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## Let change be Singapore's friend: PwC's Proposals for Budget 2023

- Singapore can yield new economic benefits by strengthening its global relevance in sustainability, the digital economy and international trade
- The country's strength as an international business hub can be reaffirmed in the age of global minimum tax
- Time for Singapore to stand out as a global asset and wealth management centre

For immediate release - Singapore, 31 January 2023 – As Singapore awaits

the 2023 Budget Announcement set against the backdrop of rising costs and a troubled international outlook, PwC has released its [Proposals for Budget 2023](#) aimed at renewing the country's strength as an international business hub. The proposals are targeted at responding quickly to megatrends - including the rise of the digital and platform economies, changes in international trade and global supply chains, and more - to repivot and bolster Singapore's global relevance as well as the competitive edge of Singapore businesses.

**Marcus Lam, Executive Chairman, PwC Singapore** said:

“Change is a friend for Singapore. While global economies are bracing themselves for a less-than-ideal outlook, ongoing uncertainties have also presented Singapore with opportunities to play to its strength, especially its stability amid volatile times, and enhance its international standing as a reliable centre in Asia with abundant opportunities.

“A timely update of policies that reward businesses' alignment with Singapore's growth outcomes and efficiently address new systemic risks, such as data and cybersecurity, can help Singapore businesses compete internationally. This can also enhance the comparative advantage of Singapore's key industries - for example, the asset and wealth management sector - and further direct investment into developing future offerings - such as energy transition and sustainability-related services - and deliver the country's social compact.”

**Adding on, Chris Woo, Tax Leader, PwC Singapore, said:**

“Budget 2023 must continue to stimulate collective growth for Singaporeans and the Singapore economy, as well as enable a resilient and sustainable living environment. It is therefore imperative that Singapore continues to have in place a progressive tax system and a caring economy as its pillars of strength.

“Budget 2023 will likely see more support extended through fiscal measures and would also in turn require re-evaluating our overall fiscal position on how spending can be financed with a sustainable tax system. It will need to be calibrated against global tax developments and continue to strengthen Singapore's competitiveness inside and out.”

Key focus areas of the proposals include:

## **1. Strengthening Singapore's global relevance in sustainability, the digital economy and international trade**

### **Climate tech-enabled energy transition**

Climate tech solutions are critical to enabling just energy transition. Meanwhile, PwC's State of Climate Tech report found that there is not enough funding especially for early-stage investments globally, particularly in higher emission reduction type of solutions such as carbon capture, utilisation and storage, green hydrogen, and food waste technology. Further incentives for earlier stage investments or funding for such solutions can create value and impact where it matters most. Encouraging climate tech breakthroughs will not only facilitate Singapore's green ambition, it will also position Singapore as a sustainability innovation hub

### **Further catalysing sustainable and green finance**

The schemes to catalyse green and sustainable finance in Singapore have been successful. To further expand this capability, making refinements to capital risk charge with respect to green and sustainable finance, or risk sharing schemes can be of consideration as this will serve useful for both banks and borrowers, including SMEs.

### **Carbon market dispute resolution**

As more businesses progress in their decarbonisation journey, a rising demand for carbon trading disputes arbitration is anticipated. In view of this, Singapore has the potential to position itself as an ESG arbitration centre to resolve emerging environmental disputes.

**Fang Eu-Lin, Sustainability and Climate Change Leader, PwC Singapore, said:**

"There will never be a perfect time to drive sustainable development. With major milestones congregating around the 2030 timeframe, such as the 2030 Green Plan and achieving the emission target of 60MtCO<sub>2</sub>e by 2030, Singapore is not far away from its 'first exam'. Meeting these milestones can help the city state gain momentum and confidence in achieving net zero by 2050. Strong leadership has been demonstrated by many large companies in this respect. In their next bound, it is timely to bring along other stakeholders across the ecosystem such as suppliers and potentially promising climate solution providers. Their success will be Singapore's success too."

## **Digital risks**

With digital platforms becoming increasingly essential for carrying out day-to-day and business activities, the rise of cyber risks and crimes is also anticipated. While some businesses are more robust than others in their risk modelling and readiness, encouraging joint investments by industry clusters to help companies “protect and defend” at scale is welcomed.

**Kwek SoCheer, Digital Solutions Leader, PwC Singapore,** said:

“The continuous safeguarding of data and privacy demands deliberate action not only from individual businesses, but across the ecosystem. A digitally risk resilient economy can generate the investor confidence Singapore needs to thrive in today’s mercurial climate. A good place to start is to concertedly address the rising costs of digital risks which have been driven to new heights by an increasingly hyperconnected world.”

## **Goods and services tax rules pertaining to traders of Digital Payment Tokens (DPTs)**

Under the current goods and services tax (GST) legislation, traders of DPT are subject to input tax restriction unless their exempt supplies fall within the de minimis threshold. While the Inland Revenue Authority of Singapore (IRAS) has outlined that those whose core business involves the supply of DPTs in exchange for fiat and other modes of currency would be regarded a trader, what constitutes as “core business” remains subjective, thereby leaving room for uncertainty on the GST position for entities with multiple core businesses. Therefore, it would be helpful if a quantitative threshold can be prescribed to facilitate businesses in determining whether they are regarded as a trader for GST purposes.

Businesses should also not be subject to additional GST costs if they choose to trade in DPTs, which traders of other financial instruments are not subject to. The Government can consider removing traders of DPTs from the prescribed list of businesses that are subject to input tax restrictions.

Commenting on this, **Kor Bing Keong, Goods and Services Tax Leader, PwC Singapore,** said:

“Whether a business chooses to trade in DPTs or other types of investments should not result in a different GST outcome. Removing traders of DPTs from the prescribed list of businesses that are subject to input tax restrictions is in line with the VAT/GST position in countries such as the UK, Australia and New Zealand.”

### **Market Readiness Assistance grant for Free Trade Agreement (FTA) and Trade Compliance**

Expiring in March 2023, this grant allows Singapore companies to claim up to 70% of professional services fees when they approach a government-nominated FTA consultant to evaluate the benefits of using Singapore’s network of FTAs. In anticipation that prospective Singapore exporters would require continued support in their internationalisation journey beyond 2023, the Government can consider extending this grant scheme to better assist and increase the competitiveness of Singapore businesses.

**Frank Debets, Managing Partner, Customs and International Trade at PwC Worldtrade Management Services**, said:

“It will be great to see the scope of this grant expanded to include trade compliance more broadly, as rarely would companies consider FTA use in isolation. More and more targeted practical support will still be needed to identify the most promising companies to benefit from this grant, bring them to the table, and help them on their journey of international expansion.”

## **2. Renewing Singapore’s strength as an international business hub in the age of global minimum tax**

### **Review of incentive and grant schemes for multinational enterprises (MNEs) falling within the Pillar Two regime**

With the introduction of the global minimum tax gaining momentum around the world, tax incentives may no longer be effective for impacted MNEs - i.e., groups with an annual turnover of at least €750 million (approximately SG\$1.07 billion). Expanding the scope of grants to support MNEs and reconsidering the eligibility criteria as well as grant quantum for existing grant schemes can encourage them to invest, innovate and do business in Singapore. That said, qualifying conditions and eligibility should be focused on a direct measure of productivity - such as digital acceleration and R&D investment, headcount and product offerings expansion, and more - instead of looking at business spending.

## **Refundable credits framework**

This framework should be designed to minimise the impact of the global minimum tax top up for impacted MNEs and, at the same time, encourage businesses to align their investments with Singapore's overall economic policy. For example, manufacturing remains one of the key drivers for economic growth in Singapore. To continue promoting key industry players to set up manufacturing facilities in the country, the Government can consider granting a credit - calculated using a certain percentage of qualified investment - instead of reduced tax rates.

**Tan Ching Ne, Corporate Tax Leader, PwC Singapore**, said:

“MNEs impacted by the new rules will be listening intently on how the Singapore Government can support them as the cost of doing business will increase when the global minimum tax gets implemented. For such MNEs committed to doing business in Singapore, refundable credits or grants will be welcomed so that they can continue to support Singapore's economic growth, such as with employment and working with local vendors and suppliers.”

## **3. Time for Singapore to stand out as a global asset and wealth management centre**

### **Certainty for non-taxation of carried interest**

To enhance Singapore's competitiveness as an international asset and wealth management centre and to make Singapore an attractive location for fund managers, the Government can consider providing certainty for non-taxation of carried interest if certain developmental criteria are met. As an example, Hong Kong has introduced certain tax concessions for carried interest distributed by qualifying funds, subject to meeting specified conditions. Similar measures, if introduced in Singapore, will be welcomed by the asset management community.

### **Tax deduction on qualifying international donations**

To support Singapore's growth as a philanthropic hub and better mirror regional as well as international ambitions of family offices, the Government can consider allowing deductions for donations by Singapore-based donors to qualifying foreign philanthropic setups or approved causes of family offices anchored in the country. This also enables Singapore to further play a part in the global ESG and social impact investing efforts.

**Lennon Lee, Financial Services Tax Leader, PwC Singapore**, said:

“Singapore has established itself well as one of the leading asset and wealth management centres globally and in Asia. Singapore should continue to thrive given its sound financial regulatory and legal system, established fund management ecosystem as well as a stable political and economic environment. That said, capital and talent can move easily. To stand out as the global asset and wealth management centre, Singapore has to continue to innovate, transform and meet the changing needs of wealth and fund managers, high network individuals and family offices. While fund management tax incentives have offered tax certainty on investment returns derived by qualifying funds, we look forward to the Singapore Government to consider giving a further boost to the industry by offering tax concession on the treatment of carried interest and expanding the designated investments to cover more investment products - such as cryptocurrencies and NFTs, etc. - as well as tax deductions for international donations made by many family offices here that have set aside part of their investment returns for philanthropic causes.”

Other recommendations targeted at addressing current and future pain points:

#### **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 - for such premiums can encourage taxpayers to take ownership of theirs and their families' well-being. Not only can this spur taxpayers' interest to take up health insurance policies, it can also offer them greater access to healthcare. To encourage preventive healthcare, the Government can consider introducing tax relief for medical costs for health screening incurred by individuals over 50 years old.

**Ding Suk Peng, Partner specialising in Employment Tax and Rewards, PwC Singapore**, commented:

“Singapore is one of the fastest ageing nations in the world. With the cost of healthcare rising, especially amidst today's strong inflation environment,



extending such relief or deductions to individuals would be a much welcome initiative. Not only can this encourage more uptake of healthcare coverage to bridge the protection gap, it can also provide some relief from the rising cost of living.”

### **Medical benefits**

Allowing the GST input tax on medical expenses to be claimable (without restrictions) can help ease the pressure of rising healthcare costs occurring globally. Taking Singapore’s ageing population into consideration, this can also help employers alleviate potential costs of hiring older workers.

**Kor Bing Keong, Goods and Services Tax Leader, PwC Singapore**, said:

“As Singapore raises the retirement or re-employment age and as businesses hire or rehire more older workers, it is expected that the medical expenses of businesses will increase accordingly. It is therefore timely to review the tax policy relating to the GST input tax claim and tax deduction of medical expenses.”

To help ease businesses’ compliance cost, the computation of the deduction cap for medical benefits can be simplified, such as by capping deduction to a certain percentage of the total taxable employment income, so as to obviate the need to separately compute a different remuneration sum for the purposes of working out the cap for corporate tax deduction. Alternatively, and due to its complexity along with the large administrative burden it poses for businesses which is disproportionate to the tax revenue being collected from it, the cap on employer’s tax deductions for medical benefits can be removed altogether.

**Tan Ching Ne, Corporate Tax Leader, PwC Singapore**, said:

“The medical expense restriction was introduced in view of rising medical costs. Over the years, businesses have adopted a balanced approach towards medical benefits for its employees, meaning that employers are able to provide welfare while not incurring high operating expenses. To this end, removing the cap on tax deduction for medical benefits will be recognition of businesses taking heed of the government’s preventive measure on high



medical expenditure.”

### **Carbon Border Adjustment Mechanism (CBAM)**

Introduced by the Council of the European Union, the CBAM serves to levy import tax on products where their production was not subject to the same environmental standards as those in the country of import. While CBAM standards are expected to vary from country to country when implemented, the Singapore Government can already consider outlining measures to protect local exporters from being subject to additional taxes and increase the country’s participation in international sustainability efforts. Singapore can leverage this opportunity to set its own production standards based on environmental objectives and targets, and work with its trading partners along with the international trading rules to explore the best options for keeping Singapore exporters competitive in overseas markets. This move can help improve the standing and competitiveness of Singapore and its exporters in foreign markets, especially those with a CBAM in place.

### **Upskilling in people-centred leadership**

Amid ongoing demand for technical and digital skills, there is a growing need for interpersonal and non-technical skills - such as problem solving, creative thinking, innovation and emotional intelligence - to navigate increasing complexities. Coupled with the lack of confidence workers can have towards their organisations, as reflected in the recent Great Resignation and Quiet Quitting phenomena, there is a clear need for sophisticated people-centred leader capabilities across the boards to bridge the trust gap between employees and employers. Investing in upskilling programmes targeted at developing and further enhancing this capability can help organisations work better with employees to match talent supply and demand as well as improve employee engagement.

### **Alleviating talent crunch through effective workforce transformation**

To address the talent and critical skills-building challenges that many SMEs face, businesses need to be encouraged to rethink their workforce strategy as well as redesign or rearrange tasks and responsibilities to better align roles with the changing environment inside and outside their organisations. For instance, by leveraging technologies, companies can create and re-allocate capacity to do more and deliver greater value with their existing workforce. Workforce Singapore and Enterprise Singapore could play an enabling and supporting role specifically for SMEs to help them with this type of organisation and role redesign, along with other grants and incentives to fund the support needed for this.

**Martijn Schouten, People and Organisation - Workforce Transformation Leader, PwC South East Asia Consulting, said:**

“Critical to Singapore’s ability to continue to grow and thrive is its workforce. The government, businesses and employees need to continue to join forces and actively match the demand and supply for skills and capabilities, upskill communities and address expectation gaps to capitalise on employee engagement and productivity.”

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## **About PwC**

At PwC, our purpose is to build trust in society and solve important problems - this is at the core of everything we do from the value we provide to our clients and society to the decisions we make as a firm.

Our services started with audit and assurance over a century ago. As times change and the issues faced by businesses and individuals evolved, we have developed specialised capabilities in tax, advisory and consulting to help you address emerging new challenges across focus areas like ESG, sustainability and climate change, digital transformation, cyber security and privacy, data, mergers and acquisitions, and more.

In Singapore, we have more than 3,500 partners and staff to help resolve complex issues and identify opportunities for public, private and government organisations to progress. As part of the PwC network with nearly 328,000 people in 152 countries, we are among the leading professional services networks in the world focusing on helping organisations and individuals create the value they are looking for.

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## Contacts



### **Siew Ling Ong**

Press Contact

Manager, Brand and Communications

[siew.ling.ong@pwc.com](mailto:siew.ling.ong@pwc.com)