SINGAPORE BRIEFING

Singapore Budget 2022

February 2022

On 18 February 2022, Mr Lawrence Wong delivered his first Budget announcement in his capacity as the Minister of Finance. This year's Budget – "Charting our way forward together", laid out the government's vision for Singapore as a place to study, work and to live.

We provide our salient takeaways for Budget 2022, with a focus on the key changes and our thoughts on the proposed changes. For the comprehensive Budget statement and changes, please visit: https://www.mof.gov.sg/singaporebudget/budget-2022/budget-statement

1. The Big Picture

From a high level, we observe that Covid-19 support measures were rightfully not the main focus this year as Singapore progresses to living with the virus. Rather, on-going up-skilling and supporting employees to gear up to develop critical skills are given emphasis. We also see more being done to uplift the salaries of low wage workers who were badly hit from the pandemic, and inflation.

Singapore wants and needs to continue its dependence on foreign labour given its ageing population. By 2030, one in four Singaporeans will be 65 or over. With this, healthcare expenditure is set to increase significantly and there is an immediate need for Singapore to increase its revenue to meet the projected increase in expenditure. With tax revenue being the Singapore's main source of income, increasing taxes was the natural solution.

The decision to increase taxes was not taken lightly. The Goods and Services Tax ("GST") will increase to 8% by 1 January 2023 and 9% by 1 January 2024. Increases to the top end of personal income tax rates, property tax for residential properties, tax on luxury cars and carbon tax rates for the future were announced. These tax rate increases directly impacts everyone in Singapore, with the higher income earners shouldering much of the burden. The Government shared their position that everyone has a share in the country and hence, we should be paying our fair share of taxes: for those who are able, they should contribute more.

It is heartening to see the Government of the day being financially prudent and transparent in explaining to the public the need to increase taxes (which is a highly unpopular move). With the worst of Covid-19 being over (hopefully), there is no better time to remind Singapore on the need to save up for future unforeseen events. Singapore was able to draw down on the past reserves that were painstakingly built up over the decades.

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2. Key highlights for Businesses

From Covid-19 support to Post Covid-19 opportunities

The pandemic has accelerated the adoption of digital technology for businesses. Hence, Singapore will continue to invest in future technologies to strengthen our digital capabilities.

Support for Small and Medium Enterprises (“SME”) to adopt digitalization in the form of grants are available under the Productivity Solutions Grant (“PSG”). The scheme provides up to 80% support on pre-scoped IT solutions, hardware and consultancy services. Broadly, applicants for PSG must have at least 30% local shareholding. The annual turnover must be less than S$100 million or has less than 200 employees.

For larger enterprises whose needs are to grow beyond Singapore would need more customized assistance, the Singapore Global Enterprises (“SGE”) initiative will be helpful. A new Singapore Global Executive Programme (“SGEP”) will help attract and nurture the next generation of business leaders through industry and overseas attachments, mentorships and peer support networks. Details of SGE and SGEP shall be unveiled soon.

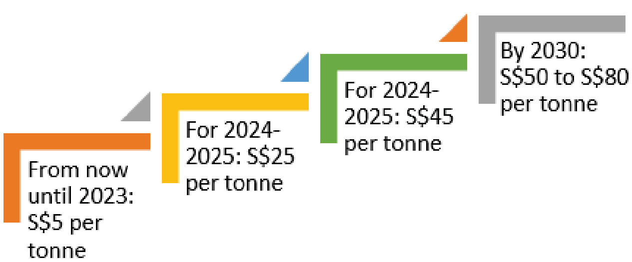
Minimum Effective Tax Rate (METR) Regime

Under Pillar 2 of the BEPS 2.0 initiative, global enterprises with annual revenue of €750 million on a group level will be subject to a minimum tax rate of 15%. Whilst Singapore’s corporate tax rate stands at 17% (before partial exemption), tax incentives were used to attract global enterprises to set up regional headquarters, financial treasury centres, etc in Singapore. These businesses would normally have a much lower effective tax rate than 15%. In other words, Singapore had sacrificed tax revenue to attract global enterprises to Singapore which in return, provided employment opportunities for Singaporeans amongst other benefits.

Hence, Singapore is poised to implement a METR to defend its right to tax, otherwise, the tax forgone by Singapore will be collected by another tax jurisdiction under Pillar 2 of BEPS. The METR is still a work-in-progress and details will be announced after consultation with stakeholders.

The full impact on the initiatives under Pillar 2 is hard to determine at this juncture given the complexity involved in determining “effective tax rate”. Going forward, Singapore expects that it could be harder to attract foreign investment if tax incentives cannot be used as a tool given that Singapore is comparatively a more expensive place to operate a business within our region.

Steep increase in Carbon Tax from 2024



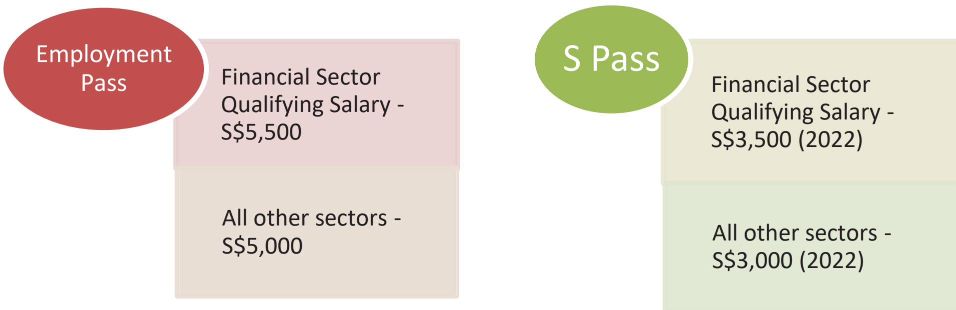
The sharp increase in the Carbon Tax has probably caught many by surprise. Singapore has explained that the tax revenue collected from this will not be substantial and the real purpose is to engage stakeholders in changing their behaviour to adopt greener options.

Nonetheless, we expect this increase to add to rising business costs, which may then be passed on to consumers. One would wonder if stronger regulations on carbon emissions should go hand in hand with such Carbon Tax for it to be effective.

Higher minimum qualifying salaries for Employment Pass & S-Pass

The following changes will take effect for EP applications from 1 September 2022 and renewals from 1 September 2023.

For S-Pass, the increase will be in phases and will affect new applications from 1 September 2022, 1 September 2023 and 1 September 2025. The finalized increments beyond 2022 will be announced subsequently.



With the increase in minimum qualifying salaries, Singapore wants to position itself to attract high quality skilled professionals. Notwithstanding, most corporates already have “work from home” arrangements which can be extended to “work from anywhere” arrangements. If that happens, Singapore companies may well have its employees or freelancers work remotely from another jurisdiction. Singapore will need to closely monitor such developments if such a trend picks up and to react accordingly to safeguard the jobs of Singaporeans.

GST

For corporates, the increase in GST will impact mostly companies who are unable to recover their GST in full. For example, qualifying funds which enjoy the Section 13O / 13U tax incentives. Such funds would have to bear the irrecoverable portion as business costs.

Companies will also have to bear higher costs in implementing the GST increase to their operational systems as the Government has opted to increase the GST by 1% in years 2023 and 2024 instead of 2% in 2023. Transitional rules may also result in higher manpower costs for companies.

Government must have carefully considered its options and believed that the staggered increase is still a better option for end consumers notwithstanding the increased administrative workload it brings.

3. Key highlights for Individuals

Focus on help for the lower income segment

Throughout the Budget announcement, support the lower income segment was emphasised several times. The Progressive Work Model (“PWM”) will be extended to retail, food services and waste management. It will soon include other sectors including in-house cleaners, security officers, landscape worker and drivers across all sectors.

The PWM strives to improve the skills of the workers and hence, be awarded with a higher salary. Assistance is not just provided in outright handouts but instilling the mindset of continuous learning and improvement to achieve wage growth.

Cash payouts in various forms and schemes are given to all Singaporeans with more going to the lower income group. These payouts are meant to subsidise the effects of GST increase amongst others. Broadly speaking, the impact from the regressive nature of GST is expected to be reduced.

Increase in personal income tax rates from YA 2024

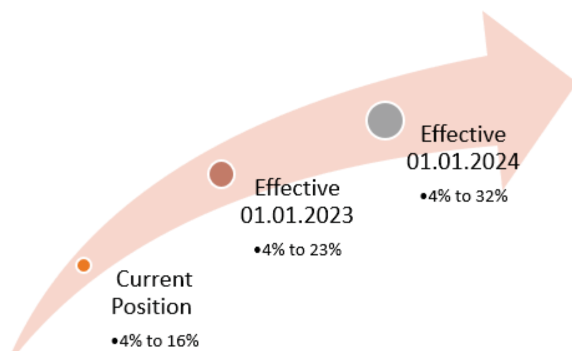
Current Position	
Portion of Chargeable Income	**Marginal Rate**
In excess of S$320k	22%

From YA 2024	
Portion of Chargeable Income	**Marginal Rate**
In excess of S$320k up to S$500k	22%
In excess of S$500k up to S$1m	23%
In excess of S$1m	24%

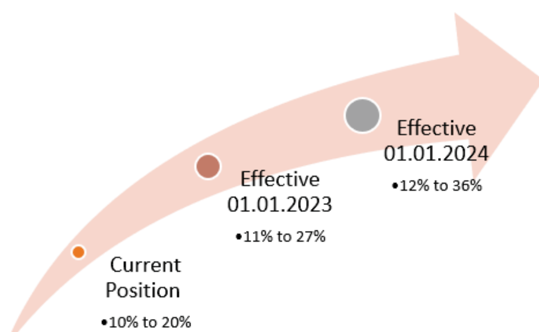
To put things into perspective, an individual earning S$1 million in year 2023 would have paid S$199,150 of income taxes in YA 2024 as compared to S$194,150 before the rate increase. This represents an increase of S$5,000 of tax payable. The effective income tax in this scenario would be 19.9%, which remains very competitive on a global basis.

Wealth Tax – Property tax and luxury car taxes

Owner Occupied Residential Properties (for annual value exceeding S$30,000)



Non-Owner Occupied (such as vacant or let out) Residential Properties (regardless of Annual Value Tiers)



Increased calls to address social inequality and pressing revenue needs have led to increased taxes on wealth. Wealth tax traditionally is a tax on the total wealth of an individual. The collection of such taxes can be extremely time-consuming, and the total tax collected may not be significant.

Given that a large proportion of Singapore wealth is in real property, taxing real properties is much easier to implement and administer. The increase in property tax on owner occupied homes will only impact owners that own high end residential properties which are typically condominiums in central locations and landed properties.

The property tax increase for non-owner occupied residential property (i.e. used for investment purposes) will be across the board, with properties with higher annual value having a higher increase.

Apart from increase in property tax, luxury cars will be subject to higher taxes. Supercars from the likes of Ferrari and Lamborghini will certainly be hit, but industry players also expect that certain high-end models from BMW and Mercedes to be affected. This change will take effect almost immediately. Granted that this group of buyers may be less price sensitive, it remains to be seen if demand for high-end cars will decrease.

Given that the above measures are not wealth tax in its purest form, the question on everyone's mind is "Is this just the start of wealth tax?". Given that there are many other potential targets where luxury tax could be levied on – luxury yachts, planes, watches, jewelry, financial assets, and many more. Other possibilities could also be to levy capital gains tax on high-end properties or financial assets.

In our opinion, the likelihood for greater scope of wealth tax in the future remains. Nonetheless, Singapore must strike a balance between raising tax revenue and attracting wealthy individuals into Singapore.

4. Singapore as a financial hub

Changes to tax incentive for Funds

A designated investment - Investments in physical Investment Precious Metals ("IPMs), has been refined with the removal of the "incidental trading requirement". Additionally, the 15% cap based on trading volume would now be replaced with a cap of 5% on the total investment portfolio. Further details shall be provided by 31 May 2022.

Withholding tax exemption extension

The withholding tax exemption for the financial sector will be extended till 31 December 2026 with the exception for payments made under interest rate or currency swap transactions by financial institutions. Such payments can be covered under the exemption for payments on over-the-counter financial derivatives. More details will be available by 31 May 2022

Our thoughts

The above sole change to the multitude of tax incentives does not move the needle. In fact, the lack of enhancements such as to include digital assets into the list of Designated Investments are rather disappointing.

Further, we were looking forward to refinements to the VCC scheme, but no changes were announced.

Nonetheless, we remain hopeful that the financial sector incentives and the VCC scheme can be continuously enhanced in off-Budget announcements so that Singapore remain at the forefront of being an attractive place for funds to be domiciled.

5. Budget 2022 and beyond

In conclusion, the strategies announced in the Budget for moving Singapore forward remains consistent with those in past years. With the economy showing signs of recovery, we are optimistic that the business outlook is now brighter than it was, unless Covid springs another surprise.

Singapore is likely open up in a gradual and controlled manner, which may explain the lack of short-term help given to businesses. Looking ahead, it is likely that the full impact of price increases will be felt in 2024 when GST and Carbon Tax are increased at the same time.

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