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PwC Singapore's Budget 2022 proposals to support Singapore's growth as an Active economy, Beautiful society and Clean environment

- **Growing Singapore as a vibrant hub for sustainability and carbon services**
- **Investing growth in HealthTech and the New Health Economy**
- **Helping companies mitigate cybersecurity and data security risks**

Singapore, 11 January 2022– Ahead of the Singapore Budget 2022, PwC

Singapore has released its Proposals for Budget 2022. These recommendations have been provided to the Ministry of Finance for consideration around the key themes of Active economy, Beautiful society and Clean environment.

Commenting on the need for Singapore to address the expected increase in government spending in a sustainable way Chris Woo, Tax Leader, PwC Singapore said:

“The OECD proposal for a global minimum tax is expected to reduce the effectiveness of tax incentives as a tool to encourage larger multinational enterprises (or, MNEs) to invest in Singapore. Hence, it is important for Singapore to strengthen its competitiveness on a non-tax front, particularly on alleviating the cost of doing business, to remain an attractive location for foreign direct investments. Crucial to achieving this is to develop Singapore as a hub for sustainability and carbon services, as well as emerging areas like the New Health Economy.

“In the long term, Singapore would be best served if the expected increase in government spending is funded by economic growth.”

Some key areas of the Proposals include:

1. Growing Singapore as a vibrant hub for sustainability and carbon services

We have seen an increase in the number of global companies committing to Net Zero; now companies need to translate pledges into action to decarbonise.

A holistic approach to sustainability would entail not just looking at greenhouse gas (GHG) metrics, but also at other sources of pollution, such as plastic waste. Addressing these challenges to spur real change would require innovation and support from the Government to develop new solutions and capabilities in these areas:

Carbon services

Many companies, especially SMEs, may be keen to start on a Net Zero programme but may not know how to start the process. Grants or double tax deductions may be given to these companies to encourage them to engage qualified consultants in carbon services so that they can better understand their current carbon emissions, and take steps to reduce it. Some examples of such services include carbon accounting, sustainability advisory and assurance, and greenhouse gas verification.

Developing local ESG talents and building capacity

Singapore can strive to become a leading and trusted professional services hub for Net Zero initiatives. The Government can consider partnering the professional services industry and tertiary institutions to establish training programmes, scholarships and fellowship grants to groom local talent in this new service industry and create jobs in the sustainability and environmental sector.

Making the purchase of carbon credits / plastic credits / renewable energy certificates feasible

- Double tax deductions for offset purchases to help businesses embarking on their ESG transformation journeys. As these companies may take time to decarbonise, they can choose to purchase carbon credits, plastic credits, or renewable energy certificates (RECs) (collectively called 'offset purchases') from the voluntary markets.

- Tax deductions for individuals - Individuals may be keen to do their part for the environment and may purchase carbon credits/plastic credits/RECs to offset their personal emissions or contribute to an ESG fund or project. To create greater awareness of the need to safeguard our environment, the Government could consider giving double tax deductions to the individuals for such offset purchases or contributions, subject to a cap to be determined.

- GST for carbon credits - If a zero-rating GST treatment cannot be considered, GST registered businesses should be allowed to claim input tax on the purchase of these offsets. Otherwise, the input tax not claimable would form part of the deductible business costs while increasing the compliance burden of tracking such input taxes. GST incurred on the purchase of these offsets should therefore be considered as incurred for the purpose of business. A written clarification from the IRAS will address the current uncertainty over the recoverability of input tax on these offsets. To promote the adoption of green initiatives and to support Singapore Green Plan 2030 without increasing business costs, we recommend the GST legislation be amended to allow zero-rating of a supply of carbon and plastic offsets. This will relieve buyers from incurring irrecoverable GST or reverse charge when they purchase offsets while allowing the registered sellers to recover the GST incurred on their expenses.

- A trusted marketplace for plastic credits - The Government can consider initiating programmes to incentivise companies to recover used packaging for recycling and allow plastic credits to be generated. Companies may choose to acquire such credits to offset their plastic footprint. The money spent on the plastic credits will then go towards environmental projects that will eliminate an equal amount of plastics that were produced. A global exchange marketplace for verified plastic credits could be established in Singapore,which can help create more jobs and groom new talent.

Agriculture and food security

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. See Appendix B for more details of this proposal.

Fang Eu-Lin, ESG Leader, PwC Singapore said:

“In PwC’s study - the Net Zero Economy Index, in order to keep to a 1.5 degree scenario, our world needs to decarbonise by 12.9% annually. However, when we look at how much we have decarbonised in 2020, a year where economic activity was muted, reports reveal we only decarbonised 6-7%. There is a lot more that can be done to co-create lasting impactful change and these proposals are put forward with the intent to help galvanise action from companies to help Singapore achieve the Singapore Green Plan.”

Other proposals to double on ESG and sustainability efforts include incentive schemes for exchanges, Preparing for Carbon Border Adjustment Mechanisms, enhancing the not-for-profit organisation tax exemption scheme, expanding the scope of the Global Trader Programme incentive, and more. See Appendix B - Environmental, social and governance (ESG) for full details.

2. Incentivising growth in HealthTech and the New Health Economy

Investments in HealthTech

In addition to the Research, Innovation and Enterprise Plan (RIE2025) launched to strengthen the medical devices industry in Singapore, the formation of an independent entity that has experience with the entire life cycle of conceptualisation to commercialisation to providing support to assist in the decisions on the distribution of funds can help encourage the development of a more robust ecosystem.

Competitive insurance through investments in HealthTech

Given more insurers are beginning to adopt “claims-based” pricing for certain products, controlling the costs of healthcare will be critical to maintaining a sustainable healthcare ecosystem. Well thought through investments in HealthTech, including early clinical due diligence and much needed merging of science and business would be one of the possible solutions to help develop a long-term and sustainable solution.

Dr Zubin J Daruwalla, Health Industries Leader, PwC Singapore said:

“Given Singapore's aging population, the rise in chronic diseases and the current COVID-19 pandemic coupled with soaring healthcare costs, ensuring affordable, accessible, and quality care must remain top of mind. In what we define as The New Health Economy, new technologies are revolutionising the way these problems can be addressed, not just by improving clinical outcomes but also providing economic value and reducing the cost of care.

“Singapore is well positioned to lead the advancements in HealthTech not just regionally but globally, too. With a robust healthcare system that is set to grow even further, public-private partnerships will be key to success. However, sufficient funding to support HealthTech start-ups, both local and in-bound navigate what is a complex ecosystem with an endless number of stakeholders will be necessary.

For full details on Proposals relating to HealthTech and the New Health Economy, please see Appendix A - PwC Singapore’s Proposals for Budget 2022.

3. Helping companies mitigate cybersecurity and data security risks

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.

Tan Shong Ye, Cyber Leader, PwC Singapore said:

“As companies accelerate their digital transformation journeys, cyber and data security should evolve and intensify in tandem. These proposals can help alleviate the substantial investments that companies have to make in both digitalisation and cyber and data security, which will in turn encourage wider adoption of best practices.”

For the full list of proposals, please refer to Appendices A, B (ESG) and C (Asset and Wealth Management).

Notes to editors

1. Please refer to Appendices A, B and C below for full details of PwC Singapore's Budget 2022 proposals

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Appendix A - PwC Singapore's proposals for Budget 2022

The OECD proposal for a global minimum tax is expected to reduce the effectiveness of tax incentives as a tool to encourage larger multinational enterprises (or, MNEs) to invest in Singapore. Hence, it is important for Singapore to strengthen its competitiveness on a non-tax front, particularly on alleviating the cost of doing business, to remain an attractive location for foreign direct investments. At the same time, it needs to promote a conducive environment for local enterprises to expand and internationalise, while addressing the socio-economic considerations amid a maturing demographics profile and the ongoing economic transformation.

In the long term, Singapore would be best served if the expected increase in government spending is funded by economic growth. Meanwhile, there has been much debate about whether a wealth tax can help address fiscal needs and income / wealth redistribution. Being a leading asset and wealth management centre, Singapore would need to consider any such measure carefully to avoid capital flight. A new tax could also entail high administration cost and some uncertainty with implementation. Comparatively speaking, tweaking the existing regime for greater progressivity in the tax system is simpler to execute. Tax is a fiscal tool to meet the social and economic needs of a nation. The policy goals with any change in the tax system should be clearly communicated to reduce uncertainty to businesses and individuals.

Against this backdrop, we provide below our tax and non-tax proposals to enhance Singapore's competitiveness and resilience for the Government's consideration. We also enclose Appendix B for our specific proposals relating to environmental matters, and Appendix C for those relating to asset and wealth management.

Business competitiveness

Vibrant capital market essential to the growth of the economy

- Concessionary corporate tax rate for companies listed on SGX

A vibrant equity market is an important component of the economy, e.g., it complements other measures to promote entrepreneurship by making available sources of capital. The Government could consider introducing a tax incentive for companies that are newly listed on the Singapore stock exchange (SGX) to encourage companies to tap the public equity capital market. Various countries have created and implemented tax incentives and reduced corporate tax rates for publicly listed companies. For example, public companies in Indonesia that satisfy a minimum listing requirement of 40% and certain other conditions are entitled to a tax discount of 3% off the standard rate, providing an effective tax rate of 19% for fiscal year 2020/21 and 17% for fiscal year 2022 onwards.

- Certainty to tax treatment of founder shares

Although Singapore does not impose tax on capital gains, there is no bright line test of what constitutes capital gains. We suggest providing certainty on the tax treatment of founders' gains on divestment pursuant to listing of the founder's shares on the SGX by introducing a safe harbour (akin to section 13Z of the Income Tax Act) for the non-taxation of such gains. The safe harbour provision will serve to complement the initiatives recently introduced to boost the capital market and encourage Singapore-based founders of promising high-growth companies to list their businesses on the SGX. Introducing this safe harbour provision will also be an incentive for founders of promising high-growth companies from around the region who relocate to Singapore.

It is common in practice for business founders to hold their interest in the business as a private individual or through an entity. As an example, the Indonesian rules define founder shareholders as "*the founder is a private individual or entity whose/which name is registered in the Shareholders' Register of the Limited Liability Company prior to the submission of the Registration*

Statement to the Supervisory Board of the Capital Market (Bapepam) in the course of the initial public offering becoming effective." It is not uncommon for a founder's shareholding to be diluted as a result of the series of financing to help the business grow. Unlike section 13Z, the non-taxation of such gains should therefore apply to resident founders including private individuals and not be limited by holding period or minimum shareholding percentage. This safe harbour provision should apply to founder shareholders that are the business owners and not financial investors.

Digital assets and digital asset derivatives for financial sector incentive scheme
With the rising trend of trading in digital assets and digital asset derivatives, income from the trading of digital assets such as stable-coins and other crypto assets should be included for the concessionary rate of tax under the financial sector incentive scheme.

Tax incentives review
Tax incentive conditions should be focused on a direct measure of productivity instead of looking at business spending. Incentive conditions that are based on local headcount helps to maintain the local employment rate and should be retained for good measure. However, we should turn our focus on productivity rather than pure expenditure or headcount increase. Conditions to qualify for incentive schemes can be tied to incremental investments in digital technology or incremental revenue and profit margin growth for the year. An incentive holder should also be given the option to choose between co-funding or enhanced allowances / deductions. This will in turn encourage companies to be more innovative in operations and spur them to look for more efficient ways to allocate resources. Ultimately, conditions should be kept flexible to cater to different business needs.

Deductions for borrowing costs
At present, deduction for financing cost of a capital nature is limited to interest and a list of prescribed borrowing costs that constitutes payments in lieu of interest. This is unnecessarily complex as it requires contemporaneous documentation to show the Inland Revenue Authority of Singapore (IRAS) that such prescribed cost resulted in a reduction of interest charged, Very often, businesses in need of financing would not be in the position to ask their bankers for documentation on rationale of the interest charged. From their perspective, all charges form part of the cost of financing regardless how they are labelled.

As such, deduction should be extended to all types of borrowing costs of a capital nature, subject to their meeting of the section 14(1)(a) test (i.e. being expenses payable on capital employed to acquire income).

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.

Medical benefits

As Singapore re-opens its borders for international travel, medical expenses for employees are 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 for business travel. To ease businesses' compliance cost, the computation of the deduction cap for medical benefits should be simplified, e.g., by capping deduction to a certain percentage (to be determined) of total employee income / earnings as reported by the companies through Form IR8A. This will avoid the need to separately compute a different remuneration sum for corporate tax deduction purposes only.

Alternatively, 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). This is to reflect the rising costs for healthcare globally, encourage employers to provide for their employees' healthcare needs and in particular, alleviate the cost of hiring older workers (given Singapore's aging demographics) who are more likely to have greater medical needs.

In either case, we suggest that all COVID-19 related health costs e.g., routine swab tests required should be fully deductible and not form part of the medical expenses cap calculation.

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 implementing cybersecurity measures such as network security protection and malware protection 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.

SME grants

A recent QBE Insurance survey of local SMEs cited "half of the SMEs will look to the Government for support, of which 70% indicated financial assistance is the most necessary form of relief." Out of this, 37% wished for enterprise development programmes.

In the same survey, 91% shared they are currently engaged in, or intend to invest in, digital technologies but 40% cited high costs of investment and the lack of digitally-skilled staff as a barrier.

We suggest extending the grants for local companies, which include the Productivity Solutions Grant (PSG), Market Readiness Assistance (MRA) Grant and the Enterprise Development Grant (EDG), beyond 31 March 2022 to further support SMEs. Extending the Jobs Redesign under Productivity Solutions Grant (PSG-JR) beyond 31 March 2022 will also encourage companies to work with pre-approved consultants in redesigning the work processes, tasks and responsibilities, to support and drive business and workforce transformation.

Social resilience

Tax Deduction on Qualifying International Donations

To support Singapore's growth as a philanthropic hub and better mirror the regional / international ambitions of family offices, we suggest allowing deductions for donations by Singapore-based donors to qualifying foreign philanthropic set-ups or approved causes of family offices anchored in Singapore. Similar to the Australian Overseas Aid Gift Deduction Scheme, qualifying activities must be to support causes overseas that are endorsed by the Government. To retain differentiation from donations to qualifying IPCs, the proposed deduction should be set at a lower threshold (e.g. 100%).

In addition to complementing the global efforts on ESG investments and social impact investing, such tax liberalisation initiatives would also encourage Singapore-based charitable giving and lead to multiplier effects in the sector as well as build a more caring Singapore for the world. To build this further, the Government should also consider developing the Singapore talent pool in philanthropic advisory / operations through certified training programmes and platforms.

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

The cost of healthcare is rising in Singapore. It has been reported that from 2007 to 2017, private healthcare costs rose 9% per annum. Tax relief for premiums paid on medical-related or health insurance policies should be introduced. 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.

Competitive insurance through investments in HealthTech

Ensuring Singaporeans are adequately insured is also imperative to sustain the economy especially with the pandemic. Given more insurers are beginning to adopt “claims-based” pricing for certain products, controlling the costs of healthcare will be critical to maintaining a sustainable healthcare ecosystem. Addressing this will require a more holistic and collaborative approach between the Government, pharmaceutical companies, healthcare service providers and of course, insurers to ensure that appropriate steps are taken to manage this without having to let Singaporeans bear the costs, albeit indirectly through less competitive pricing of insurance products to maintain margins and profitability. Investments in HealthTech would be one of the possible solutions to help develop a longer-tail, sustainable solution.

Investments in HealthTech

Given Singapore's aging population, the rise in chronic diseases and the current COVID-19 pandemic coupled with soaring healthcare costs, ensuring affordable, accessible, and quality care must remain top of mind. In what we define as The New Health Economy, new technologies are revolutionising the way these problems can be addressed, not just by improving clinical outcomes but also providing economic value and reducing the cost of care.

With Southeast Asia having become a hotbed for HealthTech investors, we are at a tipping point and are witnessing substantial and exciting opportunities not previously seen. Singapore is thus well positioned, built on a foundation of multiple pillars making it attractive, to lead the advancements in HealthTech not just regionally but globally, too. With a robust healthcare system that is set to grow even further, public-private partnerships will be key to success. However, sufficient funding to support HealthTech start-ups, both local and in-bound navigate what is a complex ecosystem with an endless number of stakeholders will be necessary.

In addition to the Research, Innovation and Enterprise Plan (RIE2025) launched to strengthen the medical devices industry in Singapore, we believe that the bedrock of success can be formed with the distribution of funds through an independent entity that is familiar with the entire life cycle of conceptualisation to (successful and sustainable) commercialisation that has a successful track record in working with all relevant parties across the public and private sectors but also across geographies.

Appendix B - Environmental, social and governance (ESG)

Net Zero efforts

To address the climate challenge, radical transformation is needed in every sector of the global economy. As stakeholder expectations rise, organisations increasingly need to report on their environmental and social impact and demonstrate progress. We have seen an increase in the number of global companies committing to Net Zero (i.e. decarbonisation); now companies need to translate pledges into action.

A company aiming for Net Zero can reduce the greenhouse gas (GHG) emissions emanating from its own operations. For what it can't reduce, it needs to find another option — such as a forest in neighbouring countries or beyond that will absorb and store the carbon or purchase carbon credits — to help offset those corporate emissions.

A holistic approach to sustainability would entail looking beyond GHG to other sources of pollution, such as plastic waste. Addressing these challenges would require innovation by the private sector. Businesses should be encouraged to tap on tax concessions and grants to embark on research and development and invest in solutions for environmental sustainability, such as in recycling and waste management.

We set out below some of the areas that companies can explore to achieve their Net Zero target and where the Government can help:

Carbon services

Many companies, especially SMEs, may be keen to start on a Net Zero programme but may not know how to start the process. Grants or double tax deductions may be given to these companies to encourage them to engage qualified consultants in carbon services so that they can better understand their current carbon emissions, and take steps to reduce it. Some examples of such services include carbon accounting, sustainability advisory and assurance, and greenhouse gas verification.

Singapore can strive to become a leading and trusted professional services hub for Net Zero initiatives. The Government can consider partnering the professional services industry and tertiary institutions to establish training programmes, scholarships and fellowship grants to groom local talent in this new service industry and create jobs in the sustainability and environmental sector.

Purchase of carbon credits / plastic credits / renewable energy certificates

- Double tax deductions for offset purchases

As transforming their operations may take time, businesses may in the meantime choose to purchase carbon credits, plastic credits, or renewable energy certificates (RECs) (collectively called 'offset purchases') from the voluntary markets. We propose that businesses should be allowed double tax deductions, subject to a cap to be determined, for expenses incurred on purchases of offsets from the voluntary market, or when they contribute to projects that result in offsets being awarded (carbon credits, plastic credits or RECs).

- A trusted marketplace for plastic credits

Singapore should invest further in the development and management of plastic credits, and to facilitate the exchange of verified plastic credit certificates.

Similar to carbon offsets, plastic offsets can help to remove plastic from the environment and encourage the recycling of plastic into new products. The Government can consider initiating programmes to incentivise companies to recover used packaging (e.g., delivery packaging) for recycling and allow plastic credits to be generated. Companies may choose to acquire such credits to offset their plastic footprint. The money spent on the plastic credits will then go towards environmental projects that will eliminate an equal amount of plastics as is produced. Further, a global exchange marketplace for verified plastic credits could be established in Singapore, similar to the ClimateImpactX (CIX) for carbon credits. For example, the Philippines and India have introduced digital marketplaces, called Plastic Credits Exchange (PCX) and EcoEx respectively, to facilitate the exchange of plastic credit certificates.

Establishing this new area of growth will also create more jobs in the sustainability and environmental sector for young Singaporeans.

- Scope of the Global Trader Programme incentive

The list of qualifying commodities for the Global Trader Programme (GTP) incentive already includes carbon credits. To encourage GTP companies to trade in other commodities that can help to promote sustainable growth, the Government can consider expanding the scope of qualifying trades under the GTP to include the income from physical trades in plastic credits, RECs and their equivalents.

Investment / contributions to ESG projects

Some companies may prefer to contribute to a fund or project that focuses on the reduction of emissions or wastage (to purchasing offset credits). Companies managing these funds or projects may not have an Institution of Public Character status. In these cases, we propose that companies should be allowed double tax deductions, subject to a cap, for contributions to such funds or projects managed by Singapore companies. Where the contributions are made to projects overseas, such deductions may be limited to 100%, subject to a cap to be determined. Allowing such deductions will encourage companies to fund and support ESG projects specifically focused on the reduction of emissions or wastage.

Tax incentive conditions

Incentive criteria for new applications or renewal of existing incentives could be enhanced to include a Net Zero component to encourage companies to commit to transform their operations to reduce pollution, reconfigure supply chains and cut transport emissions. This feature should be kept flexible, such that it could be replaced with other commitments as appropriate if it cannot be met through no fault of the applicant. It will also send a positive signal that such companies are supported by the Government and are recognised for their commitment to the Net Zero targets.

For example, this feature could be a component in the annual total business spending in adopting the new practices or in meeting an annual target. The spending should also not be restricted to local expenditure. Overseas business spending may not have an immediately quantifiable impact on Singapore’s economy, but it would be an indicator of the scale of the applicant’s operations (over which its personnel in Singapore should be expected to have oversight) and commitment to this region.

Examples of measurable targets that could be used include the percentage of carbon emission reduced, water usage intensity, percentage of electricity consumption from renewable energy sources or the amount of training investments within the year.

Incentive schemes for exchanges

In line with Singapore’s vision to become a leading green finance hub, the Government should consider introducing a tax incentive for exchanges that trade in carbon credits/plastic credits/RECs. The tax incentive could be similar to that granted to SIMEX (now SGX-Derivatives Trading), whose income is exempt from tax during its formative years. Alternatively, the Government may consider giving grants to these exchanges to ease their cash flow burden from set up costs, as they may not be profitable in the initial years to enjoy the benefit of tax exemption.

Tax deductions for individuals

Individuals may be keen to do their part for the environment and may purchase carbon credits/plastic credits/RECs to offset their personal emissions or contribute to an ESG fund or project. To create greater awareness of the need to safeguard our environment, the Government could consider giving double tax deductions to the individuals for such offset purchases or contributions, subject to a cap to be determined.

Preparing for Carbon Border Adjustment Mechanisms

The recently published Green Deal sets out the EU plans for the implementation of a Carbon Border Adjustment Mechanism (CBAM). In essence this an import tax on importers into the EU of products that were produced while being subject to a lower level of carbon taxes than they would have been if they were produced in the EU, intended to off-set the difference. The EU is not the first nor will it be the last to consider implementing a CBAM. The EU CBAM will only start taking effect gradually from 2026 onwards, with the period from 2023 to 2026 earmarked for reporting and monitoring.

Singapore exporters will be subject to CBAMs, be they in the EU or elsewhere. In order for such exporters to prepare for this, they need clarity on Singapore's carbon tax related strategy and plans. The Singapore Government should start providing early indicators of such plans, making them increasingly detailed and specific. The upcoming 2022 budget should therefore address this topic, outlining the principles of Singapore's carbon tax regime plans over the next few years. This can then be followed by consultation exercises aimed at designing a regime that keeps Singapore exporters competitive while at the same time addressing climate concerns.

Corporate social responsibility

Companies in India with a certain net worth (INR 5 billion or more)/annual turnover (INR 10 billion or more)/ net profit (INR 50 million or more) are required to spend 2% of their average net profits of three years on corporate social responsibility (CSR).

Singapore companies could be encouraged to spend a certain percentage (e.g., 1 to 2%) of their net profit on CSR activities. To this end, we suggest that tax deduction be allowed for companies that engage in CSR activities held locally, subject to a cap to be determined. Qualifying CSR activities should be endorsed by the company’s board of directors as part of the company’s CSR strategies / policies in the following areas:

- Relief of poverty;
- Advancement of education;
- Promotion of health;
- Advancement of citizenship or community development;
- Advancement of arts, heritage or science;
- Relief of those in need by reason of youth, age, ill-health, disability, financial hardship or other disadvantages;
- Advancement of animal welfare; and
- Advancement of sport, where the sport promotes health through physical skill and exertion.

A recent example of CSR commitment is the contributions made during the COVID-19 pandemic, where some companies had contributed food and medical supplies such as face masks and sanitisers (that are not the company's inventory) to healthcare workers, foreign workers or other vulnerable groups such as elderly care homes. 250% tax deductions should be allowed for the value of these donations in kind in recognition of these companies' philanthropy and ongoing contributions to society.

Section 13U - exemption of not-for-profit organisation

The Minister may, during the period from 15 February 2007 to 31 December 2027 (both dates inclusive), approve any not-for-profit organisation for the purposes of income tax exemption. We suggest making this a permanent feature in Singapore's tax legislation to give certainty to not-for-profit organisations (NPOs). Additionally, we suggest that tax exemption be given for the life of the NPOs as long as they can meet the qualifying conditions annually. This would align the treatment of NPOs with incentive funds and provide certainty of tax treatment.

Alternatively, we suggest removing the requirement to obtain Ministerial approval to be qualified as an NPO. If certain conditions as specified by the Minister are met, the organisation should be able to self-assess its NPO status and income received may be exempt from tax under section 13U of the Income Tax Act. The organisation's qualification status will be verified as part of regular tax compliance review.

Goods and services tax

GST treatment for carbon credits, plastic credits and RECs

Currently, a sale of carbon credits, plastic credits or RECs (collectively referred to as "offsets") in Singapore (apart from the crediting of carbon credits by the National Environment Agency) is a taxable supply subject to either 7% or 0% GST. If a non-GST registered buyer buys offsets from a GST registered seller, it will not be able to recover the GST incurred. If it buys offsets from an overseas seller, the buyer may be liable for GST registration arising from the reverse charge rules if certain conditions apply.

If a GST-registered buyer buys these offsets to offset its own carbon/plastic/energy footprint, it is not entirely clear if the IRAS is prepared to treat the expenses as being incurred for business purposes and to allow the buyer to claim the input tax incurred. This is because we understand that the IRAS currently takes the view that GST on expenses incurred to promote corporate social responsibilities are generally not claimable. To the extent that the input taxes are not claimable, these would form part of the offset costs.

To promote the adoption of green initiatives and to support Singapore Green Plan 2030 without increasing business costs, we recommend the GST legislation be amended to allow zero-rating of a supply of these offsets. This will relieve buyers from incurring irrecoverable GST or reverse charge when they purchase offsets while allowing the registered sellers to recover the GST incurred on their expenses.

Australia and New Zealand have similarly adopted a zero-rating GST treatment for the sale of carbon credits. In addition, based on the experience in overseas jurisdictions, the sale of these offsets are susceptible to missing trader fraud which resulted in tax revenue leakage to overseas tax authorities. A zero-rating GST treatment will mitigate the risk of missing trader fraud.

If a zero-rating GST treatment cannot be considered, GST registered businesses should be allowed to claim input tax on the purchase of these offsets. Otherwise, the input tax not claimable would form part of the deductible business costs while increasing the compliance burden of tracking such input taxes. The role of businesses has evolved and society now expects businesses to take steps to promote green initiatives. GST incurred on the purchase of these offsets should therefore be considered as incurred for the purpose of business. A written clarification from the IRAS will address the current uncertainty over the recoverability of input tax on these offsets.

Corporate social responsibility

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 CSR (e.g., distributing food and essential supplies to the needy). As mentioned earlier, the role of businesses has evolved and incurring expenses to promote corporate social responsibilities should therefore be considered as incurred for the purpose of business.

Agriculture and food security

To safeguard against food supply disruptions, Singapore has set the target to produce locally 30% of its nutritional needs by 2030. This is one of the three key enablers to ensure food security. 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 who heeded the recent call of the 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.

Appendix C – Asset and wealth management

Key items - Priority list

Issue	Comments	Proposed amendments / enhancements for consideration
Designated investments under the 13CA / 13R / 13X schemes	**1. Expansion of the list of designated investments – investment funds which are investment vehicles** The current scope of designated investments is tied to legal forms which results in disparate tax outcomes simply due to the different legal forms of the business. Incentivised funds making investments in other funds is very common where the incentivised funds are fund of funds or are set up by family offices, both are areas which are important to the Singapore asset management ecosystem and encouraged by the Singapore Government. In our view, the inclusion of all investment funds which are investment vehicles in the list of designated investments should be within the policy intent of the 13R/13X/CA incentives.	We suggest expanding the list of designated investments to include "units, shares, interest, membership or other forms of ownership or participation in vehicles including but not limited to co-operatives, limited partnerships and collective investment schemes." Limited partnerships have been included for the avoidance of doubt as they are tax transparent and thus designated investments held by the partnerships should already be considered held by the partners, and aside from tax transparency, interest in partnerships may also be considered securities.

Designated investments under the 13CA / 13R / 13X schemes	**2. Expansion of the list of designated investments – physical precious metals** Given the current economic climate, precious metals have risen in popularity and importance as an investment asset class. Currently, the list of designated investments only covers trading in physical precious metals in very limited situations (i.e. where it is incidental to trading of related derivatives and where the trade volume of physical precious metals does not exceed 15% of the total trade volume of those physical precious metals and related derivatives traded in a basis period). Given that Singapore is positioning itself as the asset management hub in Asia, it is important to add physical precious metals to the list of designated investments to attract funds that wish to focus on precious metals as an asset class to set up in Singapore.	We suggest expanding the list of designated investments to include physical precious metals.
Designated investments under the 13CA / 13R / 13X schemes	**3. Expansion of the list of designated investments – digital assets and digital asset derivatives** Given the growing acceptance of digital assets and digital asset derivatives in today's digital age, fund portfolios may also include digital assets such as payment tokens (e.g. Bitcoin and Ether) and digital asset derivatives. Given that Singapore is positioning itself as the asset management hub in Asia, it is important to add digital assets and digital asset derivatives to the list of designated investments to attract funds with different strategies to be based in Singapore.	We suggest expanding the list of designated investments to include digital assets and digital asset derivatives.

Designated investments under the 13CA / 13R / 13X schemes	**4. Expansion of the list of designated investments – guarantees and risk participation arrangements** The array of financial investments and instruments continue to develop and increase. There can be instances where funds may want to take up unfunded credit risks through guarantees and risk participation arrangements.	We suggest expanding the list of designated investments to include guarantees and risk participation arrangements.
Qualifying investor test (30/50 rule) under the 13CA and 13R schemes	Currently, retail funds constituted in the form of unit trusts ("retail UTs") enjoying the 13CA scheme which are constituted on or after 1 April 2019 and meet certain conditions will be granted a waiver from the 30/50 rule for the first two years of assessment from the date of the unit trusts' constitution. However, even after the initial two-year period, there remains some practical difficulty in getting information of the investors. The same challenges apply for retail funds constituted in the form of variable capital companies ("retail VCCs") enjoying the 13R scheme. We suggest extending the waiver of the 30/50 rule to retail VCCs as well and extending the waiver period to cover the life of the retail UTs / VCCs, to encourage funds considering these two types of investment vehicles to set up in Singapore.	We suggest waiving the 30/50 rule for retail UTs and VCCs for the life of the fund.

Scope of tax exemption under section 13Q of the Singapore Income Tax Act (ITA)	**Revision of the scope of tax exemption under section 13Q of the ITA to "specified income" from "designated investments"** As the current scope of tax exemption under section 13Q of the ITA is more limited as compared to "specified income" from "designated investments" under section 13G of the ITA, the use Singapore trustees is a deterrent, and many families are using offshore trustees instead.	We suggest revising the scope of tax exemption under section 13Q of the ITA to "specified income" from "designated investments" for simplicity and alignment with the scope of tax exemption under section 13G of the ITA.

Others

Issue	Comments	Proposed amendments / enhancements for consideration
13X scheme – economic commitment requirement	Following Budget 2019, the enhanced tier fund scheme has been enhanced to allow more than 2 tiers of SPVs. The economic commitments (such as the S$50 million AUM requirement) multiply accordingly. In the context of a feeder-master-2 tiered SPV structure where the feeder invests only in the master and the master invests only in one SPV which then invests in the next SPV below it and this second tier SPV makes the external investment, the economic commitment should be S$50 million fund size and S$200,000 local business spending since there is only one "vertical". The above would reflect the commercial reality where the investors are paying management fees based on the value of the investments without regard to the number of layers of investment structures.	We propose that the economic commitments can be calculated with reference to the number of entities that make external investments (e.g. not within the fund structure i.e. where they have 100% holdings).

GST remission for funds	There could be structures where a supplier may not invoice a qualifying fund directly. For example: i) Supplier contracts and invoices to Fund A and Fund A on-charges to Fund B; or ii) Supplier invoices a Master Fund and Master Fund bears the expenses for services in relation to its Feeder Fund or SPVs (or vice versa). These expenses will typically not be recharged between the Master Fund and Feeder Fund (or SPV), especially if they are approved on a combined basis for the purpose of the 13X fund tax exemption scheme. The GST charged may not be recoverable under the GST remission for funds as i) GP/Fund A is not registered for GST or ii) expenses are not considered to be for the business purpose of the Master Fund. We propose to allow the Fund bearing the expense to claim GST under the remission since the expense and GST is borne by the Fund to mitigate any GST costs.	We propose to refine the rules such that a qualifying fund can claim GST remission so long as it incurs the expense, regardless of the contracting arrangement or whether it is bearing the expense for another fund. Otherwise, we propose allowing GST incurred under Master-Feeder, Master-Feeder-SPV or Master-SPV fund structures to be claimable by any of the entities within the same structure so long as the entity has borne the expenses and GST.
Section 13R and Section 13X fund tax exemption schemes	The rules for the tax exemption schemes can be simplified to reduce compliance costs and attract more asset managers to carry out their activities in Singapore.	Remove reporting obligations if there are no non-qualifying investors in a section 13R/13CA structure (e.g. remove need to issue annual statements to investors).Remove the section 13R 30/50 investor rule for listed funds. Most importantly, given that these are retail funds, it is entirely possible that the S$50M AUM requirement for section 13X scheme (which then does away with the 30-50 condition) will be reached by such listed funds.

Designated investments ("DI") under the 13CA / 13R / 13X schemes as an exclusion list	The practical issue arising from an inclusion list for DI is that there is a need to ensure that the DI list is continuously updated to reflect the various types of instruments that investment funds invest in. Practically, the process of updating the DI list requires legislative process and approvals which take time; thereby rendering our DI list to be not reflective of the commercial and industry needs. Accordingly, we suggest that the DI list be an exclusion list to specifically exclude investments that are outside the scope of the incentivised items based on the policy intent.	We suggest for the DI list to be an exclusion list instead of an inclusion list.
Designated investments under the 13CA / 13R / 13X schemes	**Clarification of the list of designated investments – Emission allowances** There has been an increasing awareness of and interest in environmental, social and governance (ESG) issues in the asset wealth management industry over the past few years. This includes reduction of carbon footprint which has resulted in an increase in emissions trading across various platforms.	We propose including a definition for 'emission allowances' to provide additional clarity, and would suggest adopting the definition of 'carbon credit' from the GTP tax regulations - *the right to emit an amount of any greenhouse gas that has the same global warming potential as one tonne of carbon dioxide* .

13CA scheme – definition of “prescribed person”	Private wealth structures are often catered for multiple purposes, including investments, succession planning and charitable purposes. Many of the private wealth structures involve the use of trusts, foundations, etc. The legal form of some foreign funds does not fall neatly within the current definition of a “prescribed person”. Moreover, in jurisdictions which are governed by civil law such as Luxembourg and Thailand, other different legal forms may be created by statute. Foreign funds (notwithstanding legal forms) should be considered as qualifying funds and the fund management fee income thereon should be considered as concessionary income under FSI-FM to be consistent with the policy intent to promote the Singapore fund management industry.	It would be helpful if the “qualifying fund” condition can be expanded to cover fund vehicles in all forms.

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