill themselves through accredited digital learning programmes could be considered. Businesses may be better able to support this with some government funding, support and endorsement - particularly for organisations in the hardest-hit sectors e.g. aviation, tourism-related, that may be currently overstaffed.

3. Cross industry job matching platform

Jobseekers are usually focused on roles they are familiar with and may not have sufficiently explored lateral opportunities in other industries which could cross leverage their skillsets (e.g. hospitality professionals working in the healthcare sector). A national talent marketplace could provide the opportunity to match skills and jobs, identify job adjacencies and create job corridors that cut across industry sectors. This could further support Singapore by connecting displaced roles and people to upcoming jobs and thereby creating a balance in the demand and supply of the working population across industry sectors. A national talent marketplace, administered by the National Jobs Council for example, can identify the sectors where there is a higher workforce demand and the required skills to be matched by another sector. The Government can consider partnering the private sector to co-develop the AI-driven solutions necessary to create the national talent marketplace, or to enhance existing platforms such as MyCareersFuture Singapore, to widen the match for jobs by skills and attributes across industry sectors.

4. Extend SGUnited Jobs and Traineeship programme

Currently, the SGUnited Traineeships programme is aimed at students who have recently graduated or will soon be graduating. Organisations are generally respecting hiring commitments this year despite the unprecedented economic downturn.

However, not many organisations can be expected to commit to the same level of new graduate hires in the next few years with the tightening of recruitment policies in these times of uncertainty. As a result, students graduating in 2021 and 2022 may not be able to secure permanent employment immediately upon graduation. We suggest extending the SGUnited Traineeships Programme to these students to give them traineeship opportunities across various sectors.

5. Global mobility and workforce

Organisations need to transform and have an increasingly flexible workforce to attract the best and brightest in Singapore. The impact of the pandemic has further progressed organisations' discussions for both a globally flexible workforce and a contingent workforce. To support and strengthen the nation, attractive wage co-payment and personal tax incentive schemes can be considered to incentivise companies to bring Singapore talent residing overseas back to Singapore.

6. Taxation of gains from employee share plans

Most countries' tax authorities follow the guidance of the Organisation for Economic Co-operation and Development (OECD) on sourcing of share-based reward in cross-border situations, i.e. that stock options (and other stock-related awards) should be sourced based on the number of days an individual has spent working in each country during the vesting period.

However, Singapore does not follow the global norm in this respect. Singapore tax legislation currently defines the source of an employee's rights to acquire shares based on whether the right or benefit to acquire shares is granted in respect of employment exercised in Singapore. Shares granted to an individual whilst working in Singapore which vest after he has been transferred to an overseas entity will still be considered fully taxable in Singapore, either under sections 10(6) or 10(7) of the Income Tax Act.

This presents two issues –

Firstly, many expatriate employees in Singapore face the issue of having their unvested stock awards being deemed to tax under section 10(7) and having to pay tax on such awards, leading to a liquidity crunch, since the equity awards are not yet vested, and hence cannot be disposed of to fund the taxes due on their departure.

Secondly, as the share awards are also likely to be taxable in the new destination country, this leads to double taxation on their share-based awards. With a time limitation to claim double tax relief in Singapore, awards that vest beyond this window are not allowed such relief.

The above misalignment of tax treatment with global norms makes Singapore a less attractive destination for foreign talent to relocate to Singapore. The deemed exercise rule on cessation of employment creates significant cash flow issues as set out above. One may argue that the Inland Revenue Authority of Singapore (IRAS) allows for an alternative "tracking option" to address this issue, but the qualifying as well as reporting rules for the tracking option are also quite stringent and onerous, and are often difficult to implement in practice.

Indeed, as companies look to bring in senior foreign talent resources to develop and train the next generation of leaders, the above impact is significant as

such foreign talent are often awarded significant shares (rather than cash bonuses) to align their goals with those of the company.

The potentially large cash outflow incurred under the deemed vest/exercise provision of section 10(7) as well as double taxation issues are significant deterrents in this regard.

Singaporeans going overseas to further their careers or find new business opportunities for Singapore-based enterprises also face the same issue, albeit to a lesser degree as they are not subject to section 10(7) and hence are not required to pay tax on deemed income at the point of departure. Nonetheless, they similarly face double taxation on share-based remuneration due to the differences in the sourcing of such income in Singapore compared to the basis adopted by most other countries pursuant to the OECD guidance, as well as the time limits within which such double tax claims should be made.

We suggest aligning Singapore's basis of taxation of share-based remuneration with the OECD Model Tax Convention's recommended approach, in order to avoid double taxation of such income, while at the same time dispensing with the deemed exercise provisions, and allowing for trailing share award reporting (in the same manner as trailing bonus).

Agriculture and food security

To safeguard against food supply disruptions, Singapore has set the target to produce locally 30% of her nutritional needs by 2030. This is one of the three key planks of Government to ensure the food security of Singapore. To achieve this, the agriculture and food industry will need to adopt new solutions to raise productivity and utilise innovative farming systems.

One of the key challenges to any viable and sustainable farming activity in Singapore is the high cost of production compared to neighbouring countries, where much of our food comes from. The Government could consider granting a concession for farming income.

Currently, the tax rules do not allow deduction for capital costs on the construction of buildings used for food farming purposes (this form of farming is likely to become more prevalent with vertical farming being promoted on land farms) as well as land lease premiums paid in a lump sum upfront for such buildings on land approved for food farming. The deduction for the cost of approved buildings used exclusively/almost exclusively for food farming could take the form of the Industrial Building Allowance (IBA) before it no longer applied to expenditure incurred on or after 23 February 2010 (IBA has been replaced by the Land Intensification Allowance which has quite a different policy objective). Deduction for upfront land premium could be on the same footing as the current section 14N of the Income Tax Act. These tax deductions could be administered by the Singapore Food Agency, with the necessary qualifying conditions legislated in the Income Tax Act to provide certainty.

To further support this initiative and encourage land productivity, the Government could consider extending the Land Intensification Allowance (LIA) to such sectors where certain buildings or structures need to be converted for this use. An example could be to include the industries under the Group 011 (Growing of crops, market gardening and horticulture) and Group 032 Operation of fish hatcheries and fish farms Sub-class 03201 (Food fish farms) of the Singapore Standard Industrial Classification 2020 as qualifying industries with the condition to adopt sustainable and vertical farming practices. Companies that manufacture urban farming equipment to facilitate these practices could also be considered.

The overall cost for this sector may be lowered further with subsidised land leases and GST suspension on the importation of specialised equipment and raw materials (e.g. fertilisers).

Should the Government decide to grant the proposed tax measures in support of the "30 by 30" initiative, it is necessary to highlight that those enterprises/persons which heeded the recent call of Government to submit tenders for food farming land and were awarded such land since 2018 with the necessary land use conditions to greatly enhance food production should be included for the purposes of the deductions, if the expenditures are qualifying expenditures.

02

Maintaining a resilient and progressive tax system

Virtual trade fairs

Given the current travel restrictions and various safe distancing measures in place, Singapore businesses can only conduct overseas promotional activities online - with the use of digital tools such as webinar or teleconference platforms. In order for the double tax deduction for internationalisation (DTDi) to continue to be relevant in the present circumstances and to achieve the objective of helping businesses reach overseas markets, the scheme should be extended to include expenses incurred by organisations to promote their products and services on digital platforms such as virtual trade fairs. Expenses would include IT and related costs like setting up a website, webinar platform charge (for platforms like WebEx, Zoom, GoogleMeet), filming / streaming crew charge, equipment, etc. A subscription to a webinar platform can range from $30,000 to $50,000, and the cost of a filming and editing crew range from $10,000 to $15,000 a day. The cost of hosting such events online can be as significant as a physical event held overseas. Depending on the industry, a company may incur expenses in the range of $50,000 to $100,000 per live event.

Deductions for borrowing costs

In today's uncertain economic climate, businesses may take up standby credit and similar facilities to better manage financial costs and cash flow in order to ensure they can sustain business operations. The upfront cost of securing these standby facilities could be viewed as capital in nature and hence not deductible. As such, the list of prescribed borrowing costs should be expanded to cover such borrowing costs regardless of whether the facilities are drawn down.

Alternatively, a "fixed ratio rule" akin to that proposed in the BEPS Action 4 Report (Limiting Base Erosion Involving Interest Deductions and Other Financial Payments) may be considered.

Carry forward of losses

It is not uncommon for start-up companies to bring in new investors at different stages of their development. This may result in a change in shareholders and possible forfeiture of the unutilised losses. Whilst it is possible to seek a waiver of the continuity of shareholders test from the IRAS, losses preserved by such an avenue are subject to the same trade test. Given the current economic climate, many businesses will have to diversify and/or seek new investors in order to survive. To promote enterprise and risk taking, we suggest that the same business test and continuity of shareholdings test be relaxed so that losses continue to be available with new investors coming aboard. This is to make it easier for these start-ups to raise capital and to venture into new fields. Possible safeguards to prevent abuse could include the requirement for existing shareholders to continue to hold a certain level of equity stake in the loss-making company (but below 50%) and restricting this relaxation to start-ups (to be defined).

Carry back of losses

The ability to carry back losses for set off against a prior year profit has the potential to provide relief to companies negatively affected in these challenging times. The cap on the amount of unutilised loss items a company is allowed to carry back should be removed altogether and companies should be allowed to carry back losses to any year of assessment that has not been time-barred.

This is also of particular relevance to insurers with exposure to natural catastrophe risks as they typically find themselves in cycles of profitable years and when a significant disaster occurs, in significant loss positions. The current carry-back loss relief system is grossly inadequate in view of the cyclical nature of writing natural catastrophe risks.

Improve our competitive advantage in the efficiency of tax administration

1. Flexibility in tax administration

The IRAS has in recent years allowed the tax treatment of certain income and expenses to follow the accounting treatment to reduce the administrative burden on taxpayers, where the difference is only one of timing. However, in cases where following the accounting treatment results in financial hardships, taxpayers should be allowed to opt out of and follow the general tax principles.

2. Medical benefits

As Singapore re-opens its borders for international travel and business trips resume, medical expenses for employees is expected to increase with the requirements in both inbound and outbound countries of travellers. For example, the costs of health check-ups, routine swab tests upon departure/arrival, treatment or hospitalisation may be paid by the employer especially if the travel required is for business reasons.

To reflect the rising costs for healthcare globally and to encourage employers to provide for their employees' healthcare needs, the cap on employer's tax deductions for medical benefits should be removed altogether as it is complex and a disproportionately large administrative burden given the revenue it collects. Similarly, GST input tax on medical expenses should be claimable (without restrictions).

Tax relief for premiums paid on medical-related or health insurance policies

Currently, there is no standalone tax relief available to individuals for premiums paid on medical-related or health insurance policies. Allowing a tax deduction that is not tied to Central Provident Fund contributions, subject to a cap of, say $5,000, for premiums paid for medical-related insurance by individuals for themselves or their family members (e.g. spouses, children, parents and parents-in-law) will encourage taxpayers to take ownership of their well-being and that of their families.

Enabling a tax write-off for health insurance premiums will not only encourage more taxpayers to take up health insurance policies for themselves and their families, but also offer them greater access to healthcare. The tax deduction could be subject to a cap which could be scaled according to age.

A tax relief for medical costs incurred by those over 50 years old for health screening every other year should also be considered, to encourage preventive healthcare. Perhaps a cap of $500 per year could be set, to be claimed every other year and on an incurred basis.

03

Easing the impact of these challenging times

Work from home

Work from home arrangements have become the default option for the first two phases after the end of the circuit breaker in June. Such arrangements pose operational challenges as companies are forced to fast forward their digital transformation and ensure controls operate as intended while operating in a remote working environment. Such arrangements are likely to continue beyond this year.

1. Deductions for home office usage

As telecommuting and home offices become increasingly common, employees who work from home should be given some personal tax relief as their residence and resources are partially used for employment purposes. The Government could consider introducing home office relief, which can be given as a percentage of expenses incurred or at a per-day rate.

2. GST for home office expenses

Currently, input tax relating to the purchase of office equipment for home use is not claimable if the equipment is given free to the employees (i.e. the company does not own the asset). In addition, input tax relating to work from home related expenses (e.g. mobile phone usage and utilities charges) is subject to apportionment if the expenses are incurred partly for business and partly for private purposes by the employees. To support businesses in adopting the work from home arrangement, we suggest that businesses be allowed to claim input tax in full on these expenses.

3. Stand over of taxes for protective assessments and extension of time to reply time-barred year queries

Delay in collation of legacy and historical information in relation to the upcoming time-bar year (i.e. Year of Assessment (YA) 2016) could be expected due to the work from home limitations. Companies should be allowed an extension of time until 30 June 2021 to reply to queries raised in relation to YA 2016. In addition, the Comptroller should grant companies a stand over without penalties (upon application) for protective assessments raised before the year end.

GST refunds

To help boost the demand in the hospitality sector during the COVID-19 period, we suggest:

1. allowing a GST refund of up to $500 per domestic consumer per year for ‘staycation’ expenses; and
2. extending the tourist refund to hotel accommodation and food and beverage expenses incurred by tourists.

Currently, the tourist refund scheme only covers goods brought out of Singapore. The above relief may be given for a limited period of time (e.g. one year for relief (1) and two years for relief (2)).

Corporate social responsibility

The Prime Minister, in his speech on 2 September 2020, acknowledged the contributions of corporates to Singapore’s COVID-19 response. In recognition of their philanthropy and to encourage ongoing contributions to society, double tax deductions should be allowed for the value of donations in kind, e.g. food and medical supplies such as face masks and sanitisers (that are not the company’s inventory) to frontline healthcare workers, foreign workers or other vulnerable groups such as elderly care homes. Similarly, organisations should also be allowed to claim input tax in full (without the need to account for deemed output tax) on donations of COVID-19 medical supplies and on initiatives to promote corporate social responsibility (e.g. distributing food and essential supplies to the needy).

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