

CLIENT MEMORANDUM

February 18, 2022

SINGAPORE BUDGET 2022

The 2022 Singapore Budget which was delivered on February 18, 2022 focused on “*Charting Our New Way Forward Together*”. It seeks to better position Singapore to face future challenges and opportunities as well as strengthen its social compact.

Despite headwinds brought by Covid-19 pandemic, global supply chain crisis, inflationary pressures and geopolitical tensions, the Singapore economy performed better than expected and is expected to grow by 3% to 5% in 2022.

The tax changes announced are intended to raise revenue collection so that Singapore can continue to fund major programmes, especially in healthcare as well as contribute to a fairer revenue structure. The anticipated Good and Services Tax (“GST”) tax increase from the current 7% to 9% will be implemented in 2 stages ie, a 1% increase effective from January 1, 2023 and another 1% increase from January 1, 2024.

The much debated wealth tax was not implemented as the Government acknowledges that many forms of wealth are mobile. The Government will continue to study and observe other countries’ experiences. For now, adjustments are made to the existing tax system through the increase in marginal tax rates for individuals earning more than S\$500,000 as well as increases in property tax for high end properties and the Additional Registration Fee (“ARF”) for luxury cars.

There is an update on the possibility of a minimum effective tax as a response to Pillar 2 under the Base Erosion and Profits Shifting initiative (“BEPS 2”). Singapore will study the introduction of a domestic top-up tax of 15% in order not to cede revenue to other countries. Singapore will need to work hard to maintain its attractiveness to foreign investment such as stable political system, pro-business environment and diverse talent pool.

To position local business for the future, there are plans to accelerate investment in digital capabilities and automate business processes to increase productivity as well as provide support for local SMEs to undertake R&D opportunities that form the basis of innovation. A new initiative “Singapore Global Enterprise” will be introduced to assist promising local enterprises to innovate, internationalise and foster partnerships with other firms. Singapore will continue to invest in the upgrade of its technological infrastructure.

To meet Singapore's commitment to tackle climate change, Singapore will increase its carbon tax from S\$5 per ton to S\$50 to S\$80 per ton by 2030. The revenue raised will be used to help local enterprises to make the green transition and seize opportunities in the green economy.

Singapore will continue to adjust its foreign worker policies to restrict foreign labour with a focus on higher skilled workers by increasing the minimum qualifying salary for employment pass as well as S Pass holders from September 2022. However, for the construction and process sectors which have difficulty obtaining local labour, the Dependency Ratio Ceiling ("DRC") for work permit holders will be reduced from the current 1:7 to 1:5 with effect from January 1, 2024. The DRC is the maximum permitted ratio of foreign workers to the total workforce that a company in the stipulated sector is allowed to hire.

Overall, these multifaceted measures will position Singapore to make long term structural changes and stronger to face the uncertainty of a post-pandemic future.

CORPORATE TAX MEASURES

1. Study the introduction of the Minimum Effective Tax Rate ("METR") Regime

The Organization of Economic Cooperation and Development ("OECD") has announced a global deal that has been agreed by more than 130 countries (including Singapore) to ensure large and profitable multinational enterprises ("MNEs") pay a global minimum tax rate of 15% from 2023.

The Ministry of Finance is exploring a top-up tax called the minimum effective tax rate, or "METR" in response to the global minimum tax rate of 15% under the Pillar 2 Global Anti-Base Erosion ("GloBE") rules of the BEPS 2.0 project.

The METR will apply to MNE groups operating in Singapore that have annual revenues of at least €750 million, as reflected in the consolidated financial statements of the ultimate parent entity. The METR will top up a MNE group's effective tax rate in Singapore to 15%.

The METR, if implemented eventually, will be aligned with the Pillar 2 GloBE rules as far as possible. The Inland Revenue Authority of Singapore ("IRAS") will study the METR further and consult industry stakeholders on the design of the METR.

2. Extend and enhance the Approved Royalties Incentive ("ARI")

The ARI provides tax exemption or a concessionary withholding tax ("WHT") rate on approved royalties, technical assistance fees, or contributions to research and development costs made to a non-tax-resident for providing cutting-edge technology and know-how to a company for the purpose of its substantive activities in Singapore. Currently, the approval for ARI is granted on an agreement-based approach. The incentive was scheduled to lapse after December 31, 2023.

To continue encouraging companies to leverage new technologies and know-how to develop the capabilities of our local workforce and capture new growth opportunities, the ARI will be extended till December 31, 2028. The ARI will also be simplified to cover classes of royalty agreements based on an activity-set-based approach.

EDB will provide further details of the changes by June 30, 2022.

3. Extend the Approved Foreign Loan (“AFL”) Scheme

The Approved Foreign Loan (“AFL”) scheme provides tax exemption or a concessionary WHT rate on interest payments made to a non-tax-resident for loans to a company to purchase productive equipment.

The AFL scheme was scheduled to lapse after December 31, 2023. To continue encouraging companies to invest in productive equipment for the purpose of conducting substantive activities in Singapore, the AFL scheme will be extended till December 31, 2028.

4. Extend the broad-based withholding tax (“WHT”) exemption for container lease payments made to non-tax residents under operating lease (“OL”) agreements

WHT exemption is allowed on container lease payments made to non-tax resident lessors (excluding payments derived from any operation carried on by the non-tax resident through its permanent establishment in Singapore) under an operating lease agreement for the use of qualifying containers for the carriage of goods by sea.

To continue supporting the local demand for containers, the WHT exemption has been extended for operating lease agreements entered into on or before December 31, 2027.

5. Extend the broad-based WHT exemption for ship and container lease payments under finance lease (“FL”) agreements for Maritime Sector Incentive (“MSI”) recipients

Under the MSI-SRS incentive, WHT exemption is allowed on ship and container lease payments made to non-tax resident lessors (excluding payments derived from any operation carried on by the non-tax resident through its permanent establishment in Singapore) under finance lease agreements for specified MSI recipients.

To keep pace with industry developments and continue developing Singapore as an international maritime centre, the above WHT exemption has been extended for finance lease agreements entered on or before December 31, 2028.

6. Extend the Aircraft Leasing Scheme (“ALS”)

The Economic Development Board (“EDB”)’s Aircraft Leasing Scheme (“ALS”), first introduced in 2007, is aimed at encouraging companies to develop aircraft leasing capabilities and grow the aircraft leasing industry in Singapore. To further capture growth opportunities for the industry, the ALS will be extended till December 31, 2027.

7. Enhance the Tax Incentive Scheme for Funds Managed by Singapore-based Fund Manager (“Qualifying Funds”)

Currently, qualifying funds managed by Singapore-based fund managers [i.e. basic tier funds (sections 13D and 13O schemes) and enhanced tier funds (section 13U scheme)] enjoy tax exemption on specified income derived from investment in physical commodities under the designated investment list, subject to the following conditions:

- a) the trading of the physical commodity must be incidental to the trading of the derivative commodity (“incidental conditions”); and
- b) the trade volume of such physical commodity is capped at 15% of the total trade volume of those physical commodities and related commodity derivatives (“the cap”).

With effect from February 19, 2022, the conditions imposed on the investments in physical Investment Precious Metals (“IPMs”) will be refined as follow:

- a) the incidental condition will be removed i.e. the investment in physical IPMs need not be incidental to the trading of derivative IPMs; and
- b) the cap will be revised to 5% of the total investment portfolio for the taxpayer’s incentive award under sections 13D/13O/13U of the ITA.

8. Extend and rationalise the WHT exemption for the financial sector

The withholding tax (“WHT”) exemptions for the financial sector in respect of the following payments will be extended and rationalised:

- i. The existing WHT exemption for the following payments which is scheduled to lapse after December 31, 2022, will be extended till December 31, 2026:
 - a) Payments made under cross currency swap transactions by Singapore swap counterparties to issuers of Singapore dollar debt securities;
 - b) Interest payments on margin deposits made under all derivatives contracts by approved exchanges, approved clearing houses, members of approved exchanges and members of approved clearing houses;
 - c) Specified payments made under securities lending or repurchase agreements by specified institutions; and
 - d) Payments made under interest rate or currency swap transactions by Monetary Authority of Singapore (“MAS”).

This will cover payments made under a contract or agreement that takes effect on or before December 31, 2026.

- ii. The existing WHT exemption for payments made under interest rate or currency swap transactions by financial institutions will be allowed to lapse after December 31, 2022. Such payments can be covered under the existing WHT exemption for payments on over-the-counter financial derivatives.

MAS will provide any consequential details by May 31, 2022.

9. **Extend and rationalise the tax incentives for Project and Infrastructure Finance**

The following tax incentive schemes for Project and Infrastructure Finance (which are scheduled to lapse after December 31, 2022) will be extended till December 31, 2025:

- a) Exemption of qualifying income from qualifying project debt securities; and
- b) Exemption of qualifying foreign-sourced income from qualifying offshore infrastructure projects/assets received by approved entities listed on the Singapore Exchange (“SGX”).

However, no extension will be granted for the tax incentive scheme i.e. concessionary tax rate of 10% on qualifying income derived by an approved Infrastructure Trustee-Manager/Fund Management Company from managing qualifying SGX-listed Business Trusts/Infrastructure funds in relation to qualifying infrastructure project/assets. It will lapse after December 31, 2022 (“ITMFM Scheme”). Existing ITMFM Scheme recipients will continue to enjoy the tax benefits for the remaining tenure of their existing awards.

MAS will provide any consequential details by May 31, 2022.

10. **Extend the Tax Framework for Facilitating Corporate Amalgamations under Section 34C of the Income Tax Act (“ITA”) to Licensed Insurers**

Currently, the tax framework under Section 34C of the Income Tax Act (“ITA”) treats qualifying corporate amalgamations as a continuation of the existing businesses of the amalgamating companies by the amalgamated company for tax purposes.

The tax framework will be extended to cover amalgamation of Singapore-incorporated companies involving a scheme of transfer¹ under Section 117 of the Insurance Act 1966 (“IA”), where the court order for the confirmation of the scheme referred to under Section 118 of the IA is made on or after November 1, 2021.

The extension of the framework is subject to conditions, which include the following:

- a) The amalgamated company takes over all property, rights, privileges, liabilities, and obligations, etc. of the amalgamating company on the date of amalgamation; and
- b) The amalgamating company becomes dormant (i.e. ceases to conduct any business or any other activities, and does not derive any income) on the date of amalgamation and remains so until it is dissolved or wound up; and
- c) The amalgamating company is dissolved or wound up before the filing due date of the income tax return for the Year of Assessment (“YA”) related to the basis period in which the scheme of transfer was effected.

The tax treatment under the tax framework will apply with modifications where appropriate.

IRAS will provide further details of the changes by October 31, 2022.

¹ To amalgamate with other licensed insurers, licensed insurers may be required to transfer their insurance-related businesses through a scheme of transfer and hence, cannot transfer these businesses through a statutory voluntary amalgamation under CA. Following the scheme of transfer, the insurers will not automatically cease to exist and will have to undergo the usual process of winding up or dissolution.

11. Allow the Integrated Investment Allowance (“IIA”) Scheme to lapse

The IIA scheme, first introduced in Budget 2012, provides companies that wish to carry out projects outside of Singapore with additional allowance on top of capital allowance claim for qualifying offshore plant and equipment.

As part of the ongoing effort to review the relevance of tax incentives, the Government will allow the IIA scheme to lapse after December 31, 2022.

GOODS AND SERVICES TAX (“GST”) MEASURES

1. Increase in GST rate

The current rate is 7% since July 1, 2007. The GST rate will be increased in 2 steps:-

- From 7% to 8% with effect from January 1, 2023.
- From 8% to 9%, with effect from January 1, 2024.

2. Updating the GST treatment for travel arranging services²

Currently, services comprising the arranging of international transport of passengers and the arranging of insurance related to such transportation are GST zero-rated (0%).

For services comprising the arranging of accommodation, the GST treatment are as follows:-

- a) Property in Singapore – GST standard-rated (7%).
- b) Property located outside Singapore – GST zero-rated (0%).

With effect January 1, 2023, the basis for determining whether zero-rating applies to a supply of travel arranging services will be based on the place where the customer (i.e. the contractual customer) and direct beneficiary of the service belongs.

A supply of travel arranging services to:

- i. Local customer will be subject to GST.
- ii. Customers who belong outside Singapore and the direct beneficiary of such services either belongs outside Singapore or is GST-registered in Singapore, will be zero-rated.

This change will ensure that the GST rules accurately reflect the place of consumption of the travel arranging services.

IRAS will provide further details on the changes by July 31, 2022.

² Travel arranging services refer to services comprising the arranging of international transport of passengers and the arranging of insurance related to such transportation; and services comprising the arranging of accommodation. The change will not affect the GST treatment of the supply of the underlying travel product such as international air tickets, hotel accommodation and travel insurance.

INDIVIDUAL TAX MEASURES

1. Enhance the progressivity of Personal Income Tax (“PIT”) of tax-resident individual taxpayers

The current top marginal personal income tax rate is 22% for chargeable income (“CI”) exceeding S\$320,000. With effect from Year of Assessment (“YA”) 2024, CI exceeding S\$500,000 will be subject to higher marginal rates as follows:

- CI exceeding S\$500,000 up to S\$1 million will be taxed at 23%,
- CI exceeding S\$1 million will be taxed at 24%.

Please refer to Appendix 1 for the details of the current and new additional marginal rates.

Correspondingly, with effect from YA 2024, the PIT for non-tax-resident individuals (except on employment income and certain income taxable at reduced withholding rates) will be raised from 22% to 24%.

2. Enhance the progressivity of property tax for owner-occupied residential property

Currently, owner-occupied residential properties are taxed at a concessionary progressive property tax rate schedule as follows:

Annual Value	Property Tax Rate for Owner-occupied Residential Properties
First S\$8,000	0%
Next S\$47,000	4%
Next S\$15,000	6%
Next S\$15,000	8%
Next S\$15,000	10%
Next S\$15,000	12%
Next S\$15,000	14%
Above S\$130,000	16%

The progressive property tax rates for owner-occupied residential properties will be increased for the portion of Annual Value in excess of S\$30,000. The increase will take place gradually over two years as follows:

Annual Value	Property Tax Rate for Owner-occupied Residential Properties	
	Effective January 1, 2023	Effective January 1, 2024
First S\$8,000	0%	0%
Next S\$22,000	4%	4%
Next S\$10,000	5%	6%
Next S\$15,000	7%	10%
Next S\$15,000	10%	14%
Next S\$15,000	14%	20%
Next S\$15,000	18%	26%
Above S\$100,000	23%	32%

The final progressive property tax rates of up to 32% will take effect for property tax payable from January 1, 2024.

3. Enhance the progressivity of property tax for non-owner-occupied residential property

Currently, non-owner-occupied (such as vacant, let-out or investment) residential properties are taxed at a progressive property tax rate schedule as follows:

Annual Value	Property Tax Rate for Non-owner-occupied Residential Properties
First S\$30,000	10%
Next S\$15,000	12%
Next S\$15,000	14%
Next S\$15,000	16%
Next S\$15,000	18%
Above S\$90,000	20%

The progressive property tax rates for all non-owner-occupied residential properties will be increased gradually over two years as follows:

Annual Value	Property Tax Rate for Non-owner-occupied Residential Properties	
	Effective January 1, 2023	Effective January 1, 2024
First S\$30,000	11%	12%
Next S\$15,000	16%	20%
Next S\$15,000	21%	28%
Above S\$60,000	27%	36%

The final progressive property tax rates of up to 36% will take effect for property tax payable from January 1, 2024.

4. Extend the WHT exemption for non-resident mediators

Currently, income derived by non-tax-resident mediators from mediation work carried out in Singapore is exempt from tax, provided the following conditions are satisfied:

- i. The mediator is a non-resident of Singapore for Income Tax purposes;
- ii. The mediator is certified under an approved certification scheme³ / conducts mediation administered by a designated mediation service provider⁴; and
- iii. The mediation case is undertaken in Singapore or was planned to be undertaken in Singapore but was settled before the mediation hearing.

The WHT exemption for mediation work(which is scheduled to lapse after March 31, 2022) will be extended till March 31, 2023.

³ SIMI Certified Mediator – certified by the Singapore International Mediation Institute

⁴ This refers to the Singapore International Mediation Centre

Effective April 1, 2023, non-tax-resident mediators who derive income from mediation work carried out in Singapore will no longer be exempted from WHT and shall be subject to a concessionary WHT rate of 10% on gross income, subject to conditions. This concessionary WHT rate will apply till December 31, 2027.

Alternatively, the non-resident mediators may elect to be taxed at 24% on net income from YA 2024 onwards.

5. Extend the WHT exemption for non-tax-resident arbitrators

Currently, payment made non-resident arbitrators are exempted from WHT if the arbitrators are appointed for any arbitration governed by the Arbitration Act / International Arbitration Act or would have been governed by either of those Acts had the arbitration been in Singapore. The WHT exemption (which is scheduled to lapse after March 31, 2022) will be extended to March 31, 2023.

With effect from April 1, 2023, gross income derived by non-tax resident arbitrators from arbitration work carried out in Singapore will be subject to a concessionary WHT rate of 10%, subject to conditions. This concessionary WHT rate will apply till December 31, 2027.

Alternatively, the non-resident arbitrators may elect to be taxed at 24% on net income from YA 2024 onwards.

ADMINISTRATION

Facilitate disclosure of company-related information for official duties

To facilitate data-driven policymaking, operations and integrated service delivery, amendments will be made to Section 6 of the ITA and Goods & Services Tax Act (“GSTA”) to facilitate the disclosure by IRAS for such purposes:

- a) where the taxpayers have provided consent, to disclose taxpayer’s information to a public officer (or any other authorised person outside the public sector who is engaged by the Government or a statutory board) for the performance of his official duties. Currently, the taxpayer’s information can only be disclosed to such public officer or authorised person for the performance of his official duties in administering any written law or public scheme.
- b) In addition, the IRAS can disclose a prescribed list of identifiable information on companies to public sector agencies for the performance of official duties without the taxpayer’s consent. The sharing of identifiable company-related information within the public sector will be conducted without the need for taxpayer’s consent. Any such information shared will be made less granular by IRAS to preserve the taxpayer’s confidentiality, while remaining useful to the public sector agencies. For instance, the prescribed list will include the sales revenue band an identified company belongs to, but not the exact value of its sales revenue. In addition, such information will not be disclosed to any person outside the public sector even if the person is engaged by the Government or a statutory board.

OTHER TAX CHANGES

Introduce new Additional Registration Fee (“ARF”) tier for cars

A new vehicle tax tier (i.e. Additional Registration Fee (“ARF”)) was introduced to improve progressivity in the vehicle tax system. Whilst there are no changes to the existing ARF rates for vehicles with an Open Market Value (“OMV”) of S\$80,000 and below, a new tier has been added to tax on OMV vehicles exceeding S\$80,000.

The new rate will apply to all cars, including imported used cars and goods-cum-passenger vehicles with effect from the second Certificates of Entitlement (“COEs”) bidding exercise in February 2022 onwards.

	Current ARF rate		New ARF rate
First S\$20,000 of OMV	100% of OMV	First S\$20,000 of OMV	100% of OMV
Next S\$30,000 of OMV (i.e. S\$20,001 to S\$50,000)	140% of OMV	Next S\$30,000 of OMV (i.e. S\$20,001 to S\$50,000)	140% of OMV
Above S\$50,000 of OMV (i.e. S\$50,001 and above)	180% of OMV	Next S\$30,000 of OMV (i.e. S\$50,001 to S\$80,000)	180% of OMV
		Above S\$80,000 of OMV (i.e. S\$80,001 and above)	220% of OMV

Vehicles that do not require COEs, such as taxis and classic cars will apply the new ARF structure on February 19, 2022.

Further details will be announced by the LTA.

FURTHER INFORMATION

Should you have any queries as to how these developments may impact your business, please do not hesitate to get in touch with your usual contact at Pioneer Associates; or please write and call us on:

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APPENDIX 1

CHANGE IN INDIVIDUAL INCOME TAX RATES

CURRENT				WITH EFFECT FROM YA 2024			
	Chargeable Income	Tax Rate	Gross Tax Payable		Chargeable Income	Tax Rate	Gross Tax Payable
	S\$	%	S\$		S\$	%	S\$
On the first	20,000	0	0	On the first	20,000	0	0
On the next	10,000	2	200	On the next	10,000	2	200
On the first	30,000	-	200	On the first	30,000	-	200
On the next	10,000	3.5	350	On the next	10,000	3.5	350
On the first	40,000	-	550	On the first	40,000	-	550
On the next	40,000	7	2,800	On the next	40,000	7	2,800
On the first	80,000	-	3,350	On the first	80,000	-	3,350
On the next	40,000	11.5	4,600	On the next	40,000	11.5	4,600
On the first	120,000	-	7,950	On the first	120,000	-	7,950
On the next	40,000	15	6,000	On the next	40,000	15	6,000
On the first	160,000	-	13,950	On the first	160,000	-	13,950
On the next	40,000	18	7,200	On the next	40,000	18	7,200
On the first	200,000	-	21,150	On the first	200,000	-	21,150
On the next	40,000	19	7,600	On the next	40,000	19	7,600
On the first	240,000	-	28,750	On the first	240,000	-	28,750
On the next	40,000	19.5	7,800	On the next	40,000	19.5	7,800
On the first	280,000	-	36,550	On the first	280,000	-	36,550
On the next	40,000	20	8,000	On the next	40,000	20	8,000
On the first	320,000	-	44,550	On the first	320,000	-	44,550
In excess of	320,000	22		On the next	180,000	22	39,600
				On the first	500,000	-	84,150
				On the next	500,000	23	115,000
				On the first	1,000,000	-	199,150
				In excess of	1,000,000	24	