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PwC’s response to Budget 2018

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PwC’s response to Budget 2018

This year’s Budget is expansive yet targeted to transform the economy through *encouraging technology and innovation while capitalising on Asia's expanding economic influence and Singapore's position as a key business hub.*

Singapore, 19 February 2018 – The following comments are responses from PwC Singapore to Singapore Budget 2018, organised into several categories – (1) Vibrant and Innovative economy; (2) Smart, green and liveable city; (3) Caring and cohesive society; (4) Fiscally sustainable and secure future (GST);

(1) Vibrant and Innovative economy

While Minister Heng clearly stated 3 shifts to do with the economy, all play pivotal roles when it comes to healthcare. It will thus be imperative for business leaders to factor these shifts in when addressing how best to future-proof their healthcare business strategies, with "digital" and "innovation" being integral components.

– Dr. Zubin Daruwalla, Director (Healthcare), PwC South East Asian Consulting

(Dr. Zubin Duruwalla, ⊠⊠⊠⊠⊠⊠⊠⊠, ⊠⊠⊠⊠⊠⊠⊠⊠⊠⊠⊠)

Finally the end of the PIC scheme. It is welcoming that the Singapore Government is providing more targeted support for companies to embrace innovation including raising tax deduction for IP registration fees to 200%, capped at $100,000 a year. Some licensing payments, such as use of trademarks and brand names, may not lead to innovation. It remains to be seen what the scope of the enhanced deduction scheme is.

– Lennon Lee, Entrepreneurial & Private Clients Tax Leader, PwC Singapore

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Laudable tax measures to encourage Singapore's IP ecosystem. Enhanced tax deduction for Research & Development in Singapore, IP reregistration and licence payments should enable our SMEs to invest more on innovation and embrace greater use of technology to be efficient and effective.

– Abhijit Ghosh, Corporate Tax Partner, PwC Singapore

(Abhijit Ghosh, ⊠⊠⊠⊠⊠⊠⊠⊠, ⊠⊠⊠⊠⊠⊠⊠⊠)

Budget 2018 starts off well for businesses with the much deserved extension of the wage credit scheme for 3 years to alleviate wage costs pressures.

– Elaine Ng, Transport & Logistics Tax Leader, PwC Singapore

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I had wanted to see the deduction limit raised to 300% but 250% is not bad. It helps put us in a good position to compete internationally for R&D dollars and more importantly, to attract R&D talent.

– Tan Tay Lek, Corporate Tax Partner, PwC Singapore

(Tan Tay Lek, ⊠⊠⊠⊠⊠⊠⊠⊠, ⊠⊠⊠⊠⊠⊠⊠⊠)

The adjustment to the start-up tax exemption scheme from exempting 100% to 75% on the first $100k of chargeable income and capping it to the first $200k will not likely have significant impact given that many of the start-ups here are not yet in a tax-paying position in the first place.

– Lennon Lee, Entrepreneurial & Private Clients Tax Leader, PwC Singapore

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All is not lost with the end of the PIC scheme, SMEs can now tap on the Productivity Solution Grant (PSG) which subsidises up to 70% of approved costs for the purchase and use of new productivity and innovative solutions.

– Lennon Lee, Entrepreneurial & Private Clients Tax Leader, PwC Singapore

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While an effective tax deduction of 250% for R&D performed in Singapore is helpful, it does not help in undertaking R&D projects which are managed from Singapore but carried out in another country for various commercial reason, including availability of resources with specific R&D skillset.

– Abhijit Ghosh, Tax Markets Leader, PwC Singapore

(Abhijit Ghosh, [illegible], [illegible])

The government's incentive to base R&D activities in Singapore means a cash net cost (after tax) of $57.50 for every $100 spent. Importantly, there is no cap on this concession. This is attractive but the devil will be in the detail as to what expenditures qualify as R&D.

– Peter Le Huray, Global Tax Markets Leader, PwC

(Peter Le Huray, [illegible])

Riding off the back of unexpected higher growth and productivity outcomes, the Government’s budget is expansive yet targeted to transform the economy through encouraging technology and innovation. This capitalises on Asia’s expanding economic influence and Singapore position as a key business hub.

– Peter Le Huray, Global Tax Markets Leader, PwC

(Peter Le Huray, [illegible])

(2) Smart, green and liveable city

In sharing the longer term view to raise the tax from $5 per tonne of emission to $10-$15 per tonne emission, the Government is sending a strong message to gas emitters to convert to energy efficient alternatives to reduce their carbon footprint. Not surprisingly, there will be funding to support the companies to make this change and increases in U-save to help households defray the new tax which will be passed on to them as consumers.

– Elaine Ng, Transport & Logistics Tax Leader, PwC Singapore

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The introduction of the carbon tax from 2019 not only helps Singapore improve energy efficiency and make us a greener city, but it is another step where we are seeing a shift in Government revenue reliance from direct taxes to indirect taxes.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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The Smart Nation Movement will encourage the growth of start-up businesses if it provides common platforms and infrastructure to reduce business costs and improve access to customers.

– Irene Tai, Corporate Tax Director, PwC Singapore

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(3) Caring and cohesive society

Heartening to hear about the introduction of premium subsidies for middle and lower incomes to meet the financial demands for ensuring ElderShield remains an effective avenue for care delivery.

– Dr. Zubin Daruwalla, Director (Healthcare), PwC South East Asian Consulting

(Dr. Zubin Duruwalla, ⊠⊠⊠⊠⊠⊠⊠⊠, ⊠⊠⊠⊠⊠⊠⊠⊠⊠⊠⊠)

(4) Fiscally sustainable and secure future - GST

Taxing the digital economy from 2020 will make e-commerce tax a virtual reality in Singapore.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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The introduction of the e-commerce tax will make Singapore the first country in South East Asia to introduce a tax on the digital economy. This is likely to be followed by Thailand, Malaysia and Indonesia which are already considering such a tax.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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The fact that the e-commerce tax will only apply to services show the practical difficulties and complexities that various jurisdictions face in trying to introduce an effective collection mechanism to tax low value imports of goods. We expect the Government to take a wait-and-see approach and learn from the experiences of other countries before expanding the new rules to tax low value imports.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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It remains to be seen if the proposed e-commerce tax will dent online shopping for digital services from overseas as there are other consumer considerations such as the wider variety of digital products on online platforms.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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With the e-commerce market in Singapore expected to grow to more than $7 billion by 2025 with cross-border transactions making up about 55 per cent of the e-commerce market, the proposed e-commerce tax allows Singapore to broaden the scope of GST and provide a new and sustainable revenue pipeline for the Government.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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If there is a question of how the Government would be able to enforce the GST registration for an overseas vendor for Business to Consumer (B2C) transactions, we must bear in mind that the tax authorities have exchange of information arrangements that would enable the jurisdictions to exchange information on overseas vendors which are already registered in the local territories.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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The reverse charge mechanism to tax Business to Business (B2B) transactions has long been in our GST legislation but was never effected until the Minister's announcement in Budget 2018. With the increase in cross-border services received by businesses in Singapore, the reverse charge could no longer stay dormant and would impact businesses in sectors such as financial services and residential property development which are unable to fully claim the GST on their business purchases.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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There's never a good time to raise taxes but the Finance Minister has reminded us of how our healthcare and social expenditure on education, infrastructure and security has grown over the years. The fact that the Minister has agreed to defer the rate hike to beyond 2021 shows that the Government has been true to what it has said in the past that is, its present revenues and the Net Investment Returns framework would provide sufficient revenue to fund current social spending needs until the end of this decade.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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Deferring the GST rate hike to the period between 2021 and 2025 would provide sufficient time for the Government to explain why it is necessary to raise the GST rate for the next decade, which is what the Prime Minister had called on his PAP colleagues to do at last November's PAP Convention.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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Raising the rate to 9 per cent still puts us below the regional average of 10.5 per cent and the OECD average rate of 19 per cent which suggests that the Government is keeping its options open on whether the rate can increase further depending on our spending needs.

– Koh Soo How, Asia Pacific Indirect Tax Leader, PwC Singapore

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Notes to Editor

1) For information relating to Budget 2018, please refer to www.pwc.com/sg/budget-2018

2) Click here to download our **list of experts** that are ready to comment on Budget 2018. Please call them directly at their mobile numbers if you would like a quote.

3) Should you require a **picture of our experts**, please feel free to download them from this link: https://pwc.to/2nSXn5P

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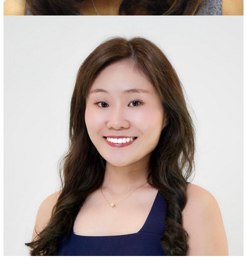

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